



# *REPORT TO THE CONGRESS*

## **Need For Increased Control Over Local Currency Made Available To Republic Of Vietnam For Support Of Its Military And Civil Budgets** B-159451

Department of Defense  
Department of State  
Agency for International Development

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

~~711443~~ - 094016

JULY 24, 1970



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D C 20548

B- 159451

C To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the need for increased control over local currency made available to the Republic of Vietnam for support of its military and civil budgets

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U S C 53), and the Accounting and Auditing Act of 1950 (31 U S C 67)

Copies of this report are also being sent to the Director, Bureau of the Budget, the Secretary of Defense, the Secretary of State, and the Administrator of the Agency for International Development

*Thomas P. Staats*

Comptroller General  
of the United States

5  
2  
8

	<u>Page</u>
APPENDIX	
I Background information on Vietnam's military and civil budgets	59
II Principal officials responsible for administration of the activities discussed in this report	68

ABBREVIATIONS AND GLOSSARY OF TERMS

AID	Agency for International Development. Refers only to the headquarters organization located in Washington, D.C.
Chieu Ho1	A program designed to convince the Viet Cong and North Vietnam's military personnel that they should join and support the Government of South Vietnam. (See app. I for a more complete description of this program.)
Commercial Import Program	Under this program, the United States Government pays the dollar costs of commodities imported to Vietnam for local consumption. (See p. 5 for additional information.)
DGFA	Director General for Finance and Audit. Responsible for budget and accounting functions in Vietnam's Ministry of Defense.
DOD	U.S. Department of Defense
GAO	General Accounting Office
GVN	Government of Vietnam
Local currency	As used in this report, the term applies to Vietnam currency.

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	4
2 NEED FOR INCREASED CONTROL OVER RELEASE AND UTILIZATION OF MILITARY BUDGET-SUPPORT FUNDS	7
Need for U S. verification of programs and GVN reports of expenditures	7
Psychological warfare activities	9
Military pay and allowances	12
Construction program goals only par- tially achieved	15
Conclusions and recommendations	20
3 NEED FOR INCREASED CONTROL OVER PROGRAMMING, RELEASE, AND UTILIZATION OF CIVIL BUDGET- SUPPORT FUNDS	22
Programming and monitoring of local cur- rency could be improved by increased use of project agreements	26
Funds released prematurely to current known needs	31
Need for U.S. verification of programs and GVN reports of obligations and ex- penditures	42
Construction program not achieving ob- jectives	47
Need for improved maintenance and utilization of facilities	50
Conclusions and recommendations	53
4 SCOPE OF REVIEW	55

ABBREVIATIONS AND GLOSSARY OF TERMS (continued)

MACV	U.S. Military Assistance Command, Vietnam. This organization controls all U.S. military activities in Vietnam.
MILCAP	Military Civil Assistance Program. Through MACV, financial assistance is provided to solace Vietnamese families who have suffered bodily injury, death, or property damage, resulting from combat activities or defoliation operations of friendly forces.
Piaster	A unit of Vietnam's currency. The value of the piaster as used in this report 118 piasters equals one U.S. dollar.
Psywar	Psychological Warfare. Assistance for this program was channeled through MACV. (A more complete description of this program is shown in app. I.)
Revolutionary Development	This program is more commonly referred to as the pacification program. It is designed to bring about economic and social development in the rural areas of Vietnam. (See app. I for a more complete description of this program.)
USAID	United States Agency for International Development. The AID mission located in countries overseas are referred to as USAID.

NEED FOR INCREASED CONTROL OVER LOCAL  
CURRENCY MADE AVAILABLE TO REPUBLIC OF  
VIETNAM FOR SUPPORT OF ITS MILITARY AND  
CIVIL BUDGETS

Department of Defense  
Department of State, and Agency for  
International Development B-159451

D I G E S T

WHY THE REVIEW WAS MADE

The Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, investigated the U S military and economic assistance programs in the Republic of Vietnam in 1966. The Subcommittee found that the U S Agency for International Development (AID) mission in Vietnam had not established adequate controls over the budgeting, release, and use of U S owned or controlled local currency (piasters) made available for support of Vietnam's civil budget.

41511

The Chairman of the Subcommittee subsequently requested the General Accounting Office (GAO) to follow up with a review of the effectiveness of corrective actions taken.

The GAO review covered primarily the way controls were exercised over the budgeting, release, and use of piasters.

FINDINGS AND CONCLUSIONS

The AID mission in Vietnam made available about 74.3 billion piasters (equivalent to about \$629.7 million) to support Vietnam's military and civil budgets in calendar years 1966 through 1968. The U S Military Assistance Command in Vietnam was responsible for administration of 50.9 billion piasters designated for the military budget. AID mission was responsible for administration of 23.4 billion piasters assigned to the civil budget. (See pp. 4 and 6.)

Since 1966 the AID mission has strengthened its administration and controls by increasing its participation in the formulation of Vietnam's civil budget and by earmarking piasters for specific programs. The Military Assistance Command had also developed procedures which should provide a reasonable degree of control over the planning for and spending of funds for military budget support. (See pp. 7 and 23 to 25.)

Further strengthening is needed. Controls and procedures established would generally not detect or prevent improper payments by Government.

of Vietnam personnel, such as payments for unauthorized activities or for padded payrolls (See pp 20 and 53 ) Specifically

- The AID mission released large sums for civil budget activities before the cash was needed For example, a few of Vietnam's civil agencies had accumulated almost 3 billion piasters (equivalent to \$25.4 million) by December 31, 1968, representing unspent funds released in 1968 and prior years (See p 22 )
- Piasters were released for both the military and civil budgets on the basis of unreliable and unverified Vietnam Government reports (See pp 7, 22, and 31 )
- The AID mission made few postaudits of civil expenditures made or reported by Vietnam The Military Assistance Command did not make postaudits of military expenditures but relied upon an understaffed Government of Vietnam audit group (See pp 8 and 42 )

Facilities needed were not constructed on a timely basis Some of the civil facilities were of poor quality, were in need of extensive maintenance, or were not being used This occurred primarily because of failure to establish an adequate system for inspecting construction in process and upon completion (See pp 15 and 47 )

#### RECOMMENDATIONS OR SUGGESTIONS

The Secretary of Defense and the Administrator of AID should establish a system in Vietnam for verifying and inspecting pertinent Government of Vietnam reports and activities The Administrator should do as much as possible to ensure that Government of Vietnam reports of obligations and expenditures are more reliable (See pp 20 and 54 )

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Defense (DOD) and AID advised GAO in July 1969 that actions had been and would be taken to strengthen controls over piasters for support of Vietnam's military and civil budgets

DOD stated that some of the military budget-support problems resulted from the communist TET offensive which occurred only a few months before GAO's review (See p 17 )

AID stated that its Vietnam program is unlike any other as to both diversity of activities and the broad geographic coverage within the country Under these circumstances and in light of massive Government of Vietnam budgetary deficits, AID believes that it is imperative to exercise only limited control over the release of local currency (See p 23 )

Both agencies believe that controls and review practices in use plus actions to be taken, including procedural changes and staff increases needed to monitor the funds and programs, will provide adequate control (See pp 20 and 24 )

GAO believes that the U S agencies have made some improvements in administration and control over the military and civil budget-support programs, but the improvements cited will still not provide adequate control. GAO believes that considerable improvements still are needed, especially with regard to verification or other measures to ensure that Vietnam's reports of obligations and expenditures are reliable

MATTERS FOR CONSIDERATION BY THE CONGRESS

The improvements needed and recommended in this report could be made by the responsible U S agencies. Nevertheless, the lack of effective control over piasters generated under U S economic assistance programs is of such magnitude as to be a matter for congressional concern

Tear Sheet



*COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS*

NEED FOR INCREASED CONTROL OVER LOCAL  
CURRENCY MADE AVAILABLE TO REPUBLIC OF  
VIETNAM FOR SUPPORT OF ITS MILITARY AND  
CIVIL BUDGETS

Department of Defense  
Department of State, and Agency for  
International Development B-159451

D I G E S T

WHY THE REVIEW WAS MADE

The Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, investigated the U S military and economic assistance programs in the Republic of Vietnam in 1966. The Subcommittee found that the U S Agency for International Development (AID) mission in Vietnam had not established adequate controls over the budgeting, release, and use of U S owned or controlled local currency (piasters) made available for support of Vietnam's civil budget.

The Chairman of the Subcommittee subsequently requested the General Accounting Office (GAO) to follow up with a review of the effectiveness of corrective actions taken.

The GAO review covered primarily the way controls were exercised over the budgeting, release, and use of piasters.

FINDINGS AND CONCLUSIONS

The AID mission in Vietnam made available about 74.3 billion piasters (equivalent to about \$629.7 million) to support Vietnam's military and civil budgets in calendar years 1966 through 1968. The U S Military Assistance Command in Vietnam was responsible for administration of 50.9 billion piasters designated for the military budget. AID mission was responsible for administration of 23.4 billion piasters assigned to the civil budget. (See pp 4 and 6.)

Since 1966 the AID mission has strengthened its administration and controls by increasing its participation in the formulation of Vietnam's civil budget and by earmarking piasters for specific programs. The Military Assistance Command had also developed procedures which should provide a reasonable degree of control over the planning for and spending of funds for military budget support. (See pp 7 and 23 to 25.)

Further strengthening is needed. Controls and procedures established would generally not detect or prevent improper payments by Government.

of Vietnam personnel, such as payments for unauthorized activities or for padded payrolls (See pp 20 and 53 ) Specifically

- The AID mission released large sums for civil budget activities before the cash was needed For example, a few of Vietnam's civil agencies had accumulated almost 3 billion piasters (equivalent to \$25.4 million) by December 31, 1968, representing unspent funds released in 1968 and prior years (See p 22 )
- Piasters were released for both the military and civil budgets on the basis of unreliable and unverified Vietnam Government reports (See pp 7, 22, and 31 )
- The AID mission made few postaudits of civil expenditures made or reported by Vietnam The Military Assistance Command did not make postaudits of military expenditures but relied upon an understaffed Government of Vietnam audit group (See pp 8 and 42 )

Facilities needed were not constructed on a timely basis Some of the civil facilities were of poor quality, were in need of extensive maintenance, or were not being used This occurred primarily because of failure to establish an adequate system for inspecting construction in process and upon completion (See pp 15 and 47 )

#### RECOMMENDATIONS OR SUGGESTIONS

The Secretary of Defense and the Administrator of AID should establish a system in Vietnam for verifying and inspecting pertinent Government of Vietnam reports and activities The Administrator should do as much as possible to ensure that Government of Vietnam reports of obligations and expenditures are more reliable (See pp 20 and 54 )

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Defense (DOD) and AID advised GAO in July 1969 that actions had been and would be taken to strengthen controls over piasters for support of Vietnam's military and civil budgets.

DOD stated that some of the military budget-support problems resulted from the communist TET offensive which occurred only a few months before GAO's review (See p 17 )

AID stated that its Vietnam program is unlike any other as to both diversity of activities and the broad geographic coverage within the country. Under these circumstances and in light of massive Government of Vietnam budgetary deficits, AID believes that it is imperative to exercise only limited control over the release of local currency (See p 23 )

Both agencies believe that controls and review practices in use plus actions to be taken, including procedural changes and staff increases needed to monitor the funds and programs, will provide adequate control (See pp 20 and 24 )

GAO believes that the U S agencies have made some improvements in administration and control over the military and civil budget-support programs, but the improvements cited will still not provide adequate control GAO believes that considerable improvements still are needed, especially with regard to verification or other measures to ensure that Vietnam's reports of obligations and expenditures are reliable

MATTERS FOR CONSIDERATION BY THE CONGRESS

The improvements needed and recommended in this report could be made by the responsible U.S agencies Nevertheless, the lack of effective control over piasters generated under U S economic assistance programs is of such magnitude as to be a matter for congressional concern

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has reviewed the manner in which United States Government agencies in the Republic of Vietnam were exercising management control over local currency (piasters) generated under U.S. assistance programs for use in support of Vietnam's military and civil budgets. The local currency made available for support of the Government of Vietnam (GVN) military budget was generally administered by the Military Assistance Command, Vietnam (MACV), Department of Defense. These funds were to help the GVN pay local costs of supplies, transportation, construction, psychological warfare, military payrolls, and other items in the military budget. The local currency made available for support of Vietnam's civil budget was administered by the Agency for International Development (AID), Department of State, and its mission in Vietnam (USAID). These funds were to help Vietnam pay local costs for construction of National Police activities, health and school facilities, salaries for revolutionary development (pacification) cadres, allowances for Viet Cong and North Vietnamese defectors under the Chieu Hoi program, and other items in the civil budget.

Our efforts were directed primarily toward evaluating management controls exercised by MACV and USAID over the programming, release, and utilization of local currency made available to the GVN for calendar year 1967. A limited amount of work was also performed on certain aspects of support to the GVN 1968 civil budget. Our review included a limited examination into certain key programs and onsite inspections of the effectiveness of utilization and maintenance of some facilities that had been constructed with this local currency.

The scope of our review is described on page 55 of this report. A list of the principal officials responsible for administration of the activities discussed in this report is included as appendix II.

The local currency made available for support of the GVN military and civil budgets, as discussed in this report, were generated by

1. Sales of surplus agriculture commodities under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1701), otherwise known as Public Law 480. These commodities are sold to Vietnam, and the local currency proceeds from such sales become the property of the United States Government and are deposited in a U.S. Treasury account in the National Bank of Vietnam. Each sales agreement between the United States and Vietnam Governments is to set forth the general purpose for which the funds may be used.
2. Sales of commodities imported to Vietnam under the U.S.-financed Commercial Import Program, authorized by the Foreign Assistance Act of 1961, as amended. These imports to Vietnam are handled through commercial trade channels under the authority of import licenses issued by the GVN, but the suppliers of such commodities are paid by the United States. The Vietnamese importers are required to pay the GVN an amount of piasters equivalent to the dollar amounts paid by the United States. This local currency, known as "counterpart" funds, is deposited in a special counterpart account at the National Bank of Vietnam, in custody of the GVN. These funds, however, may be withdrawn only by mutual agreement of both the United States and Vietnam Governments.

USAID maintains fiscal control over all local currency generated under Public Law 480 and the Commercial Import Program until such time as the funds are released to the Vietnam Government for approved purposes.

The amounts of U.S. owned or controlled piasters to be made available for support of Vietnam's military and civil budgets were determined annually by mutual agreements between the two governments. During calendar years 1966 through 1968, about 74.3 billion piasters (equivalent to

\$629.7 million based on 118 piasters to one U.S. dollar) was allocated to these budgets, as follows

	<u>Calendar years</u>			<u>Total</u>	Equivalent in U.S. dollars ( <u>millions</u> )
	<u>1966</u>	<u>1967</u>	<u>1968</u>		
	—(billions of piasters)—				
Military budget	15.1	18.3	17.5	50.9	\$431.4
Civil budget	<u>6.4</u>	<u>8.0</u>	<u>9.0</u>	<u>23.4</u>	<u>198.3</u>
	<u>21.5</u>	<u>26.3</u>	<u>26.5</u>	<u>74.3</u>	<u>\$629.7</u>

Additional background information concerning Vietnam's military and civil budgets, including information on the principal activities and programs discussed in this report and the utilization of local currency made available to those activities, is shown in appendix I.

## CHAPTER 2

### NEED FOR INCREASED CONTROL OVER RELEASE AND UTILIZATION OF MILITARY BUDGET-SUPPORT FUNDS

Our review of the manner in which MACV exercised management control over the programming, release, and utilization of local currency made available for support of the GVN military budget for calendar year 1967, indicated that MACV had developed procedures which should provide a reasonable degree of control over the programming and obligation of funds. We found, however, that MACV had not implemented verification procedures which would ensure that funds were (1) released for authorized purposes, (2) released in amounts needed for current known requirements, and (3) used for intended purposes. We found further that, although funds were made available for military construction, facilities were not constructed on a timely basis. Consequently, the construction program was only partially achieving its goal of providing facilities needed by Vietnam's armed forces.

### NEED FOR U.S. VERIFICATION OF PROGRAMS AND GVN REPORTS OF EXPENDITURES

We found that MACV had authorized USAID to release large amounts of local currency to Vietnam without adequately assuring itself that the GVN documents requesting the release of funds were accurate and reliable. We found also that MACV had not conducted audits of funds already released and that GVN audit coverage of military pay and allowances was insufficient, especially in view of the large number of irregularities found in the limited coverage by an understaffed Vietnamese audit group. (See pp. 12 to 13.)

The Vietnam Defense Ministry submitted to MACV a cumulative monthly report entitled "Status of Obligations and Expenditures" showing the status of funds released under each chapter of the GVN budget, including information on total obligations and expenditures. This report, hereinafter referred to as an expenditure report, was also used to support the request for reimbursement of funds expended and

to cover estimated expenditures for the forthcoming month. On the basis of the expenditure data contained in these reports, MACV authorized USAID to release funds to Vietnam, adjusted to some extent for any variances between reported expenditures and releases for the prior period

Our review showed that the MACV Comptroller, for calendar year 1967, approved the release of 16 7 billion piasters (equivalent to \$141 5 million) to Vietnam on the basis of the expenditure reports, and, according to information provided by MACV officials, such funds were released without any checks or audits to verify the validity of the expenditures reported. We also noted that MACV did not possess an organic audit capability at the time of our review

#### Agency comments and GAO evaluation

We were advised by the Department of Defense (DOD) in a letter dated July 23, 1969, that the MACV advisory network provided assurance that local currency made available was used for intended purposes. This was accomplished according to the reply by the assignment of MACV advisors to each budget chapter. Each advisor was given responsibility for administering the funds allocated to his chapter, including verifying expenditures as well as controlling obligations. We were also advised that MACV did not recommend the release of funds to Vietnam without first providing each advisor with a copy of the monthly GVN expenditure report. These advisors, according to DOD, review these reports to ensure that the expenditures reported have in fact been made.

We recognize that MACV had assigned advisors to monitor each chapter of Vietnam's military budget. There are advisors located at the MACV headquarters level who review the GVN expenditure reports prior to the release of funds. Such reports, however, showed only summary figures for a broad program area and did not contain any specific or backup documentation concerning the expenditures for which Vietnam requested reimbursement. Irrespective of the MACV advisor's personal familiarity with his assigned budget chapter and the purpose for which funds were initially obligated, we do not believe that the MACV review can be considered sufficient for ensuring that reported expenditures have, in



fact, been made and that the funds were used only for approved purposes.

We concluded, therefore, that the procedures followed by MACV as explained by DOD did not provide adequate assurances that funds were released only for authorized purposes and in amounts actually needed for current requirements and that they were used only for intended purposes. We believe the foregoing conclusions and our discussions in subsequent sections of this report concerning controls exercised over three major budget chapters, i.e., psychological warfare activities, military pay and allowances, and military construction illustrate the need for additional verification and audit by MACV.

### Psychological warfare activities

Our inquiry into the Military Civil Assistance Program (MILCAP), a segment of the Psychological Warfare (Psywar) chapter of Vietnam's military budget, to which 543 million piasters was available from U.S.-support sources in calendar year 1967, included a review of minutes of meetings of the Central Consideration Committee. This committee consisted of GVN Defense Ministry and MACV officials responsible for the review of major individual war damage claims and for recommending the amount to be awarded under each claim.

The claims documents we reviewed pertained primarily to crops and property which had been damaged or destroyed as a result of allied combat and defoliation operations. We noted that a number of claims had been disapproved by the Central Consideration Committee and had been returned to the Provinces because of inadequate or conflicting information. We also noted that this committee had turned a number of claims over to Vietnam's Military Security for investigation because irregularities were suspected.

MACV procedures revolve primarily around the written MILCAP approval procedures which were basically as follows. When a Vietnamese submits a claim, the assessment committee which was supposed to include a U.S. advisor was required to make an on-the-spot inspection of the damage and prepare a written damage assessment report. This report was to be signed by the committee members and become a part of the

payment voucher. The claim and damage assessment report was then to be sent to the Province headquarters level where it was to be reviewed and evaluated and an award amount recommended by a committee appointed by the Province chief. Applicable procedures required that the committee also include a U.S. advisor.

The Province committee had the authority to approve a claim for payment by a GVN disbursing center up to 200,000 piasters until September 1967 when the limit was reduced to 100,000 piasters per claim. Recommended awards in excess of these amounts were to be sent to Saigon for further review and approval by the Central Consideration Committee. The United States was represented on this committee by MACV Headquarters Psywar Advisory Division representatives, who had final veto power over any and all claims actions. We were advised by MACV Psywar Division officials, however, that the procedures were being rewritten to provide that all payment decisions be made at the Province level to speed up assistance to victims.

The checklist or procedures followed by the Central Consideration Committee in its review of claims required, in part, that an on-the-spot assessment of damage must have been made. However, the checklists we reviewed did not indicate whether U.S. advisors participated in assessing damages, and, since we did not have direct access to individual GVN claim files, we were not able to ascertain whether U.S. advisors had, in fact, been represented on these committees.

We noted, and MACV Psywar Division officials confirmed, that MACV had not implemented follow-up procedures to ensure that approved claims were properly paid. Therefore, as part of our review, we selected 177 of the 526 cases representing individual claims of 100,000 piasters or more that had been approved by the Central Consideration Committee under the calendar year 1967 budget. The 526 cases involved claims of 253.6 million piasters, and the 177 cases selected for review involved claims of 129.0 million piasters. Some of the earlier claims reviewed ranged up to 3 million piasters. However, the GVN established a maximum limit of 500,000 piasters per claim in September 1967.

Although we did not have direct access to payment records and files, U.S. officials were able to obtain certain payment information for us concerning the 177 claims. This information showed that 134 of the 177 claims had been cleared for payment by the GVN disbursing center but that checks had thus far been issued in only 89 cases. This information also showed that the claims were paid in the same amounts approved by the Central Consideration Committee, receipts were obtained from the claimant, and payments did not exceed the ceiling established by the GVN for an individual claim. It should be emphasized, however, that our tests were very limited in scope and involved only a small percentage of the more than 40,000 claims submitted under MILCAP at that time.

#### Agency comments and GAO evaluation

In a letter to us dated July 23, 1969, DOD essentially reiterated the procedures for the MILCAP program outlined above and stated that, although advisors might have indicated otherwise, there were no current plans to rewrite the MILCAP procedures since they were considered to be satisfactory. DOD also stated that, pursuant to a recent GVN decree, only claims for combat damages to common installations, religious headquarters, private schools, and hospitals were considered under MILCAP and that other types of claims would be paid under another program.

On the basis of our review, we do not believe that MACV had exercised an effective degree of management control over this program. As stated on page 9, we noted that a number of MILCAP claims approved for payment by the Provinces had been rejected for irregularities after review by the Central Consideration Committee at the Saigon level. These irregularities had occurred in both the damage assessment and evaluation phases which indicated that procedures and controls at the Province and lower levels of the GVN had not been implemented effectively. The absence of effective procedures and controls at these levels could be quite serious since a significant number of the claims were in small amounts (less than 200,000 piasters prior to September 1967 and 100,000 piasters after that date) and could be approved for payment by the Province without referral to the Central Consideration Committee in Saigon. Consequently,

irregularities existing in the assessment and evaluation phase for small claims would not generally be detected

We noted during our review that MACV had not implemented a follow-up system to ensure that approved claims were paid in the proper amounts and that the funds paid were actually received by the claimants. Therefore, we believe that good financial management practice would dictate such a follow-up system.

#### Military pay and allowances

During our review of management controls exercised by MACV to ensure that proper use was made of local currency made available in calendar year 1967 (12.8 billion piasters) for support of the GVN military payrolls, we were advised by MACV officials that U.S. advisors had not been assigned to review applicable payrolls. We were advised also that payrolls were fully acceptable to MACV as long as they had been signed by the commander of a GVN disbursing center and by an official of Vietnam's Defense Ministry Directorate General for Finance and Audit (DGFA).

MACV officials informed us that, although a U.S. advisor had been located at each of the nine major GVN disbursing centers, the primary mission of these advisors was to provide advice to GVN officials on ways to improve financial administration. The advisors were not responsible for making detailed reviews of payroll documentation. Nevertheless, the advisors would continue to stress to the commanders of the disbursing centers the importance of proper signing and postaudits of payrolls toward the achievement of good financial administration. We found, however, that U.S. advisors had been assigned to the five disbursing centers located outside the Saigon area only since September 1967 and, at the time of our review in June 1968, one of these positions had not been occupied for about 6 months.

In addition to the general absence of postaudits by MACV personnel, we found that the DGFA was seriously understaffed. At the time of our review, for example, only 50 of the 125 positions authorized to the DGFA's Audit Division were filled. Irrespective of this fact, MACV officials provided us with information which showed that the number of

payroll irregularities disclosed by these auditors in calendar year 1967, involving about 42 4 million piasters, were double the number of irregularities disclosed in calendar year 1966. The increased number of irregularities disclosed by the DGFA were, in our opinion, indicative of the general need for increased control over funds made available for military pay and allowances

#### Agency comments and GAO evaluation

DOD advised us in a letter dated July 23, 1969, that it believed that the military pay funds made available to the GVN had been and were being properly utilized. DOD stated that approved payrolls, certified by the commander of a GVN disbursing center, approved by an official of the Ministry of Finance's Obligation Comptroller, approved by an official of the DGFA, and postaudited by the disbursing center and the DGFA, were accepted by MACV. In view of these controls, DOD believes a detailed audit of payrolls by U.S. personnel prior to the release of cash to the GVN is considered unnecessary.

DOD commented further that the increased number of cases of irregularities involving military pay in 1967 was attributable to an increase in the actual number of audits performed from 269 in 1966 to 367 in 1968 and that the increasing strength and efficiency of the DGFA Audit Division resulted in fewer cases of irregularities remaining undetected. DOD also advised that actual strength of the DGFA Audit Division had been increased from 50 to 82 in an effort to increase audit effectiveness and that MACV advisors frequently accompanied the GVN auditors during audits. Additionally, the number of irregularities involving military pay, the amount involved, and the disposition of the cases are monitored on a monthly basis by personnel in the MACV Office of the Comptroller.

The above improvements cited by DOD should, we believe, substantially contribute to an improved degree of administration and control over military pay and allowances. The beneficial effects of the increased audit effort are evident and the increase of more than 60 percent in the GVN's audit capability, as cited by DOD, should result in improved administration of funds released. However, we believe also

that the results of the GVN audits in 1967 are indicative of the need for even tighter controls and improved administration by both MACV and the GVN and that substantial benefits can be derived from these additional efforts.

We believe further that MACV should give consideration to increasing the number of U.S. advisors to the Military-Pay-and-Allowances chapter of the budget. This would permit a greater degree of participation and coordination with GVN efforts in this area and would minimize the necessity for MACV to continue to rely so heavily on GVN audits and controls. We believe also that audits of payrolls should not be limited to postaudits but should include a significant number of documented onsite observations and verifications of payroll disbursements. In our opinion, this increased control should help to preclude or minimize the types and number of irregularities that have occurred, particularly the detection of payroll "ghosts", i.e., the inclusion of a payee on the payroll who either performs no military duty or who is either dead or nonexistent.

CONSTRUCTION PROGRAM GOALS  
ONLY PARTIALLY ACHIEVED

Our review indicates that the military budget-support construction program for calendar year 1967 had only partially achieved its goal of providing facilities needed by Vietnam's armed forces.

The GVN defense budget in calendar year 1967 included about 1.1 billion piasters for about 519 construction projects. This included 201 projects in which 354.7 million piasters, representing 50 percent of the estimated cost of each of the 201 projects, was to be made available from U.S. owned or controlled local currency. Although the implementing agreement with the GVN was quite general in nature and did not specify a time frame in which construction was to be completed, the approved calendar year 1967 budget, as agreed to by the GVN and MACV, was considered minimal for 1 year's requirements for construction of these projects, most of which were noncomplex and quite small in size.

Our review and analysis of reports showing the progress being made on the 201 construction projects showed that, at March 1968, only 56 were complete. Another 54 projects were in various stages of completion, for a total of 110 projects completed or under construction. Construction had not, at that date, started on the remaining 91 projects. We noted that construction time for most completed projects generally ranged from about 1 to 3 months and that many of the facilities under construction, such as prefabricated steel buildings for barracks, warehouses, and latrines, were not of a complex nature.

Additionally, we found indications that, due to understaffing, MACV had not been able to effectively monitor the approximately 1,714 projects under construction at various times during the period January 1, 1967 to March 1, 1968. MACV officials advised us that, for construction projects financed with U.S. military appropriations, they were required to maintain accountability records on completed projects, to participate in the turnover and acceptance of completed projects, and to ascertain through end-use inspections that such facilities were properly

constructed, maintained, and effectively utilized by the GVN. We were advised also by such officials that similar requirements did not exist for construction projects which were financed with the types of local currency discussed in this report.

The monitoring that does exist on new construction and major rehabilitation projects financed with U.S.-dollar appropriations and local currency generated under U.S. programs, for calendar years 1965 through 1968, had been the responsibility of MACV area engineer advisors assigned to Vietnam's 12 area construction offices located throughout Vietnam. At the time of our review in June 1968, however, there were only six advisors assigned to the 12 offices. These advisors, during the period from January 1, 1967, to March 1, 1968, had responsibility for monitoring a total of about 1,714 construction projects under various U.S.-funding programs throughout Vietnam, for an average of about 286 projects per advisor.

We reviewed the MACV advisor's "Weekly Activities Reports" for the period January 1, 1967, through March 23, 1968, for 29 major new construction projects completed with local currency made available under the calendar year 1967 military budget-support agreement. Although we were advised that there was no requirement for MACV advisors to inspect construction that was financed with these funds, the MACV handbook for guidance of its advisors appeared to require such inspections. We found indications, however, that some inspections had been made on 17 of the 29 projects but that onsite inspections had apparently not been made on the remaining 12 projects.

MACV officials advised us that a request for a change in the MACV table of distribution to increase the number of advisors from six to 12 had been submitted to the Commander in Chief, Pacific, for review and approval. MACV stated that the expected assignment of six additional advisors would allow U.S. participation in the acceptance and transfer of completed facilities and the establishment and maintenance of related accountability records.

On the basis of our review, we believe that MACV needs to implement procedures which will require physical



inspection and monitoring of all U S -supported construction projects whether financed by U S military appropriations or with local currency. The monitoring and inspection should be performed both during and after construction to ensure that these facilities are properly constructed, utilized, and maintained. We believe also that accountability records may become essential at some future date as they provide a permanent record of facilities financed under the U S assistance program and form an excellent management tool in the determination of future maintenance and facility requirements.

We believe further that such a program not only will serve to ensure the proper construction and maintenance of currently programmed facilities, but also will aid MACV in determining the need for future facilities on the basis of the utilization made of those already completed and consistent with the GVN's indicated in-country capability to complete and absorb further programs.

#### Agency comments and GAO evaluation

DOD advised us in a letter dated July 23, 1969, that it did not challenge the accuracy of the statistics regarding the 1967 new construction program, as cited in this section of our report, but that it did not concur in our statement that the 1967 construction program had only partially achieved its goals. DOD explained that the cited statistics were, as of March 1968, just subsequent to the TET offensive which disrupted all construction programs in Vietnam and that normal execution time for the construction program was 2-1/2 years. DOD added that, as of July 1969, the construction program consisted of 197 projects, of which 154 of the projects had been completed and 36 were nearing completion. These totals constituted an achievement level of 97 percent for the 1967 program. DOD also advised that continuing advisory effort was being expended to enhance program execution and that the use of management tools and indicators, such as automated data processing support for program monitoring, was increasing and would facilitate the identification and resolution of problem areas.

DOD stated that it concurred with our report statements regarding the importance of physical monitoring of

projects and in our conclusion regarding the need for additional U.S. advisors in this area. It stated (1) that six additional U.S. advisors had been assigned, (2) that, with 247 projects currently under construction, each advisor had an average of 20 projects to monitor, compared with approximately 53 projects per advisor at any one time in 1967, and (3) that the MACV Engineering Advisory Division design personnel were also available for technical assistance.

Concerning postconstruction monitoring of projects, DOD has advised that GVN funding of routine maintenance has been and continues to be far below an acceptable standard for efficient facilities maintenance but that MACV and the Mission Council have requested the GVN to substantially increase funds for this purpose. DOD has commented that Vietnam's armed forces are responsible for monitoring subsequent maintenance and utilization of construction projects and that understaffing of the GVN components specifically charged with this monitoring is a recognized problem. DOD has also stated, however, that MACV's Engineering Advisory Division also maintains an interest in these areas and may recommend withdrawal of U.S.-support funds for cause.

Perhaps more important, DOD advised that, prior to approval of new construction requirements for calendar years 1969 and 1970, a joint US/GVN committee, including base development, programming, and engineering representatives, visited the proposed project sites and, among other things, examined into the maintenance and utilization of existing facilities. DOD has advised that misused or poorly maintained facilities are identified to the respective Vietnamese authorities for recommended corrective action and that MACV is presently conducting a maintenance study of Vietnam's armed forces facilities. This study will cover all aspects of facilities management and maintenance and will include recommended courses of action to aid in ensuring proper utilization and maintenance of these facilities.

The improvements cited by DOD should, if fully implemented, effect a substantial degree of improvement in MACV's monitoring of the military construction program. The increased use of management tools and an increase in the number of U.S. advisors should improve U.S. monitoring of the execution phase of this program and, in particular, the

onsite inspections which were made prior to approving the construction programs for calendar years 1969 and 1970. We believe these changes will contribute measurably toward the realistic determination of future program levels and toward ensuring the proper maintenance and utilization of existing facilities.

We believe, however, that MACV's monitoring of the postconstruction phase should also include participation in the turnover and acceptance of completed facilities and a regular program of continual onsite observation of the maintenance and utilization of facilities rather than relying on one inspection to provide needed information. Continual monitoring will provide assurance that facilities financed with U.S.-support funds were properly constructed and completed and provide continuing assurance that facilities are being properly maintained and utilized.

The need for this monitoring is all the more evident in view of the stated understaffing of Vietnam's military commands specifically charged with these responsibilities. Moreover, in view of the stated need for additional funds for the maintenance of facilities, MACV should continue to stress to the GVN the need for such funding.

Regarding execution of the calendar year 1967 construction program, we recognize that the cited statistics were dated just subsequent to the TET offensive which occurred in the early part of calendar year 1968. However, we indicated on page 15 of this report that many of the facilities being constructed were not of a complex nature and construction times for most completed major facilities only required about 1 to 3 months. Nevertheless, at March 1968 or 1-1/4 years after the start of the calendar year 1967 GVN budget year, work had not started on about 45 percent of the programmed projects. We believe this to be indicative that the construction program financed under the military budget-support agreement was not progressing as rapidly as it should have been.

## CONCLUSIONS AND RECOMMENDATIONS

We concluded that MACV had developed procedures which should ensure a reasonable degree of control over the programming and obligation of local currency made available by the United States for support of the GVN military budget. We found, however, that MACV had little control over funds after their release to the GVN and MACV had insufficient information concerning the actual utilization of those funds. In response to our draft report, DOD advised us by letter dated July 23, 1969, that substantial improvements in the control and monitoring of local currency had been or would be made by MACV. These improvements pertain primarily to procedures for release of funds to the GVN and to the administration and subsequent verification of funds released for payment of military pay and allowances and for support of the GVN military construction program.

We are of the opinion that the strengthened procedures should provide MACV with considerable information concerning local currency programs, but the procedures will still not provide sufficient information to ensure that funds are (1) released for authorized purposes, (2) released only in amounts needed for current requirements, and (3) used for intended purposes. Although our review was directed primarily toward an evaluation of controls exercised by MACV instead of identifying specific instances of irregularities in the GVN's use of funds, we have concluded, nevertheless, that MACV controls and monitoring practices generally were not sufficient to preclude or detect the existence of improper disbursements, such as payments for payroll ghosts.

We believe that additional monitoring, audits, and inspections are needed and, in particular, that some degree of verification of reported expenditures should be performed prior to releasing any additional cash funds to the GVN for its military budget.

### Recommendations

We recommend that the Secretary of Defense take such steps as are necessary to ensure that MACV:

e

1. Implements procedures to verify the accuracy of figures shown in GVN monthly reports of obligations and expenditures. Since local currency for Vietnam military budget support was released on the basis of data shown in these reports, such verification seems essential to provide some assurance that funds are released in proper amounts and for valid purposes
  
2. Establishes a systematic system for the continual monitoring and physical inspection of the various activities and programs financed with local currency made available under the military budget-support agreement. The system should, if properly implemented, ensure that current programs are properly implemented on a timely basis and perhaps more important, should provide MACV with sufficient data for determining future program levels consistent with the needs and capabilities of the GVN economy. This may require an increase in the number of U S advisors in some areas, especially with regard to the Military-Pay-and-Allowances chapter of the budget.

## CHAPTER 3

### NEED FOR INCREASED CONTROL OVER PROGRAMMING, RELEASE, AND UTILIZATION OF CIVIL BUDGET-SUPPORT FUNDS

Our review of the manner in which USAID exercised control over the programming, release, and utilization of local currency made available for support of Vietnam's civil budget, revealed that, although USAID's administrative and financial controls over these funds had improved somewhat, as described in the appropriate subsections of this chapter, the controls continued to remain weak and to need considerable strengthening.

We found, for example, that during calendar year 1968 USAID continued to release funds programmed for calendar year 1967 to activities that were not covered by required US/GVN implementing project agreements. Also, USAID continued to release local currency on the basis of GVN reports that were unreliable and had not been verified. Consequently, large amounts of local currency had been released prematurely to the actual needs of the Vietnam Government. These funds were not promptly utilized by the GVN but were instead accumulated under GVN control in a central construction account and in the provinces.

Although the absence of suitable records and information at USAID prevented us from determining the total amount of funds accumulated by the GVN, information was obtained that identified at least 1.16 billion piasters which was made available under the calendar year 1967 civil budget-support program but was still unexpended at June 30, 1968. Additional information was obtained in July 1969 that identified almost 3 billion piasters (equivalent to about \$25.4 million) which had been released to the GVN in calendar years 1966 through 1968 but was still unexpended at December 31, 1968. In our opinion, good financial management would not permit these local currency funds to be removed from U.S. control and to then lie idle for long periods of time in accounts under the sole control of the

GVN. We also believe that, in view of the massive budget deficits existing in Vietnam at the time, these idle funds might possibly have been better utilized on other high-priority programs which were experiencing a shortage of financial resources.

We found further that USAID had not implemented adequate verification and monitoring procedures which would ensure the reasonableness of local currency amounts requested by the GVN and would ensure that funds are (1) released for authorized purposes, (2) released only in amounts needed for current known requirements, and (3) used for intended purposes. In addition, construction program goals financed under certain calendar year 1967 civil budget programs were not attained on a timely basis. Some of the facilities already constructed were of poor quality, were in need of extensive maintenance, or were not being utilized.

We found, however, that USAID's participation in formulation of the GVN civil budget for calendar year 1967 had increased over that of the prior year and, in contrast to 1966, local currency made available in calendar year 1967 was earmarked for specific programs.

Our review related primarily to calendar year 1967 programs and activities. In view of the seriousness of deficiencies described above, a limited amount of work was also performed on calendar year 1968 civil budget activities.

#### Agency comments and GAO evaluation

We brought the deficiencies summarized above (except that information obtained in July 1969), and which are explained in detail in subsequent sections of this report, to the attention of the Agency for International Development in a draft report in April 1969. In a letter to us dated July 18, 1969, the Auditor General of AID explained the problems discussed in our draft report by stating that the program in Vietnam was unlike any other AID country program as to both the diversity of activities and geographic coverage within the country. These factors are considered relevant by AID to the amount of audit and surveillance coverage

that can be accomplished. He advised that the Vietnam Government was being urged and encouraged to simplify its fiscal procedures and to accelerate its rural development expenditures in order to take the political initiative from the Communists. AID believes, therefore, that, under such circumstances and in light of massive GVN budgetary deficits, it becomes imperative to exercise only limited control over the release of counterpart funds lest the whole momentum be stifled. Furthermore, many of the geographic areas in which expenditures are made are insecure, at least part of the time.

USAID had previously advised us by letter dated June 2, 1969, that it did not consider that funds had been released in excess of Vietnam's current needs but that funds might have accumulated in some instances because of delays by the Provinces in reporting their expenditures and because of the extreme shortage of GVN financial resources. With respect to our comments regarding the need for verification of GVN reported expenditures prior to releasing additional funds, USAID believes that it is not feasible to retain the size staff which would be necessary to maintain the strict controls our report appears to recommend.

Nevertheless, USAID has cited a number of improvements that it made, or intends to make, to strengthen controls. These improvements include an increase in audit coverage of local currency projects, assignments of additional engineers to monitor construction projects, and the implementation of field reporting on expenditures of local currency. In addition, steps will be taken to improve the usage of these reports and to reiterate in writing to responsible officials their responsibility for project monitoring and reporting. USAID also has stated that discussions will be held with the GVN to develop procedures specifically designed for controlling overreleases of funds to the Provinces and the construction account. USAID believes that present procedures plus the above cited improvements will provide adequate control over the use of U.S.-controlled local currencies.

Although USAID has improved and continues to improve the administration and monitoring of local currency, we believe that significant improvements are still necessary



in order for USAID to attain an effective degree of control over this currency. In particular, our analysis of the new procedures (see pp. 39 to 40) developed by USAID for controlling fund releases indicates that these new procedures will only partially resolve the problem of overreleases to the Provinces and the construction account.

We believe further that effective controls need not impair or stifle the progress of programs, as indicated by AID, but should contribute to increased efficiency in program implementation. It seems that, in view of the massive budget deficits existing in Vietnam, effective financial management would help to ensure that maximum benefits are obtained for the limited resources available.

In the following sections of this chapter, we present in more detail the results of our review for calendar year 1967, including information pertaining to calendar year 1968, and USAID's comments concerning our findings. We have also included USAID's comments, where appropriate, regarding improvements made or to be made and certain additional information of a more current nature.

PROGRAMMING AND MONITORING OF LOCAL  
CURRENCY COULD BE IMPROVED BY  
INCREASED USE OF PROJECT AGREEMENTS

Our review showed that USAID had released large amounts of local currency to the Vietnam Government for activities not covered under specific project agreements. We found, for example, that as of November 1967 such releases under the calendar year 1967 US/GVN civil budget-support master agreement amounted to a total of about 1.9 billion piasters. We believe that project agreements are an important control factor in that they not only provide a basis for tighter programming of the limited financial resources available but also provide the basis to verify actual expenditures. In our opinion, the use of project agreements also places USAID in a more knowledgeable position in dealing with Vietnam officials, especially if it should later become necessary to obtain reimbursement from Vietnam for funds which may have been released in amounts excess of current needs and/or for funds which may have been expended for unauthorized purposes.

Project agreements set forth the objectives, courses of action, and responsibilities of USAID and the Vietnam Government. These agreements are specific with regard to the amounts of funds to be made available and the uses to be made of such funds. In addition, the provisions of the agreements are monitored by project managers assigned both by USAID and the Vietnam Government. As an example, a project agreement for general agricultural support provided that USAID would finance a contract with the Republic of China Joint Commission on Rural Reconstruction to furnish 62 agricultural technicians to work with Vietnam's Ministry of Revolutionary Development pacification teams in selected hamlets to improve agricultural production.

The agreement provided that three of the technicians be assigned to Saigon and that 13 hamlet team leaders and 13 teams of three members each, backed up by seven roving team members, be assigned to hamlets selected by the Vietnamese Province chief. The Province chiefs were to assign the specific teams to the hamlet they selected. The Vietnam Government was to provide seeds, demonstration equipment, and materials, USAID would pay the dollar costs of the contract.

The Chinese technicians were to have been trained in general agriculture, were to be experienced in working with rural people, and were to be graduates of a vocational agriculture school.

The US/GVN civil budget-support master agreement for calendar year 1967 provided that after June 30, 1967, funds would not be released to any project not covered by a specific project agreement. Moreover, an April 1967 USAID memorandum to USAID divisions reiterates this policy. However, our review showed that USAID had, in some cases, released funds after June 30, 1967, for certain individual activities either not covered by specific project agreements or released in amounts excess to that specified in individual agreements. Release numbers 2, 3, and 5 of the following schedule of releases through May 1968 illustrate these facts.

<u>Release number</u>	<u>Date</u>	<u>Cumulative amounts</u>	
		<u>Project agreements</u>	<u>Releases</u>
(billions of piasters)			
1	May 1967	-	1.4
2	Sept. 1967	1.0	3.0
3	Oct. 1967	3.1	3.7
4	Nov. 1967	4.8	4.8
5	May 1968	5.4	5.8

The first three releases include 1.5 billion piasters released for the Revolutionary Development program. Our review shows that a detailed project agreement for that program was not signed by USAID and Vietnam officials until June 1968.

We noted, however, that USAID had attempted, on at least one occasion, to limit the release of local currency to only those programs covered by project agreements. This occasion occurred in November 1967 when USAID limited the release of funds to about 1.1 billion piasters so that the cumulative releases would not exceed 4.8 billion piasters which was equivalent to the total amount of project agreements then in process. Since USAID followed the practice at that time of releasing funds on the basis of obligations as

reported by the GVN and total obligations under the project agreements amounted to only 2.9 billion piasters, USAID had, in effect, released a cumulative total of 1.9 billion piasters for activities not under project agreements.

We believe that, to maintain better control of local currency, USAID should implement procedures to require that local currency be released only to activities under project agreements. These agreements should be properly approved and monitored, and funds should be released to such projects only after the amounts requested have been verified and approved by the respective project managers.

#### Agency comments and GAO evaluation

USAID commented that it shared our view concerning the importance of specific project agreements but that the master agreement between the United States and Vietnam Governments and the jointly approved budget governing the use of local currency generated under U.S.-financed programs were the primary documents for controlling the expenditure of such currencies.

We were further advised that in 1967 USAID was in the process of reinstating the use of project agreements. However, USAID personnel involved in the program at that time were, in a number of instances, not familiar with the use of project agreements. This necessitated that USAID provide a fair amount of training to such personnel. In addition, there were delays in drafting the project agreements because those personnel involved were concerned first with processing dollar-obligating documents and then with developing the fiscal year 1969 budget submissions.

In view of these problems and since there was a joint US/GVN master agreement on the use of local currency, USAID had agreed with Vietnam to continue releasing local currency through June 30, 1967, without requiring the existence of a specific signed project agreement. USAID also commented that, in its opinion, the schedule on page 27 overstated our position because the first three releases were for obligations incurred prior to June 30, 1967. On the basis of the circumstances stated above and the right to

postaudit, USAID stated the belief that it was exercising sufficient control to protect U.S. interests.

We recognize the importance of a joint US/GVN approved budget and master agreement, and the right to postaudit. We recognize also that in calendar year 1967 USAID was re-instituting the use of project agreements. We do not concur, however, with USAID's belief that these factors, coupled with their problems in reinstituting project agreements, indicate that USAID was exercising sufficient control to protect U.S. interests.

Information contained in the US/GVN master agreement for calendar year 1967, which includes amounts budgeted for specific programs, was quite general and broad in scope and did not include the details generally encompassed in project agreements for specific activities and programs. In contrast, project agreements are quite detailed in specifying the project goals, responsibilities of the United States and Vietnam Governments, purposes and limitations for which funds may be used, and various types of information to assist implementation of the project. In our opinion, these details provide both USAID and the Vietnam Government not only the basis for tighter programming and administration of civil budget activities but also the basis to better evaluate project implementation and verify the uses made of funds provided.

In connection with USAID's comment that the right to postaudit is one of the factors indicating that it had exercised a reasonable degree of financial control, we have explained on page 42 of this report that USAID had devoted an insufficient amount of audit effort toward audits of local currency during the period July 1967 to June 1968. Moreover, USAID agreed that it had long recognized the need for additional audit coverage of civil budget-support programs.

We also cannot agree with USAID's comment that the schedule on page 27 overstates our position in that the first three releases were for obligations incurred prior to June 30, 1967. We should first point out that the US/GVN master agreement for calendar year 1967, as well as other USAID instructions, stated that funds would not be released after June 30, 1967, to any activity not covered by a

project agreement. It seems, therefore, that obligation dates would have had no bearing on the releases since the controlling factor should have been the existence of project agreements at June 30, 1967. Nevertheless, we found that only the first two releases were for obligations reported as incurred by the GVN at June 30, 1967. Moreover, we found also that USAID had released 1.5 billion piasters for the important Revolutionary Development (pacification) program during the period from May to October 1967, although the applicable project agreement was not signed until June 1968.

FUNDS RELEASED PREMATURELY  
TO CURRENT KNOWN NEEDS

We found that USAID had released large amounts of local currency under the civil budget-support agreements for calendar years 1967 and 1968 before the cash was actually needed. We ascertained that, as of June 30, 1968, at least 1.16 billion piasters released under the 1967 agreements had not been expended but had instead been accumulated in various accounts and Provinces under sole control of the GVN. Additional information was obtained from the GVN in July 1969 that identified almost 3 billion piasters (equivalent to \$25.4 million) which was released by USAID in calendar years 1966 through 1968 under three U.S.-supported programs and construction projects and which had been accumulated by December 31, 1968.

Although the lack of information at USAID prevented us from determining with any degree of accuracy the total amount of funds that had been accumulated, the established GVN system of reporting obligations and expenditures was such that considerably more local currency may have been accumulated than that shown above. Also, the data supporting the foregoing amounts of premature releases did not include any statistics on some of the U.S.-supported programs. The premature release of funds was caused primarily by USAID's releasing funds on the basis of GVN reports of obligations and expenditures which generally overstated cash needs at the time. We also found that the data contained in the GVN reports had not been adequately verified by USAID (See p. 42 )

USAID had released local currency for support of Vietnam's calendar year 1967 civil budget in five increments-- May, September, October, and November 1967 and May 1968. These releases were based primarily on financial data prepared by Vietnam's budget bureau. The financial data submitted by the budget bureau, on which USAID relied in determining the amounts to be released, was a cumulative monthly report showing total amounts budgeted, obligated (set aside to meet a valid commitment), and expended as reported by the various GVN Ministries and Provinces for programs and projects approved and supported by USAID. The

reports did not generally contain specific or detailed information on the purposes for which funds were obligated or expended.

Our review of the data shown in the monthly reports to USAID in support of the five releases shows that the funds were generally released for the calendar year 1967 Vietnam budget on the basis of GVN reported total obligations, rather than on reported expenditures which would evidence actual cash needs. This procedure was in contrast to procedures followed for the release of funds in support of the military budget under which funds were generally released on the basis of GVN reports of expenditures (See pp 7 to 8)

The following schedule shows certain obligation and expenditure data which was obtained from GVN reports and which supports the five releases of funds by USAID. The schedule shows also the release dates and amounts of releases by USAID for support of the calendar year 1967 civil budget and illustrates that releases were sometimes less than reported obligations but were always in excess of reported expenditures.

<u>Release number</u>	<u>Date</u>	<u>Cumulative GVN reported</u>		<u>Cumulative releases by USAID</u>
		<u>Obligations</u>	<u>Expenditures</u>	
————(billions of piasters)————				
1	May 1967	1.4	1.3	1.4
2	Sept. 1967	3.0	2.5	3.0
3	Oct. 1967	3.8	3.0	3.7
4	Nov. 1967	5.4	4.4	4.8 <sup>a</sup>
5	May 1968	7.4	5.6	5.8 <sup>b</sup>

<sup>a</sup>Release was limited to a cumulative total of 4.8 billion piasters in an attempt to restrict releases to the total amounts budgeted for activities under project agreements. (See p. 27 )

<sup>b</sup>Partial release due to insufficient funds in counterpart account to meet GVN request for 1.5 billion piasters.



Although the above schedule shows that 200 million piasters had been released in excess of reported expenditures as of May 1968, we found that the spread between reported expenditures and cumulative releases was actually much higher since GVN reports of expenditures were seriously overstated. This was caused by the fact that, under the GVN financial system, funds were considered to be both an obligation and an expenditure by the GVN budget bureau as soon as they were transferred to the appropriate Ministry, Provinces, or to special accounts. Consequently, these transfers were reflected as expenditures in the GVN monthly report of obligations and expenditures which was submitted to USAID. Thus, the funds transferred by the GVN budget bureau were reported to USAID as expended even though only a small amount may have been actually utilized to liquidate a valid GVN obligation.

We were unable to ascertain from available documents the total amounts of unexpended funds in the Provinces and in special accounts at any given time. However, USAID provided us with GVN documents which showed that GVN reports to USAID, as of June 30, 1968, on the calendar year 1967 civil budget, included at least 1.16 billion piasters (equivalent to about \$10 million) as expenditures that had only been transferred to the Provinces or to a special account. These documents showed that 970 million piasters still remained unexpended in a special construction account and that another 190 million piasters was still unexpended in the Provinces under the Chieu Hoi program. Similar information involving other calendar year 1967 civil budget activities was not available. The total of 1.16 billion piasters still unexpended at June 1968 represents about 14.5 percent, or one seventh of the total local currency made available for support of Vietnam's calendar year 1967 civil budget program.

In view of the large amounts of piasters that were released but not expended under the civil budget-support agreement for fiscal year 1967, we briefly reviewed releases under the 1968 agreement. On the basis of the GVN data obtained for us by USAID in February 1969, it appears that similar conditions continued to exist under the 1968 agreement. For example, the GVN data showed that, of about

2.6 billion piasters released to the Provinces under the Revolutionary Development program as of December 1968, the Provinces had reported expenditures of only about 1.9 billion piasters. Therefore, about 700 million piasters was unexpended and held in the Provinces.

USAID was not able to obtain for us during our review detailed information from the GVN that showed the expended and unexpended portion of piasters transferred to the Provinces for other 1968 budget programs, nor was USAID able to obtain information from the GVN that showed the extent to which local currency transferred under the 1968 programs to the special construction account had remained unexpended.

We noted that in calendar year 1968 a number of Provinces reported total expenditures and total obligations in the same amounts. This indicated that the Provinces might have continued to report amounts as paid out as soon as they were obligated. This practice resulted in an overstatement of reported expenditures at that level. Also, USAID issued an audit report on the Refugee program in 1969 which indicated that at least some Provinces had reported as expended amounts which had only been transferred to lower government levels within the Province, much in the same way that funds transferred by Vietnam's budget bureau to the Provinces had been reported to USAID as expended.

USAID limited its release of local currency for the calendar year 1968 civil budget because of a lack of adequate deposits in the counterpart account. For example, releases as of March 1969 amounted to 6 billion piasters whereas Vietnam had reported expenditures of at least 6.7 billion piasters at December 1968. These unreimbursed expenditures, however, were to be released to the GVN under the budget-support agreement for 1968 when additional funds became available in U.S. owned or controlled local currency accounts.

In July 1969, subsequent to submitting our draft report to AID for comment, we obtained additional information directly from the GVN budget bureau concerning the status of funds transferred to the Provinces under the calendar year 1968 civil budget-support agreement. The information

obtained showed that funds were transferred to the Provinces under three programs--Revolutionary Development (pacification), Refugees, and Chieu Hoi--which are described in more depth in appendix I. According to this information, only about 2.9 billion piasters of the approximately 4.8 billion piasters released to the Provinces had been expended at December 31, 1968, leaving an unexpended balance of about 1.9 billion piasters for the three programs. The amounts available for expenditure during calendar year 1968 also included about 900 million unexpended piasters and unobligated funds carried over from the calendar year 1967 civil budget.

The information obtained from the GVN in July 1969 shows also that, as of December 31, 1968, only about 400 million of the 1.5 billion piasters released to Vietnam during 1966 through 1968 for construction programs had been reported as expended. Of the approximate 1.1 billion piasters unexpended at that date, more than 625 million piasters had not been obligated or committed for a specific construction project of which 246 million piasters had been released by USAID in 1966 and 1967 in support of civil budgets of those years. Thus, about 3 billion piasters was released to the GVN far in advance of actual cash needs to carry out calendar year 1968 civil budget construction projects and for other activities connected with the Revolutionary Development, Refugee, and Chieu Hoi programs.

The fact that local currency was sometimes accumulated in the Ministries and Provinces and was not promptly utilized was confirmed by a USAID audit report on the Refugee program which was issued in 1969. This report showed that, out of a total of 1.5 billion piasters reported to USAID as expended from funds provided under the 1966 and 1967 civil budget-support agreements, a minimum of 545 million piasters was still on hand at the Province and Ministry levels in March 1968 and had not been released by those levels for expenditure.

The audit report, which we received after submitting our draft report to AID for comments, also stated that, in the three Provinces reviewed, less than 30 percent of the more than 120 million piasters released by the Provinces to lower government levels had been expended. Since the

amounts released to lower levels of the GVN were reported as obligated and expended by the Provinces, the audit report concluded that significant amounts of unexpended piasters could be lying idle throughout the Republic of Vietnam.

The foregoing information shows that Provincial reports of expenditures to the GVN budget bureau overstate the amount of actual expenditures much in the same way as the GVN reports to USAID. Under this type of reporting system, which overstates expenditures, the premature releases to three programs under the calendar year 1968 civil budget agreements may well be more than the 1.9 billion piasters identified. (See p. 35.) To the further extent that obligations reported by the Provinces represent intra-Provincial transfers and not a financial obligation of the GVN, the amount of premature releases will be larger.

Although we believe that the procedures followed for the release of local currency to Vietnam's military budget-- i.e., reimbursing the GVN for a combination of actual and 1 month's estimated expenditures--would provide a greater degree of financial control than procedures followed by USAID, they would only be a step in the right direction. A change to this system would not be reasonably effective, in our opinion, until the GVN reports of obligations and expenditures at each of the various levels of government reflect actual valid expenditures and, perhaps even more important, obligations reflect valid financial commitments of the GVN.

In any event, the effectiveness of these procedures is also contingent on other control measures such as close monitoring of projects by USAID technicians, a system of reliable and accurate reports, and by audit or other system of verification to ensure that funds are released in proper amounts and are used as intended. At the time of our fieldwork in 1969, USAID had not yet implemented the additional related control procedures.

#### Agency comments and GAO evaluation

USAID concurred in a letter to us dated June 2, 1969, that funds released to the GVN might have accumulated in

some instances and, therefore, were not promptly utilized. USAID also commented that, in response to our proposal, it had shifted in 1968 to a procedure of reimbursing the GVN on the basis of reported expenditures in lieu of reported obligations. USAID acknowledged, however, that the procedural change would not ameliorate the transfers of funds to the construction account and to the Provinces because the GVN procedures provide that such transfers be recorded simultaneously by the transferring Ministries as obligations and expenditures.

However, USAID advised that, at its insistence, Vietnam's budget bureau had requested and obtained reports on the status of construction programs from the various Ministries. The Ministries were further requested to review their construction programs to determine if some should be canceled and funds returned to the counterpart account. USAID also advised that efforts would be made to speed up the implementation of projects which, in their opinion, should be implemented, and that a meeting would soon be held with appropriate GVN officials to discuss alternate procedures which would limit fund transfers for these projects until construction is actually ready to begin.

Concerning transfers to the Provinces, USAID commented that, if it were to withhold fund releases until solid evidence of actual expenditures by the Provinces were obtained, releases would probably be delayed until 6 months after the transfer to the Provinces had been made and perhaps 3 or 4 months after the actual expenditures. According to USAID, this would create a very difficult situation for the GVN at a time when it was already very short of finances due to the costs of prosecuting the war. USAID also commented that, under the GVN procedures, these fund transfers to the field were considered to be expenditures and could not be used to meet other requirements and that, if USAID reimbursements were not timely, the GVN would be forced to borrow from the National Bank and incur interest costs.

USAID also stated that, to speed up the use of funds transferred to the field, it had obtained GVN agreement to estimate at the end of each financial year the amount of unliquidated transfers to the field and to deduct this amount from the following year's budget; moreover, GVN procedures

require that unliquidated transfers must be expended within 2 months following the close of the financial year.

USAID provided us with statistical data as of December 31, 1968, for the Revolutionary Development program which showed that 1 billion of the 2.3 billion piasters allocated to the Provinces during calendar year 1968 had been expended and an additional 400 million piasters remained available for expenditure from January through April 1969. USAID commented that the above statistical data showed only nine cases out of 48 Provinces and autonomous cities in which reported obligations exactly equaled reported expenditures. Our review indicated, however, that those nine cases involved 27 percent of total reported expenditures for that program.

USAID commented also that it was not clear, as our report indicates, that the procedures in use for release of funds to the GVN resulted in a lessening of U.S. control. According to USAID, the release procedures have no effect on the Ministries' incentive to implement programs because, if funds are not expended, the following year's budget will be reduced and there are U.S. project managers assigned for every project activity who continue to have responsibility for monitoring the projects. (See p. 26 for our comments on the fact that USAID had not fully implemented the use of project agreements.)

We recognize that USAID had shifted in 1968 to a procedure of reimbursing the GVN on the basis of expenditures in lieu of obligations and believe that the procedures were a step forward toward preventing the continued premature release of local currency. However, the fact that almost 3 billion (equivalent to \$25 million) piasters had been released under four separate programs of the civil budget but had not been expended at December 31, 1968, representing 1968 and prior years, was indicative that conditions might not have improved with establishment of this procedure.

It is our opinion that this new procedure will not resolve the problem of overreleasing funds until GVN reports to USAID are more reliable and meaningful and other control measures, as described on pages 36 and 54, are implemented. The effectiveness of the new procedures can

only be evaluated in the light of their subsequent implementation.

Concerning the release of local currency to the construction account, USAID indicated that new procedures were to be discussed with the GVN and we have noted that written procedures have been incorporated in the US/GVN master agreement for calendar year 1969 budget support concerning fund releases for construction projects. These procedures specifically provide that fund releases (transfers) will be made "only if the (GVN) Ministry requesting the transfer can show evidence that land is available and that plans have been completed and approved in writing by the USAID Project Representative." The new procedure cited above should result in substantially improved control over releases of funds to the construction account, but only if the projects themselves are effectively implemented. Under the GVN accounting procedures, the funds could still remain idle if the projects are not implemented on a timely basis.

We believe that USAID's comment, that to withhold fund releases until evidence of actual expenditure is obtained would create a difficult situation for the GVN, may have some merit. However, the suggestion contained in our draft report was not as stringent as that stated by USAID. We had suggested that the GVN be reimbursed periodically on the basis of projected expenditures for the forthcoming period adjusted by actual releases and expenditures of the prior period. We believe that this procedure should help tighten controls without causing financial hardship to the GVN.

USAID also advised us in the letter of June 2, 1969, that the GVN had agreed to estimate the amount of unliquidated transfers to the Provinces at the end of each financial year and to deduct this amount from the Ministries' budgets for the following year. This procedure, however, was not incorporated into the calendar year 1969 US/GVN master agreement. Also, we doubt that the procedure, when implemented, will prevent such premature releases because it applies primarily to amounts already released and to the amounts programmed. Nevertheless, the procedure, when implemented, should help to recover those funds that were released prematurely.

We reviewed the calendar year 1969 US/GVN master agreement dated June 16, 1969. This agreement provided that funds released under the 1966, 1967, and 1968 civil budget-support agreements that were not obligated by the GVN at December 31 of each respective year, or had not been expended by May of the following year, were to be decommitted to reduce the amount programmed for that year. However, another provision in the agreement specifically excluded from that requirement the amounts transferred to the Provinces or to special accounts. The latter provision, in effect, negates the former provision since most of the unexpended funds discussed in this report were accumulated in the Provinces and in the construction account.

The US/GVN master agreement of June 16, 1969, also provides that the GVN continue to include funds transferred to the Provinces as expenditures in their reports to USAID. It is our opinion, therefore, that the new and old procedures cited by USAID will not solve the problem of releasing funds prematurely to current cash needs at the time, or prevent the GVN from continuing to accumulate under its control vast amounts of funds released from U.S. owned or controlled local currency accounts. As long as local currency releases are based on GVN reports of expenditures, these problems will continue until USAID requires the GVN to submit more meaningful reports which reflect actual expenditures and a more realistic presentation of cash needs at the time.

USAID commented that it was not clear that these premature releases resulted in a lessening of U.S. control and that they might reduce the GVN incentive to implement programs. We believe that our observations concerning the extent of unexpended local currency which had been accumulated and remained unexpended under GVN control in the construction account and in the Provinces and the slow implementation of construction programs included elsewhere in this report (pp. 33 and 47) indicate the need for improved U.S. control over local currency made available in support of the GVN civil budget.

We believe that the shortage of funds and high costs of the war make it essential to encourage tight financial management and control. In view of this and since one of



the major tasks of USAID in Vietnam has been to improve administration within the Vietnam Government, we believe it incumbent upon USAID to not only strengthen its administration and controls but also ensure that the GVN Ministries implement procedures and controls, including the submission of more meaningful reports to USAID, that will help preclude the premature release of funds.

In summary, we believe the improvements cited by USAID will only partially resolve the problem of premature releases of local currency. Therefore, we are presenting several recommendations on page 54 which, when implemented should ensure a reasonable degree of financial management and control of local currency made available for support of Vietnam's civil budget.

NEED FOR U S VERIFICATION OF PROGRAMS AND  
GVN REPORTS OF OBLIGATIONS AND EXPENDITURES

Our review showed that USAID had released large amounts of local currency for support of Vietnam's civil budget without adequately assuring itself that the GVN documents supporting release of funds were accurate and reliable. The review showed also that USAID audit coverage of U.S - supported civil budget activities appeared insufficient in view of the many billions of piasters made available for these activities. In our opinion, therefore, local currency released in amounts excess to actual needs could have been prevented, or at least minimized, had USAID verified the accuracy of GVN reports of obligations and expenditures and increased its audit coverage of U S -supported civil budget programs.

We found that USAID had not independently verified or checked on the validity of monthly reports of obligations and expenditures submitted by the GVN under the calendar year 1967 civil budget agreement and which were used by USAID to support its releases of local currency for support of authorized activities. To illustrate this point, USAID officials responsible for monitoring the Chieu Hoi program and for approving the release of local currency for support of this program in 1967, advised us that they had relied fully on the data shown in the GVN monthly reports as support for releases to the GVN. Our review showed, however, that these monthly reports were inaccurate and overstated the immediate cash needs of the Chieu Hoi program.

The GVN monthly report to USAID for December 1967 shows cumulative expenditures of about 737 million piasters for Chieu Hoi, of which about 680 million piasters had been allocated to the Provinces. The Chieu Hoi Ministry provided us with additional information which showed that, on the basis of expenditure reports from all but one of Vietnam's Provinces and autonomous cities, only about 330 million piasters had been expended. Although this information was provided to us in April 1968, we noted that the Chieu Hoi Ministry had still not received reports from a number of Provinces and cities for the period ending December 31, 1967. Chieu Hoi officials advised us that, for reporting purposes, piasters are regarded as expenditures immediately

upon being transferred to the Provinces for Chieu Hoi programs. This practice has resulted in the release of significant amounts of piasters to the Chieu Hoi program in excess of the amount needed to meet actual cash needs

In our opinion, the above is a specific illustration indicating the need for implementation by the GVN of a systematic and reliable system of reporting obligation and expenditure data to USAID or, as an alternative, the verification by USAID of data reported by the GVN. The need for such a reporting system and/or verification is further illustrated on page 31 of this report where we reported that instances were identified indicating that the GVN had accumulated under its control about 3 billion piasters, representing local currency that had been released by USAID in calendar years 1966 through 1968, but was still unexpended by the GVN at December 31, 1968. We believe it incumbent upon USAID to take whatever steps may be necessary to ensure that local currency releases to the GVN do not exceed the amounts needed at the time to meet actual cash requirements of authorized activities.

We found that an increase in USAID's audit coverage of civil budget activities financed by local currency generated under U.S. programs is also warranted. Our review of USAID audits for fiscal year 1968 shows that 77 audits were performed of which only 14 involved activities financed with U.S.-provided local currency. Since most of the 14 audits involved USAID Trust Fund activities, audit coverage of such civil budget activities as discussed in this report was obviously quite minimal.

A USAID official confirmed that major emphasis of USAID audits for 1968 had been on the U.S.-dollar-financed Commercial Import Program, with little or no emphasis on U.S.-supported civil budget activities financed with local currency. He further advised us, however, that audits planned for subsequent years would include reviews of civil budget-support funds.

#### Agency comments and GAO evaluation

In a letter to us dated June 2, 1969, USAID agreed that it had not confirmed the validity of all GVN reported

obligations and expenditures prior to the release of funds. However, USAID stated the belief that its right to postaudit had provided an adequate basis for ensuring the validity of obligations and expenditures, and such right provides the opportunity to obtain reimbursement for any improper obligations and expenditures. USAID also commented that it did not feel it feasible to retain the size staff necessary to maintain the strict control our report appeared to recommend. In addition, USAID has advised us that an independent information system has now been established for obtaining data on expenditures by the Provinces for the Revolutionary Development program, the largest source of Provincial transfers, and that the U S Province senior advisor generally approved releases for rural development activities at the Province level.

USAID also agreed that additional audit coverage of activities financed with local currency was warranted. In this connection, USAID stated that it had long recognized the need for additional audit coverage of such activities and that audit coverage was appreciably increased during fiscal year 1969. USAID further advised that, as of late May 1969, it had issued four audit reports covering the equivalent of about \$5 million in projects partially financed with local currency and that another six reports were in process involving local currency equivalent to about \$25 million. In performing these audits, USAID commented that the auditors inspected and reported on construction activities and on the use of facilities, commodities, and other AID-financed contributions on a selective test check basis and that none of these audits involved activities financed with local currency from the Trust Fund.

USAID provided us with additional data concerning expenditures under the Chieu Hoi program. According to this data dated during the first quarter of calendar year 1968, the 750 million piasters made available for the calendar year 1967 Chieu Hoi program was 97 percent obligated (726 million piasters) at December 31, 1967, of which 92 percent had been expended (692 million piasters). The data also indicated that the 330 million piasters cited by us as representing actual expenditures at December 31, 1967, did not include expenditure reports for some 10 Provinces. These 10 reports

were not available, according to USAID, when the GVN year-end report was prepared.

With reference to USAID comments on the Chieu Hoi program, it appears that the situation existing at December 31, 1967, as reported by us, may have improved somewhat during the first quarter of calendar year 1968. Since the additional data submitted by USAID was basically prepared by Vietnam's budget bureau and since the GVN reporting system under the Chieu Hoi program and others provided that local currency be regarded as an expenditure immediately upon transfer to the Provinces, the additional data probably does not materially change the situation as we reported it. However, the GVN reporting system, as discussed above, was confirmed and supported by USAID in its letter to us of June 2, 1969.

The Chieu Hoi funds constituted a sizable portion of the almost 3 billion piasters of unexpended funds which had been accumulated by the Provinces as of December 31, 1968. Therefore, we believe it questionable whether the amounts reported by the GVN as being expended for Chieu Hoi programs as of December 31, 1967, could be regarded as representing actual expenditures evidencing cash disbursements.

We do not agree with USAID's remarks that the "right" to postaudit had provided an adequate basis for ensuring the validity of obligations and expenditures. Although the right to postaudit is an important element of internal control, it will not provide management with information needed to evaluate its activities and to verify the validity of financial transactions. To accomplish this, such right must be followed by a sufficient amount of audit coverage. USAID agreed, however, that audit coverage had been insufficient, and it provided data indicating that audit coverage began to increase during fiscal year 1969. With regard to USAID's comment that it was not feasible to retain a staff of the size necessary to maintain the controls our draft report appeared to recommend, we are not in a position to state the size of staff that would be necessary. Also, we are not in a position to state whether personnel increases would be necessary or whether such controls could be accomplished by reassignment of personnel already on board. Nevertheless,

the deficiencies disclosed in this report indicate that USAID should generally strengthen its controls over U.S - supported local currency activities

CONSTRUCTION PROGRAM NOT  
ACHIEVING OBJECTIVES

Our review of calendar year 1967 GVN civil budget activities under the U.S -supported Chieu Hoi and National Police programs indicated that construction program goals were not attained on a timely basis. We also observed that in some instances the facilities already constructed under the Revolutionary Development program appeared to be of poor quality, were in need of extensive maintenance, and/or were not being utilized

We noted during the review that only one of 14 hamlets programmed for construction under the calendar year 1967 Chieu Hoi budget was in operation as of January 1968 and that this hamlet was only partially completed. A review of GVN's construction progress reports indicated further that, as of the same date, construction had only recently started on another four hamlets and construction of the remaining nine hamlets had not started and had been reprogrammed under the calendar year 1968 budget. Similarly, construction had not started on any of the Chieu Hoi centers and they were, therefore, reprogrammed for 1968. However, about 95 percent of the funds budgeted for these hamlets and centers had been released by USAID, and the GVN reported that all these funds had been obligated and expended as of December 31, 1967.

Our review of the construction progress reports also showed that only 10 of the 36 hamlets programmed for construction under budgets for calendar years 1965 and 1966 either had been completed or were nearing completion as of January 1968. These 10 hamlets, however, were in partial operation. Another nine hamlets, although in operation, were only partially completed, and construction had just started on an additional three hamlets. The remaining 14 hamlets either were deferred to 1968 or were canceled. In summary, only 10 of the 50 hamlets programmed for construction during the 3-year period 1965 through 1967 had been either completed or nearly completed at January 1968 and 23 hamlets had been either canceled or reprogrammed for 1968.

We found that similar conditions existed with regard to construction projects programmed under the National

Police program. The National Police program budget for calendar year 1967 included about 551 million piasters for construction, of which about 392 million piasters were to be released to and administered by the GVN and the balance of about 159 million piasters were to be retained and administered by USAID

Construction progress reports under the National Police program for calendar year 1967 showed that projects estimated to cost only about 17 million piasters had been started as of March 1968. None of these projects, however, were completed at that time. Plans for the remaining projects programmed for 1967 had advanced only to the contract-bidding stage

The construction progress reports showed also that, of 28 construction projects programmed for calendar year 1966 at a budgeted cost of about 188 million piasters, only four projects at a budgeted cost of about 11 million piasters had been completed at March 1968. Also, another nine projects estimated to cost about 78 million piasters were still in progress, and 15 projects estimated to cost about 99 million piasters had still not been started. Thus, less than 50 percent of the construction projects programmed under the U S -supported National Police program for calendar year 1966 were completed or had even been started at March 1968.

In view of the massive budget deficits that existed in Vietnam, as stated by USAID, and the shortage of local currency available for these and other critical programs, we believe that the failure of the GVN to attain construction goals, as evidenced above, indicates that the construction programs should be reevaluated by the GVN and USAID. Funds made available for construction should then be adjusted downward to a level more consonant with in-country construction resources and capability. In our opinion, this adjustment should result in the release of currency which had been restricted for use on construction projects to other more critical programs



### Agency comments and GAO evaluation

In a letter to GAO dated June 2, 1969, USAID agreed that there had been delays in the implementation of construction projects. USAID also referred to steps being taken to review construction programs and to minimize local currency transfers to the GVN until there were assurances that the projects could be implemented on a timely basis. We were further advised that sharp reductions had been made in 1968 and 1969 construction programs and that some prior year commitments had been revised accordingly.

With regard to our comments on construction of Chieu Hoi hamlets, USAID advised us that GVN's records showed that, of 50 hamlets programmed for construction in calendar years 1965 through 1967, 20 hamlets were operational at December 31, 1967, seven hamlets either were under construction or construction was about ready to start, and construction of 23 programmed hamlets had not started primarily because of poor security in those areas. USAID stated that at March 31, 1969, construction of 21 hamlets was completed, three hamlets were under construction, five hamlets were still being programmed, and the construction of 21 hamlets had been canceled.

The steps being taken by USAID to minimize transfers of local currency for construction programs are discussed in greater detail on pages 37 to 39 of this report, together with our analysis and evaluation of those steps.

We agree with USAID's comment that 20 hamlets were in operation at December 31, 1967. However, these hamlets were not all fully constructed since housing had not been completed in 17 of the 20 hamlets. Moreover, public buildings for these hamlets, including dispensaries, schools, and warehouse/vocational buildings were still under construction in 10 of the 20 hamlets and construction of these buildings had not yet started in the remaining 10 hamlets.

Concerning the level of present construction programs, we believe that the reevaluation by USAID of construction programs for 1968, 1969, and prior years, and particularly the reductions cited by USAID for Chieu Hoi construction, are indicative of the benefits to be gained through program monitoring by USAID in its administration of these

activities The funds which should be released from the construction account as a result of these reevaluations will enable USAID to assist the GVN in implementing other more critically needed programs

Need for improved maintenance and utilization of facilities

We inspected a number of facilities in two provinces and observed that some facilities were not being used and others were in need of maintenance We believe that these conditions indicate the need for USAID to periodically inspect completed construction projects in order to evaluate the capabilities and desire of the GVN to effectively utilize and maintain the facilities This knowledge, in our opinion, is essential for USAID to ensure that the U S investment in construction is adequately protected

We noted that USAID did not have a program for inspecting and monitoring completed construction facilities to ensure that they were being adequately maintained and utilized for authorized purposes We noted a few instances in which such inspections had apparently been made, but USAID officials advised us that a program or requirement for such inspections did not exist

We therefore inspected a number of facilities constructed for the Revolutionary Development program These inspections were made during April and May of 1968 in two Provinces--Gia Dinh, located near Saigon, and Khanh Hoa, near Nha Trang

The facilities inspected by us consist of classrooms, markets, maternity dispensaries, and a vehicle-maintenance facility A number of the facilities were in a poor state of repair and in need of maintenance In our opinion, the need for maintenance of these facilities was due more to poor construction than to a subsequent lack of maintenance Additionally, we observed that some of the facilities were not being used and one, a vehicle-maintenance facility, had not been used in the more than 6-month period since its construction was completed

We recognize that our observations, based on the limited inspections made, cannot be regarded as representative of conditions throughout Vietnam. However, we do believe that the inspections indicate that some increase in USAID's monitoring and inspection of construction projects is needed. We believe further that a systematic program of monitoring and inspection will not only reveal information as to the quality and timeliness of construction but also should assist USAID to determine future requirements for facilities and to evaluate the capabilities of the GVN to administer the construction programs and to utilize and maintain completed facilities.

#### Agency comments and GAO evaluation

USAID agreed in a letter to us dated June 2, 1969, that construction had not in some cases been of as high a quality as desired and that there had not always been appropriate maintenance. However, much of the construction during calendar years 1966 and 1967 was of a "self-help" nature under programs that were designed to make a political impact over a wide area. This impact, according to USAID, would not have been possible had USAID attempted to maintain as tight a control over the program as our report appears to recommend. USAID further commented that since that time emphasis on construction programs had been substantially reduced and that under the new procedures communities had been provided local currency which could be used for the maintenance of existing facilities as well as for the construction of new facilities. This is in contrast to earlier guidelines under which funds were provided only for construction.

USAID cited other improvements in its comments. It stated that it had developed, in conjunction with the GVN, standard plans for construction of elementary and secondary classrooms and that it had assigned additional engineers to each geographic region. These steps should also result in improved implementation of construction projects.

Concerning inspection and monitoring of facilities, USAID advised that all personnel are encouraged to conduct follow-up visits to facilities constructed with U.S.-provided assistance, whether financed with dollars or

U.S.-controlled local currency. According to USAID, however, the very large construction programs in the 1966-68 period would have required a much larger staff than available to have continual inspections of such facilities. USAID concluded that it did not seem appropriate to implement in full the GAO suggestion to increase its monitoring and inspection of facilities, since maintenance is a GVN responsibility and construction programs, as indicated above, have been substantially reduced.

In the above comments and in other comments included in the previous pages of this report, USAID cited a number of improvements which should strengthen substantially its administration of construction activities. The use of standard building plans and an increase in engineer personnel at the field level should prove beneficial and, in particular, the new procedures cited by USAID under which U.S.-controlled local currency will now be available for maintenance should result in more efficient maintenance of facilities.

With regard to USAID's disagreement with our comments that USAID should increase its monitoring and inspection of construction projects, we recognize that maintenance is a GVN responsibility and that the construction programs will be reduced in future years. We believe, however, that it is incumbent upon USAID to make certain that the U S investment of hundreds of millions of piasters in such construction projects is adequately protected. This can be accomplished, in part, by a systematic system of monitoring and inspection which will show the adequacy and timeliness of project construction and whether or not completed projects are effectively utilized and properly maintained. Irrespective of the disagreement, as stated above, and the fact that the construction programs have been reduced in recent years, USAID has, nevertheless, advised us that additional engineers have been assigned to the construction programs in each region.

## CONCLUSIONS AND RECOMMENDATIONS

The release of local currency by USAID on the basis of total obligations reported by the GVN, without regard to the existence of adequate program documentation, such as project agreements, and without an independent U.S. verification of the data contained in the GVN reports, resulted in the release of funds for GVN's civil budget significantly in excess of cash needs at the time and in the accumulation of funds at the Province level. The absence of such needed documentation and verification procedures prevented USAID from exercising a reasonable degree of control over funds released to the GVN and made those funds susceptible to uses for unauthorized purposes. It is our opinion therefore, that USAID controls and monitoring practices were generally not sufficient to preclude or detect the existence of improper disbursements.

Although USAID changed in 1968 to a procedure of reimbursing the GVN on the basis of reported expenditures instead of obligations, we do not believe that the new procedure will preclude the premature release of funds or the release of funds in excess of current requirements. Since GVN's reports of obligations and expenditures were generally overstated and included transfers and advances to the Provinces as well as actual expenditures, the premature and overrelease of funds will no doubt continue until the GVN report procedures are revised so that the reports will become more accurate and meaningful. We believe further that increased project monitoring and verification by USAID are needed to ensure the accuracy and reliability of GVN's reports on which USAID relies for its decisions.

The limitation of releasing funds only to the extent of accurately reported cash needs should have the salutary effect of prompting the GVN to improve its implementation of projects and programs and thus to accomplish stated objectives more timely and expeditiously. Accurate reporting will disclose those cases where program goals are not realistically attainable because of limited in-country capabilities and will enable the reapportionment of funds to those areas where progress can be made. The close supervision of projects, including construction activities, through systematic

monitoring and end-use inspections should also contribute toward the attainment of these salutary effects.

### Recommendations

We recommend that the Administrator, Agency for International Development, require USAID to

1. Take steps to ensure the existence of a project agreement for each major element of the civil budget being supported, as a condition precedent to the release of local currency. Each project agreement should set forth the responsibilities of USAID and the GVN, project objectives, courses of action, funding requirements and limitations, and any other information or guidelines that will help to improve the project's implementation.
2. Develop and implement whatever procedures and controls may be necessary to ensure that local currency made available for support of GVN's civil budget is released only in amounts essential to meet valid cash requirements. To accomplish this recommendation effectively, it will be necessary for USAID to assist the GVN to revise its reporting system so that the reports to USAID will be more timely, reliable, and meaningful and will reflect actual obligations and expenditures. The procedures and controls developed hereunder should also include a systematic system for the verification of information reported by the GVN
3. Expand its efforts with regard to monitoring and inspecting the implementation of U.S -supported civil budget activities and programs. This should include but not be limited to the development of a systematic system for monitoring and inspecting projects while under construction and after they have been completed.
4. Continue to increase audit coverage of GVN civil budget activities supported by the United States.

## CHAPTER 4

### SCOPE OF REVIEW

Our review was directed primarily toward an appraisal of procedures and controls, implemented by the Department of Defense and Agency for International Development missions in Vietnam, over the budgeting, release, and utilization of U.S. owned or controlled local currency made available for support of Vietnam's military and civil budgets. The review was not directed toward evaluating the overall effectiveness of programs supported with this local currency, nor did the review generally include in-depth examinations into expenditures of local currency as reported by the Government of Vietnam.

We reviewed program documents, reports, correspondence, and other pertinent material made available by the Government of Vietnam and by U.S. agencies in Vietnam and discussed relevant matters with the responsible officials. We also made onsite observations at a number of construction projects located at various points throughout Vietnam.

Our review was conducted in Vietnam from February to June 1968. In view of the deficiencies found, certain additional work was done in Vietnam from November 1968 to February 1969. A limited amount of additional information was also obtained in Vietnam during July 1969 concerning the status of certain funds released in prior years for support of Vietnam's civil budget.

**APPENDIXES**



## BACKGROUND INFORMATION ON VIETNAM'S

### MILITARY AND CIVIL BUDGETS

The Foreign Operations and Government Information Subcommittee, Committee on Government Operations, House of Representatives, conducted an investigation in 1966 of the U S economic and military assistance programs in the Republic of Vietnam. The Subcommittee's report, dated October 12, 1966, disclosed that USAID had released 3 billion piasters (equivalent to about \$25.4 million) of Vietnamese currency to the GVN for general support of the calendar year 1966 civil budget. These funds, according to the report, were released to the GVN without specifying the particular projects or programs for which the funds were to be used, and without establishing controls over the disposition of those funds by the GVN. The report stated that USAID had not participated in the formulation of the GVN civil budget for that year.

The Subcommittee, following its investigation in calendar year 1966, recommended that USAID take steps to ensure that U.S. owned or controlled piasters allocated for support of the GVN civil budget be budgeted for specific activities and programs and also that controls be implemented similar to those followed at MACV for release of funds to support the GVN military budget. MACV controls provided that funds be committed to military budget support on the basis of written US/GVN agreements which specify the purposes for which the funds may be used and that funds be released monthly on the basis of expenditures actually made in the prior month. The Chairman of the Subcommittee also sponsored an amendment which was included in the Foreign Assistance Act of 1966, requiring that the President of the United States or his authorized representative give written approval to the allocation of counterpart funds in support of the GVN civil budget prior to the final formulation of the budget.

In June 1967, USAID advised the Subcommittee that new procedures had been devised which provided substantially for the type of controls recommended, that the chapter of the 1967 GVN civil budget supported by U.S. owned or controlled local currency had been developed jointly by GVN

officials and USAID technicians, and that final budgetary levels had been decided during hearings attended by representatives of GVN Ministries and USAID staff offices and technical divisions. Specific controls over the release of funds cited by USAID included

1. Monthly reporting by the GVN of obligations and expenditures in support of requests for release of funds.
2. Releases of funds on a reimbursement basis coordinated with USAID technicians monitoring the projects.

In a letter dated February 23, 1967, the Chairman of the Subcommittee requested the General Accounting Office to review the control over and use of U.S. owned or controlled Vietnamese currency, generated under the U.S.-dollar-financed Public Law 480 and Commercial Import programs to Vietnam and provided to the GVN for support of its military and civil budgets.

#### MILITARY BUDGET SUPPORT

The GVN military budget for calendar year 1967 was set at a level of about 52.2 billion piasters, equivalent to about \$442.4 million. The budget was initially set at about 45.6 billion piasters, but a pay raise for GVN military personnel and an increase in the number of troops necessitated an increase of 6.6 billion piasters in the initial budget.

The United States agreed with the GVN to make available 18.3 billion piasters (equivalent to \$155.1 million) of U.S. owned or controlled local currency for support of the 52.2 billion piaster military budget. Although the U.S. contribution increased in 1967 and then declined in 1968 both in terms of total dollar equivalent and as a percentage of the total GVN military budget, the U.S. contribution remained quite significant, as illustrated in the following schedule.

GVN budget year (calendar year)	GVN military budget		Total budget
	Source of funding GVN	U.S.	
	——(billions of piasters)——		
1966	24.8	15.1	39.9
1967	33.9	18.3	52.2
1968	55.2	17.5	72.7

The GVN military budget for 1967 was organized into 29 separate chapters that identified the purposes for which the funds were to be expended. However, about 42.2 billion piasters, or about 81 percent of the total budget, were allocated to the following four chapters.

Chapter	Amount budgeted (billions of piasters)
Military pay and allowances-officers	4.6
Military pay and allowances-enlisted	35.5
Psychological warfare activities	1.0
Construction	<u>1.1</u>
	42.2
Other	<u>10.0</u>
Total military budget-1967	<u>52.2</u>

The calendar year 1967 military budget-support agreement provided that, although U S owned or controlled piasters would be made available for support of a number of activities, more than 13.4 billion piasters, or about 73 percent of the 18.3 billion piasters made available, pertained to military pay and allowances, construction, and psychological warfare activities. Most of these funds, about 12.8 billion piasters, were allocated for payment of GVN military pay and allowances. As of April 30, 1968, about 16.7 billion of the 18 3 billion piasters allocated, had been released to the GVN for appropriate use.

We selected for limited review budget chapters on military pay and allowances, psychological warfare, and construction. Each of these budget chapters is discussed in more detail in the following pages of this appendix.

#### Military pay and allowances

The GVN military budget for 1967 included about 40.1 billion piasters for pay and related allowances of the armed forces, or about 76 percent of the total military budget of 52.2 billion piasters applicable to that year. About 4.6 billion piasters pertained to pay and allowances for officers while 35.5 billion piasters pertained to pay and allowances for enlisted personnel. These funds were to be used for payments of base pay; common allowances, such as those provided to families of military personnel, special allowances, such as additional pay for duties involving flying, and travel allowances.

The United States and Vietnam Governments had agreed that about 12.8 billion piasters of the 40.1 billion piasters budget chapter for military pay and allowances would be made available from U.S. owned or controlled local currency accounts, of which about 2.3 billion piasters and 10.5 billion piasters were specifically allocated for pay and allowances of officer and enlisted personnel, respectively.

#### Psychological warfare activities

The GVN had initially included 361 million piasters in the 1967 military budget for psychological warfare activities. However, this amount was subsequently increased to a level of about 1 billion piasters. The large increase in the budget for these activities was attributable to an increase in the number of claims under a program known as the Military Civil Assistance Program (MILCAP).

MILCAP is a program designed to provide financial assistance to solace Vietnamese citizens whose families have suffered bodily injury or death or whose crops or other property have been damaged or destroyed as a result of combat activities or defoliation operations involving friendly

forces. About 950 million piasters of the 1 billion piaster budget for psychological warfare activities pertained to MILCAP claims.

The United States and Vietnam Governments had agreed that U.S. owned or controlled local currency would be used to pay MILCAP claims of about 543 million piasters and that another 20 million piasters would be used for support of equipment for the psychological warfare activities. Thus, U.S. owned or controlled local currency was limited almost exclusively to MILCAP. The remaining funds budgeted for psychological warfare activities (about 437 million piasters) were to be provided by the GVN and were to be used for the purchase of leaflets, periodicals, and other literature and to pay salaries and operating costs of activities under this budget chapter.

#### Military construction

The GVN military budget for 1967 included about 1.1 billion piasters for construction of facilities for the armed forces. This amount had been allocated for about 519 construction projects. Based on an agreement between the United States and Vietnam Governments, about 354 million piasters were to be made available from U.S. owned or controlled local currency accounts for this construction. However, these funds were earmarked to cover 50 percent of the costs on 201 of the 519 projects.

The types of facilities programmed for construction included cantonments and component facilities such as barracks and latrines, training facilities, including recruiting and induction centers, medical facilities, quartermaster and other logistical facilities, roads, and prisoner of war camps. These facilities were to be used by the GVN's Army, Navy, Air Force, and the Regional and Popular Forces. Most of the funds allocated under this budget chapter were for construction of Army facilities, and about 300 million piasters had been programmed to provide housing for dependents of armed forces personnel. However, U.S. owned or controlled local currency was not allocated for construction of housing for dependents.

CIVIL BUDGET SUPPORT

The United States and Vietnam Governments had agreed that portions of the GVN civil budget would be financed by U.S. owned or controlled local currency. During the calendar years 1966 through 1968, the agreements provided that about 23.4 billion piasters were to be made available as follows

<u>Calendar year</u>	<u>Amount (billions of piasters)</u>
1966	6.4
1967	8.0
1968	<u>9.0</u>
	<u>23.4</u>

The agreement for 1966 included 3.4 billion piasters for specific programs and 3 billion piasters for general support of the GVN civil budget for that year. Agreements for the 2 subsequent years provided that the funds be used for specific broad-scope-type programs. Under the calendar year 1967 civil budget-support agreement, about 50 percent of the 8 billion piasters made available pertained to the Chieu Hoi, National Police, and Revolutionary Development programs. The latter program involved over 2.5 billion piasters or about 31 percent of the 8 billion piasters made available. As of May 1968, about 5.8 billion piasters had been released to the GVN for support of its calendar year 1967 civil budget.

The programs funded under the GVN civil budget were primarily of a socioeconomic nature, such as for primary education and teacher training, health, public works, refugee, and agriculture and animal husbandry. However, two other programs under the 1967 civil budget contained certain military aspects. These were the Revolutionary Development (pacification) and the Chieu Hoi (Open Arms) programs. These two programs and the National Police program are discussed more fully in the following pages of this appendix.

Chieu Hoi program

The Chieu Hoi program was one of the larger GVN civil budget programs supported, in part, with U S owned or controlled local currency. The objectives of this program, as stated in the US/GVN project agreement, were to support and further counterinsurgency efforts by inducing military and civilian supporters of the Viet Cong and North Vietnam's armed forces personnel to come over to the side of the GVN.

The United States and Vietnam Governments agreed that 750 million piasters would be made available from U S owned or controlled local currency accounts for support of the 1967 Chieu Hoi program and that an additional 200 million piasters would be provided from GVN budgetary sources. In addition, the United States agreed to furnish certain commodities estimated to cost \$1.3 million. These commodities consisted of cement, aluminum roofing, and rebar steel for use on construction projects.

The Chieu Hoi project agreement provided that U S owned or controlled piasters be allocated to the following expenditure areas.

	Amount (millions of <u>piasters</u> )
Salaries and allowances	178.2
Operation costs	329.8
Miscellaneous allowances	74.0
New construction--hamlets and centers	<u>168.0</u>
Total	<u>750.0</u>

The above categories were broken down further into individual items of expense. For example, the salaries-and-allowances category consisted primarily of pay and per diem expenses of propaganda teams and political orientation instructors. The operation-costs category concerned those persons who had defected to South Vietnam and included amounts for per diem, pocket money and transportation expenses of defectors and their dependents, and award money

for those who turned in weapons. The greater portion of funds provided to this category, however, was intended to pay for food, clothing, and vocational training of defectors, although the costs of propaganda literature were also to be funded from the operation-costs category. The miscellaneous-allowances category included furniture allowances and "homegoing" or reinstatement allowances designed to help the defectors get settled in new homes following the 2 months' residence at Chieu Hoi centers or hamlets. Death benefits to families of defectors killed on missions for the GVN were also to be paid under the miscellaneous-allowance category.

Construction of new hamlets, centers, and other facilities were to be funded under the new construction-cost category. The facilities constructed were to be used to provide shelter and related facilities for defectors as well as facilities to be used for their vocational training.

#### Revolutionary Development program

The GVN civil budget for 1967 included approximately 2.5 billion piasters for the Revolutionary Development (pacification) program which were to be made available from U S owned or controlled local currency accounts. The program was designed to help economic and social development in the rural areas of South Vietnam and, ultimately, to gain the willing support of the people for the GVN.

This program was generally concentrated on preselected rural areas in each of Vietnam's Provinces. At each Provincial capital a Revolutionary Development Council had been assembled under the chairmanship of the Province chief. This council was charged with implementing activities which had been approved under the program.

The budget for the Revolutionary Development program included amounts for such activities as rural electrification, animal husbandry, fisheries development, agriculture and irrigation, rural education, and hamlet development.



National Police

The US/GVN master agreement for the 1967 GVN civil budget provided that about 791 million piasters, or almost 10 percent of the 8 billion allocated for the civil budget, be made available for National Police activities from U S. owned or controlled local currency. The major portion of this local currency, about 551 million piasters, was to be used to finance the construction of facilities, including precinct stations, classrooms and training facilities, firing ranges, and police checkpoints located throughout Vietnam. The remaining 240 million piasters were to be used primarily for the purchase of equipment, including police boats and furniture, petroleum oil and lubricants for vehicles and boats, and cloth for police uniforms.

The National Police, who had responsibility for maintaining law and order throughout South Vietnam, comprised such component forces as the Saigon Metropolitan Police, who had responsibility for maintaining law and order in the Saigon area, the Marine Police, who were responsible for controlling South Vietnam's waterways, and the National Police Field Forces, who operated as paramilitary forces in the buffer areas between combat zones and areas already pacified.

PRINCIPAL OFFICIALS RESPONSIBLE FOR  
ADMINISTRATION OF THE ACTIVITIES  
DISCUSSED IN THIS REPORT

Tenure of office  
From

DEPARTMENT OF STATE

SECRETARY OF STATE

William P. Rogers  
Dean Rusk

January 1969  
January 1961

AMERICAN AMBASSADOR TO THE REPUBLIC OF  
VIETNAM

Ellsworth T. Bunker

April 1967

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR, AGENCY FOR INTERNATIONAL  
DEVELOPMENT

Dr. John A. Hannah  
Rutherford M. Poats (acting)  
William S. Gaud

April 1969  
January 1969  
August 1966

DIRECTOR, MISSION TO THE REPUBLIC OF  
VIETNAM

Donald G. MacDonald

August 1966

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE

Melvin R. Laird  
Clark M. Clifford  
Robert S. McNamara

January 1969  
March 1968  
January 1961

PRINCIPAL OFFICIALS RESPONSIBLE FOR  
ADMINISTRATION OF THE ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

Tenure of office  
From

VIETNAM COMMANDS

COMMANDER, MILITARY ASSISTANCE COMMAND,  
VIETNAM

Gen. Creighton W. Abrams

July 1968

Gen. William C. Westmoreland

August 1964