

6/5/79 [1]

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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo	From Blumenthal to The President (one page) re: U.S./German Cooperation on Exchange Market Policy	6/5/79	A

FILE LOCATION

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THE PRESIDENT'S SCHEDULE

Tuesday - June 5, 1979

NOT ISSUED

-
- 8:00 Dr. Zbigniew Brzezinski - The Oval Office.
- 8:45 Dropby Breakfast Briefing on SALT for Community
(15 min.) Leaders. (Ms. Anne Wexler) - First Floor
Private Dining Room.
- 9:45 Mr. Frank Moore - The Oval Office.
- 11:45 Greet Paul and Karma Aylward of Ellsworth, Kansas.
(3 min.) (Mr. Scott Burnett) - The Oval Office.
- # 11:50 Mr. Tim Kraft and Mr. Arnie Miller - The Oval Office.
(10 min.)
- 12:00 Congressman Al Ullman and Congressman Charles Rangel.
(15 min.) (Mr. Frank Moore) - The Oval Office.
- 1:30 Budget Appeals Meeting. (Mr. James McIntyre).
(2 hrs.) The Cabinet Room.
- # 3:30 Mr. Walter Levy. (Mr. Stuart Eizenstat) - Oval Office.
(15 min.)

THE WHITE HOUSE
WASHINGTON

05 Jun 79

Frank Moore

The attached was returned in
the PResident's outbox today
and is forwarded to you for
appropriate handling.

Rick Hutcheson

Hamilton Jordan

2490



[THE WHITE HOUSE]

WASHINGTON

JC :

"agree on waiver"

"Do Ed comes 1st in me"

"Not important re Voc Rehab being in Do Ed"

"We'll help in alternatives"

C

J

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Moore *F.M.*

SUBJECT: Talking Points for Call to Governor Graham

The Vice President has talked to Graham and prepared him for your call. Graham understands that we feel that the waiver issue threatens the Department of Education but believes we have enough votes to risk the fight with Brademas. The Florida delegation -- with probably Jack Brooks' support -- will fight Brademas' efforts to strip the waiver from the bill. Jack has made it clear that he will not support an effort to moot the waiver issue by taking the vocational rehabilitation programs out of the bill.

You should make the following points in talking to Graham:

1. You support Graham on the merits of the waiver issue, but feel that the Department of Education bill is the wrong vehicle for it. Like the Hatch Act in the Civil Service bill last year, the waiver issue runs the risk of sinking our whole effort on the Department. Such a defeat would be very embarrassing to the Administration.
2. Since the vocational rehabilitation transfer was made against your wishes, you feel it inappropriate to risk the success of the Department by getting involved in the waiver issue brought on by the transfer. You will, however, support the waiver in conference if the House decides to keep it in.
3. In the event the Brademas amendment succeeds, you are taking the following steps to try to get a vote on the waiver as an amendment to another bill:
 - o You are sending the vocational rehabilitation amendments to the Congress with a full waiver included. This puts the Administration clearly on record in favor of the Florida position.

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- ° You have the agreement of Brooks and Ribicoff to hold hearings on the Intergovernmental Cooperation Act. Using this vehicle, a favorable vote on the waiver issue can be expected in these committees, but referral to Education and Labor is likely.
- ° Frank Moore is talking with Bolling about the possibility of a special rule allowing the waiver issue to be attached to some other legislative vehicle.
- ° Through these initiatives the Administration will make every effort to get a floor vote on the waiver issue this year.

FOR ACTION
FYI

FOR STAFFING
FOR INFORMATION
FROM PRESIDENT'S OUTBOX
LOG IN/TO PRESIDENT TODAY
IMMEDIATE TURNAROUND
NO DEADLINE
LAST DAY FOR ACTION

VICE PRESIDENT

JORDAN

EIZENSTAT

KRAFT

LIPSHUTZ

MOORE

POWELL

RAFSHOON

WATSON

WEXLER

BRZEZINSKI

MCINTYRE

SCHULTZE

ADAMS

ANDRUS

BELL

BERGLAND

BLUMENTHAL

BROWN

CALIFANO

HARRIS

KREPS

MARSHALL

SCHLESINGER

STRAUSS

VANCE

ARONSON

BUTLER

H. CARTER

CLOUGH

CRUIKSHANK

FIRST LADY

HARDEN

HERNANDEZ

HUTCHESON

KAHN

LINDER

MARTIN

MILLER

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

WARREN

WEDDINGTON

WISE

VOORDE

ADMIN. CONFIDEN.

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others

THE WHITE HOUSE

WASHINGTON

June 1, 1979

Stu
J

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*

SUBJECT: Ohio Coal

Southern Ohio coal mining interests -- both labor and management -- have petitioned the Administration to protect them against the loss of their major customers for high-sulfur coal -- the Ohio electric utilities. If we take no action, several Ohio utilities that now burn almost exclusively Ohio high-sulfur coal will shift to low-sulfur coal produced in Kentucky and West Virginia in order to meet the current EPA-imposed emission standards. That would result in substantial unemployment problems in four Southern Ohio counties.

Over the past year, this issue has become the major federal-related issue in the State. It has been cast throughout the State as a test of the Administration's commitment to helping Ohio with its economic problems. Because of the widely held view in Ohio that the Administration has not been particularly helpful to date to the State, this issue is one in which many in the State believe the Administration will either "redeem" itself or sour permanently its political effectiveness in the State.

Discussion

The affected mineowners and mineworkers, as well as Governor Rhodes, have asked us to exercise our authority under Section 125 of the Clean Air Act to mandate that local or regional coal -- in this case high-sulfur Ohio coal -- be burned to forestall "significant economic disruption" in Southern Ohio. The electric utilities oppose the Section 125 approach, which would require them to install expensive scrubbers to meet the emission limits. They argue, and EPA agrees, that such a requirement would

increase their costs (and therefore their rates) by significant amounts. The Kentucky and West Virginia coal mining interests also strongly oppose the Section 125 approach.

All interested agencies, including EPA, believe that Section 125 represents a shortsighted, unsound policy. (Section 125, or the Metzenbaum Amendment, was added to the Clean Air Act on the Senate floor with little debate; its purpose was to prevent local economic disruption occurring as a result of EPA air quality standards.) Not only does Section 125 give EPA authority to determine how one of its standards is to be met, but it also involves EPA in areas of economic judgment not normally within its expertise, such as the definition of local and regional coal markets. Most importantly, Section 125 represents a precedent for other types of economic decisions, by the Administration or by Congress, designed to protect a narrowly defined segment of our economy.

Despite these reservations, EPA has followed the Section 125 mandate and conducted extensive hearings in Ohio; it has now developed the record necessary to proceed under Section 125. The record alone leads EPA to conclude that disruption would occur in Southern Ohio and remedial action - requiring the purchase of Ohio high-sulfur coal and the installation of scrubbers - would be appropriate.

Since the record was closed, however, EPA has tentatively concluded that the emission limits on two of the largest plants involved in this case are unnecessarily stringent. They were set several years ago on the basis of inadequate information; detailed monitoring data now leads EPA to conclude that the emission limits can be relaxed without causing violating of ambient air quality standards. EPA intends shortly to revise these limits. The revised emission limits would permit the continued use of Ohio sulfur coal at these plants without requiring Section 125 to be invoked or expensive scrubbers to be installed. These revisions alone would save over two-thirds of the 3,000 Ohio mining jobs that are threatened by the present emission limits, and would do so without imposing additional costs on Ohio utilities and their customers. In fact, this revision would reduce costs in comparison to the present emission limits.

Recommendation

The revision of the emission limits at the two Ohio plants appears clearly to be the best way to remove the threat of

significant economic disruption in the Southern Ohio coal mining region. These revisions would allow us to meet the major Southern Ohio concerns without subjecting the Administration to the legal, political, and economic pitfalls -- in Ohio as well as in Kentucky and West Virginia -- inherent in pursuing the remedies available under Section 125. This action would save more jobs than the remedial action originally proposed by EPA under Section 125 and would be much more likely to survive a court test than any Section 125 remedy. (Section 125 is already under several court challenges and more would occur if the Section 125 were invoked.)

Of almost equal importance, this approach would avoid the opposition of the Kentucky and West Virginia Governors and Congressional delegations, all of whom felt that Section 125's use would take jobs away from their States. Only Senator Metzenbaum, who introduced Section 125 as a floor amendment to the Clean Air Act Amendments of 1977, and has widely touted it as his way to protect Ohio coal mining interests, favors action under Section 125. Senator Glenn, because of his concern about increased utility bills, does not favor use of Section 125; he favors the approach recommended in this memo, as does Congressman Applegate, whose district includes the four Southern Ohio counties involved.

In sum, the EPA revision of the emission levels will be very well received in Ohio; it will be seen as meeting the Administration's commitment to helping Ohio solve its economic problems. Doug Costle, Charlie Schultze, Fred Kahn, Jim McIntyre, Jack Watson, Frank Moore, Tim Kraft and I strongly recommend that you approve EPA's changing the emission levels at two Ohio plants as the way to meet our objective of saving Southern Ohio mining jobs.

Approve Disapprove

If you approve the recommendation, Frank Moore, Tim Kraft, Jack Watson and I also recommend that you have a 2-5 minute photo opportunity session with Senators Glenn and Metzenbaum, Congressman Applegate, a number of Ohio State officials, and several mine worker representatives from Southern Ohio. The session would be opportunity for you to be thanked for your Administration's efforts to save Ohio jobs. It would not require you to make prepared remarks, for all the participants will have been informed of the decision just before meeting with you. The session would, of course, be contingent on Phil's being able to find time on your schedule.

Approve -- if we can -- Disapprove

*Let this decision be kept
secret until then*

THE WHITE HOUSE

WASHINGTON

June 4, 1979

C

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE *F.M.*

Attached are comments received from Allan C. King, President of Goldking, which were requested at the meeting held on May 31 between you and oil industry representatives.

c.c. KITTY Sefton.

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Thank you for the meeting that was conducted Thursday with the oil group. The participants left with a more positive attitude, and I hope that you and Dr. Schlesinger received more insight into our industry.

My partner, Jack Warren, and I have been in a downward spiraling mood of frustration, both having been early and leading Carter supporters in our section of the country. We are certainly able to take the heat and blame that our friends are placing on us for that support, but the frustration that we are feeling is due to our inability to communicate our thoughts and ideas to the Administration as loyal Carter Democrats, as opposed to the input that we feel is being made by those we consider non-Carter Democrats. We also are deeply frustrated by the apparent changes in position that the Administration takes after its initial policy announcements. It seems to us that often after the announcement you seek input from people who are your friends and whom you can trust. We urge that you seek such input prior to a policy announcement.

Jack particularly attempted to convey his feeling that there would be negative results, both from the American people and from Congress, as a result of the approach you took in presenting your decontrol plan to the American people. We feel that your approach has deeply split the nation and led most Americans to believe that our energy fate is in the hands of a few unpatriotic, greedy, self-serving, conniving oil people who, unfortunately, you cannot control.

The inspiration that put Jack and me to work for you came as a result of an hour or so meeting with you at the Hilton Hotel in Washington prior to the Pennsylvania primary. At that meeting you said that the nation had become a nation of "blamers," that when people are blaming each other they are looking behind them when solutions can only be found by looking forward. That philosophy is very similar to Jack's and my personal philosophies, and we closely related to it.

Your early oil announcements certainly put the nation back in this blaming attitude. Even though we are particularly sensitive to announcements concerning the oil industry, we see that same attitude surfacing in other areas of vital concern to our nation.

The good news, Mr. President, is that the meeting we had yesterday demonstrated your great leadership ability to heal and look toward the future and solutions, instead of allowing a name calling, adversary position to develop.

Comments on Energy - Allan C. King

Jack is with Bob Strauss on the China trip and is not a participant in writing this letter, but I know his attitude and emotions are the same as what I am trying to express. Your request at yesterday's meeting for immediate additional information prompted this letter.

Four specific suggestions I would like to make concerning oil tax legislation, which would have immediate effect and which I was unable to express at the meeting yesterday, are as follows:

1. Tax newly discovered oil at a much lower rate than proposed in your program. A big carrot would have a much more immediate effect on putting idle rigs back to work than would rewarding oil people for what they presently own, i.e., old oil.
2. We believe Congressman Conable is anxious to have an early bipartisan solution to the tax provision problem. We urge you to use your influence to get him and Congressman Ullman together in order that the Ways and Means Committee can have a bill prior to any Moffett floor vote on decontrol.
3. Establish, immediately, a national policy that would encourage expansion of our own domestic refineries to insure refining flexibility, more competition, and reduce our reliance on overseas sources of refined products.
4. The time is ripe for some sort of legislation that would allow a fast track permitting of energy related projects which would be approved or disapproved by regulatory bodies and courts within a short but specific period of time.

I also want to assure you that Jack and I (and everybody we know who are oil explorers and producers) are putting every cent we can afford--and all our efforts--into expanding the oil and gas energy supply of the nation. I believe that we represent the attitude of the vast majority of the independent oil and gas men of this country.

I am buoyed, and I know Jack will be also, by the attitudes that emerged from the meeting Thursday. We would welcome, Mr. President, a meeting with you in which we could better express our concerns and specific recommendations.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

4 June 1979

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**Electrostatic Copy Made
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TO: THE PRESIDENT
FROM: RICK HUTCHESON *R.H.*
SUBJECT: Memos Not Submitted

1. DEPUTY ATTORNEY GENERAL CIVILETTI sent you an FBI report on the investigation of the killing of Judge Wood. It indicates that "there are several promising leads," and that the FBI is "devoting maximum effort to the investigation."
2. TVA CHAIRMAN DAVID FREEMAN sent you a memo recommending "a 'man-on-the-moon' type national commitment to solar energy... I am convinced that the greatest obstacle to the widespread use of solar energy is the lack of an adequate delivery system in each state to provide consumers with the information, front-end money, and consumer protection they require to make the necessary decisions regarding solar investments. TVA is beginning a major solar energy program by taking the necessary steps to put such a market delivery system in place... Many of the responsibilities for developing the solar market can be shared with state and local governments, regional development agencies... and the private sector." (Sent to Stu for acknowledgment.)
3. SBA ADMINISTRATOR WEAVER sent you a status report on the SBA's authorization bill, suggesting that progress in obtaining a bill acceptable to the Administration has been quite good. OMB takes issue with Weaver's assessment, listing several objectionable provisions in various versions of the SBA bill. OMB indicates that the Administration is trying to eliminate these provisions in conference.
4. JOHN P. WHITE sent you a memo reporting five Defense Department violations of the Antideficiency Act, as required by law. One violation was referred to Justice for review. The other four violations appear not to be willful; OMB believes DOD has taken appropriate disciplinary/corrective actions in these instances. OMB observes that DOD's revised fund control regulations, recently put into effect, have turned up numerous possible past violations, which are being investigated.

5. ANNE WEXLER forwarded a note to her from Harry McPherson, suggesting that you give a state of the union speech on TV, dealing with major foreign and domestic issues. McPherson believes your positions on these issues are becoming blurred; the purpose of a speech would be to "sharpen the focus."
6. ANNE WEXLER forwarded a statement from Tom Murphy indicating that GM continues to support the guidelines, despite Judge Parker's decision.

ID 792169

THE WHITE HOUSE

WASHINGTON

DATE: 22 MAY 79

FOR ACTION: FRANK MOORE

w/ Moore for answer today -

INFO ONLY:

for summary

SUBJECT: WEXLER MEMO RE PANAMA CANAL ACT - AMERICAN LEGION SUPPORT OF MURPHY BILL

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

ACTION REQUESTED: CL: IS THERE ANYTHING HERE THE PRES. NEEDS TO KNOW?

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE

WASHINGTON

May 22, 1979

MEMORANDUM FOR THE PRESIDENT

FROM:

ANNE WEXLER 

SUBJECT:

Panama Canal Act - American Legion
Support of Murphy Bill

Yesterday morning I talked with Mike Schlee, Executive Director of the American Legion. He reports that although the American Legion earlier this year sent a letter supporting the Murphy Bill, the Bill has been amended since that time and the American Legion now has problems with certain details in the legislation. In addition, the American Legion's lawyers tell them that there are legal issues because of the wording of the resolution adopted at the last American Legion convention.

However, they hope to work out the legal issues and to determine whether they can support the principles for which the Murphy Bill stands, notwithstanding their problems with certain details. If so, their members could contact Congressmen over the Memorial Day break, stressing the need for funds for the military and protection of American citizens while warning against amendments (i.e., Hansen) which would be contrary to this. We will continue to work with them.

Incidentally, the AFL-CIO is supportive. We are working with the State Department on getting local union leaders to contact Congressmen while they are at home this weekend and next week.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 4 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: John P. White 
Deputy Director

SUBJECT: Report of the Deputy Secretary of Defense
on violations of section 3679 of the
Revised Statutes, as amended

There is attached a memorandum dated January 13, 1979, from the Deputy Secretary of Defense reporting to you, as required by law, violations of subsections (a) and (h) of section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), commonly known as the Antideficiency Act.

Five reports of violations are transmitted. One violation appeared to have been caused by willful actions. The case was referred to the United States Attorney for Nevada and to the Department of Justice for review; however, the decision was made not to prosecute. The other four cases do not appear to have been willful, but resulted from a misunderstanding of or a failure to comply with regulations. The reported violations are as follows.

<u>Appropriation Title and Fiscal Year</u>	<u>Fiscal Year Violation Occurred</u>	<u>Amount</u>	<u>Type of Violation</u>
Family housing, Defense 1977	1977	\$4,201,143.96	Obligations in excess of an allotment/ commitments in violation of agency fund control system
Operation and maintenance, Navy, 1976/ Transition Quarter 1977	1976 1977	540,008.78 <u>8,201.00</u> \$548,209.78	Obligations and expenditures in excess of a statutory limitation
Court of Military Appeals, Defense, 1976/ Transition Quarter	1976 Transition Quarter	\$30,139.51 <u>37,858.42</u> \$67,997.93	Obligations and expenditures in excess of appropriation
Operation and maintenance, Navy, 1974 1975	1974 1975	\$11,317.30 <u>\$21,666.56</u> \$32,983.86	Obligations in excess of allotments
Family housing, Defense, 1976	1976	\$607.89	Obligations in excess of an administrative limitation*

The memorandum from the Deputy Secretary of Defense states that appropriate corrective and disciplinary actions have been taken. Disciplinary action consisted of written and oral reprimands.

* We have asked the Department of Defense to consider increasing the administrative limitation for incidental improvements per family housing dwelling units to a higher level of fund control.

Several months ago we approved a revised fund control regulation for the Department of Defense. The revised regulation includes new emphasis on prompt reporting. The Defense Department has conducted an intensive investigation within DOD to identify all possible Antideficiency Act violations. Because of this effort, numerous cases are being thoroughly reviewed and investigated, and may result in the identification of past violations of R.S. 3679. Hopefully, recent and future violations will be reported in a timely manner.

In view of the revised fund control regulation and the disciplinary and corrective actions taken within the Department, we do not recommend further action at this time.

Copies of the Defense reports have been sent to the President of the Senate and the Speaker of the House of Representatives.

Attachments



THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

JAN 13 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Reports of Violations of the Anti-Deficiency Act

In compliance with the provisions of Section 3679(i)(2), Revised Statutes, there are submitted herewith five reports of violations of the Anti-Deficiency Act (Section 3679, Revised Statutes), and of Department of Defense Directive 7200.1, "Administrative Control of Appropriations." One violation occurred in the Army, two in the Navy, one in the Air Force, and one in the DoD Washington Headquarters Services.

In reviewing the reports, one case (Navy No. 76-1) appeared to have been caused by willful actions. The case was referred to the United States Attorney for Nevada. However, prosecution was declined. In the other four cases, no evidence was found that the violations were willful. They resulted from a misunderstanding of or a failure to comply with regulations. Appropriate corrective action has been taken. Disciplinary action was taken where warranted.

In coordination with the staff of the Office of Management and Budget, we have revised DoD Directive 7200.1 which prescribes the system of administrative control of funds. The Directive was issued on November 15, 1978, after formal approval by the Office of Management and Budget.

To comply with the provisions of Section 3679(i)(2), Revised Statutes, copies of the reports are also being submitted to the President of the Senate and to the Speaker of the House of Representatives.

A handwritten signature in black ink, appearing to read "C. W. Dunaway", is located in the lower right quadrant of the page.

Enclosures

Report of Violation of Section 3679, Revised Statutes
(Air Force Case No 77-2) RCS: DD-SD(AR)170

1. This is a report required by Department of Defense Directive 7200.1.
2. Appropriation Title, Symbol and Apportionment Status:
 - a. Family Housing Management Account, Defense (Transfer to Air Force).
 - b. 57-97 7 0700, Project 721 Operation
 - c. Apportioned Funds.
3. Location: Headquarters, United States Air Force, Washington D.C.
4. Amount of Violation: \$4,201,143.96.
5. Type of Violation: The Air Force obligated and committed funds in excess of their obligating authority for family housing operation during the second quarter of fiscal year 1977. This violation did not cause a violation of the appropriation^{or} apportionment, ~~or any other level of fund limitations.~~
6. Person Responsible: Mr. John P. Hunt, GS-13, Budget Analyst, HQ USAF Director of Budget.
7. Causes and Circumstances:

a. This violation resulted from the misinterpretation of information contained in the obligation authority document issued by the Office of the Assistant Secretary of Defense Comptroller (OASD(C)). This violation was not committed willfully or knowingly.

b. The OASD(C) obligating authority document, issued 28 December 1976, showed amounts available for the operation and maintenance of family housing for fiscal year 1977. The document displayed amounts available by quarter and contained relevant footnotes as shown:

<u>MAJOR FUNCTIONAL CATEGORY</u>	<u>Cumulative Obligating Authority</u>			
	<u>FIRST QUARTER</u>	<u>SECOND QUARTER</u>	<u>THIRD QUARTER</u>	<u>FOURTH QUARTER</u>
Operation	48,665	89,390	134,020	175,660
Maintenance <u>b/</u>	<u>43,155</u>	<u>74,557</u>	<u>91,557</u>	<u>113,858</u>
Obligation Limitation <u>a/</u>	91,820	163,947	225,577	289,518

a/ These obligation limitations may not be exceeded.

b/ The amounts shown for maintenance are available only for maintenance but may be increased to the extent that the amount for operations in the same quarter is decreased.

c. Contrary to the intentions of OASD(C) the HQ USAF Budget Analyst interpreted the quarterly limitations described on the document as applicable only to the combined operation and maintenance obligation limitation totals. He considered the restriction on the availability of maintenance funds applicable to the total fiscal year rather than to individual quarters. Under his interpretation it would have been permissible to "borrow" maintenance funds for operation provided the annual program was not violated. Accordingly, amounts allocated to Air Force operating activities were not identified as separately limited for operation and maintenance by quarter.

d. As of 31 March 1977 total Air Force transactions recorded against the second quarter obligating authority were as shown:

	<u>Project 721 Operation</u>	<u>Project 722 Maintenance</u>	<u>2d Quarter Total</u>
Authority	\$89,390,000.00	\$74,557,000.00	\$163,947,000.00
Obligations	(92,909,182.88)	(47,422,796.98)	(140,331,979.86)
Unobligated Bal		27,134,203.02	23,615,020.14
Overobligation	(3,519,182.88)		
Commitments	<u>(681,971.08)</u>	<u>(8,745,911.78)</u>	<u>(9,427,882.86)</u>
Uncommitted Bal		<u>18,388,291.24</u>	<u>14,187,137.28</u>
Violation	<u>(4,201,153.96)</u>		

e. The HQ USAF Budget Analyst recognized that official reprogramming of funds from maintenance to operations would be required sometime during the fiscal year. He orally advised OASD(C) of the situation. However, he decided that it would be appropriate to delay submitting a formal reprogramming request until a mid-year review of conditions was completed.

f. Although the limitations were not without ambiguity, a careful examination of the document would have led to the proper interpretation of the limitations. The proper interpretation is that only amounts shown for the operation program through a current quarter may be used for operation and such amounts may not be augmented with unobligated maintenance funds. Maintenance funds are deemed unavailable unless they are used for maintenance.

8. Administrative Discipline: Mr. Hunt was given an oral admonishment and the incident was made a matter of written record in his Supervisor's Record of Employee. This action was reviewed by the Staff Judge Advocate.

9. Corrective Action:

a. A formal request to reprogram necessary funds from housing maintenance to housing operation was submitted to OASD(C) and approved for FY 1977.

b. OASD(C) revised the footnote on subsequent obligating authority documents to more clearly define quarterly limitations.

c. Effective with FY 1978, HQ USAF shows limitations by project (operation and maintenance) on allocation documents issued to Air Force operating organizations.

d. The system of administrative control of funds prescribed in Air Force Regulation 177-16 is considered adequate and unaffected by this violation. No related change in the regulation is needed.

10. The disciplinary and corrective actions taken are considered adequate and are approved.



CONRAD P. PETERSON
Deputy Director of Acctg & Finance
Comptroller of the Air Force

Attachment

15 MAY 1978

STATEMENT OF FHMA BUDGET ANALYST

Violation of AFR 177-16 (Section 3679, RS)
FHMA(AF) - 57-9770700

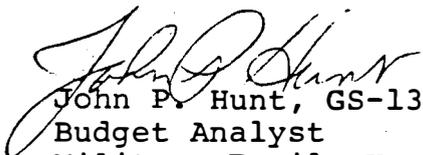
I have worked in this position, as the sole representative in the Directorate of Budget for Family Housing, for the last three years. What follows is the background and explanation of the events which led to the underfunding in P-721, Operations, for the 2nd quarter of FY 1977.

At the beginning of each fiscal year, the Air Force receives from each Command a quarterly phasing of its approved annual program, as well as a split of that program between P-721, Operations, and P-722, Maintenance. The sum of those plans for FY 1977 was submitted to OSD. OSD in turn, approved the distribution exactly as requested by the Air Force.

As the year unfolds and contingencies which outdate the plan occur, a request to increase the quarterly allocation or to reprogram from Maintenance to Operations is submitted to OSD. As early as the 1st quarter of FY 1977 when evidence began to turn up in the monthly reports and in phone calls from the Commands, that the cold winter (the coldest in 100 years) was causing very large heating bills, the requirement for additional Operations funds was verbally communicated to OSD. In order to save time and effort and in order to give OSD our most accurate position, a decision was made in ACBIC to wait until the mid-year review (held in third quarter) before formally submitting a reprogramming request. In that the authorizing law did not limit the Services in either Operations or Maintenance, and in that OSD had in the past supported reprogramming requests that were adequately justified, the decision to wait seemed appropriate.

Family Housing is an OSD Management account. Partly because of this and partly through interpersonal relationships developed with my counterpart in OSD(C), the management of the MFH account is more direct and informal than usual for other accounts. The flow of housing information occurs by phone and in person, at times on a daily basis. Requests for information from OSD are usually handled over the phone and requests from Air Force for clarification of directives and budget guidance are handled in the same manner. All current housing information received from the Air Staff family housing counterparts, AF/PREN, and from the field is passed by phone to OSD.

The limitation on Family Housing O&M by quarter was thought by this analyst to be a holdover from past years when there was an annual Maintenance Floor. I can find no limitation imposed on the field in the recent past on any Air Force funding documents issued by this headquarters. I thought, however, that the quarterly distribution between Operations and Maintenance noted on O/A documents served a useful purpose. It established a target and helped to keep HQ USAF and OSD informed on the execution of the program. I had informed OSD that we were running into problems in the utility area and that we would need a reprogramming action after we had done a thorough analysis at the mid year review. After that review, a formal request to reprogram P-722, Maintenance, to P-721, Operations, for \$10 million was submitted to and approved by OSD. This was an amount three times greater than the \$3 million overage in Operations in the 2nd quarter.


John P. Hunt, GS-13
Budget Analyst

Military Family Housing Account

DEPARTMENT OF THE NAVY
REPORT OF VIOLATION OF ADMINISTRATIVE CONTROL OF
APPROPRIATIONS REGULATIONS (DD-SD(AR)170) 78-1

1. Appropriation Identification:

Appropriation Title: Operation and Maintenance, Navy
Appropriation Symbol: 1976/T1804, as apportioned
1771804, as apportioned
Fiscal Year: 1976/T
1977

2. Installation Where Violations Occurred: The violations addressed in this report concern expenditures from Navy's operation and maintenance funds to obtain adequate working space for Naval Oceanographic employees relocated to the National Aeronautics and Space Administration's (NASA) government-owned National Space Technology Laboratory facility at Bay St. Louis, Mississippi. The funds were made available to NASA's Bay St. Louis activity from resource authorizations held by the Commander, Naval Oceanographic Office and the Director, Naval Oceanography and Meteorology, respectively.

3. Amounts of Violations: The violations presented in this report relate to exceeding the \$75,000 statutory limitation placed on using operation and maintenance funds for the acquisition of new facilities or for an addition to an existing facility. The specific amounts for each violation are as follows:

a. The Naval Oceanographics Ocean Survey Program unit: Erection of "pre-engineered" Building #1001 and its attendant security fence: Fiscal Year 1976/7T reimbursable order issued 3 September 1975	\$275,386.78
b. The Naval Oceanography and Meteorology unit: Erection of "pre-engineered" Building #1205: Fiscal Year 1976/7T reimbursable orders issued 29 June 1976	\$264,622.00
Fiscal Year 1977 reimbursable order issued 25 February 1977	8,201.00
	\$272,823.00

4. Nature of Violations: For many years the annual DOD Appropriation Acts have contained a provision which stated substantially as follows:

"Funds appropriated in this Act for maintenance and repair of facilities and installations shall not be available for acquisition of new facilities, or alteration, expansion, extension, or addition of existing facilities, ... in excess of \$75,000..." (now increased to \$100,000)

Both violations reported herein relate to the use of Operation and Maintenance, Navy funds in excess of this limitation.

5. Responsible Officials:

a. Rear Admiral J. Edward Snyder, Jr. USN (Ret.), Oceanographer of the Navy, is cited as the individual responsible for the proper management of all oceanographic facilities of the Navy and the administration of the financial resources made available by Congress for the operation of those facilities. In this regard, it has been determined that Rear Admiral Snyder was deficient in his duty to ensure that funds provided for the aforementioned purposes were properly administered in executing the relocation of Oceanographic organizations to the Bay St. Louis facility. Other officials directly responsible include:

(i) Captain J. E. Ayres, Commander, Naval Oceanographic Office, Suitland, Maryland/Bay St. Louis, Mississippi;

(ii) Captain Conley R. Ward, Director, Naval Oceanography and Meteorology, National Space Technology Laboratory, Bay St. Louis, Mississippi.

b. Other individuals administratively involved in issuing instructions or processing documents related to the violation at the Naval Oceanographic Office are:

(i) Mr. J. W. Reshew, Relocation Coordinator;

(ii) Mr. David F. LaRochelle, Acting Budget Officer;

(iii) Mr. W. M. Talbert, Acting Director, Finance Office;

(iv) Mr. R. E. Stewart, Director, Finance Office;

6. Description of Causes and Circumstances: In July 1975 the consolidation of the Naval Oceanographic Program and its relocation to the National Aeronautics and Space Administration's National Space Technology Laboratory at Bay St. Louis, Mississippi were approved. As part of the relocation, a need arose to obtain additional secure working spaces for Fleet Ballistic Missile Ocean Survey Operations personnel and their equipment. Initially, this space requirement had been submitted as an urgent minor construction project in that it was imperative that the secure operations of the survey program be fully operational, in order to ensure compatibility with implementation dates and plans of the Navy's Nuclear-Powered Fleet Ballistic Missile Submarines Program. However, another urgent minor construction

requirement arose at Bay St. Louis and the Survey Operations project was withdrawn because regulations precluded the concurrent existence of two such projects at a single location without OSD approval. After a review of the alternatives available, and as a result of a misunderstanding of the authority provided by the "Economy Act" (31 USC 686) in this particular case, it was assumed that since the Navy did not own the property, nor would they own the building, the financing of the additional space could be achieved through the vehicle of providing an Economy Act order to NASA citing O&M,N funds for services of space preparation. In actuality, other Navy construction projects at the NASA facility were being funded with Military Construction funds and were being budgeted as such. Therefore, Mr. LaRochelle's request that an order be issued to NASA's Bay St. Louis activity and the execution of such an order, and amendments thereto by Messrs Talbert and Stewart, in accordance with instructions issued by Mr. Reshew, resulted in the additional construction of buildings for costs in excess of \$75,000, for which Navy O&M,N appropriations are not legally available. The fact that the funds were transferred to NASA would not authorize such an expenditure.

In the case of the Director, Naval Oceanography and Meteorology, the order to relocate was not signed until May 1976. Space for this organization at Bay St. Louis had not been provided for, since that organization was not included in the original plan for consolidation of the Naval Oceanographic Program. In making the decisions as to how to secure the essential space for the Oceanography and Meteorology organization at Bay St. Louis, the authorization holder became aware of the similar emergent space requirement of the Naval Oceanographic Office which apparently had been satisfied through the application of O&M,N funds via an "Economy Act" order passed to NASA for financing space requirements. Erroneously relying on such a precedent, the Director, Naval Oceanography and Meteorology duplicated the procedures employed by the Oceanographic Office in securing the necessary space and the second of the two violations reported herein occurred.

Based on the information contained in the reports forwarded to this office and the statements of the individuals responsible for the violations, it is the opinion of this office that, while the lack of a thorough review of the constraints applicable to such circumstances led to the poor judgment employed in resolving the difficult situation at Bay St. Louis, there was no knowing and willful intent to violate the law by those involved in the issuance of the erroneous orders.

7. Statements of Responsible Officials: The statements of responsible officials cited in paragraph 5 are provided in Attachments "A", "B", "C", "D", "E", "F", and "G", respectively.

8. Disciplinary Action: Rear Admiral J. E. Snyder, Jr. USN (Retired) has been awarded a nonpunitive letter of censure for his deficiency in carrying out the duties and responsibilities of his assignment as the Oceanographer

of the Navy. Captain J. E. Ayres, Commander, Naval Oceanographic Office, and Messrs. Reshew, LaRoche, Talbert and Stewart all received nonpunitive oral admonishments and instructions on proper funding procedures for circumstances such as those covered in this report. Captain Conley R. Ward, Director, Naval Oceanography and Meteorology, did not receive any disciplinary action. Captain Ward has been advised of the proper requirements for "Economy Act" orders and of the proper use of O&M,N funds for construction purposes. However, Captain Ward's actions were based on the advice and example of the Naval Oceanographic Office's experience with the same situation and he received assurance regarding the propriety of the procedure. Accordingly, it has been determined that administering any discipline under such circumstances would be unwarranted.

9. Procedural Action Taken or Recommended: While initial funding of the earliest of the reimbursable orders involved in this report occurred in September 1975, the determination that such an act constituted a violation of the Administrative Control of Appropriations Regulations was not made until after a report by the Naval Inspector General was issued on 30 December 1977. This report was requested by the Chief of Naval Operations after a Naval Audit Service report, issued on 28 November 1977, questioned the propriety of the Director, Naval Oceanography and Meteorology's use of operation and maintenance funds to finance the second of the two projects covered by this report. On 10 February 1978, the Chief of Naval Operations requested the Oceanographer of the Navy to direct the Commander, Naval Oceanographic Office and the Director, Naval Oceanography and Meteorology to submit reports of violation. Navy directives pertaining to the financing of military construction projects and/or the construction, extension/addition, occupancy or tenancy of real property facilities on non-Navy real estate have been examined and will be modified as necessary to preclude future misinterpretation of the applicability of Economy Act orders under circumstances such as those enumerated in this report.



DEPARTMENT OF THE NAVY
OFFICE OF THE OCEANOGRAPHER OF THE NAVY
HOFFMAN II
200 STOVALL STREET
ALEXANDRIA, VA. 22332

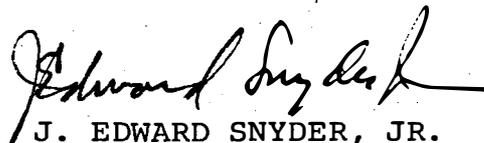
IN REPLY REFER TO
OCEANAV:dv
Ser N4/542
15 JUN 1978

FIRST ENDORSEMENT on NAVOCEANO ltr Ser 1588 dated 8 June 1978

From: Oceanographer of the Navy
To: Comptroller of the Navy
Via: Chief of Naval Operations

Subj: Report of Violation of the Anti-Deficiency Status, Section 3679,
R. S. (31 U.S.C. 665)

1. Forwarded concurring with the contents of the basic report.
2. Specifically, the statement of circumstances contained in paragraph 7 of the report is an accurate description of actions stemming from considerations made by myself and my staff. An urgent need for space to house Ocean Survey Program personnel existed at the time consolidation was approved by SECDEF. This essential group required secure spaces to function and had to remain intact. It was also important that they move to the new site early in the relocation process so as to get reestablished as soon as possible in view of the SSBN implementation dates to which their efforts were keyed. This early move, with its concurrent requirement for temporary secure spaces, minimized disruption of the Ocean Survey Program.
3. The decision to use the Economy Act resulted from consultations with various members of the Naval Facilities Engineering Command headquarters staff concerning the use of O&M,N funds to acquire space on non-military but government owned property where Navy does not gain ownership. It was concluded that the Economy Act was applicable under these circumstances and NAVOCEANO was therefore directed by the Oceanographer to proceed to issue an Economy Act order to NASA.
4. I am convinced that there was no willful intent to violate regulations in this case. No further disciplinary action is recommended.


J. EDWARD SNYDER, JR.

Copy to:
NAVOCEANO





DEPARTMENT OF THE NAVY
OFFICE OF THE OCEANOGRAPHER OF THE NAVY
HOFFMAN II
200 STOVALL STREET
ALEXANDRIA, VA. 22332

IN REPLY REFER TO
OCEANAV:dv
Ser N4/543
15 JUN 1978

FIRST ENDORSEMENT on DIRNAVOCEANMET ltr Ser 720 dated 5 June 1978

From: Oceanographer of the Navy
To: Comptroller of the Navy
Via: Chief of Naval Operations

Subj: Report of Violation of the Anti-Deficiency Status, Section 3679,
R. S. (31 U.S.C. 665)

Ref: (c) OCEANAV ltr Ser N4/542 dated 15 June 1978

1. Forwarded concurring with the basic report.
2. The order to relocate DIRNAVOCEANMET headquarters from Washington, D.C. to MSTL, Mississippi was signed on 24 May 1976 to be effective 1 July 1976. Although a relocation order had been anticipated, there were a number of other sites being considered. The selection of the NSTL site became likely in February 1976 when DIRNAVOCEANMET was placed under the Oceanographer's command and essentially certain in April 1976 when the lifting of a court injunction permitted the consolidation of the Naval Oceanographic Program to resume. The DIRNAVOCEANMET headquarters move was ultimately completed on 30 September 1976. Although the move was carried out most effectively by DIRNAVOCEANMET personnel, there was associated with this move a sense of urgency as these organizational and relocation decisions were made at the OPNAV level. The time for execution was minimal.
3. The requirement for space for the 37 persons of the DIRNAVOCEANMET headquarters staff was an immediate problem. Temporary space was arranged in building 1200 at NSTL with subsequent move to some vacated trailers to serve as longer term "temporary" office space. Permanent space for DIRNAVOCEANMET had not been provided for since DIRNAVOCEANMET was not included in the original plans for consolidation of the Naval Oceanographic Program. Therefore, space was not available in either the major military construction scheduled for completion in August 1978 or in other NASA facilities at the site. It was then decided to provide space for DIRNAVOCEANMET headquarters using the same Economy Act procedures employed in acquiring spaces for NAVOCEANO (see reference (c)). DIRNAVOCEANMET was directed, with funding assistance from OCEANAV, to effect an Economy Act order to NASA for the preparation of spaces. A copy of the NAVOCEANO MIPR was provided as an example.

OCEANAV:dv
Ser N4/543

4. I have discussed with CAPT Ward, Director, Naval Oceanography and Meteorology, the utilization of the Economy Act in this case and am convinced there has been no willful intent to violate regulations. I concur with the recommendations of the Navy Audit Service in reference (b) to issue a policy statement clarifying appropriate funding of construction projects under these circumstances. No disciplinary action is recommended.


J. EDWARD SNYDER, JR.

Copy to:
DIRNAVOCEANMET

INTERNATIONAL HYDROGRAPHIC BUREAU



BUREAU HYDROGRAPHIQUE INTERNATIONAL

A.P.

Avenue Président J. F. Kennedy,

MONTE-CARLO,

Principauté de MONACO

TELEGRAPH BURHYDINT MONACO

TELEPHONE MONACO 50.65.87

IN REPLY, PLEASE REFER TO

PRIÈRE DE CITER LA RÉFÉRENCE DE CETTE LETTRE.

N°. Bur/Pers

MONACO 22 May 1978

Commander
U.S. Naval Oceanographic Office
WASHINGTON, D.C. 20373
USA

Subject : Report of Violation of the Anti-Deficiency Statute, Section 3679, R.S.
(31 U.S.C. 665) ; Statement concerning

Ref : (a) NAVOCEANO letter Ser 214 of 16 May 1978.

1. Reference (a) forwarded a report by the Navy Inspector General concerning the improper use of O&MN funds for the construction of a pre-engineered support building for the Naval Oceanographic Office at the NASA National Space Technology Laboratories (NSTL), Bay St. Louis, MS., together with the Naval Oceanographic Office comment on the matter and a request that I, as authorization holder responsible for the violation, make a statement concerning it or waive the right to such a statement.

2. I am pleased to make the following statement concerning the matter :

The circumstances and rationale set forth in the NAVOCEANO comment to the Oceanographer of the Navy on the matter are concurred in. Perhaps the most significant points in the background are first, that the building in question, and the modification to Bldg 1000, were vital to a very high priority classified survey project which required special consideration in its relocation, a fact which tended to focus attention heavily on the overall problem of getting it moved properly and perhaps away from component parts of its relocation ; and second, the urgency of the questioned construction and modification actions, since on them hinged the effective relocation of all early NAVOCEANO personnel and equipment. There was no deliberate attempt to circumvent the regulations, but only a desire to use a legal interpretation of a proper regulation which would allow the urgent objective, a smooth transition of NAVOCEANO operations to the relocation site with a minimum loss of productivity, to be met. Time did not allow an

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exhaustive pursuit of all alternatives, and when a satisfactory, apparently legal route was reported to me which in my judgement met the urgency and the space requirements, I proceeded. I believe the advice I was given was obtained with diligence and offered in good faith, and that any errors were the result of honest mis-interpretations of either regulations or external advice. I also believe that the press of time and the vast task to be accomplished within the limited resources available required that much be accomplished on the basis of verbal advice and verbal agreement. This unfortunately led to a dearth of supporting paperwork outside of the actual financial documents, a situation which has unfortunately become a cause for concern by the outcome of the investigation.

That an error was apparently made is clear, and I found the Navy Inspector General's report highly informative. I believe it could be a valuable guide for the future and suggest consideration be given to disseminating it as a case study. With reference to the elimination of the status of the violation, if I interpret para. 12 of page 6 of the Investigative Report correctly, it would seem that the modification actions (P-003) were legal as funded (MILCON) or would have been legal with O&MN funding, while the construction action (P-002) should only have been funded as MILCON. As the funding for P-003 exceeded that required for P-002, and as an intergovernmental transfer of funds was the accounting action involved with all funds transferred between the same two agencies (Navy and NASA), it is questioned as to whether the violation may be rectifiable by the administrative procedure of correcting the accounting data used on the transfer vouchers to reflect both O&MN (\$275, 386) and MPN (\$123, 614) funding to the total of \$399,000 for D-003, and applying the \$275, 386 thus recouped in MPN properly to the P-002 voucher.

I certify the above statement is true to the best of my knowledge.

Sincerely,

James E. Ayres
James E. AYRES
Captain, U.S. Navy (Ret.)

STATEMENT

The following has been extracted from my official report of violation that was submitted to my superior, Rear Admiral J. E. Snyder, Jr. USN (Ret.), Oceanographer of the Navy, on 5 June 1978.

Statement of Circumstance

As stated in reference (b), (Navy Audit Report A40777 of 28 Nov 1977). In addition, detailed policy guidance and direction was provided to me by OCEANAV regarding the relocation of DIRNAVOCEANMET to NSTL and the acquisition of office space there. I was told that the provisions of the Economy Act applied and that this had been confirmed by the NAVFACENCOM counsel. I was provided with a copy of the NAVOCEANO MIPR and told to use it as an example.



CONLEY R. WARD
CAPT, USN
17 October 1978



STATEMENT

The organizational component which is responsible for completion of the Oceanographic Office's highest priority fleet product was selected to be relocated to the new site by December 1976. This division requires secure working spaces as described in OPNAVINST 5510.1E and such spaces were not available at NSTL during the first phase of the relocation. When the request was made by Navy to NASA for such spaces, it was suggested that space could be provided, but it would be of a temporary nature. Since funds were available in FY 76, and the Navy was not actually constructing a building on Navy property, the provisions of the Economy Act seemed to apply. It should be noted that no other interpretation was voiced at the time and it was under these conditions that the MIPR was prepared.


JERRY W. RESNEW
17 May 1978

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D

STATEMENT OF MR. DAVID F. LAROCHELLE FOR REPORT ON "VIOLATION OF ANTI-
DEFICIENCY STATUS

ON OR ABOUT 3 SEPTEMBER 1975, I WAS ASKED BY THE RELOCATION COORDINATOR, MR. J. W. RESHEW, TO PREPARE AN INTERNAL REQUEST FOR THE ISSUANCE OF A MIPR TO NASA. THE REQUEST WHICH I FORWARDED TO THE FINANCE OFFICE CITED O&MN FUNDS IN THE AMOUNT OF \$299,000 AND STATED THAT THIS AMOUNT WAS AUTHORIZED FOR THE PREPARATION OF SPACE FOR NAVOCEANO COMPONENTS AT NSTL. AT THE TIME MY POSITION WAS THAT OF ACTING BUDGET OFFICER. LATER, UPON NOTIFICATION FROM NASA, I REQUESTED BY MEMORANDUM THAT THE FINANCE OFFICE REDUCE THE AUTHORIZATION ON THE MIPR TO REFLECT ACTUAL COST.

VERY RESPECTFULLY,


DAVID F. LAROCHELLE

Att
E

Mr. Talbert, at one time the Acting Director, Finance Office, Naval Oceanographic Office, has left the employ of the Department of the Navy. Efforts to secure a statement from Mr. Talbert, whose involvement in the violation was the signing of the Oceanographic Office's Military Interdepartmental Purchase Order" to NASA for \$299,000 on 3 September 1975, have not been successful.

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STATEMENT OF MR. ROY E. STEWART FOR REPORT ON "VIOLATION OF ANTI-
DEFICIENCY STATUE"

I SIGNED THE MILITARY INTERDEPARTMENTAL PURCHASE REQUEST
AMENDMENT ON 2 JUNE 1976 STATING THE EXPIRATION DATE AND THE
AMENDMENT DECREASING FUNDS ON 15 AUGUST 1977, IN ACCORDANCE WITH
MEMORANDUMS RECEIVED FROM MR. DAVID F. LAROCHELLE.

VERY RESPECTFULLY,

Roy E. Stewart
ROY E. STEWART

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Washington Headquarters Services
Report of Violation of Section 3679, Revised Statutes
RCS: Comp (AR 170, 78-1)

1. Appropriation Title and Symbol. Court of Military Appeals Appropriation 9760104 and 97T0104. There were no allotments or apportionment of these funds.

2. Location. Washington Headquarters Services, Directorate of Budget and Finance, Pentagon Building, Washington, D. C. 20301.

3. Type of Violation. Overobligation and overexpenditure of the appropriation.

4. Amount of Violation

FY 1976	\$30,139.51
FY 197T	<u>37,858.42</u>
Total	<u>\$67,997.93</u>

5. Date Violation Occurred. The overobligation of the FY 1976 appropriation occurred as of June 30, 1976. The overobligation of the FY 197T appropriation occurred as of September 30, 1976. The overexpenditure occurred in January 1978.

6. Name and Position of Responsible Employees. Mr. Carl W. Fisher, Director, Budget and Finance, Washington Headquarters Services, and Mr. Jack Arzoomanian, Acting Chief, Finance and Accounts Division.

7. Causes and Circumstances Surrounding the Violation. Administrative control of the U. S. Court of Military Appeals appropriation is the responsibility of the Washington Headquarters Services Budget and Finance Directorate. At the time of the violation, the Budget and Finance Directorate received accounting support from the U.S. Army Military District of Washington. Information on fund availability was not provided to MDW, however, so that accounting reports from MDW in prescribed Army format merely indicated accumulated obligations and expenditures. Administrative control was retained by the Director, Budget and Finance. During FY 1976 several key people were lost from the Directorate resulting in a loss of control over many accounting functions including a proper control over obligation documents. This resulted in obligations being incurred that were not forwarded to MDW for posting in the accounting records. Types of expenses within the Court of Military Appeals appropriation were not carefully monitored for indications of areas where activity exceeded the budgetary plan. These internal problems were compounded by the inevitable difficulties resulting from a major change in the Army accounting system at MDW.

At the end of the 1976 Transition Period, Budget Execution Reports for FY 1976 and FY 1977 were combined. Reports indicated a September 30, 1977 unobligated balance in the 76/T account, however, a January

1977 disbursement in the amount of \$34,319. for Standard Level User Charges when researched and recorded in January 1978 was the proximate cause in revealing the overobligation. Further research of all transactions affecting this account was subsequently conducted through both Budget and Finance Directorate and MDW records. Upon correction of all records an overobligation in the amount of \$67,056.21 was revealed. Subsequent MDW reports indicate additional obligations of \$941.72. This latest total is the amount reported.

The violation was not knowingly or willfully incurred, but was due to personnel turnover and lack of adequate control.

8. Disciplinary Action. The Deputy Assistant Secretary of Defense (Administration) orally reprimanded the individuals named responsible. This action is considered appropriate due to the circumstances of personnel and systems difficulties and in view of the fact that Mr. Fisher has completed 40 years of creditable government service and Mr. Arzoomanian has completed 33 years.

9. Signed Statement of the Individuals Named Responsible. Each of the individuals named responsible were provided a copy of the Report of Violation. Mr. Fisher has declined to make a written statement. Mr. Arzoomanian has been given the opportunity to make a statement, but has not done so.

10. Action Taken. As a result of the difficulties evident in the Directorate for Budget and Finance in 1976, Mr. David O. Cooke, Deputy

Assistant Secretary of Defense (Administration) directed that a study be undertaken to pinpoint problems and recommend solutions. As a result of this study, Mr. Cooke has stabilized the Directorate staffing, directed the establishment of enhanced control over funding, and had a review of all prior year activity conducted. On October 1, 1977 a decentralized accounting office was formed in the Budget and Finance Directorate around a new, automated accounting system to provide support for appropriations under WHS cognizance for FY 1978 and beyond. Prior year accounting records continue to be maintained by the Military District of Washington. The new system has supported its responsibilities in complete, comprehensive, and accurate fashion for the entire FY 1978 accounting period. It provides reliable real-time funds control, commitment and accrual accounting, together with a reimbursement system and all other necessary accounting functions. In particular, obligation documents are carefully controlled throughout the process. Properly operated and staffed, it should preclude future R.S. 3679 violations.

A special task force has reviewed all prior year Budget and Finance Directorate accounts, correcting deficiencies where evident through both WHS and MDW records.

Following approval of this report, action will be taken to obtain funds to cover the amount of the violation.

DEPARTMENT OF THE NAVY
REPORT OF VIOLATION OF ADMINISTRATIVE CONTROL OF
APPROPRIATIONS REGULATIONS (DD-SD(AR)170) 76-1

1. Appropriation Identification:

Appropriation Title: Operation and Maintenance, Navy

Appropriation Symbol: 1741804, as apportioned
1751804, as apportioned

Fiscal Years: 1974
1975

2. Installation Where Violation Occurred: Naval Air Station,
Fallon, Nevada 89406

3. Amount of Violations:

Fiscal Year 1974, \$11,317.30 on 30 June 1974
Fiscal Year 1975, \$21,666.56 on 30 September 1974

4. Nature of Violation: In Fiscal Year 1974, the obligation authority (allotment) contained in the installation's operating budget was overobligated. For Fiscal Year 1975, the First Quarter apportionment obligation authority (allotment) contained in the installation's operating budget was overobligated. In each instance, the next higher level of funding was not overobligated thereby.

5. Responsible Officials:

a. Captain Wendel B. Muncie, USN (Retired) (Deceased),
Commanding Officer, Naval Air Station, Fallon, Nevada.

b. Lieutenant Commander Norman D. Bugg, USN (Retired),
Supply Officer/Comptroller, Naval Air Station, Fallon,
Nevada.

6. Description of Causes and Circumstances: The primary cause of the overobligation was that NAS, Fallon, prior year station Operation and Maintenance, Navy funds were retroactively obligated after the close of Fiscal Years 1972, 1973 and 1974. Prior years funds were charged by establishing unsupported dummy obligations (labeled by NAS, Fallon, as "Administrative Obligations") and back-dating purchase orders and requisitions. Obligations improperly charged to prior years were subsequently adjusted and charged to the fiscal year in which they were created. This adjustment of charges, done in accordance with Navy regulations, caused the overobligation of Fiscal Year 1974 Direct

Obligational Authority and the Fiscal Year 1975 First Quarter Direct Obligational Authority. The investigation concluded that the violations of Section 3679, of the Revised Statutes were deliberate actions by Lieutenant Commander Norman D. Bugg, USN (Retired), to prevent reversion of prior year Operation and Maintenance, Navy funds. Other factors which contributed to the violations are discussed below.

a. Navy regulations were disregarded concerning internal control procedures.

b. Procedures and controls did not ensure that obligations were charged to the appropriation of the fiscal year in which the obligation was incurred.

c. Many journal vouchers were not identified to individual obligating documents necessary to support general ledger adjustments. Others had no supporting documents with the voucher. Journal vouchers did not contain adequate explanations as to the nature of the transactions. After posting the vouchers to the general and subsidiary ledgers, the journal voucher file with supporting documents was not retained in a sequential and orderly manner.

d. Documentation was not available to provide evidence that the comprehensive reviews of outstanding obligations at fiscal year-end were in fact performed in accordance with Navy Comptroller regulations.

7. Statements of Responsible Officials: The responsible officials in paragraph 5 have retired from the Naval service. Each had the opportunity to testify, formally or informally, during the investigation concerning their responsibilities with regard to the violation of Section 3679, R.S. The testimony provided by the responsible officials has been carefully examined. It is void of any explicit or implicit rationale for the violation of Administrative Control of Appropriations Regulations. Since no exceptions to the facts presented were noted by either responsible official, tacit admission is implied. An apparent reluctance to address this matter directly in testimony indicates that further attempts to obtain statements of responsible officials would be futile and only delay the submission of this report. Therefore, explicit statements of responsible officials are not available for the Report of Violation.

8. Disciplinary Action: Upon completion of the investigation concerning Captain Muncie and Lieutenant Commander Bugg, the investigation was forwarded to the Office of the United States Attorney for Nevada. Having reviewed the facts, the U.S. Attorney declined to prosecute the case.

The file was forwarded by the Judge Advocate General to the Public Integrity Section, Criminal Law Division, Department of Justice. Since Captain Muncie died prior to issuance of a formal opinion in his case, no opinion was rendered; however, with respect to Lieutenant Commander Bugg, the Department of Justice concurred in the decision of the U.S. Attorney for Nevada not to prosecute. When the Judge Advocate General advised the Secretary of the Navy regarding the possibility of ordering Lieutenant Commander Bugg to active duty in order to have this matter referred to court martial proceedings, the Secretary of the Navy declined to take such action in light of the decision of the Department of Justice not to prosecute. However, in view of the circumstances in the case, a nonpunitive letter of caution was issued to Lieutenant Commander Norman D. Bugg.

9. Procedural Action Taken or Recommended. For Fiscal Year 1974, the overobligated condition was eliminated when funds in the amount of \$12,000 were issued to Commanding Officer, Naval Air Station, Fallon, Nevada 89406, on 22 June 1975 by the Commander, Naval Air Force, U.S. Pacific Fleet, San Diego, California 92135. For Fiscal Year 1975, no additional funds were required from higher authority to eliminate the First Quarter overobligation. The overobligation was eliminated by subsequent reduction of the Fiscal Year 1975 obligation rate, which provided sufficient funds to satisfy all expenses incurred against outstanding obligations. In addition, the following positive actions have been taken:

a. Procedures and controls have been established to ensure that charges are made to the appropriation of the fiscal year in which the obligations are created. A responsible individual has been designated as a "Financial Editor." His duties encompass a review of financial transactions to ensure that applicable accounting data is cited on funding documents and that back-dating of any document is prohibited.

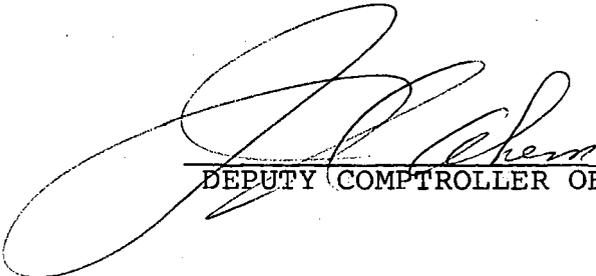
b. Local accounting procedures have been revised to ensure that documents supporting journal vouchers are properly identified; and, if practicable, filed with the voucher by journal voucher number. The revised procedures stress the requirements for explicit explanations of the nature of the journalized transactions. Standardized procedures for like transactions have been developed which will permit grouping and summarizing transactions for batch posting. The procedures specify those documents which are not considered practicable to attach to the journal voucher and cite filing and identifying instructions for such documents. This procedure permits an audit trail. At the same time, specific instructions have been promulgated stating that related adding machine tapes or machine listings will be attached to the journal voucher.

c. The Accounting Division, Supply/Comptroller Department has been advised that comprehensive reviews of obligations outstanding as of fiscal year-end are required in accordance with the NAVCOMPT Manual. A station instruction has been promulgated outlining specific procedures concerning the responsibilities of the Supply/Comptroller Department and the cognizant operating target holder with regard to validating outstanding obligations. Time frames for this task have been included in the instruction.

d. The Fiscal Year 1975 and prior years accounts records and reports and appropriation adjustments required to revert additional unobligated amounts applicable to prior fiscal years has been accomplished. The delay in submitting this Report of Violation resulted from the lengthy investigations by the Department of the Navy and other agencies to determine and review properly all facts in this case.

10. Adequacy of Regulations: The regulations appear to be adequate and do not require change.

1 March 1978
DATE


DEPUTY COMPTROLLER OF THE NAVY

REPORT OF VIOLATION OF R.S. 3679

DEPARTMENT OF THE ARMY

DATE: 15 JUN 1978

REPORT NO. 58-76

1. Reference: Section XII, DOD Directive 7200.1 revised 6 April 1977.
2. Funds Involved: Family Housing Management Account, Operation and Maintenance, 21-9760700 57-1033 P1920 S09057. Funds were apportioned.
3. Where Violation Occurred: Family Housing Quarters #6, Fort Gordon, Georgia 30905.
4. Amount of Violation: \$607.89
5. Type of Violation: Exceeding the \$500.00 incidental improvement limitation per individual dwelling unit per fiscal year on 19 March 1976.
6. Names and Positions of Responsible Individuals:
 - a. Mr. R. L. Fondren, Deputy Director, Directorate of Facilities Engineers (DFAE).
 - b. Mr. R. F. Walsh, Chief, Engineer Resources Management Division, DFAE.
 - c. Colonel P. N. Simon, Acting Chief, Housing Division (HD), Directorate of Industrial Operations (DIO).
 - d. Mr. P. L. Gallagher, Chief, Family Housing Branch, HD, DIO.

The individuals held responsible, both singly and jointly, failed to observe the minimum administrative control procedures required by applicable regulations. These administrative omissions were the causative factors which led to the violation.

7. Cause and Circumstances Surrounding the Violation:

- a. During fiscal year 1976, three (3) job orders for incidental improvements (alterations and additions-expansions-extension) to Quarters No. 6 were accomplished. The first, Work Order No. 409, was dated 1 July 1975 and called for the cutting of a doorway and installing a door between the dining

room and the front porch at an estimated cost of \$275.10. Though the cost estimate had been recorded in the HD, there is no indication that the work order had been formally approved by any official in that division. During the performance of the job, electrical conduits were found in the wall when the door was being cut, which required more work than was originally anticipated. Additionally, the estimated costs were not adjusted to actual costs upon completion of the work. The second, Work Order No. 899, was dated 30 July 1975 and called for the installation of wall outlets at an estimated cost of \$83.10. The order, which was approved by Lieutenant Colonel (Retired) Earle F. Maddocks, then Chief, HD, DIO contained the statement that actual costs should not exceed \$225. The estimated costs were adjusted upward at some undeterminable time, but prior to 19 March 1976, to \$86.32. The third, Work Order No. 3300, was dated 19 March 1976 and called for the installation of wall outlets at an estimated cost of \$125.58. The order, which was approved by Colonel Simon, contained the statement that total costs should not exceed \$138.58. At some later time, the estimated costs were adjusted upward to \$136.48. Total costs then indicated on HD records for the incidental improvements of Quarters No. 6 amounted to \$497.90. Despite the fact that the HD was fully aware of the DFAE practice of exceeding the approved amount of a work order without prior approval, neither the Acting Chief, HD, Colonel Simon nor the Chief, Family Housing Branch, HD, Mr. Gallagher, directed any action to verify the actual costs vice estimate on Work Order No. 409.

b. During April 1976, a Comptroller Internal Review Division audit noted that discrepancies existed between the costs recorded by DFAE and those recorded by HD. Though no violations were revealed by the internal review which covered the period April 1975 through March 1976, the HD was directed to follow-up and verify the actual costs chargeable against all incidental improvement work orders. Subsequent to 19 March 1976, when Work Order No. 3300 was approved, but prior to the TRADOC Inspector General (IG) Review of 4 May 1976, the actual cost of Work Order No. 409 was posted to HD records. These costs amounted to \$385.09; therefore, the violation occurred on 19 March 1976 through the processing of Work Order No. 3300 in the amount of \$136.48. This then known violation was not reported until the TRADOC IG identified the violation to the Fort Gordon Comptroller.

c. Colonel Simon and Mr. Gallagher, HD, are held responsible for failing to maintain adequate cost controls and for administrative laxity in failing to report a known violation of the \$500 limitation per dwelling unit per fiscal year. Mr. Fondren and Mr. Walsh, DFAE, are held responsible for failing to comply with the provisions, AR 210-50, paragraph 9-5b and Memorandum of Agreement-Coordination of Director of Facilities Engineering and Family Housing Functions dated 1 April 1975, which state that additional work will not be accomplished until additional funds are made available and that estimated costs will not be exceeded without prior approval of the Family Housing Manager.

d. The violation is not considered to have been committed willfully and knowingly, but was due to failure to conform to regulatory requirements.

8. Signed Statements of Individuals Determined to be Responsible:

The signed statements of the individuals held responsible are attached as Inclosures, 1, 2, 3, and 4.

9. Disciplinary Action: Mr. Fondren, Mr. Walsh, and Mr. Gallagher have all been orally reprimanded, and Colonel Simon has been orally admonished. Under the circumstances, the disciplinary action taken by the Commander is considered adequate and proper.

10. Corrective Action Taken: A Memorandum of Agreement--Coordination of Director of Facilities Engineering (DFAE) and Family Housing Functions, dated 15 March 1977, has been implemented. The memorandum clearly sets forth each limitation applicable to family housing, and establishes procedures for processing work and service order requests. The memorandum also provides that DFAE will be responsible to insure that approved funding is not exceeded; to insure that total charges are provided to the Family Housing Branch (FHB) on a timely basis; and to provide an estimated date for accomplishment of each project to the FHB. The FHB is responsible for notifying DFAE, in writing, when eighty percent (80%) of any limitation has been reached.

11. Systems Adequacy: The system of administrative control prescribed by DOD and DA is considered adequate.



Alan J. Gibbs
Assistant Secretary of the Army
(Installations, Logistics and
Financial Management)

STATEMENT

1. I respectfully disagree with the findings and recommendations of the Investigating Officer and do hereby set forth this statement as a rebuttal thereto.
2. The alleged overcost violations initially came to my attention subsequent to an investigation by the Comptroller Audit Team from DIO. At the time, the Division Chief was temporarily absent.
3. I immediately informed DIO of the specific reason for the audit; however, the Budget Section of Headquarters Division did not have all of the source document cost figures. The auditors proceeded to DFAE to compare cost estimates with completed job costs. The actual cost figures as compiled by the auditors were provided to DIO who then contacted me. DIO requested that I obtain all copies of the work orders relating to Quarters #6.
4. While obtaining copies of these work orders, it was noted that Mrs. Allen had received a 2700 reflecting a typed-in amount of \$275.10. However, subsequent to the auditors receiving the work order and cross-checking with DFAE, Mrs. Allen had gone back to the work order and computed some pencilled-in labor charges. She then posted a new improvement cost total in the amount of \$385.07 to the quarters improvement card. The Budget Analyst had not been informed of this posting. A copy of this work order was requested from DFAE on several occasions by the Budget Section.
5. I was not personally aware that there were any problems of costs chargeable to Quarters #6 until DIO called me and told me they had received an informal report from the Comptroller. DIO then requested that I obtain a copy of Work Order #409, which the auditor had surfaced during his visit to DFAE. I called DFAE, requested that Housing (Family Housing Division) be provided a copy of work order #409, and I then sent a man to pick it up. I received the work order and immediately made three copies of it, gave one copy to the Budget Section and personally delivered a copy to the Auditor and the DIO.

Page 2
STATEMENT

6. I submit it was not a case of failure on my part to identify and report overcosts. I was not in the work flow chain of processing and approving work orders. Under normal circumstances, work orders were prepared by the Engineering Section, processed through the Budget Section, to the Housing Division Chief, then to DFAE. In the absence of the Division Chief, work orders came to me for signature. The only work order that came to me was Work Order #899, which I signed, requesting a job estimate. I was given full assurance at that time that sufficient improvement funds were available to cover a normal job of this nature. Further, I knew then that the estimate was to come back and be rechecked at that time to insure that funds were still available and within the limitation before any work was to be done.

7. Therefore, I request that all these above facts be carefully considered and that a determination be finally made absolving me of any impropriety, neglect, or oversight, and that no form of reprimand be issued against me.



PAUL L. GALLAGHER
Chief, Family Housing Branch

S T A T E M E N T

1. I do not concur in the findings or recommendations because of the following facts:

a. Work order 409 (the only work order in the group constituting the 3679 violation which I reviewed and inadvertently signed in the "approval" space in lieu of "recommended for approval" space) did not constitute a 3679 violation either in the original estimate or the final actual cost.

b. Family housing personnel were fully aware of the original estimate of \$275.10 for work order 409 which is clearly shown by the balance of \$225.00 indicated on work order 899 which was issued 30 July 1975. Additionally, family housing had access and knowledge of the \$325.09 expenditure which was indicated on the family housing activity detailed cost report for period 1-31 July 1975. Failure to reconcile this document with the family housing manual records was a fallacy of the system at that time. It is not DPAE's responsibility to reconcile family housing activity detailed cost reports.

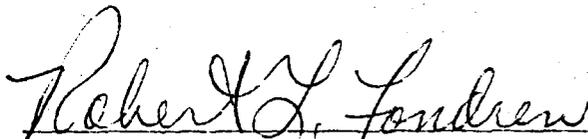
c. On or about 28 July 75, Director of Facilities Engineering requested and obtained approval authority for maintenance and repair projects up to \$300,000 from the CG. Shortly thereafter, I was advised that said authority would not be delegated lower than the Director of Facilities Engineering. I immediately informed all division chiefs of this determination. From that day forward until now, I still do not have an authorization card for signature of DA Form 2701s except by delegation by job description in the absence of the Director, or when he is away from his office and a work stoppage occurs which requires immediate walk-through action. The only work order request and fund authorization document that I became involved with after 28 July 1975, was in the absence of the Director or when I was asked for guidance on specific problem areas.

d. Since the 3679 violation was caused by work orders issued after 28 July 75, and because I had no authority for review or approval of these orders except in the absence of the Director, I did not review any of the family housing work orders issued after 28 July 1975 except in the absence of the Director.

S T A T E M E N T (Continued)

12. In that work order 409 was accomplished in a very expeditious manner due to a desire to perform the work during a very limited time frame, it is felt that normal procedural follow-ups were not carried out in the usual manner. Had the work been accomplished in a routine fashion without pressure for expediting, it is highly probable this 3679 violation would not have occurred. It is not the responsibility of this respondent to personally oversee the costing account of work done, since FHD has that responsibility.

13. I do now strenuously object to any reprimand and do so respectfully request the above facts be carefully considered before any further action against me is taken, and that I be finally absolved of any and all responsibility in this matter.

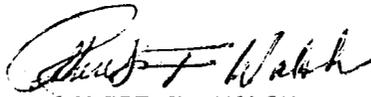

ROBERT L. FONDREN
D/DIR FAC ENG

8 Nov. 76
(DATE)

STATEMENT

1. I do not feel that the action relative to me in conjunction with letter ATZHCM; Subject, Determination of Responsibility for Overexpenditure of Funds dated 22 October 1976 as relative to the investigative findings is justified.

2. I feel that in consideration of all testimony and review of the circumstances that promoted the overexpenditure that there are no guarantees that individuals through action can be 100% effective against occurrences of this nature. For this reason I feel the action is not commensurate with the findings.



ROBERT F. WALSH

Date _____

S T A T E M E N T

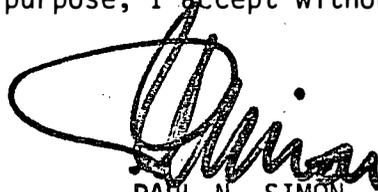
1. I accept the inevitability of the finding of my culpability in this case and desire now only to take advantage of the opportunity to comment upon a single aspect thereof.

2. I acknowledge failure to identify over-expenditure of funds for improvement-type work (WO #409). I also acknowledge failure to prevent World War II, and should Society find a useful purpose in punishing me for the latter failure, I would be equally unable to rebut the action based solely upon the factuality of the failure. (This is called "legal sufficiency.")

3. I reinvite attention to inclosures 1 and 2, Respondent Exhibit 2. These messages concern a similar investigation, immediately preceding the instant one, with the same investigator. Inclosure 1 indicates that TRADOC reversed the investigator's findings, specifically with regard to his ability to "identify the over-expenditure of BP 1920 funds for improvement-type work." Inclosure 2 quotes the Department of the Army (specifically Chief of Engineers) as reversing a large part of TRADOC's findings in the same regard. It is patent that the TRADOC experts are also subject to failure "to identify the over-expenditure of BP 1920 funds for improvement-type work."

4. In no way is the foregoing paragraph intended to absolve me of guilt or indicate inefficiency on the part of the investigator or anyone else. Its purpose is only to place the approved, amended recommendation in perspective, bearing in mind that the investigation to which I refer and the exchange of conflicting interpretations was continuing throughout a large part of my five months' incumbency in Housing Division. I was charged with a number of duties, including the identification of over-expenditures; these experts were examining my operation with sole intent "to identify the over-expenditure of BP 1920 funds."

5. I did, in fact, fail "to identify the over-expenditure of BP 1920 funds for improvement-type work" on the cited July 1975 work order; and, should it be deemed as serving a useful purpose, I accept without further comment whatever judgment results.



PAUL N. SIMON
Colonel, GS
Deputy Director of Inds Opns



THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

JAN 13 1979

Honorable Walter F. Mondale
President of the Senate
Washington, D. C. 20510

Dear Mr. President:

In compliance with the provisions of Section 3679(i)(2), Revised Statutes, there are submitted herewith five reports of violations of the Anti-Deficiency Act (Section 3679, Revised Statutes), and of Department of Defense Directive 7200.1, "Administrative Control of Appropriations." One violation occurred in the Army, two in the Navy, one in the Air Force, and one in the DoD Washington Headquarters Services.

In reviewing the reports, one case (Navy No. 76-1) appeared to have been caused by willful actions. The case was referred to the United States Attorney for Nevada. However, prosecution was declined. In the other four cases, no evidence was found that the violations were willful. They resulted from a misunderstanding of or a failure to comply with regulations. Appropriate corrective action has been taken. Disciplinary action was taken where warranted.

In coordination with the staff of the Office of Management and Budget, we have revised DoD Directive 7200.1 which prescribes the system of administrative control of funds. The Directive was issued on November 15, 1978, after formal approval by the Office of Management and Budget.

To comply with the provisions of Section 3679(i)(2), Revised Statutes, copies of the reports are also being submitted to the President of the United States and to the Speaker of the House of Representatives.

Sincerely,

A handwritten signature in cursive script, appearing to read "C. W. Humphrey", is located below the typed name.

Enclosures



THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

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Enclosures



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 4 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: John P. White (Signed) John P. White
Deputy Director

SUBJECT: Report of the Deputy Secretary of Defense
on violations of section 3679 of the
Revised Statutes, as amended

There is attached a memorandum dated January 13, 1979, from the Deputy Secretary of Defense reporting to you, as required by law, violations of subsections (a) and (h) of section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), commonly known as the Antideficiency Act.

Five reports of violations are transmitted. One violation appeared to have been caused by willful actions. The case was referred to the United States Attorney for Nevada and to the Department of Justice for review; however, the decision was made not to prosecute. The other four cases do not appear to have been willful, but resulted from a misunderstanding of or a failure to comply with regulations. The reported violations are as follows.

<u>Appropriation Title and Fiscal Year</u>	<u>Fiscal Year Violation Occurred</u>	<u>Amount</u>	<u>Type of Violation</u>
Family housing, Defense 1977	1977	\$4,201,143.96	Obligations in excess of an allotment/ commitments in violation of agency fund control system
Operation and maintenance, Navy, 1976/ Transition Quarter 1977	1976 1977	540,008.78 8,201.00 <u>\$548,209.78</u>	Obligations and expenditures in excess of a statutory limitation
Court of Military Appeals, Defense, 1976/ Transition Quarter	1976 Transition Quarter	\$30,139.51 <u>37,858.42</u> <u>\$67,997.93</u>	Obligations and expenditures in excess of appropriation
Operation and maintenance, Navy, 1974 1975	1974 1975	\$11,317.30 <u>\$21,666.56</u> <u>\$32,983.86</u>	Obligations in excess of allotments
Family housing, Defense, 1976	1976	\$607.89	Obligations in excess of an administrative limitation*

The memorandum from the Deputy Secretary of Defense states that appropriate corrective and disciplinary actions have been taken. Disciplinary action consisted of written and oral reprimands.

* We have asked the Department of Defense to consider increasing the administrative limitation for incidental improvements per family housing dwelling units to a higher level of fund control.

Several months ago we approved a revised fund control regulation for the Department of Defense. The revised regulation includes new emphasis on prompt reporting. The Defense Department has conducted an intensive investigation within DOD to identify all possible Antideficiency Act violations. Because of this effort, numerous cases are being thoroughly reviewed and investigated, and may result in the identification of past violations of R.S. 3679. Hopefully, recent and future violations will be reported in a timely manner.

In view of the revised fund control regulation and the disciplinary and corrective actions taken within the Department, we do not recommend further action at this time.

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Five reports of violations are transmitted. One violation appeared to have been caused by willful actions. The case was referred to the United States Attorney for Nevada and to the Department of Justice for review; however, the decision was made not to prosecute. The other four cases do not appear to have been willful, but resulted from a misunderstanding of or a failure to comply with regulations. The reported violations are as follows.

<u>Appropriation Title and Fiscal Year</u>	<u>Fiscal Year Violation Occurred</u>	<u>Amount</u>	<u>Type of Violation</u>
Family housing, Defense 1977	1977	\$4,201,143.96	Obligations in excess of an allotment/ commitments in violation of agency fund control system
Operation and maintenance, Navy, 1976/ Transition Quarter 1977	1976 1977	540,008.78 <u>8,201.00</u> \$548,209.78	Obligations and expenditures in excess of a statutory limitation
Court of Military Appeals, Defense, 1976/ Transition Quarter	1976 Transition Quarter	\$30,139.51 <u>37,858.42</u> \$67,997.93	Obligations and expenditures in excess of appropriation
Operation and maintenance, Navy, 1974 1975	1974 1975	\$11,317.30 <u>\$21,666.56</u> \$32,983.86	Obligations in excess of allotments
Family housing, Defense, 1976	1976	\$607.89	Obligations in excess of an administrative limitation*

The memorandum from the Deputy Secretary of Defense states that appropriate corrective and disciplinary actions have been taken. Disciplinary action consisted of written and oral reprimands.

* We have asked the Department of Defense to consider increasing the administrative limitation for incidental improvements per family housing dwelling units to a higher level of fund control.

Several months ago we approved a revised fund control regulation for the Department of Defense. The revised regulation includes new emphasis on prompt reporting. The Defense Department has conducted an intensive investigation within DOD to identify all possible Antideficiency Act violations. Because of this effort, numerous cases are being thoroughly reviewed and investigated, and may result in the identification of past violations of R.S. 3679. Hopefully, recent and future violations will be reported in a timely manner.

In view of the revised fund control regulation and the disciplinary and corrective actions taken within the Department, we do not recommend further action at this time.

Copies of the Defense reports have been sent to the President of the Senate and the Speaker of the House of Representatives.

Attachments



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

JUN 4 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: John P. White
Deputy Director (Signed) John P. White

SUBJECT: Report of the Deputy Secretary of Defense
on violations of section 3679 of the
Revised Statutes, as amended

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Attachments

2308

THE WHITE HOUSE
WASHINGTON

Date: May 30, 1979

MEMORANDUM

FOR ACTION:
Frank Moore (Les Francis)
Jim McIntyre →

FOR INFORMATION:
no comment Stu Eizenstat

McIntyre
will comment
today (6/1)

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Weaver memo. Re: Small Business Administration
Legislative Status

**YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:**
TIME: 12:00
DAY: Friday
DATE: June 1, 1979

ACTION REQUESTED:
 Your comments
Other:

STAFF RESPONSE:
 I concur. No comment.
Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

<input checked="" type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input checked="" type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND
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ACTION
FYI

<input type="checkbox"/>	ADMIN CONFID
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<input type="checkbox"/>	VICE PRESIDENT
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<input type="checkbox"/>	WARREN
<input type="checkbox"/>	WISE

<input type="checkbox"/>	ADAMS
<input type="checkbox"/>	ANDRUS
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<input type="checkbox"/>	BROWN
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<input type="checkbox"/>	KREPS
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<input type="checkbox"/>	VANCE



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 1 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: John P. White 
SUBJECT: Small Business Administration Legislative Status

We have a few comments on SBA Administrator Weaver's May 29, 1979, memorandum to you concerning the current status of the SBA authorization bill which is expected to go to conference early next week.

The SBA memo gives the overall impression that progress on obtaining a bill acceptable to the Administration has been quite good and that you can look forward to signing the bill with pride. We take issue with that assessment and would point out that there are several troublesome areas in the House and Senate versions of the SBA bill which need to be modified:

--both versions of the SBA bill have gone beyond the arrangement originally discussed with the Administration so that interest rates at the Farmers Home Administration (FmHA), as well as those at SBA, are affected. The fact that the bill expands coverage to FmHA serves to undermine one of the cardinal tests of eligibility for FmHA loans: the "no credit elsewhere" test. This test currently limits FmHA emergency lending to farm operators who are unable to obtain credit from other sources on reasonable (market) terms. The SBA bill would turn the credit elsewhere test on its head: even if an operator is able to obtain credit elsewhere, he becomes eligible for a FmHA loan at the cost of money to the Treasury plus one percent, thereby displacing private loans at market rates. Department of Agriculture management believes that no public interest is served by lending taxpayers' money to operators who can just as well borrow from private or other lending institutions.

--there are three other areas where changes are necessary before the bill could be termed acceptable to the Administration. Some of these objectionable provisions could drop out in conference, the Administration will continue to push for their elimination or revision in all contacts with the Hill.

- o Special Assistant to the President for Small Business. The Senate version of the SBA bill would create a Special Assistant to the President for Small Business. This provision would limit the President's discretion to structure his own immediate office and create a very undesirable precedent which might encourage establishment of similar positions for other interest groups. If enacted, it would be the first time in history, to our knowledge, that the President would be virtually required by law to employ a special assistant to represent a particular interest group.
- o Removal of requirement to pay interest on SBA disaster obligations. The House bill would free SBA of the requirement to pay interest to Treasury on Disaster Loan Fund obligations. This constitutes a form of back-door spending. For example, it would artificially reduce SBA's budget in this area by over \$350 million in FY 1979 and transfer the cost to Treasury.
- o Expansion of SBA "Product Disaster" Loans. Both versions of the SBA bill broaden the scope of the Small Business Administration's "product disaster" loan program. The amendment would expand current definitions so that firms unable to process or market products because of disease or toxicity arising from virtually any cause would become eligible for SBA loans. The bill would open up SBA loan eligibility to a whole host of potential product disasters created by Government bans. This would establish a costly precedent which we have long fought against--that is, that regulatory actions by the Federal Government to protect the general public health and safety or welfare, create compensable or other types of claims for private industry adversely affected by such regulation.

These problems are being addressed in Conference and it is premature to anticipate the outcome of the final bill.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 1 1979

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U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

MAY 29 1979

MEMORANDUM FOR

The President
The White House

SMALL BUSINESS ADMINISTRATION LEGISLATIVE STATUS

You vetoed last year's legislation, due to its major impact on the budget and other reasons. This spring has brought some of the worst flood and tornado situations in many years, particularly in Mississippi, Louisiana, Oklahoma, Texas, and North Dakota. SBA's interest rate on disaster loans -- 7-3/8 percent -- has brought many complaints and pressure to resolve the impasse between the Congress and your Administration.

A fair, complex and carefully negotiated compromise on disaster assistance now has passed both the Senate and the House.

Floor efforts to reduce interest rates further were beaten back, thanks to the help of Senators Stennis and Muskie, and Congressman Giaimo. The compromise was generally praised as a package which would allow the Federal Government to help those citizens struck by disasters in a responsible and compassionate way. Farm disaster lending in largest part is returned to FmHA where it belongs; farms and businesses are treated equally; interest rates are 3 percent on homes; 5 percent for farms or businesses without "credit elsewhere" and cost of money (about 9 percent) for those with potential for such credit.

The House also included Asian-Americans among listed minority businesses, a strong issue in California.

Conferees will meet soon and we believe that you will have a Bill you can approve with pride as a responsible, compassionate step and as an act of solid cooperation with the Congress.

A. Vernon Weaver
Administrator



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These problems are being addressed in Conference and it is premature to anticipate the outcome of the final bill.

ID 792382

THE WHITE HOUSE

WASHINGTON

DATE: 31 MAY 79

FOR ACTION:

INFO ONLY: JODY POWELL

JERRY RAFSHOON

SUBJECT: WEXLER MEMO RE ATTACHED MCPHERSON MEMO RE CLARIFYING
PRESIDENT'S POSITIONS

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: +
+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE
WASHINGTON

May 30, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER

For your information

5/26

May 25, 1979

MEMORANDUM

FOR: Anne Wexler
FROM: Harry McPherson *HM*

I think it's about time for a state-of-the-union speech. The President's image, and his positions on many issues, are becoming blurred. It is one thing to call attention to the ambiguities and ambivalences that are inherent in most problems we face; as a rule people acknowledge them and don't mind the President doing so. It is another to veer back and forth because of political pressures. That blurs the image of a straightforward, inner-directed leader.

If I were advising the President, I would suggest that he secure time on all three networks in order to lay out his position on the following:

- Energy, including supply and price
- SALT II
- Rhodesia
- Panama, if still unresolved
- The Middle East, including the Palestinian issue
- The economy, including inflation and recession or pause, and the Federal budget
- De-regulation of surface transportation

I list these in no particular order of preference.

I know the conventional wisdom is not to lump a lot of things together like this, and run the risk of boring the devil out of potential voters. But each is a present or future conundrum, on which the country wants and needs guidance. The President should make a definitive effort to provide it by dealing with all of them.

I would further urge him to be clear, candid, and forceful -- in short to take risks that what he says may prove wrong or unpopular. The need is for sharpening the focus.



THE DEPUTY ATTORNEY GENERAL
WASHINGTON, D.C. 20530

June 1, 1979

MEMORANDUM FOR: The President

FROM: Benjamin R. Civiletti *BRC*
Deputy Attorney General

SUBJECT: Report on the Investigation of
the Killing of Judge Wood

Today's FBI report indicates there are several very promising leads which have been developed in the above investigation and that the FBI and the other relevant law enforcement agencies are devoting maximum effort to the investigation. The brief FBI report is attached.

MURDER OF JOHN H. WOOD, JR.
UNITED STATES DISTRICT COURT JUDGE
SAN ANTONIO TEXAS

~~MAY 29, 1979~~
June 1st

On May 29, 1979, at approximately 8:35 a.m., Judge Wood was shot and killed while standing beside his automobile in front of his residence. For sometime prior to this event Judge Wood had been handling numerous trials involving narcotics offenders in Texas.

The autopsy report revealed Judge Wood had been struck with one bullet, probably fired from a high-powered rifle due to the damage it caused. The bullet blew away approximately 2½ to 3 inches of Judge Wood's spine and also hit his aorta, lungs, and liver. It is presumed he was dead by the time he fell to the ground.

FBI Laboratory examination of the bullet indicates it is a .243 caliber (6 millimeter) copper jacketed bullet fired from a barrel rifled with 6 grooves. This diameter bullet is loaded into .243 Winchester caliber, .244 Remington caliber, .240 Weatherby magnum caliber and 6 millimeter International rifle cartridges. The manufacturer of the bullet has not been determined. However, it probably originated from an 80 to 105 grain soft pointed or hollow point bullet. No pattern of gun powder or gun powder residue were detected around the bullet hole in the middle back area of Judge Wood's jacket. Therefore, no muzzle to victim distance determination is possible.

The FBI immediately instituted a massive investigation to identify the person or persons responsible for this crime. No eyewitnesses to the shooting have been found, but individuals have been located who saw Judge Wood as he was struck and fell to the ground. The descriptions provided by these persons of what they saw do not agree with one another and none of them state they saw assailant, a weapon, or a vehicle.

On November 21, 1978, attempt was made to murder Assistant United States Attorney (AUSA) James W. Kerr, Jr., San Antonio, Texas. AUSA Kerr has been actively prosecuting a number of narcotics offenders in the Western District of Texas. Preliminary investigation suggests the attempt on AUSA Kerr's life and the murder of Judge Wood are related incidents in a continuing scheme of retaliation by narcotics traffickers. Various members of the Bandidos Motorcycle Club are suspects in both incidents. The Bandidos Motorcycle Club is a notorious

outlaw organization allegedly involved in murder, robbery, burglary, and drug trafficking. The Bandidos Motorcycle Club is believed to be the principal conduit for importing Cocaine into the United States from Mexico.

Various witnesses who live in the apartment complex area where Judge Wood resided have furnished information for artist's conception drawings of individuals they saw in the area shortly before the shooting. They have described these persons as unsavory looking individuals who did not appear to belong in the neighborhood on legitimate business. These witnesses have also furnished information regarding vehicles which may be involved in this matter.

The FBI has designated this matter a major case special and it is receiving top priority attention in every field office. The Director of the Texas Department of Public Safety has made available the full services of his agency to the FBI and this matter is being exhaustively investigated through close cooperation with numerous city, county, state, and Federal agencies.

THE WHITE HOUSE

WASHINGTON

May 30, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER

For your information

Attachment

GM comment on decision by
Federal Judge Harrington Parker

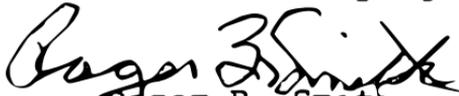


5/31

May 31, 1979

TO The Honorable Anne Wexler
Assistant to the President
The White House

We have received numerous requests from the media for comments about the court action today on a part of the anti-inflation program. I thought you would like to see our statement (attached) which reiterates support for the President's program.


Roger B. Smith

Attachment

May 31, 1979

Thomas A. Murphy statement in response to news media queries asking for GM comment on the decision by Federal Judge Harrington Parker in Washington today that economic sanctions used by the Carter Administration to enforce its wage-price guidelines are unconstitutional:

General Motors will continue to support the President's anti-inflation program. Our support of the program has been based on the nation's desperate need to control inflation and not on the threat of governmental economic sanctions. We will continue to urge all Americans — industry, labor and the public-at-large -- to support all aspects of the anti-inflation program including fiscal and monetary restraint, elimination of excess regulations, as well as Voluntary Wage-Price standards.

~~CONFIDENTIAL~~

1:00 PM



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

June 5, 1979

C

MEMORANDUM FOR THE PRESIDENT

Subject: U.S./German Cooperation on Exchange Market Policy

Tony Solomon mentioned to you at your meeting German resistance to allowing the U.S. to get a reasonable share of Deutschemarks the Bundesbank purchases in operations to support the DM rate against the dollar.

I am pleased to report that Tony has worked out a deal under which we and the Germans will split, on a fifty-fifty basis, our DM purchases in our respective markets. The bulk of DM/dollar activity is normally in the German market, and this agreement should accelerate U.S. acquisition of DM when the dollar is strong. The sharing arrangement will hold at least until we have fully restored all the DM resources we have used since November 1. We will be exploring with the Germans possible arrangements for acquiring further DM balances after our position is fully restored.

Mike

W. Michael Blumenthal

Electrostatic Copy Made
for Preservation Purposes

~~CONFIDENTIAL~~

Classified by W. Michael Blumenthal
 Declassify Review for
Declassification on 85/6/5

DECLASSIFIED
NLC-01-024
per 12/21/01 J.A.S. ltr
BY 6 NARA DATE 4/24/07

Retired - Pres. Handwriting

THE WHITE HOUSE
WASHINGTON
05 Jun 79

Stu Eizenstat
Alfred Kahn

The attached was returned in
the President's outbox today
and is forwarded to you for
appropriate handling.

Rick Hutcheson

ADMINISTRATIVELY
CONFIDENTIAL

TWO MEMOS ATTACHED.

PRIVATE

cc Fred, Stu
J

THE WHITE HOUSE
WASHINGTON

June 1, 1979

MEMORANDUM FOR THE PRESIDENT

FROM:

ALFRED E. KAHN *Fred*

SUBJECT:

Short-term anti-inflation strategy

The adverse decision by the Federal District Court on the legality of our use of procurement to support the standards calls for an immediate consideration of what we do next. Your meeting this weekend with Congressional leaders provides, I think, an opportunity for you to explore the various possibilities, especially since one obvious possibility is to go to Congress for this authority, and possibly for other things.

I realize that the memo you read last weekend from Mike and Charlie -- which I approved -- ends up essentially dismissing all possible short-term actions, except for some adjustments of the standards for the next year. I feel, however, we have inadequately explored both among ourselves and with you the possibility -- and I suspect the urgent necessity -- of some dramatic shorter term actions.

The urgent need was there even before yesterday's decision: the wage standards particularly were and are in imminent danger of collapsing anyhow. I won't bother to repeat all the reasons; you already know them.

We think there is at least a fighting chance that the program can be salvaged by a set of bold actions that might reverse the present national mood; and that you should have a fuller opportunity to consider them than you have had so far.

This memorandum lists for you a number of such possibilities, all of them, I think, worth seriously considering.

Good
I have not had an opportunity to explore these ideas with EPG, and I will do so. I have discussed them generally with Stu, and he agrees that I should give you an opportunity to think about them and explore them with the Congressional leaders.

**Electrostatic Copy Made
for Preservation Purposes**

Many of the suggestions I am going to make will involve the Congress. I am persuaded this is extremely desirable. We need Congressional help to strengthen the program. The President cannot carry all of this load alone. Even if Congress fails to act, I think you will be better off for having challenged them to participate actively in helping to frame the entire anti-inflation program, rather than merely pick up isolated pieces of it.

A. Strengthening the Standards

ok ? 1. A bill to deny Federal financial benefits -- contracts, grants, loans and loan guarantees and (I am much less confident of the feasibility or desirability of this one) tax expenditures -- to companies and State and local governments who violate the wage-price guidelines.

no

2. Such a bill could also include a formal procedure for CWPS developing and Congress ratifying the standards. For example, CWPS might be required to conduct open, public hearings before promulgating preliminary standards, and these might go into effect at the end of a 30-day period unless, by Joint Resolution, Congress instructed you to amend them.

Explosive.

Because the President must sign a joint resolution, you would be in a position to veto unacceptable amendments. This suggested procedure strikes a delicate balance. On the one hand, it is unlikely that Congress would grant powerful enforcement tools for standards it had no part in writing. And there is no doubt that Congressionally ratified guidelines would carry more weight. On the other hand, Congress is ill-equipped to write detailed standards. The mechanism I suggest would get Congress into the act, yet leave the detailed drafting to CWPS, while leaving veto power (subject to overriding, of course, by a 2/3 vote) in your hands.

3. Pre-notification of wage and price actions for 90-day suspend and delay authority, as proposed by Senator Stevenson and others. This legislation would require businesses to notify CWPS in advance of wage and price actions they intend to take and give you the authority to suspend or delay major ones for up to 90 days.

Explosive

Our experience with the current program suggests that notification of planned price actions might be a useful means of promoting consultation before the Council is presented with a fait accompli. Such consultation would reduce the confusion and conflict over interpretations of the standards. On the pay side the threat of a ninety-day delay might simply lead to an escalation of the total pay demand; but the direct focus of public attention, associated with an action to delay implementation, would intensify the pressure to comply.

- no*
4. Mandatory wage and price controls. I continue to believe the costs of these outweigh the benefits. But I must confess we have no policy to suggest that is guaranteed to hold large union wage demands in check over the next year. Controls must therefore be considered, and they had better be considered now, rather than after a pattern of high settlements is established.
- Explore*
5. A revised, simplified and more tightly capped version of Real Wage Insurance, perhaps with a coinsurance feature (e.g., benefits to be paid only to compensate for CPI increases above 8%).

B. Energy Policy

Major topic in Tokyo.

As I pointed out in my May 23 memorandum on Long Range Anti-inflation Policy, the need for decisive action here is of the greatest urgency. The inflation and energy problems are intertwined in the public mind. Energy has replaced food as our most serious source of inflation. Action in the energy area would therefore also help to create a public attitude that is receptive to pay and price restraint.

Solutions to the inflation and energy problems are currently seen as inherently in conflict with one another, as we seek to reduce demand for imported oil while holding down energy price increases. They need not be so viewed. A policy to cut our demands for foreign oil could be consistent with your anti-inflation objectives in two ways. First, it would strengthen the dollar and reduce import prices. Second, it would contribute to heading off future OPEC price increases, which are becoming monthly events.

Price controls are ineffectual and counterproductive in dealing with such a threat. Spot prices for crude oil can be reduced only by lowering demand or finding a means to force OPEC to expand supply.

The only way I can see of confronting this dilemma, as I suggested in the May 23 memorandum, is to confront OPEC -- although, if stated in terms of restraining our own demands, the confrontation need not be interpreted as hostile. Such an effort might consist of three parts: (a) creation of a single government entity to purchase all imported oil; (b) a fixed physical limit on imports of oil, gradually reduced over time; and (c) mandatory consumption restraints. Congress did reject standby rationing last month; but the issue is taking on additional immediacy and the American people might even welcome rationing (with the ration coupons saleable, of course) if it were sold as part of a bold plan to regain control of our energy destiny and lick inflation.

- C. A much closer approach to a balanced budget, along with relaxation of monetary policy. The Blumenthal memorandum convincingly explains why we all agree further drastic tightening of monetary or fiscal policies would probably be too painful and inefficient a way of combating inflation. What it does not adequately consider, I think, is the possible (I think actual) desirability of of a shift in the mix of monetary and fiscal policy.

The objective of this proposal would be not to add to overall restraint but to shift towards a more restrictive fiscal policy offset by an easing of monetary policy. The aggregate demand and employment effects of a tighter budget can be minimized by easing monetary policy to stimulate private sector demand.

An announcement of a revised 1980 budget that is balanced (or nearly balanced) would sharply alter public expectations. Despite our belief that the deficit is not a major factor in the current inflation, the public believes otherwise. Reducing the deficit, therefore, would reduce the public's inflationary expectations, and this could in turn significantly dampen inflation. In any event, in the presence of the deficit, the public does not find government requests for private sector restraint credible.

Sounds good

no way - we should emphasize reductions already in prospect - in '81, we'll move → balance

I can think of no more dramatic demonstration of a resolve to control inflation.

The resulting shift in the monetary-fiscal policy mix is also inherently desirable on anti-inflationary grounds. Our response so far to an unanticipatedly strong economy has been monetary restraint and fiscal ease -- precisely the opposite of what is required for an economy with capacity shortages and poor productivity growth. Moreover, the public believes -- with some justification -- that the high interest rates accompanying monetary restraint are inflationary.

I do too

*Consult w
Mc Intyre*

It may be possible to achieve dramatic cuts in the 1980 budget by (a) incorporating a more realistic inflation estimate in the revenue projections; (b) a lower estimate of debt financing costs, because of the easing of monetary policy; (c) revenue sharing; and (d) postponing defense spending and other outlays (such as the highway program) for a few months, with consequent reductions in 1980 budget costs. This could, I am informed, be done without seriously disrupting the affected program.

Some of these gains may be temporary, but there should be sufficient room in the 1981 budget to absorb the rebound of spending for these programs. Even if not all of these actions are adopted for the 1980 budget, the impact on public expectations of your proposing a balanced budget should be very salutary.

D. Productivity

The slowdown in productivity growth is the fundamental cause of the fall in real wages that we have been experiencing. As I observed in my May 23 memorandum, one respectable criticism of our present program is that it insufficiently confronts the productivity problem, even though it is a long-run one. (Of course regulatory reform and reducing inflation itself are two of the most important ways of doing this.) But, while government policy cannot bring about a substantial short-term improvement, it is none too soon to make a credible beginning. My previous proposal for reversing the mix of fiscal/monetary policy would be directed to this end. In addition, I would suggest your proposing tax incentives to encourage capital formation and increasing funding for research and development. Funds

for increased tax incentives are not available in 1980, but a proposal for inclusion in the January budget package could be announced now.

Although Congress was unreceptive to legislation along these lines last year, the productivity issue has recently received increased public and Congressional attention. Organized labor might also support such efforts if the focus were on direct investment incentives rather than reductions in the corporate tax rate; and if, as I proposed in my May 23 memo, you were to announce your intention to give prominence also to attacks on the chronic problem of structural unemployment. I don't see how one can deny the importance of continued efforts along these lines as part of any long-term productivity program, and of an anti-inflation program that is going to have to involve macroeconomic restraints, with their inescapable threat of slowing the march toward reduced unemployment.

THE WHITE HOUSE
WASHINGTON

6/1/79

Mr. President:

Just received -- not yet
circulated to other advisors.

Rick

ID 792411

T H E W H I T E H O U S E

WASHINGTON

DATE: 01 JUN 79

FOR ACTION:

INFO ONLY:	THE VICE PRESIDENT	SECRETARY BLUMENTHAL
	HAMILTON JORDAN	STU EIZENSTAT
	FRANK MOORE (LES FRANCIS)	JIM MCINTYRE
	CHARLES SCHULTZE	

SUBJECT: KAHN MEMO RE SHORT-TERM ANTI-INFLATION STRATEGY

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

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	WEXLER
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	MCINTYRE
	SCHULTZE
	ADAMS
	ANDRUS
	BELL
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	BLUMENTHAL
	BROWN
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	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

	ARONSON
	BUTLER
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	HARDEN
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	MILLER
	MOE
	PETERSON
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THE WHITE HOUSE
WASHINGTON

June 2, 1979

NOTE TO THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
FRED KAHN

SUBJECT: Anti-Inflation Legislation

Fred and I have sent the attached memo to the EPG Steering Group. As you can see, we expect to be able to give you recommendations on how to toughen the anti-inflation program before you leave for Vienna.

THE WHITE HOUSE

WASHINGTON

June 2, 1979

MEMORANDUM FOR: THE EPG STEERING GROUP

FROM: STU EIZENSTAT *Stu*
FRED KAHN *Fred*

SUBJECT: Anti-Inflation Legislation

The court decision eliminating the sanction is a potentially fatal setback not just because (assuming no reversal) the major threat behind the guidelines has now been removed but because the entire anti-inflation program is now almost universally seen as all but officially dead.

That is so since the general public, as well as most public opinion leaders, have viewed the guidelines as the entire anti-inflation program and the guidelines are now viewed as totally without bite. Changing that perception at this late date is impossible. The fact that the sanction was never officially used, or that public approbation has been the real sanction, or that the guidelines themselves are unaffected by the court decision, simply falls on deaf ears.

*Let's do
so →*

Unless we act almost immediately to counter the public's current perception of our anti-inflation effort, our options in fighting inflation will shortly be narrowed to the ones we regard as unacceptable. I think the public, as well as the Congress and other opinion leaders, expect us to take bold action now. With inflation running at an annual rate of 12-14%, and in light of Judge Parker's opinion, they truthfully could have no other expectation.

In that sense, the court's decision should be seized by us as an opportunity to do a number of things we have not previously been able or willing to do (in part because of the lack of public and Congressional support). I attach Leonard Silk's piece on this same point. I firmly believe we now have the opportunity to mobilize public and Congressional support behind bolder, tougher approaches.

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Moreover, the Congress has refused to share responsibility for fighting inflation with us. The program suggested here could require them to do so, share the responsibility (or if the legislation fails permit us to share some blame for inflation by pointing to this package), and make it clear to the American people we are not devoid of ideas. I suggest we explore the following initiatives and prepare recommendations for review by the President by the end of this coming week:

- ✓ ○ Legislation to overturn the court's decision (such legislation might be limited to just granting us the procurement sanction.)
- ✓ ○ Legislation providing sanctions for violations of the guidelines by all recipients of federal funds (grants, loans, contracts), and possibly certain tax expenditures ← ? as well.
- ✓ ○ Legislation granting COWPS the authority to demand pre-notification of price increases.
- ? ○ Legislation granting COWPS "suspend and delay" authority for collective bargaining agreements exceeding our guidelines. (This may be unfeasible and underproductive).
- ✓ ○ Tax or other incentives to encourage increased productivity. *Sharply focussed. Can't afford much tax reduction*
- ✓ ○ A revised real wage insurance proposal.
- ✓ ○ Revising the wage and price guidelines in a way that makes them tougher and more understandable to the public.

My list is certainly not exhaustive. We cannot delay our review, for I think we have an obligation to make recommendations to the President before he leaves for Vienna.

I suggest that we begin almost daily meetings among ourselves, with simultaneous staff work being done at the deputies level, this week.

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Economic Scene

Leonard Silk

Carter Options On Inflation

THE decision of United States District Judge Barrington D. Parker that President Carter had overstepped his constitutional powers by using economic sanctions to enforce his wage-price guidelines confronts the President with the necessity of deciding how to rescue his foundering anti-inflation program.

The Administration has, of course, the right to appeal, and the Council on Wage and Price Stability has said that it would appeal. But that is a long process, and at its end, the the President may still confront the strong possibility that his use of legal sanctions will be declared unconstitutional.

In the post-Watergate climate of legal and popular opinion, the chances would seem slim that higher courts would reverse a judgment of extralegal use of Presidential power.

On the assumption that he wishes to avoid a long period of uncertainty at a time when the economy is already in trouble, with double-digit inflation a present reality and recession a clear and present danger, Mr. Carter would have to decide what kind of anti-inflation program he wants to replace the one that has just been shot down.

Essentially, he has two ways to go: toward a truly voluntary program that the courts would not upset or toward a mandatory program that he would ask Congress to legislate.

Obviously, the President would be in better shape to carry through a voluntary program if he had not threatened in the first place to cancel government contracts of companies that were not "in compliance," as the Administration has chosen to say, with the guidelines.

Thus far, he has chosen to leave the job of enforcing



Larry Engel

ing compliance largely to his anti-inflation chief, Alfred E. Kahn, and to Barry Bosworth, director of the Council on Wage and Price Stability. Now, if the President chooses to preserve what remains of his original program, he will have to front for it himself, making far greater use of the Presidential "jaw-bone" than he has thus far done.

It is conceivable that, in the present climate of heightened public concern over inflation, the President could gain at least as much support from business for the 7 percent wage guideline as he has had.

But organized labor would feel even less compunction than before in demanding over-guideline settlements, and there would be a greater probability that coming settlements in rubber, electrical, auto and other industries would build a higher base rate of inflation into the economy. A widening gap between union and nonunion settlements — the latter have been averaging only 7.5 percent — would probably create a vacuum that sooner or later would draw up the rate of nonunion settlements.

The President's other option is to turn to Congress for legislation that would give him a more effective

incomes policy than he has already had. This need not mean a program of across-the-board mandatory wage and price controls, with extra controls on rents, interest and other incomes slapped on for good measure.

The words "mandatory" and "comprehensive" are not synonymous. Mr. Carter could ask Congress to give him whatever legal sanctions he thought appropriate to get the kind of firm but flexible incomes policy he thought most desirable.

He could ask for the right not only to withhold contracts from companies that did not sign a statement affirming their commitment to both the wage and price guidelines but also to apply such sanctions as denial of the investment tax credit, accelerated depreciation, tariff protection or other privileges that companies enjoy unless they took the pledge.

A defect of the present approach has been that a great many businesses have no concern about the loss of government contracts. At the same time, the President could seek to regularize and strengthen his existing program by seeking legislation that would require prenotification of major wage and price actions and submission of relevant data to the appropriate authority on request.

It is true that many Congressmen have resisted the idea of giving the President mandatory powers over wages and prices, preferring to put the onus for inflation on the White House. But now Mr. Carter has an opportunity to put the monkey on Congress's back with a plea that the court decision exposes the national economy to the serious danger of worsening inflation and slump at the same time.

There is also the danger that some Congressmen might try to festoon the President's proposal for a flexible and limited mandatory program with all kinds of additional controls. But here, too, the President is in a strong position to marshal public support behind a program that would curb inflationary wage and price actions, without putting the economy into a straitjacket.

There is need for quick decision at the White House. The business cycle won't wait.

ID 792438

THE WHITE HOUSE

WASHINGTON

DATE: 04 JUN 79

FOR ACTION:

INFO ONLY:	THE VICE PRESIDENT	HAMILTON JORDAN
	FRANK MOORE (LES FRANCIS)	JODY POWELL
	JERRY RAFSHOON	JACK WATSON
	ANNE WEXLER	

SUBJECT: EIZENSTAT KAHN MEMO RE ANTI INFLATION LEGISLATION

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

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	VANCE

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	FIRST LADY
	HARDEN
	HERNANDEZ
	HUTCHESON
	KAHN
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PETTIGREW
	PRESS
	SANDERS
	WARREN
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Lil

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 4, 1979

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze ^{CLS}

Subject: OECD Evaluation of the Economic Consequences
of Further OPEC Price Increases

Last week, I chaired a two-day meeting of the Economic Policy Committee of the OECD. Although it was not planned that way, two-thirds of the discussion centered on the unemployment and inflation consequences that would result from further large increases in world oil prices.

It was the unanimous view of the 23 member Committee that:

1. Further large increases in world oil prices would substantially raise both inflation and unemployment in the OECD area. Inflation was already tending upward in most countries, even before the recent oil price rises.
2. The inflationary consequences would be larger than the direct effect of higher oil prices, since wage demands would be escalated as the cost of energy rose.
3. Existing tools of overall economic policy could not prevent these consequences:
 - o if restrictive monetary and fiscal policies were applied to try to stop the inflation rise, the unemployment consequences would be made worse.
 - o if stimulative monetary and fiscal policies were applied to try to stop the unemployment rise, the inflation consequences would be worsened.

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- o "incomes policies" -- aimed at preventing wage escalation -- are likely, at best, to be only partially successful.

There also seemed to be fairly general agreement on the following additional points:

4. In 1974, OPEC sharply raised prices but was willing to furnish additional oil at those higher prices. ✓
5. In 1979, with Iranian production reduced, OPEC (mainly the Saudis) has more or less fixed a specific quantity of oil production, and is now "groping" toward an official level of prices high enough to balance oil demand with the lower production level. ✓
6. Under these circumstances, immediate and effective measures to limit oil demand and imports by the consuming countries can play an important role in holding oil prices down; this in turn will prevent, or moderate, the inflation and unemployment that would follow from a "do-nothing" policy. ✓
7. If the IEA (International Energy Agency) countries meet their commitment to reduce consumption by 5 percent, the result might bring about a precarious balance of demand and supply at official prices not too much higher than they are now. But in many countries it does not look as if this goal will be reached; and, any further cut in production (e.g., in Iran) would leave an excess of oil demand over supply and lead to further upward price pressures, even with the 5 percent consumption cut. ✓

Concerted measures by the major oil consuming countries to reduce demand and imports are thus the only effective economic weapon we have to prevent unemployment and inflation from rising significantly, given the current oil situation. (Of course, even with a careful selection of ways to reduce oil imports we may not be able to avoid some depressing effect on the economy -- e.g., through inducing lower auto sales.) ✓

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*Plus working with
OPEC re supply, price -*

CEA has made a rough stab at estimating the effects of higher OPEC oil prices. If OPEC prices during the next 18 months rise by as much as they have in the past five months (about 25 percent), the effect of the recent and future price increases on growth and inflation in 1980 would be:

- o extra inflation: U.S. 3/4 to 1 percent
OECD 1 to 1-1/2 percent
- o reduced growth: U.S. 1/2 to 3/4 percent
OECD 3/4 to 1 percent

For the United States the reduced output would impinge on an economy which is already expected to grow barely more than enough to avoid recession. And the added inflation would significantly jeopardize an already shaky set of wage-price guidelines. For most other OECD countries, the reduced growth would not result in recession. But a new upward twist to the wage-price spiral would be set in motion, an already modest growth path lowered significantly, and unemployment increased.

I cannot be sure that the strongly-held views expressed at this meeting about the critical need for further limiting oil consumption and imports will be reflected by the Heads of State at the Tokyo Summit. The Germans are ideologically opposed to quantitative controls. The French are not members of IEA, and may balk at tying any actions to that group. The Japanese are mortally afraid of taking any actions that might seem to challenge OPEC (although concerted actions along these lines need not do so). But as economists dealing with matters of overall economic policy, all of us did agree that traditional tools of monetary and fiscal policy would be of little use in preventing serious economic consequences from a continued imbalance of world oil demand and supply. And all of us did agree that limiting oil demand and imports is potentially the most effective tool of economic policy at the present time.

THE WHITE HOUSE
WASHINGTON

June 5, 1979

MR. PRESIDENT:

Dr. Brzezinski would like to know if you want any additions made to your meeting with Amb. Young, Secretary Vance and Dr. Brzezinski at 7:30 in the morning.

Add Vice President _____ ✓

Hamilton _____ ✓

Others _____ ✓

PHIL

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THE WHITE HOUSE
WASHINGTON

6-5-79

Fritz

Charles Langel
will call/see you
re politics

J

cc: Frank Moore

11:45 Am

THE WHITE HOUSE

WASHINGTON

MEETING WITH PAUL AND KARMA AYLWARD

Tuesday, June 5
11:45 a.m. (3 minutes)
The Oval Office

by: Scott Burnett

I. PURPOSE: To meet again with the Aylwards, who were early Carter supporters in Kansas.

II. BACKGROUND, PARTICIPANTS, AND PRESS:

A. BACKGROUND: Paul Aylward was on the original Carter Steering Committee established in July, 1975. He was later the 1st Congressional District Chairman for the C/M general election campaign. He is an attorney and rancher in Ellsworth, Kansas.

Karma Aylward was an early supporter and served as 51.3% coordinator in the C/M general election.

The Aylward's are old family friends of Susan Clough's family.

B. PARTICIPANTS: The President
Paul and Karma Aylward

C. PRESS: White House Photographer only

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THE WHITE HOUSE
WASHINGTON

05 Jun 79

Frank Moore

The attached was returned in
the President's outbox today
and is forwarded to you for
appropriate handling.

Rick Hutcheson

2475

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VICE PRESIDENT

JORDAN

EIZENSTAT

KRAFT

LIPSHUTZ

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RAFSHOON

WATSON

WEXLER

BRZEZINSKI

MCINTYRE

SCHULTZE

ADAMS

ANDRUS

BELL

BERGLAND

BLUMENTHAL

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SCHLESINGER

STRAUSS

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BUTLER

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CLOUGH

CRUIKSHANK

FIRST LADY

HARDEN

HERNANDEZ

HUTCHESON

KAHN

LINDER

MARTIN

MILLER

MOE

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THE WHITE HOUSE
WASHINGTON

June 4, 1979

*Frank
oh Panama (briefs)
Energy
J*

MEMORANDUM TO THE PRESIDENT

FROM: Frank Moore *F.M. / Les Francis*
SUBJECT: Wednesday's Leadership Breakfast

You had mentioned previously your desire to have Wednesday's meeting with the Congressional Leadership devoted to a discussion of energy matters. If that is still the case, we need your guidance on a few matters.

- We believe attendance should be expanded *oh- 1 Sen*
to include those Representatives and *only 2 Cong*
Senators who are recognized "energy leaders"
in the Congress.
- We do not think that you should expect the discussion to resolve policy differences or even to focus on policy questions primarily. Instead, the central theme of the discussion ought to be an examination of ways to increase the public's understanding of the energy situation.
- You should suggest various activities you will engage in to alter public opinion on energy, and you may want to suggest things Congress can do in the same vein.

If you agree, we will invite Members Tuesday and will provide you with a more detailed memorandum on the nature and content of the meeting, building on the points briefly mentioned above.

Of course, both Secretary Schlesinger and Stu will be in attendance. In addition, we may have Charlie Warren there, too.

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THE WHITE HOUSE
WASHINGTON

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June 5, 1979

MR. PRESIDENT:

Murray Finley, President of the Amalgamated Clothing and Textile Workers Union, called to pass the message that he and his Board were very pleased with the Government's position on the China textile situation. The Board met in Chicago last week and he related to the Board that your Administration could not have done more to support the Board's position.

PHIL

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THE WHITE HOUSE
WASHINGTON

*Frank & Anne
Use this
J*

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William F. Buckley Jr.

The move to sabotage the canal treaties

Concerning the effort by members of the House of Representatives to derail the Panama treaties, a few observations:

(1) There is only one discipline indispensable to self-government. That is acquiescence in a political fait accompli. The reason democracy doesn't work in most countries in the world is that corporate political decisions are not accepted as binding by the whole of the population. Vice President Richard Nixon had very good reason to believe, in November 1960, that he had in fact won the election. It is the most statesmanlike act of his career that he failed to press his claim. Because if he had done so, the country would have been thrown into chaos. Better, in other words, to have permitted Mayor Daley to steal votes in Chicago, than to dismantle the Republic.

(2) The current effort by a few congressmen to draft legislation implementing the Panama treaties isn't, in the proposals of Congressman Hansen, an effort at devising harmonious legislative devices to implement a treaty passed by two-thirds of the U.S. Senate. It is, really, an effort to repeal that treaty. None can, in clear conscience, recognize it as anything but that.

Another way to put it is this: if the Hansen proposals were written into law, the resulting situation would be one that Panama would never have agreed to during the decade of negotiations that led to the 1977 treaties. Moreover, the Hansen proposals ask for more than United States negotiators ever asked for under four presidents, two of them Democrats, two of them Republicans.

Among other things, Mr. Hansen is asking the Panamanians to pay to the U.S. the cost of constructing the canal, plus interest. One wonders why, while he is at it, Mr. Hansen hasn't proposed that Panama also reimburse Congress for the time it has spent in discussing the Panama problem.

The fact of it is that the Hansen proposals are parliamentary exploitation of an unseemly sort. They are the equivalent of a Democratic Congress refusing to pay the cost of the inaugural ceremonies of a Republican president.

(3) Any discussion of money, in the Panama treaty situation, is easily confused if one doesn't take carefully into account that revenues from the operation of the canal aren't infinitely expandable. It is all very well to say, blithely, that the Panama Canal Commission should raise the toll charges 20, 30, 50, 100 per cent. But the demand for the canal is highly elastic. As matters now stand, a freighter traveling from Osaka to New York will flip a coin in deciding whether to use the Panama Canal or the Suez Canal.

The United States has a clear interest in keeping the cost of the canal down. And, under the treaty, a commission the majority of whose members are U.S. citizens would set the toll charges. To impose on Panama economic burdens that could only be discharged by raising those toll charges would result in heavy impositions on shipping, and higher costs to importers and consumers; and, at the margin, to diminished gross revenues as a result of unbearable costs. Thus the Hansen proposals, viewed eco-

nomically, are an invitation to make the Panama Canal obsolete.

(4) Assuming the Hansen proposals carried in the House, what would the situation then be? Well, the Senate obviously would decline to go along. A majority of the Senate is hardly going to vote to undo what two-thirds of the Senate voted to do last year after the most prolonged debate since the Missouri Compromise. Under the circumstances, the treaty, scheduled to go into effect on October 1, 1979, would be frozen for lack of funds required for its implementation.

This would leave us with what? Not with the Treaty of 1903. That treaty was formally repealed by the Senate when the fresh treaties were enacted. There is no way that Congressman Hansen can bring back the old treaty. We would be left without an operative arrangement with Panama. In legal limbo, so to speak. Panama could then legally seize the canal, withdrawing its commitments under the 1977 Treaty on the grounds that the partner to that treaty had not acted in good faith. And we would then be left with — the United States Marines. Period. We would have cut ourselves off from juridical and moral and military rights we now formally have, but which some people are prepared to give away for one round of applause at an American Legion rally.

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12:00 PM

THE WHITE HOUSE
WASHINGTON

C
/

MEETING WITH CONGRESSMEN AL ULLMAN AND CHARLES RANGEL

Tuesday, June 5, 1979
12:00 noon (15 minutes)
The Oval Office

From: Stu Eizenstat *Stu*

I. PURPOSE

To discuss National Health Program.

II. BACKGROUND

You are scheduled to meet with Congressmen Ullman and Rangel on Tuesday, June 5, 1979, at 12 noon. Neither has signed on to a health insurance proposal this year. Both are potential supporters of the Administration's approach.

Rangel is under pressure from the left to support a comprehensive bill. Significantly, however, he did not sign on as a sponsor of Kennedy's proposal. He is pragmatic and wants to see meaningful legislation passed this year. We must emphasize the enormous benefits that our bill provides to the poor, and to cities like New York which now serve the poor in public facilities.

Ullman is less interested in providing new benefits at this time and more interested in system reform. He is very impressed by the competition approach to health care advocated by Alain Enthoven. Our proposal, in fact, contains many of Enthoven's pro-competitive features.

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III. TALKING POINTS

- You are planning to announce your national health plan on June 12. You are only asking Congress to enact a first phase of a national health plan, although you will present a description of a comprehensive plan. You believe this is the only approach which will secure meaningful new benefits and system reform in the near future. If we continue to insist only on enactment of a comprehensive plan, we will end up with no improvement in the current health care system.
- Your Phase I specifications will do far more than just increase catastrophic coverage. They include extensive new benefits for the poor and significant system reform provisions.
- Under your proposal, eleven million new people will be eligible for Medicaid. Everyone under 55% of poverty will be eligible regardless of categorical status. This provision, plus the increased catastrophic coverage for the employed and the elderly, will provide substantial fiscal relief to public hospitals and clinics.
- The proposal has important system reform provisions including a greater emphasis on competition. We will provide new financial incentives for Medicare beneficiaries to join HMOs. We will also require that employers make equal contributions to the health plans their employees choose. This will provide employees with an incentive to join more efficient plans.
- Your plan calls for expanded federal administration of Medicaid. This will make the program more efficient and help lay the groundwork for an ultimate comprehensive plan. There will be a state opt-out.

- Senator Long has scheduled markup sessions for the week of June 18. You are talking with Senator Long and are hopeful that he will support a broad approach rather than a catastrophic-only bill. You believe that the full Senate will vote for a broad bill, but if it does not, you will seek to expand the bill in the House.

- You hope that they will support the Administration's approach. If you work together you can pass a bill this year that will provide benefits to the poor and system delivery reform, as well as catastrophic coverage.

12:00 pm

THE WHITE HOUSE

WASHINGTON

June 4, 1979

MEETING WITH CONGRESSMEN AL ULLMAN (D-2-OREG.) AND CHARLES RANGEL (D-5-N.Y.)

Tuesday, June 5, 1979
12:00 P.M. (15 minutes)
Oval Office

From: Frank Moore *F.M./BR*
Bob Maher

I. PURPOSE:
To discuss the National Health Program.

II. BACKGROUND, PARTICIPANTS AND PRESS PLANS

Background: Both Members have been briefed on our proposal by HEW. Both have indicated support. Each has his own concerns.

Ullman-He is a concerned about cost. Would like to see us keep the money as low as possible. He likes the idea of competition, cost-cutting and Health Maintenance Organizations (HMO). He does not want to end up with just catastrophic.

Rangel-He would like to see more money for poor people. He understands our proposal better than Ullman.

Ways and Means is considering Municipal Bonds today and then will start on Windfall Profits. This will take this week and probably all of next week. The Committee has been working on several pieces of legislation which is high on your priority list, Ullman would appreciate you mentioning how much of the Administration's key programs he is working on.

*Bonds -> windfall ->
HCE*

When they finish Windfall, we hope they will get back to Hospital Cost Containment.

Participants: The President, Congressmen Ullman, Rangel, Frank Moore, Stuart Eizenstat, Bob Maher

Press Plans: White House photographer only.

III. TALKING POINTS:

This is a balanced approach and one that can be passed. It does have good financial support, but not overboard. We can not afford to go full blown into a new system. That is why a phase-in is preferred. We do not think a full-blown program would pass the Congress at this time because of financial costs versus financial constraints.

The passage of Hospital Cost Containment -- which they both support -- is very important because no matter what program is passed for National Health, without Cost Containment, any such plan will only increase inflation in the health sector.

We are also working on some cost-cutting proposals which will be forthcoming after the announcement of our National Health Program. These proposals increase competition on the auditing in Medicare bills and doctors bills. We are designing Medicare reimbursement of HMOs and moving against new construction in overbedded areas. (These are the Kahn proposals).