

*b. Should discretionary funds be available to both Government operated and contractor operated laboratories? If not, what is your reasoning for drawing a distinction?*

*c. As a general policy, should discretionary funds be made available to all laboratories or only those which have demonstrated quality work (a reward for competence)?*

*d. Do you believe that discretionary funds should be used only in furtherance of an agency's mission or could some of the funds be used as seed money to explore how technology developed by a laboratory could be applied to other national problems, perhaps outside the jurisdiction of the sponsoring agency?*

Answer. The referenced statement from the Bureau's testimony was intended to express a principle of sound laboratory management. Rigid programming of laboratory funds would deny flexibility to the laboratory in responding to targets of research opportunity. Desired flexibility can be achieved by giving the laboratory director reasonable latitude in reprogramming and by setting aside a quantity of discretionary funds for projects of his choosing. The amount of desired flexibility and method for achieving it would, of course, depend upon the nature and mission of the laboratory.

The Bureau does not recommend a specific percentage of a laboratory's budget to be set aside in the form of discretionary funds. Essentially this would be an operational decision to be more appropriately made by the laboratory director and agency officials reviewing his program proposals. The percentage of the budget designated in the form of discretionary funds would depend on a number of factors—size, competence, nature, mission and programs of the laboratory; degree of flexibility desired; and previous experience in the use of such funds based upon careful evaluation.

The agencies now have authority to reprogram funds for laboratory operations. In general, we feel there is considerable latitude available. Control of funding at the program or laboratory level is designed to give reasonable flexibility to follow promising avenues of research, particularly when some funds are not tied to specific projects.

Contractor operated laboratories also have reasonable flexibility in using funds. For example, AEC laboratory directors have considerable control over the use of funds within their programs, subject to after-the-fact review. Also, discretionary funds in the form of allowances for independent research and development or set-asides for undirected research already exist in DOD contracts with industrial laboratories. These funds are utilized in a similar manner to the funds which companies set aside for their own research efforts for product improvement. Further, some Federal Contract Research Centers are given considerable latitude in initiating their own research efforts under terms of the contract. Still other FCRC's rely for such purposes on use of their fees. The purposes of discretionary funds in a Government laboratory are basically the same as such funds used by a contractor. These funds can be justified for both.

As a basic policy, we believe that discretionary funds should be available to those laboratories of sufficient size and with missions, programs and quality of management which give promise of effective use of such funds. Quality of their use (determined by agency evaluation) should be a major factor in deciding the amount for subsequent years, but laboratories should be given the continuing opportunity to acquire and demonstrate their competence. Thus, a reward and penalty system would be (and is now) used.

In general, we believe that discretionary funds in the laboratory should be used in furtherance of the parent agency's mission. This does not preclude exploring new technologies which might also be applicable to the solution of a national problem falling primarily within another agency's jurisdiction. With such discretionary funds, the laboratory could pursue the new technology to the point where the other agency could evaluate it for sponsorship in terms of its own programs and priorities.

*Question. 4. In your statement you state: "Under the philosophy of the Bell Report the case can be made for the Departments of Transportation, Housing and Urban Development and Justice developing their own in-house research capability." You also state: "If the agency can satisfy its research requirements without establishing one or more of its own laboratories, it should obviously do so."*

*a. Assuming each of these agencies proposed its own research laboratory, what steps or studies, if any, would the Bureau require the agency to take before approving the request?*