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REPORT TO
THE CONGRESS OF THE UNITED STATES

SURVEY OF INTERNAL AUDITS AND INSPECTIONS
RELATING TO
UNITED STATES ACTIVITIES IN VIET NAM

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF DEFENSE



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

JULY 1966

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D. C. 20548

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July 18, 1966

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

The General Accounting Office has made a survey of the internal audit and management inspection activities relating to United States programs in Viet Nam. The more important results of our survey are summarized below and described in more detail in the accompanying report.

Our work was undertaken in consideration of (1) the importance of internal audit and management inspection functions as an essential but sometimes neglected element of management control, and (2) the continuing concern of the Congress with effective management control of these programs. We believe that, by this broadened approach, our report should have more impact on promoting improvements in agency management control practices than would a report concerned with the correction of individual instances of waste and inefficiency which in some cases have already been recognized by the agencies concerned.

In the survey and report we have endeavored to identify the more significant program areas, relate them to the surveillance by the 15 principal audit or inspection organizations or units having responsibilities there, and point up the areas in which more effective surveillance effort seems to us most needed. Generally these are well known to the departments and agencies concerned. Our purpose in reporting them in this fashion is to provide helpful information for the Congress, its Committees, and the executive agencies by presenting, in reasonable perspective, something of the scope of our United States programs, and the related departmental audit and inspection responsibilities in Viet Nam. In so doing we have duly recognized the unique problems caused by the conditions under which the programs are being conducted there, and the related fading of normal boundaries of responsibilities between civil and military activities.

In this connection we have included in the report a tabulation designed to identify in the briefest fashion (1) the work which we found being done in Viet Nam by the respective agencies to carry out their

responsibilities for internal audit, inspection, and management review, (2) some of the more important and more pressing areas in which we believe greater agency efforts are needed, (3) actions taken by the agencies toward more effective review and corrective measures since the time of our field work in March 1966, and (4) any further plans which the agencies have stated to us.

The most significant problem areas in terms of magnitude, vulnerability to operational and management deficiencies, and consequent waste in regard to economic assistance are the commercial import program and the rural construction (formerly counterinsurgency) program. The commercial import program consists of the importation by Vietnamese importers of needed commodities, financed by the United States, through commercial channels. The rural construction program is the major economic assistance effort applied directly to the Vietnamese populace.

Substantive-type audits had been completed or were in process for parts of the economic assistance, commercial import, and rural construction programs, relating to about \$67 million from July 1, 1964, to the time of our survey in March 1966. Those programs totaled approximately \$800 million for the 2 fiscal years 1965 and 1966. Most of the audit work done has been by the Mission Audit Staff of the Agency for International Development. Formal audit reports, where issued, have pertained to relatively narrow segments of programs, although their stated scope indicated adequate coverage of the specific areas involved. For example, one report covered end-use observation of \$3.5 million of a \$72 million iron and steel import program for fiscal years 1960 to 1964.

Special-purpose inspections and investigations also have been performed, principally by the Management Inspection Staff of the Agency for International Development and by the Inspector General of Foreign Assistance.

In view of the known difficulties in effectively carrying out the economic assistance program in Viet Nam, there appears to be an urgent need for a continuing evaluation of program makeup and performance

for agency top management use, We believe that there is a particular need for increased surveillance ~~of~~ the operations involved in the receipt, distribution, and end use of the huge quantities of commodities being imported into Viet Nam under the economic assistance program. These operations by their nature and circumstances are conducive to manipulation and irregularity.

The underlying problems relating to management control of the economic assistance programs in Viet Nam, although intensified, are generally not new. The more obstinate continuing difficulties have received considerable attention in congressional hearings and reports over the past several years. They also have been observed in our earlier reviews and are included in two reports which we transmitted to the Congress in July 1964.

AID has taken aggressive action in recent months toward applying greater audit and review effort in significant program areas. For example, a special group has been established in Viet Nam to give particular attention to strategic commodities; and action has been started to increase and upgrade the Mission audit staff in Viet Nam.

In connection with the military construction program, totaling nearly \$600 million up to March 1966, **\$504** million had been incurred under a single joint-venture contract for construction of air bases, port facilities, cantonments and logistical and administrative facilities for United States and Vietnamese military forces, and other projects. **Au-** audits to date by the defense agencies having responsibility have been limited mostly to examinations of the contractors' cost representations as shown on vouchers presented for payment. Insofar as we could determine, no management reviews or evaluations have been undertaken of substantive contract performance or of the broader control aspects of the construction program.

The atmosphere surrounding the billion-dollar construction undertaking in Viet Nam and the conditions of urgency under which the work is proceeding are at best conducive to a large element of waste, some of it unavoidable. Many of the management controls which are applied in a

normal construction operation are precluded by the circumstances. In our opinion, this creates an urgent need for a counterbalance in the form of a searching management review and inspection function on a continuing basis to reduce avoidable waste without hindering the program. There appears to be a particular need for audits and inspections concerning the adequacy and timeliness of delivery, the end use, and the propriety of costs of the large amounts of equipment, spare parts, and supplies that are being provided under the program.

We found no audits being conducted nor did we find any current plans by the audit agencies of the Departments of the Army and Navy to perform audits of military supply or logistics activity other than construction in Viet Nam. The Air Force Auditor General was planning some audit by temporary duty staff in the areas of accounting and finance, procurement, and nonappropriated funds. However, Army and Air Force audit agencies were performing extensive audits at Pacific bases and in the United States of activities relating to logistics support of the military effort in Viet Nam. Audits conducted by the military commands in Viet Nam have been limited mostly to nonappropriated fund activities such as officers' and enlisted men's clubs and open messes.

The circumstances under which the economic and military assistance and military construction programs are conducted and the scope, complexity, and uniqueness of the activities in Viet Nam suggest a greater than ordinary need for a continuing plan of top management surveillance. The internal audit and review problems, however, are aggravated, particularly in the economic assistance program, by (1) limited audit and inspection manpower, as to both numbers and qualifications, (2) diffusion of audit staff efforts, and (3) the war conditions and other environmental elements including difficulties in securing access to information in regard to joint activities with the Government of Viet Nam.

We recognize that special management techniques have been applied in the Viet Nam operation. Our report does not imply derogation of these techniques, but is related to the extent to which the regularly

constituted audit and investigative organizations have performed their functions in Viet Nam. In this connection we believe that the Defense practice, which has in essence excluded the regularly constituted audit arms of the military services from performance of audits of support activities in Viet Nam, should be reconsidered to permit these agencies to perform needed audit and review functions in areas where these functions would not interfere with combat operations nor obstruct United States purposes.

Following through from the information developed in this survey, our Office is scheduling further work to be performed in the United States and in Viet Nam, relating to the more crucial areas of the commercial import program and the vast construction program.

These matters are being reported to the Congress because of its paramount concern with the massive United States effort in Viet Nam and the related need for information regarding the effectiveness of management control of these programs.

Our observations as to the more pressing areas of need in Viet Nam for more effective surveillance efforts by the respective organizational units involved are tabulated on pages 8 to 11 of the accompanying report.

Copies of this report are being sent to the Secretaries of State, Defense, and Agriculture; the Administrator, Agency for International Development; the Director, United States Information Agency; and the Director, Bureau of the Budget.

A handwritten signature in black ink, reading "James B. Axtell". The signature is written in a cursive style with a large initial "J".

Comptroller General
of the United States

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REPORT ON
SURVEY OF INTERNAL AUDITS AND INSPECTIONS
RELATING TO
UNITED STATES ACTIVITIES IN VIET NAM

INTRODUCTION

The General Accounting Office has made a survey of the manner in which United States Government agencies engaged in operations in Viet Nam are carrying out their internal audit and management inspection functions. We were concerned largely with economic assistance program aspects but also inquired into internal audits and reviews in regard to construction contracts, United States military commands in Viet Nam, and military assistance, logistical, and support activities. We did not independently develop data on specific deficiencies and irregularities nor evaluate such data gathered by the various agency audit and management review units.

Our work was undertaken in consideration of (1) the importance of internal audit and management inspection functions as an essential but sometimes neglected element of management control, and (2) the continuing concern of the Congress with effective management control of these programs. We believe that, by this broadened approach, our report should have more impact on promoting improvements in agency management control practices than would a report concerned with the correction of individual instances of waste and inefficiency, which in some cases have already been recognized by the agencies concerned.

The survey was conducted in the Washington headquarters of the agencies involved, in Viet Nam, and at certain intermediate military commands in the field and was prompted by the need of the Congress for information regarding what is or is not being done in terms of management reviews of the massive and unique United States

effort in Viet Nam. **O**ur field work in Viet Nam consisted of discussions with officials of the various civilian agency and military organizations, reviews of documentary material available in such organizations, and a limited amount of observation and inspection of program facilities and operations in Saigon and in the field during March 1966.

Our survey 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).

SUMMARY OF SURVEY RESULTS

In this report we have endeavored to identify the more significant Viet Nam program areas, relate them to the surveillance by the audit or inspection organizations or units having responsibilities there, and point up the areas in which more effective surveillance effort seems to us most needed. Generally these are well known to the departments and agencies concerned. Our purpose in reporting them in this fashion is to provide helpful information for the Congress, its Committees, and the executive agencies by presenting, in reasonable perspective, something of the scope of our United States programs, the related departmental audit, and inspection responsibilities in Viet Nam. In so doing we have duly recognized the unique problems caused by the conditions under which the programs are being conducted there, and the related fading of normal boundaries of responsibilities between civil and military activities.

The most significant problem areas in terms of magnitude and vulnerability to operational and management deficiencies in our opinion are (1) in regard to economic assistance, the commercial import program (CIP), the rural construction (formerly counterinsurgency) program, and several large construction projects and (2) in regard to military activities, the large and varied construction program. These and other audit and review areas are described in the following sections.

The commercial import program consists of the importation by Vietnamese importers of needed commodities, financed by the United States, through commercial channels. The rural construction program is the major direct economic assistance effort and is carried out largely through Vietnamese regional and local officials and United States volunteer agencies. We believe that these programs,

by their nature and manner of implementation are conducive to manipulation and irregularity and that they therefore are particularly in need of an effective overall management review and inspection program.

The underlying problems relating to management control of the economic assistance programs in Viet Nam, although intensified, are generally not new. The more obstinate continuing difficulties have received considerable attention in congressional hearings and reports over the past several years. They also have been observed in our earlier reviews and are included in two reports which we transmitted to the Congress in July 1964.

Substantive audit coverage completed and in process, of the commercial import program totaling about \$521 million for fiscal years 1965 and 1966, has amounted to about \$26 million from July 1, 1964, to the time of our survey in March 1966. The rural construction program for those 2 fiscal years was about \$276 million, including surplus agricultural commodities furnished under titles II and III of Public Law 480, of which about \$41 million worth was given substantive coverage by audits completed from July 1, 1964, to March 1966 or then in process.

In the period from July 1964 to February 1966, the Mission auditors issued 17 formal reports on economic assistance matters. Most of these pertained to relatively narrow segments of programs or to individual cases. For example, one report covered end-use observation of \$3.5 million of the iron and steel import program for fiscal years 1960 to 1964; however, that segment and the programmed total of about \$72 million for those years were not audited as to overall management control aspects, such as requirements determinations, propriety of costs, or licensing of importers.

As shown in the discussion of the problem areas, the majority of audit and management review work in regard to the economic assistance programs has been performed by the AID Mission staff, with relatively little audit and inspection from AID/Washington.

Special-purpose inspections and investigations also have been performed, principally by the Management Inspection Staff of AID and by the Inspector General of Foreign Assistance.

In connection with the military construction activities, audits have been mostly of costs incurred as submitted by the contractors and have not covered the broader aspects of contract performance, including such matters as material and equipment requisitions and utilization. Within Viet Nam military commands, a majority of the audits have been of nonappropriated fund activities, such as officers' and enlisted men's clubs and post exchanges, with audit coverage of appropriated funds on other than contract matters generally limited to fiscal and cash-type audits. The more significant aspects of construction by the military agencies and of other military activities have not been audited.

We found no audits being conducted nor any current plans by the audit agencies of the Departments of the Army and Navy to perform audits of military supply or logistics activity other than construction in Viet Nam. The Air Force Auditor General was planning some audit by temporary duty staff in the areas of accounting and finance, procurement, and nonappropriated funds. However, Army and Air Force audit agencies were performing extensive audits at Pacific bases and in the United States of activities relating to logistics support of the military effort in Viet Nam. Audits conducted by the military commands in Viet Nam have been limited mostly to nonappropriated fund activities such as officers' and enlisted men's clubs and open messes.

Responsibility for the internal audit, inspection, and management review functions relating to operational aspects of United States Government activities in Viet Nam is now spread principally among 15 organizational units or groups.

Agency for International Development	4
Department of State	2
Department of Agriculture	1
United States Information Agency	1
Department of Defense and military agencies	<u>7</u>
	<u>15</u>

The following tabulation shows, in relation to the principal audit, inspection, and management review units, (1) the work which we found being done in Viet Nam by the respective agencies to carry out their responsibilities for internal audit, inspection, and management review, (2) some of the more important and more pressing areas in which we believe greater agency efforts are needed, (3) actions taken by the agencies toward more effective review and corrective measures since the time of our field work in March 1966, and (4) further plans which the agencies have stated to us.

SUMMARY OF PRINCIPAL AUDIT AND INSPECTION UNITS HAVING RESPONSIBILITIES
RELATING TO UNITED STATES ACTIVITIES IN VIET NAM

<u>Agency</u>	<u>Unit and location</u>	<u>Audit/investigative effort in Viet Nam</u>
A. AGENCY FOR INTERNATIONAL DEVELOPMENT:		
	1. Management Inspection Staff: Headquarters--Washington, D.C. (responsible to the Administrator) Resident Inspector, Saigon, Viet Nam (see pp. 24 and 40)	Fifty-nine cases of alleged irregularity including possible criminal aspects were closed in Viet Nam January 1, 1965, to February 18, 1966, and 51 were still in process. In March 1966 the staff in Viet Nam consisted of two regular and three temporary inspectors.
	2. AID/Washington Internal Audit Staff, Washington, D.C. (responsible to AID Controller) (see p. 42)	Last audit in Viet Nam was completed in summer 1961. Review was started in February 1966 by one auditor and three were to arrive in Viet Nam in March and April.
	3. Mission Internal Audit Staff, Saigon, Viet Nam (responsible to Mission Controller) (See p. 36)	In March 1966 the staff consisted of 19 American auditors, up from 15 in a year, and 15 local auditors. American auditors' efforts in past 2 years were largely on special investigative or other urgent projects and nonaudit work to meet emergency accounting backlog with relatively little planned audit program work. In March 1966 six American auditors were assigned to work on CIP, the largest program, which is expected to total \$370 million in FY 1966. Seven CIP audit or investigation projects involving materials totaling about \$18 million were in process.
	4. Mission Special Projects Unit, Saigon, Viet Nam (responsible to Mission Director) (See p. 25)	This special unit was established in March 1966 to perform reviews of selected CIP commodities in Viet Nam and other locations as necessary.
3. DEPARTMENT OF STATE:		
	1. Inspector General of Foreign Assistance, Washington, D.C. (see p. 44)	The Inspector General, his deputy, or staff members made 9 trips to Viet Nam during FY 1965 and during the first 9 months of FY 1966, averaging about 10 days each, the total being equivalent to about one quarter of the time of one man in Viet Nam on a full-time basis.
	2. Audit Program Staff, Washington, D.C. (responsible to Deputy Under Secretary for Administration) (see p. 53)	Special, limited review was performed in Viet Nam in summer of 1965 of financial management and related operations of the United States Embassy.
C. UNITED STATES INFORMATION AGENCY (USIA):		
	Office of the Inspector General, Washington, D.C. (see p. 52)	No inspections of the Joint United States Public Affairs Office, the local unit of the USIA, were made in Viet Nam in calendar year 1965 or through March 1966. A special two-man survey team, responsible to the Director, visited Viet Nam in February and March 1966. The scope of authority and coverage were similar to those of normal inspection by the Office of the Inspector General. JUSPAO has been a separate organizational entity in Viet Nam only since early 1965.
D. DEPARTMENT OF AGRICULTURE:		
	Office of Inspector General (IG), Washington, D.C. (see p. 48)	An investigation was made in Viet Nam in early 1964 of the receipt and disposition of about \$74 million worth of surplus agricultural commodities sold to the Government of Viet Nam under title I, Public Law 480. A survey was also made in 1964, in cooperation with the Department of State and AID, of procedures for handling donated commodities under Public Law 480 amounting to \$102 million. No work has been performed since 1964.

<u>Principal problem areas noted by GAO</u>	<u>Agency action taken to increase audit effort</u>	<u>Agency plans</u>
Massive expansion of the AID program and conditions under which it operates are conducive to such things as currency manipulation, commodity diversions, kickbacks, and fraud. Volume has grown too large for assigned staff to handle.	Two additional full-time inspectors were being assigned to Viet Nam.	Further increase in permanent staff in Viet Nam is planned.
Increased independent audit coverage of Mission activities commensurate with the increased size and complexity of the program and known operational problems is needed, especially in view of limited local audit coverage.	Audit was started in February 1966 and includes a review of CIP and the local funds it generates. (See p. 23)	Completion of current audit is planned.
Staff resources generally have not been applied to audit of activities most vulnerable to operational and management deficiencies; scope of audits has been narrow; and staff is too small for increased audit needs. Extensive reassignments have been made to nonaudit work.	Audit unit was reorganized in April 1966; strong effort was made to substantially increase and upgrade American staff and to increase local; audit training programs were begun.	Additional increase in American staff to authorized strength of 29 and vigorous action to recruit local and third country auditors are planned.
There is need for strong surveillance of the operations involved in receipt, distribution, and end use of the huge quantities of commodities being imported.	Special unit was established in March 1966.	Additional staffing up to authorized strength of 9 is planned.
The multiplicity of economic and military assistance problems in Viet Nam, and the billion-dollar magnitude of the programs over the past 2 years, indicates a need to apply a larger part of the efforts of the staff of about 20 men to Viet Nam.	Inspection trips to Viet Nam made in April and May 1966 by the Inspector General, his deputy, and three staff members averaged about 5 man-days each.	Continuation of inspection trips to Viet Nam and elsewhere is planned.
Deferral of routine-type audits of Embassy administrative operations would not appear to be a significant problem, under present conditions.	None.	Audit of Embassy operations within next 2 years is planned.
The agency's Viet Nam program, although relatively small, is substantial (\$3.5 million, 558 employees); involves planning, buying, producing, and providing materials; and is an important part of the total United States effort in Viet Nam requiring some continuing inspection effort.	None at this time.	Audit and inspection are planned for Viet Nam "as soon as conditions in the field make it appropriate." (See app. 108)
The substantial part played in Viet Nam by the sale of surplus agricultural commodities for local currency under title I of Public Law 480 and the problems associated with their receipt, distribution, and end use indicate need for greater audit and inspection effort in Viet Nam, by the Office of the Inspector General, Agriculture, than is provided by the existing arrangement whereby the Embassy calls on the already overloaded AID Mission audit staff to do this work.	Reorganization of headquarters office is in process, placing greater emphasis on overseas programs. We were advised that IG personnel are being provided to work with AID in review of agricultural commodity import program in Viet Nam.	Continuation of assist work with AID is planned. Also, it is the plan to obtain additional personnel for overseas work in Viet Nam. (See app. 109)

SUMMARY OF PRINCIPAL AUDIT AND INSPECTION UNITS HAVING RESPONSIBILITIES
RELATING TO UNITED STATES ACTIVITIES IN VIET NAM (continued)

<u>Agency</u>	<u>Unit and location</u>	<u>Audit/investigative effort in Viet Nam</u>
E. DEPARTMENT OF DEFENSE:		
1. Defense Contract Audit Agency (DCAA) Headquarters, Alexandria, Va. Regional Office, San Francisco, Calif. Pacific Branch, Tokyo, Japan Suboffice, Saigon, Viet Nam (see pp. 57 to 64 and app. IV)		One very large major construction cost-plus-award-fee contract and several smaller contracts were audited in Viet Nam by examination of contractor's representations shown on vouchers presented for payment and supporting documents by one resident Navy area auditor (March 1962--June 1964), by temporary Navy and DCAA auditors (July 1964--December 1965), and by seven resident auditors since January 1966. The resident auditors stated in March 1966 that they were also reviewing overhead rates and payroll costs on the cost-plus-award-fee contract
2. Military Assistance Program (MAP) Audit Division, Office of the Assistant Secretary of Defense (Comptroller), Washington, D.C. (see pp. 65 to 66 and app. IV)		Last programmed audit of MAP in Viet Nam was concluded in November 29, 1960, by San Francisco Navy Area Audit Office then assigned responsibility for audit of MAP in Viet Nam and covered functional areas of development and implementation of the MAP for Viet Nam, including end-item utilization and training, and administrative disbursing activities of the MAP advisory group. Army Audit Agency is now assigned audit cognizance relating to military assistance provided to Viet Nam.
3. United States Army Audit Agency (USAAA) Headquarters, Washington, D.C. Pacific District Office, Honolulu, Hawaii (see p. 67 and app. IV)		USAAA was instructed by Comptroller of the Army in fiscal year 1965 to discontinue audit activity in Viet Nam until specifically directed to continue. No known audit work is planned, programmed, or in process within Viet Nam.
4. Air Force Auditor General (AFAUD): Headquarters, Norton Air Force Base (AFB), San Bernardino, California Western Audit Division, Norton, AFB, San Bernardino, Calif. Field Office, Clark AFB, Philippine Islands (see pp. 67 to 70 and app. IV)		Audits of activities, such as nonappropriated fund open messes, central accounting office, purchasing agent petty cash fund, and billeting funds, were performed in Viet Nam by auditors on temporary assignments from Clark AFB, Philippine Islands.
5. Auditor General of the Navy: Headquarters, Washington, D.C. Navy Audit Office, San Francisco, California (see pp. 70 to 2 and app. IV)		There has been no audit work in Viet Nam since completion about September 1964 of audits of housekeeping activities, such as leasing of family quarters, utilization of transient billets, entitlements to quarters allowances, and cost-of-living allowances, for Headquarters Support Activity, Saigon (HSAS), a Navy activity then furnishing administrative support to the Military Assistance Command, Viet Nam.
6. Military Assistance Command, Viet Nam (MACV): a. Headquarters, Saigon, Viet Nam b. Headquarters, Support Activity Saigon (Navy) (HSAS) (note 1) c. Headquarters, United States Army, Viet Nam (USARV) d. Headquarters, 2d Air Division Viet Nam (note 2) (see pp. 73 to 76)		Audits were made in Viet Nam in March 1966 by personnel of MACV Headquarters and its component commands, mainly in the area of nonappropriated fund activities, such as officers' and enlisted men's clubs and messes, as follows: MACV Headquarters (8), Navy (1), Army (9), and Air Force (none).
7. Army-Air Force Exchange Service: Headquarters, New York, N.Y. Pacific Exchange Headquarters, Honolulu, Hawaii Viet Nam Regional Exchange (see pp. 77 to 79)		Viet Nam Regional Exchange audits have included periodic counts of inventories and checking of imprest funds by three internal auditors on duty at March 22, 1966, one of whom returned to New York duty station March 27, 1966. A fourth auditor from the Pacific Exchange Headquarters was on temporary duty in Viet Nam in December 1965 when Navy was relieved of Exchange operations.

¹Redesignated U.S. Naval Forces, Viet Nam, effective April 1, 1966, and administrative support functions transferred to USARV.

²Redesignated U.S. Seventh Air Force, effective April 1, 1966,

Principal problem areas noted by GAO

Agency action taken
to increase audit effort

Agency plans

Examination of vouchered costs did not reach the more important contract aspects such as requirements and utilization of material, equipment, and manpower and the effectiveness and economy of performance for which more Comprehensive and sophisticated management-type reviews are needed.

DCAA Saigon staff stated in March 1966 that it was reviewing overhead rates and payroll costs of the large cost-plus-award-fee contract for construction. As of June 1966, Saigon staff was liquidating backlog of audits of cost-type contracts and developing comprehensive audit programs to replace voucher-type audits.

There are plans to increase Saigon staff from 7 to 11 people and then establish a Branch office in Bangkok, Thailand, to include supervision of audit work in Viet Nam. There are plans also to determine need for further audit effort on fixed-price contracts and on \$12 million of 4 communications facilities construction contracts.

There was no indication whether determination had been made as to any plans for auditing (1) Viet Nam MAF activities transpiring since November 1960 or (2) similar military assistance to Viet Nam presently financed from military department appropriations.

None that we have been advised of since completion of our survey.

No audits are presently planned or programmed with respect to military assistance being provided to Vietnamese armed forces.

No audits were being performed in Viet Nam of activities financed by Army appropriated funds, as to such matters as adequacy and timeliness of receipt of equipment, spare parts, and supplies, including utilization of construction materials and equipment used by 18th Army Engineer Brigade.

None that we have been advised of since our survey.

No audits are planned or programmed, to our knowledge, in Viet Nam.

No audits were being performed in Viet Nam of activities financed by Air Force appropriated funds, as to such matters as adequacy and timeliness of receipt of equipment, spare parts, and supplies, including utilization of construction materials and equipment used by mobile construction teams.

Headquarters, Pacific Air Force, as of April 4, 1966, had requested approval by Commander in Chief, Pacific, and Joint Chiefs of Staff for establishing an AFAUD field audit staff in Viet Nam in the first quarter of fiscal year 1967.

There are plans to recruit staff to establish a field office in Viet Nam in first quarter of FY 1967. As of April 14, 1966, Western Audit Division, AFAUD, had requested authority to send an 8-man team to the Southeast Asia area with responsibility to definitize plans for future directed audit coverage.

No audit was being performed in Viet Nam of activities financed by Navy appropriated funds, as to adequacy and timeliness of receipt of equipment, spare parts, and supplies, including Marine Corps logistical support and utilization of construction materials and equipment used by construction battalions of the 30th Naval Construction Regiment.

Naval Audit Service was performing audit outside Viet Nam as of June 1966 of utilization and control of certain Navy funds being spent in Viet Nam.

There are plans to further explore missions, responsibilities, and functions of naval activities located and operating in Viet Nam to determine precise responsibilities and audit potential.

As shown above, no audits were being performed in Viet Nam by cognizant military department audit agencies with respect to activities financed by appropriated funds, other than limited audits by DCAA of the large amounts of construction being performed by contract.

USARV was seeking authorization, as of March 1966, to increase internal audit staff from 9 to a total of 16 persons. As shown above, request has been made for establishment of an AFAUD resident audit staff to provide more extensive internal audit coverage.

Headquarters, MACV, plans to transfer three of its internal auditors (Vietnamese nationals) to help USARV carry audit workload incident to its assumption of command 2nd administrative responsibility for nonappropriated fund officers' and enlisted men's clubs and messes previously assigned to HSAS.

Miltimillion-dollar annual operation is scattered throughout Viet Nam by means of sub-Exchanges vulnerable to operational and management deficiencies. Adequacy and depth of coverage by limited internal audit staff therefore are questionable.

Audit and Inspection Office of Headquarters, Army-Air Force Exchange Service, N.Y., responsible for audits of Regional Exchanges, had taken no action, to our knowledge, to schedule audits of operations of the Viet Nam Regional Exchange.

Pacific Exchange Headquarters had planned to augment Viet Nam internal audit staff with two or three Philippine nationals and to conduct an audit in June or July 1966 of the operations of the Viet Nam Regional Exchange.

The circumstances under which the economic and military assistance and military construction programs are conducted and the scope, complexity, and uniqueness of the activities in Viet Nam suggest a greater than ordinary need for a continuing plan of top management surveillance. The internal audit and review problems, however, are aggravated, particularly in the economic assistance program, by (1) limited audit and inspection manpower, as to both quantity and qualification, (2) diffusion of efforts, and (3) local conditions, including difficulties in securing access to information in regard to joint activities with the Government of Viet Nam.

In view of the known difficulties in effectively carrying out the economic assistance program in Viet Nam, there appears to be an urgent need for a continuing top management evaluation of program makeup and performance. We believe that there is a particular need for increased surveillance of the operations involved in the receipt, distribution, and end use of the huge quantities of commodities being imported into Viet Nam under the economic assistance program. With regard to the military construction program, there appears to be a major need for audits and reviews concerning the adequacy and timeliness of the delivery--as well as the end use, the need, and the propriety of costs--of the large amounts of equipment, spare parts, and supplies that are being provided under the program.

We recognize that special management techniques have been applied in the Viet Nam operation. In this connection, the Department of Defense advised us that "From the overall management standpoint, it should be mentioned that the operations in Viet Nam and special problems related thereto have been the subject of intensive management surveillance, inspections, and special reviews by all levels of management -- ." Our report does not imply derogation of

these techniques, but is related to the extent to which the regularly constituted audit, review, and investigative organizations have performed their functions in Viet Nam.

We were advised by the Department of Defense also that "The general practice is to curtail normal audit activities in combat areas due to the hazards involved and to minimize the disruption of forces engaged in conducting or supporting combat operations." This practice has in essence excluded the regularly Constituted audit arms of the military services from performance of audits of logistical and administrative support activities in Viet Nam, except for minor work relating primarily to nonappropriated fund activities. It seems to us that the DOD practice should be reconsidered to permit its regularly constituted audit and review agencies to perform needed functions in relation to these support activities in areas where these functions would not interfere with combat operations nor obstruct United States purposes, This would permit audit of base-type logistical support activities relating, for example, to base supply, construction, warehousing, some parts of the assistance to foreign military forces, and administrative support activities.

We observed that AID had taken aggressive action in recent months toward applying greater audit and review effort in significant program areas. For example, a special group had been established in Viet Nam to give particular attention to strategic commodities; and action had been started to increase and upgrade the Mission audit staff. Also, we were recently informed that the Air Force Auditor General was proposing the setting up of a resident audit staff in Viet Nam.

At the conclusion of our field work we submitted the pertinent segments of factual material to the respective agencies concerned

for their brief review and comment. The responses received, included herein as appendixes V through IX, were recognized in the appropriate sections of the report. Our further views reflected in the summary portion of the report were subsequently developed but, because of the time element, have not been referred to the agencies for their comment.

The principal officials responsible for agency internal auditing and management review functions for the period covered by our survey are listed in appendix I. **An** outline of the internal audit, inspection, and management review activities is shown in brief in appendix II.

BACKGROUND

ECONOMIC ASSISTANCE AND OTHER
CIVILIAN AGENCY ACTIVITIES

The United States economic and other civilian agency effort in Viet Nam included the following activities and United States Government personnel as of March 1966.

<u>Activity</u>	<u>Personnel</u>		
	<u>American</u>	<u>Local</u>	<u>Total</u>
United States Embassy	226	350	576
Agency for International Development (AID)	763	1,632	2,395
Joint United States Public Affairs Office (JUSPAO)	158	391	549
Foreign Broadcasting Information Service (FBIS)	<u>4</u>	<u>15</u>	<u>19</u>
Total	<u>1,151</u>	<u>2,388</u>	<u>3,539</u>

Economic assistance to Viet Nam is furnished under the direction of **the** Embassy, primarily through AID and JUSPAO as the two principal operating agencies. The military Officer in Charge of Construction (OICC), although part of the Navy Bureau of Yards and Docks (BuDocks)¹ and concerned primarily with military construction, also serves AID and JUSPAO as contracting officer in respect to a number of major construction undertakings.

Agency for International Development

The major thrust of economic assistance to the Government of Viet Nam (GVN) is (1) the importation of essential commodities to cover the large balance-of-payments deficit as well as to dampen

¹Redesignated Naval Facilities Engineering Command, effective May 1, 1966.

serious inflationary pressures and, secondarily, to generate needed local currency for budgetary support, principally for payment of military and police forces, and (2) the rural construction (formerly called counterinsurgency) program which is AID's major direct assistance effort and which covers a large variety of projects and activities.

Nonmilitary assistance programmed as of late March 1966, for administration by AID, for fiscal year 1966 totaled about \$561.3 million, including an estimated \$20.2 million for agricultural commodities to be provided under titles II and III of Public Law 480. In addition, the economic assistance program for fiscal year 1966 includes \$75.2 million for agricultural commodities to be provided under title I of Public Law 480 (sales for local currency). The Department of Agriculture has the responsibility for administering title I programs.

A summary of economic assistance programmed for Viet Nam for fiscal year 1966 follows.

<u>Program</u>	<u>Estimated amount</u> (in millions)	
Commercial import program		\$370.0
Rural construction (counterinsurgency) program	\$171.1	
Public Law 480, titles II and III	<u>20.2</u>	191.3
Public Law 480, title I, sales		<u>75.2</u>
	-	
Total		<u>\$636.5</u>

Further details as to the AID Mission (hereinafter termed the Mission) programs are shown in later sections of this report. A chart of the current organization of the Mission is included as appendix III.

Joint United States Public Affairs Office

The Joint United States Public Affairs Office of the United States Mission to Viet Nam incorporates the former United States Information Service (USIS) in Viet Nam and the former Communications Media Division of the United States Operations Mission to Viet Nam and includes selected military officers assigned by the Military Assistance Command, Viet Nam (MACV), and selected Foreign Service officers of the Department of State. It thus unites the program, production, equipment, and technical assistance aspects of United States psychological action in Viet Nam and provides policy direction and operational coordination of the MACV's psychological warfare activities. As of January 1966, JUSPAO had 158 American personnel, nearly 400 local employees, and an annual budget of about \$3.5 million. A more detailed description of **the** JUSPAO is set out in a separate section of this report. (See p. 50.)

MILITARY ACTIVITIES

United States military effort in Viet Nam, including assistance furnished to Vietnamese forces, is under the operational direction of the Military Assistance Command, Viet Nam, a subordinate unified command of the Commander in Chief, Pacific (CINCPAC). MACV operations include the entire range of military operations and logistical and other support activities. The Officer in Charge of Construction is technically responsible to the Director, Pacific Division, Navy Bureau of Yards and Docks,¹ and administers and **su-**pervises the principal portion of all United States-financed

¹Redesignated Pacific Division, Naval Facilities Engineering Command, effective June 16, 1966.

construction being performed in Viet Nam by contract, including contracts for construction of facilities for MACV and its Army, Navy, and Air Force components, and some of the construction for AID. (See p. 33.) Various types of construction also are performed by engineer and construction elements of MACV.

More detailed background data concerning the military operating command in Viet Nam, including the functions of the Officer in Charge of Construction and the functions of the respective military audit agencies, are attached as appendix IV to this report, under the captions:

1. Military Assistance Command, Viet Nam
2. Officer in Charge of Construction, Navy Bureau of Yards and Docks
3. Defense Contract Audit Agency
4. MAP Audit Division, Office of the Assistant Secretary of Defense (Comptroller)
5. United States Army Audit Agency
6. United States Air Force Auditor General.
7. United States Naval Audit Service

Our observations concerning audits and reviews of the military activities in Viet Nam are, for convenience, presented under two main groupings.

1. Construction activities (p. 55),
2. Military activities other than construction (p. 62).

ECONOMIC ASSISTANCE PROGRAMS

COMMERCIAL IMPORT PROGRAM

The largest element of the economic assistance program to Viet Nam is the commercial import program (CIP), estimated at \$370 million for fiscal year 1966.

The purpose of the program is to finance the importation of essential commodities into Viet Nam to cover the Vietnamese balance-of-payments deficit and to curb inflationary pressures and, secondarily, to generate needed local currency.

AID procedures provide for the Mission and the GVN to cooperate in planning the annual level of imports and in maintaining the balance between the level and composition of the total import program to combat inflation on the one hand and the desire to develop local private enterprise and increase employment on the other hand. AID also reports that it has recognized the tendency of a large commercial import program to build up vested interests in the commercial sector in derogation of the desired development of productive capacity. AID states that it has attempted to counteract this tendency by adopting, with the GVN, the policy of programming of maximum encouragement of Viet Nam domestic enterprise without creating critical shortages of essential commodities for which no Viet Nam domestic productive capability exists.

After the annual program is prepared it is managed by agencies and instrumentalities of the GVN through a licensing procedure and implemented by Vietnamese importers in commercial channels. The Vietnamese importers must comply, however, with certain AID regulations in order for the transaction to be eligible for CIP financing. These regulations cover such matters as the eligibility of various commodities, the source of procurement, the means of

shipment, the prices paid, and the method of payment. The eligibility of commodities provided under the program is determined on an exception basis; that is, commodities needed or desired are considered eligible unless they have been ruled ineligible individually or by category. Mission officials informed us that commodity requirements are developed on the basis of market demand within the limits of available funds.

This program was initially used in the 1955-61 period primarily as a means of generating local currency to finance GVN budgetary needs. Because of the changed conditions in Viet Nam the principal function of the program is now to finance essential imports to cover the large balance-of-payments deficit and to combat inflation. The program also is said to help industrial development and United States and local private enterprise and to increase the United States share of GVN imports.

The composition of the estimated commercial import program for fiscal year 1966 is as follows:

Viet Nam estimated composition and magnitude
of the FY 1966 commercial import program
(in millions of U.S. dollars)

Commodity:	
Foodstuffs	\$ 42.2
Fertilizers/insecticides	17.0
Chemicals/plastic raw materials/dyestuffs	28.0
Medicines/pharmaceuticals	21.0
Fibers/yarns/textiles	7.5
Pulp/paper	12.9
Iron and steel mill products	78.5
Nonferrous metals	8.2
Nonmetallic minerals	5.1
Coal	4.0
Industrial machinery	70.9
Vehicles and other transportation equipment	19.3
Miscellaneous and other commodities	<u>55.4</u>
Total	<u>\$370.0</u>

The commercial import program is implemented by a licensing procedure performed by agencies of the GVN; after approval of a license by the designated GVN official, it is implemented through commercial channels by the importer who undertakes to pay for the commodities at the effective rate of exchange. Prior to June 18, 1966, this rate was 60 piasters to the dollar which, according to AID, gave a de facto exchange rate of 75 to the dollar when customs and various **taxes** were considered. This **rate** compared with the limited free market exchange rate of **73.5** to the dollar and with the Special Currency Fund rate of 118 to the dollar at which all foreigners, including United States employees, could purchase piasters and with the even higher rate which prevailed in the black market.

~~We~~ were informed by AID on June 30, 1966, that effective June 18, 1966, the exchange rate for all new import licenses was increased to 118 piasters per dollar. AID also stated that the importer must now pay import duties that average about 15 piasters, making an average foreign exchange cost of about **133** piasters per dollar for AID-financed commercial imports.

Procurement is required to be made from the United States or from a limited number of eligible developing nations in which case there are stipulations governing the source of the individual components in the product and/or recent requirements that the country of procurement use the dollar proceeds in the United States. **As** an alternative, barter arrangements may be made for payment through a broker by use of surplus United States agricultural commodities which are required to be sold offshore for dollars in order to avoid balance-of-payments **loss**.

Mission audits

Since July 1, 1964, the Mission internal audit staff has issued two reports covering the arrival, distribution, and end use of commercial import program commodities--one on \$3.5 million of a total program of \$72 million worth of iron and steel products for fiscal years 1960 to 1964 and the other on \$4.4 million worth of vehicles, equipment, and parts that arrived in Viet Nam from May 1960 to March 1964. At the time of our survey in March 1966, that staff had under way (1) an audit of the Industrial Development Center, the GVN agency working with the Mission in the use of CIP-financed industrial machinery (\$7.2 million approved imports in fiscal year 1965), and (2) end-use reviews on two critical commodities--pharmaceuticals (\$2.1 million) imported under fiscal year 1963 to 1965 programs and machine tools and parts (\$1million) under fiscal year 1964 to 1966 programs. They also had in process a quality and quantity test of arrivals to warehouses on one of three shipments of sugar aggregating 35,000 metric tons (about \$3 million), were inquiring into a possibility that a cement shortage was caused by black marketing, and had started reviews of propriety of end use of \$4.3 million worth of textiles and \$725,000 worth of silver nitrate.

In the 21 months from July 1, 1964, until our survey, therefore, total substantive Mission audit coverage, which consisted of two audits completed and seven in process, of CIP commodity import, distribution, and end use had been about \$26 million. The total CIP program had increased from about \$95 million in 1963 to \$113 million in 1964, \$151 million in 1965 and an estimated \$370 million in 1966. The \$2.1 million worth of pharmaceuticals now under review for fiscal years 1963 to 1965, for example, compares with \$13.2 million of obligations in fiscal year 1965 alone and a fiscal

year 1966 program estimate of \$21 million. We noted that the completed reports and the audits in process were not addressed to the complete range of key points in the commercial import cycle from the requirement determination and licensing of importers through arrival, delivery, sale, and use, nor were they representative of a reasonable testing of the effectiveness of management control of the program. In June 1966 we were informed by AID/Washington that the Audit Branch in Viet Nam had scheduled a comprehensive review of the CIP procedures and management controls.

The Mission internal audit staff also issued one report on the collection of about \$117 million worth of local currency representing the GVN surtax portion (25 piasters) of the 60-piaster exchange rate paid for commercial imports financed by the United States and a report on the quantity and value of United States-financed goods held in warehouses for lengthy periods (\$512,000). Five other reviews were made on relatively inconsequential matters, i.e., GVN auction sales of AID-financed commodities (about \$3,500), the commodity eligibility of individual transactions (talc powder--\$2,000, bottling equipment--\$32,000, and 3 chemicals--\$3,100), and the disposal of about \$83,000 worth of empty gas cylinders.

AID/ Washington audits

The most recent AID/Washington internal audit work in Viet Nam was performed in 1961, according to an audit team chief who arrived in Saigon in February 1966 to start a new review. He told us that the review coverage would be highly selective due to the size of the program but that it would emphasize high dollar programs, including a fairly comprehensive review of the commercial import program and the local funds generated thereby, and would be extended to a number of other areas,

Inspections and investigations

In addition, the two members of the Management Inspection Staff (MIS) stationed in Saigon and the Inspector General of Foreign Assistance, Department of State, perform inspections and investigations, principally as to specific irregularities. There also were special reviews relative to the CIP by a representative of the Bureau of Customs concerning port customs and terminal operations.

The MIS in Saigon, recently augmented by three inspectors on temporary duty from AID/Washington, completed 59 cases during the period January 1, 1965, to February 18, 1966. Of these cases 27 resulted in remedial action; the remaining **32 cases** were resolved without specific action recommendations. In addition, there were 51 cases still in process of investigation. Although we did not review these cases in detail, it is evident that many of them involved, or could pertain to, aspects of the CIP, as illustrated by the following examples: false certification as to origin of commodities, diversion of commodities, kickbacks to commodity importers, procurement irregularities, fraud against United States, bribery, forgery, smuggling, and theft. A complete tabulation of MIS Viet Nam cases is shown on page 41.

As shown on page **44**, among the variety of matters covered by the Office of the Inspector General of Foreign Assistance in its Viet Nam inspections were several concerning the CIP, such as curtailing excessive imports of a commodity, suspending another, disclosing licensing of imports to be paid for in dollars from excess foreign currency countries, and unused United States-furnished commodities in warehouses.

Reviews by AID Mission Assistant Director
for Special Projects

During March 1966, the Mission established a new review-type group, the Office of the Assistant Director for Special Projects at USAID/Viet Nam, to perform reviews regarding selected commodities, with special emphasis on commercial import program commodities from arrival to end use. We were told that it was intended that this group's scope be greater than that of the regular audit in terms of extending inquiries beyond the boundaries of Viet Nam where required. At the time of our departure late in March 1966, 12 American personnel had been assigned to, or designated for, the Special Projects unit with further staffing increases still in the planning stage. The group will include four transferred from the audit staff (see page 36) but is intended to also have personnel of varied backgrounds to provide a more flexible and greater investigative capability than is now available.

The audit personnel are to work on end-use reviews of commodities with the assistance of Vietnamese auditors yet to be assigned to the group. There also was set up a customs unit consisting of a supervisor and four United States customs employees who arrived during March 1966. It is planned that this unit will consist of eight professional United States Bureau of Customs employees and seven nonprofessional employees, the latter to perform inventories and similar-type work. The primary purpose of this unit will be to ensure that the United States-financed commodities for Viet Nam have actually arrived and that these commodities are the same or substantially the same in regard to quantity, quality, and fair-market value as those for which the United States has paid. The Customs personnel now on hand are assigned at the Saigon harbor and

Tan Son Nhut Airport. One additional man will be assigned at Da Nang and commodities in Nha Trang and Qui Nhon probably will be inspected as needed.

We were informed by AID in June 1966 that the customs unit had recently been transferred to the Public Administration Division and that the unit will work closely with the GVN Customs Authority on institutional development as well as assist in the enforcement of customs laws and regulations.

Particular problem elements and Agency plans

Mission officials said that there was a need for better information as a basis for review of requirements; that the GVN lacked sufficient qualified personnel to manage the program; that the Mission staff was inadequate, particularly in terms of qualified commodity specialists, and controls must be sacrificed in order to keep the program running; and that the Mission lacked information needed for requirement review as well as knowledge of what was arriving in the country.

With regard to licensing, the Chief of the Commercial Import Branch said that 2,000 firms had GVN permission to obtain licenses, that the Mission received about 100 licenses for approval a day, and that the small staff (one man up to June 1965, since increased to six) could not review them in addition to other urgent duties. This official, in a report to the Mission Director on January 24, 1966, emphasized the need to increase surveillance of the programs, particularly in terms of commodity studies, expanded records, increased licensing work, inspection of arrivals and end-use checks.

The purposes and nature of the commercial import program and the manner of its implementation tend to create an environment conducive to manipulation and abuse as shown by the indications of

improprieties disclosed by the audits and reviews that have been made. These conditions clearly create a need for unusually careful management surveillance and, when considered together with the Mission operational problems described above, in our opinion, disclose a critical need for more comprehensive, and therefore more effective, internal audit and management reviews. This includes in our opinion a need for more penetrating inspection and analysis of the sources of the commodities and their purposes.

AID informed us in June 1966 of certain recent actions taken to strengthen the management by the AID Mission of the commercial import program. These actions included the appointment of an experienced senior AID official to a new position of Assistant Director for Commerce and Industry, with the principal job of overseeing the implementation of the commercial import program. Also, the Commercial Import Division was being expanded by the addition of several commodity analysts and international trade specialists to a new authorized strength of 16. AID stated further that other Mission offices contributed a number of man-years to the supervision and inspection of the commercial import program.

RURAL CONSTRUCTION PROGRAM

The rural construction program (formerly the counterinsurgency program), estimated at \$190 million for fiscal year 1966, is **AID's** direct major assistance effort in the fight against Communist subversion and insurgency, primarily in the rural areas. It is described by **AID** as a program addressed both to civil emergency requirements precipitated by war, such as the repair of sabotage, care of refugees, and care of civilian war wounded, but more important is its aim in a variety of ways to strengthen local government in the face of the Viet Cong assaults and to launch a positive program of ameliorating the basic problems on which the Communists base their insurgency appeal.

The program embodies a flexible complex of projects and sub-activities ranging from refugee relief, new hamlet schools, and rural development to repair of sabotaged roads and railroads, training and equipping police, and support of military civic action and psychological warfare.

United States-provided commodities, including agricultural commodities furnished under titles II and III of Public Law 480 and technical assistance, and GVN releases of local currency generated from the sale of imported commodities are applied directly to the needs of the populace through GVN agencies and local officials and through United States volunteer agencies in the case of title III commodities, with the advice and assistance of **AID** employees. A majority of the rather extensive construction needs in these programs is small scale and is performed locally as part of the activities.

In addition to goods and funds, the United States furnishes advice and assistance, including, in recent months, increasing participation and direction by the Mission staff. There also are a

number of specific projects financed by AID grants or loans including some activities performed under contract,

Mission audits

From July 1, 1964, to the time of our survey in March 1966, the AID Mission audit staff had issued four reports on substantive aspects of the program and in March 1966 had seven additional audits in process. That staff also had issued three audit reports and one assist-type report on relatively small contracts relating to the rural construction program and had five such audits in process,

Two of the substantive reports issued and two of those in process concerned surplus agricultural commodities. One report issued covered adequacy of procedures and controls over use of \$5.2 million worth of title II commodities for supplementary feeding of dependents of the civil guard and self-defense corps; the other report was a follow-up on a 1963 report on adequacy of procedures and effectiveness of controls over distribution of \$51.7 million worth of title III commodities. Jobs in process included administration by the GVN National Agricultural Credit Office (NACO) of the \$5.8 million title II pig/corn program and distribution by a volunteer agency of about \$318,000 of title III commodities.

Another substantive report issued covered the propriety of expenditures through GVN local officials in one province of a \$313,000 share of a total of \$10 million worth of United States-purchased piasters. Similar audits had been performed in 2 other provinces prior to July 1, 1964, and such audits were in process in March 1966 on 10 additional provinces, making a total of 13 of the 43 Viet Nam provinces audited or being audited with total coverage of about \$3.7 million worth of local currency. The fourth report on substantive aspects of the program dealt with the extent of

accomplishment and propriety of expenditure of about \$8.1 million of United States funds and \$51,000 worth of focal currency funds during 1959 through 1962 under a project for strengthening the civil guard, a paramilitary organization.

Substantive audits in process, aside from those on surplus agricultural commodities and United States-owned local currency mentioned above, included two additional reviews of the NACO project involving about \$60 million; one audit phase is reported by the Mission as concerned with NACO's lending operations with local currency funds provided by the United States and the other as a financial audit of NACO's overall operations. A review also was in process on fund availability and amount and timeliness of payment to refugees in one province by the GVN and one had been started, but suspended, on AID-financed commodities. The refugee program coverage related to that portion of the rural construction program financed from GVN budgetary funds and was limited by the GVN to a superficial review with any indicated need for a detailed review to be done by the GVN.

Three minor audit reports were issued, one on the propriety of use of \$11,500 worth of local currency under a contract to improve water supply in 50 towns and villages, a second on allegations of irregularities in regard to \$31,000 on a technical assistance contract for training in well construction and maintenance, and a third, an interim cost audit of a \$721,000 fisheries consultant contract. Also, an assist audit was performed on a phase of a \$471,000 contract relative to development of a country-wide radio network.

In addition, five such minor audits were under way on (1) overhead rates on a \$522,000 contract for employing Filipino workers for a variety of AID programs, including work as civil

affairs liaison officers, on self-help projects, and as port, warehouse, and maintenance specialists; (2) a \$66,000 transportation consultant contract for an engineering-economic study of certain aspects of Viet Nam transportation, (3) invoices submitted under a \$383,000 contract for study of port facilities at various locations, (4) review of contractor's accounts on a \$300,000 coastal shipping contract, and (5) a \$972,000 electronic equipment operation and training contract.

Other inspections

In addition to the foregoing audits by the Mission internal audit staff, inspections were made by the Inspector General of Foreign Assistance, Department of State (see p. 44), of such matters as indicated large-scale diversions in transit of United States-furnished commodities, questionable end use of such commodities, nonutilization of facilities and equipment, and limited field time of Mission staff. Also, the Office of Inspector General, Department of Agriculture, made a survey in 1964, reported on in August 1964, of the distribution and end use of about \$102 million worth of commodities donated to Viet Nam under titles II and III of Public Law 480 from 1955 to the middle of fiscal year 1964.

During the period from July 1, 1964, until our survey in March 1966, audit coverage completed and in process of the rural construction program, including commodities furnished under titles II and III of Public Law 480 and devoted principally to that program, amounted to about \$41.2 million of a total United States program of about \$276 million over fiscal years 1965 and 1966. Of that total, \$245.3 million was programmed directly for rural construction with \$15.4 million of audit coverage and \$21.9 million was furnished under title II with \$11 million of audit coverage, and the \$9.2 million under title III, Public Law 480, covered generally as to

procedures and controls by the follow-up audit and specifically by the audit in process of \$318,000. (See p. 29.)

Particular problem elements

As indicated above, the rural construction program is carried out largely through third parties. These circumstances create, we believe, an exceptional need for strong agency internal audits, inspections, and investigations, particularly in view of the general sensitivity of the principal performing agencies in other than contract situations and the vulnerability of the program to deficiencies because of the environment in which it is carried on.

OTHER ECONOMIC ASSISTANCE AREAS

Other significant audit needs exist in respect to (1) AID's constructing and equipping capital development projects, (2) administration at the AID Mission, and (3) commodities furnished under title I of Public Law 480.

Capital development projects

The Mission Public Works Division administers capital assistance projects through the branches listed below. The value of construction contracts for each as identified by the Mission's public works status report as of February 28, 1966, totaled:

	Value in millions of dollars (note a)					
	<u>AID contracts</u>		OICC		Total value	
	<u>U.S. funds</u>	<u>Local currency</u>	<u>U.S. funds</u>	<u>Local currency</u>	<u>U.S. funds</u>	<u>Local currency</u>
Transportation	\$ 9.1	\$ -	\$ 4.9	\$ -	\$14.0	\$ -
Telecommunications	5.1	0.3	1.5	0.1	6.6	0.4
Electric power	10.0	-	-	-	13.0	-
Water resources	18.5	11.4	-	-	18.5	11.4
Reconstruction and urban planning	1.3	0.4	13.6	-	14.9	0.4
Total	<u>\$44.0</u>	<u>\$12.1</u>	<u>\$20.0</u>	<u>\$0.1</u>	<u>\$64.0</u>	<u>\$12.2</u>

^aLocal currency calculated at 73 piasters to 1 dollar.

Two audit reports had been issued by the Mission internal audit staff concerning the Saigon Metropolitan Water Supply Project--one on the propriety of expenditure of \$340,000 worth of piasters under a \$1.6 million consultant engineer contract with an American firm financed from a Development Loan Fund loan and the other on propriety of expenditure of \$3.4 million worth of piasters on invoices and for wages by two French firms.

About \$17.5 million of United States funds and \$13.6 million of local currency are committed to the Saigon Metropolitan Water

Supply Project and substantial sums have been expended, Other capital projects carrying large commitments of United States' funds, and on which there have been large expenditures, include telecommunications system (\$7.2 million), electric power projects (\$10 million), rehabilitation of 15 hospitals (\$6.6 million), and a Development Loan Fund loan for railroad reconstruction (\$7.8 million). In addition to these construction projects totaling \$62.7 million, AID also had a commercial port development project of about \$6.1 million in process, partly for construction.

The hospital rehabilitation project is included in the Raymond-Morrison-Knudson contract and is subject to audit by the Defense Contract Audit Agency (DCAA). (See p. 57.) AID utilized the services of the OICC to contract for this project and, according to information furnished by the Mission, the OICC also assisted in the contracting on the telecommunications and commercial port development projects.

Administrative audits--AID

Administrative audit reports were issued on (1) Mission staff time away from official headquarters in comparison with the budget estimate for travel and (2) the Embassy's distribution of administrative support costs. Administrative-type reviews were made without reports on Mission local procurement and Mission dollar purchases. Numerous cash counts of agent cashiers' funds were made and were said by the Mission to be in course of consolidation into a report.

Administrative audits were in process on such matters as time, attendance, and **leave records of Mission employees, local procurement**, motor pool operations, and compliance with section 1311 of the 1955 Supplemental Appropriation Act (obligation control).

Title I, Public Law 480

In March 1966 the AID Mission audit staff had in process audits of title I, Public Law 480, programs on the distribution and end use of \$19 million worth of sweetened condensed milk and on the arrival and delivery to the importers of wheat flour under a \$6.2 million license. Title I programs have increased by fiscal years from \$27 million in 1963 to \$39.1 million in 1964, to \$47.4 million in 1965, and to \$75.2 million in 1966.

We were informed by AID that, although AID does not have the responsibility¹ for administering title I programs, the Mission audit staff has performed title I reviews in response to specific requests of the Embassy officer responsible for the program.

¹The Inspector General, Department of Agriculture, has certain audit and investigative responsibility relating to title I programs. (See p. 48.)

MISSION INTERNAL AUDIT PROBLEMS
AND ACTION TAKEN AND PROPOSED

Staffing problems

Five of the total of 19 American audit staff members of the AID Mission were assigned from October 1965 to March 1966 to perform investigative-type work, while the remaining staff members continued on regular audit assignments. About 28 audit or investigative projects were in process. By the conclusion of our survey in Viet Nam in late March 1966, four of these staff members had been transferred to a special projects group (see p. 25 above) and five more Americans and the chief local auditor had been detached from audit duties to deal with deficiencies and backlogs said by the Mission to exist in the budget and accounting areas. According to the Mission's records, effective audit time is further reduced substantially by home and other types of leave, details to nonaudit work, training, and other indirect assignments as shown by the following table.

Net Effective Audit Effort
American Audit Personnel

	<u>Six-month periods ended</u>	
	<u>June 30, 1965</u>	<u>Dec. 31, 1965</u>
Number of personnel, after deducting time on home leave and nonaudit details	9.4	14.8
Less time for other types of leave, training, etc.	<u>-2.5</u>	<u>-3.2</u>
Net number of personnel for audit time available	<u>6.9</u>	<u>11.6</u>

Mission records also show that, after deducting leave and other nonaudit time, an average of 12.5 local audit personnel were productively available during the 6-month period ended December 1965 out of the equivalent of 16.9 local personnel assigned. There is evidence also of difficulty in recruiting and retaining trained English-speaking locals since contractors are competing for them and, more recently, so is the Mission's special project unit. (See p. 25.)

Both the Mission and an AID/Washington management survey team (see p. 43) stated that many of the American audit personnel assigned lack the training and experience needed, and the Mission attributes audit qualitative and quantitative deficiencies, particularly in regard to audit supervision, to this condition. The following analysis of past additions to the staff indicates a substantial input of auditors without prior AID experience.

AID Mission Audit Staff, Saigon
as of February 28, 1966

<u>Date of arrival at post</u>	<u>Background of American personnel</u>		<u>Total</u>
	<u>AID-experienced</u>	<u>First tour with AID</u>	
Prior to July 1964	3	-	3
July to December 1964	4	3	7
January to June 1965	1	2	3
July to December 1965	<u>1</u>	<u>5^a</u>	<u>6</u>
Total on board	<u>9</u>	<u>10</u>	<u>19</u>

^aIncludes 4 trainees (FSR-7)

Actions taken to improve Mission
audit staffing and coverage

Mission officials furnished us copies of plans showing an intended increase in the number of American audit personnel to 29, with a general upgrading of the staff, and an increase in the number of local auditors to 39. We were told that at least two local auditors for each American auditor were needed for full productivity because of translation problems. The plans included an organizational concept to permit the use of specialists in auditing each of the programs which the Mission audit staff is responsible for auditing.

During March 1966 the AID/Washington Controller informed the Mission that individuals had been proposed for most of the American audit staff vacancies in the planned expansion. We noted, however, that many of the personnel proposed were in grades lower than those in the planned organization. Also, the transfer of four of the present American auditors in March 1966 to a newly formed special projects group and the detail of five more to budgeting and accounting work as noted above created additional audit staff shortages. At the conclusion of our review, only 2 of the 24 new local auditor positions were being processed.

AID informed us on June 17, 1966, that the reorganization of the Mission audit branch had been accomplished and that five distinct sections had been set up, each dealing with a particular part of AID's program in Viet Nam. AID stated that the Mission audit and the special projects units were staffed as follows:

	<u>Audit staff</u>	<u>Special projects</u>	<u>Combined</u>
Established positions	<u>29</u>	<u>9</u>	<u>38</u>
On board	17	4	21
Mid-tour transfer authorized	1	-	1
On temporary duty Saigon, home leave/transfer authorized	2	-	2
On home leave, transfer authorized	2	-	2
In process, entrance on duty es- tablished	2	-	2
In process, pending clearance for entrance on duty	<u>5</u>	2	<u>7</u>
Total on board and in process- ing	<u>29</u>	6	<u>35</u>
Positions without firm candidates	<u>=</u>	<u>3</u>	<u>3</u>

Concerning the local auditor situation, AID stated that the Mission had taken vigorous action to recruit Vietnamese and third-country nationals but that the **problem** still existed,

HEADQUARTERS AND WASHINGTON AUDITS, INSPECTIONS,
INVESTIGATIONS, AND MANAGEMENT REVIEWS

Management Inspection Staff

The AID worldwide Management Inspection Staff (MIS) is responsible for personnel integrity within AID and for investigating possible violations of Federal statutes and other irregularities relating to AID-financed transactions. The Saigon office of MIS, at the time of our survey, consisted of two regular staff members and three on temporary assignment. Two of those on temporary assignment returned to Washington before the end of March 1966. We were informed by AID in June 1966 that the third inspector remained in Saigon until mid-May, at which time the MIS office was reinforced by two other inspectors on temporary assignment pending the arrival of two new full-time inspectors who were then being processed. Matters investigated often have ramifications affecting areas other than Viet Nam, in which case MIS staff members at the other locations perform assist-type investigations. For example, a Viet Nam MIS case involving a firm in Hong Kong could require investigation in both Saigon and Hong Kong. Conversely, the Viet Nam MIS staff assists the MIS at other locations.

Following is a tabulation of the status of MIS investigations at Saigon from January 1, 1965, to February 18, 1966, some of which evidently relate to the commercial import program as noted on page 24 above.

<u>Type of case</u>	<u>Cases closed from January 1, 1965 to February 18, 1966</u>		
	<u>Resulted remedial action</u>	<u>Without action</u>	<u>In process 2-18-66</u>
'Fraud against United States Government False certification of origin of com- modities	- 6	1 7	15 10
Flight of capital	-	-	2
Alleged corruption	-	1	0
, Diversion of commodities	2	-	3
' "Kickback" to commodity importers	-	4	7
Procurement irregularities by importers (including AID contractors)	2	2	5
Bribery, forgery, smuggling, and theft	2	3	2
Conflict of interest	-	2	1
Administrative investigations regarding AID Mission personnel	14	12	4
Other	<u>1</u>	<u>0</u>	<u>2</u>
Total	<u>27</u>	<u>32</u>	<u>51</u>

Remedial actions consisted of refunds obtained (11 cases), employee separations (6 cases), suspensions of suppliers or importers (6 cases), barring of specific commodities (1 case), contracts terminated (2 cases), and discontinuance of improper use of contract aircraft (1 case).

Of the 32 cases resolved without specific action, 2 were closed **upon** resignation of employees involved and 30 were discontinued because allegations were found to be without foundation. Of the 37 cases pending further action, 5 had been referred to other **MIS** field offices for additional investigation and 9 were under review by the Department of Justice for consideration of criminal prosecution or civil recovery of damages.

AID/Washington

Operations Evaluation Staff (OES)

The AID/Washington Operations Evaluation Staff plans and conducts periodic evaluations of AID field operations. A Senior Evaluation Officer of the OES informed us on April 15, 1966, that the OES had performed no evaluations in Viet Nam and that he knew of no plans to do so in the near future.

AID/Washington internal audit staff

The AID/Washington internal audit staff is part of the Office of the Controller and makes periodic audit-type reviews of Mission activities. A representative of this staff who arrived in Viet Nam in February 1966 to start an audit told us that its last audit review had been performed in the summer of 1961, covering the period up to June 30, 1961. He said that, in addition to the main emphasis which would be given to a fairly comprehensive review of the commercial import program (see p. 23 above), reviews were planned for selected projects, United States-owned local currency, some contracts, Development Loan Fund loans, and procurement and cashier operations and that other work would be done on the refugee program, the Public Law 480 program, the validity of obligations, and the checking of vouchers and releases from counterpart funds.

Financial Review Division,

Office of the Controller, AID/Washington

The Financial Review Division, AID/Washington, performs a post audit in Washington of commercial import program transactions, consisting of two separate reviews; that is, a voucher examination covering such requirements as the source-origin and eligibility of the commodity and a price-analysis review. The latter review is

performed by commodity specialists having specialized knowledge of the trade terms and practices, to ascertain whether there has been compliance with statutory and contractual provisions against discriminatory pricing, unauthorized commissions, rebates, kickbacks, and other unethical business practices. According to data supplied by AID, claims totaling about \$419,000 were issued during calendar years 1964, 1965, and 1966 (through March) by the Price Analysis Branch as a result of its reviews of Viet Nam transactions.

We were informed by AID in June 1966 that, because of the increase in the Viet Nam commercial import program, seven additional positions had been authorized for the Financial Review Division and that the entire staff of the Price Analysis Branch was being devoted to Viet Nam transactions.

Special reviews

A team of AID/Washington personnel made a management review of USAID/Viet Nam in November 1965 at the request of the AID Mission Director. The team's report contained 51 recommendations for improvements regarding the organization, lines of authority, personnel and recruiting, and other administrative activities of the AID Mission. Thirty-nine of these recommendations were subsequently designated for action by the AID Mission, eight for AID/Washington, and four for both the Mission and AID/Washington. Some reorganization of the Mission had resulted from this review prior to our visit to Viet Nam in March 1966, and a management team from AID/Washington was in Saigon at that time to implement other recommendations. We were informed by AID in June 1966 that considerable progress had been made in carrying out the recommendations in the report.

Mention has been made on page 24 of special customs and port reviews in connection with the commercial import program.

INSPECTOR GENERAL OF FOREIGN ASSISTANCE,
DEPARTMENT OF STATE

The Inspector General of Foreign Assistance (IGA), Department of State, has statutory responsibilities **under** subsection 624(d) of the Foreign Assistance Act of 1961, as amended, for reviewing the effectiveness of United States economic and military assistance programs and Peace Corps and Public Law 480 activities. The IGA conducts inspections throughout the world, makes recommendations based thereon to the head of the operating agency concerned, and follows up such recommendations to determine what action has been taken by the agency.

Information furnished us by the IGA shows that it has made recommendations for corrective action in a variety of matters relating to United States activities in Viet Nam. Examples of subjects covered are: apparent excessive imports of certain commodities, indications of excessive programming of certain commodities, nonuse of available and needed equipment, use of dollars in lieu of idle United States-owned local currency, amount of time spent in the field by Mission personnel, understaffing in the controller management inspection and commodity import operations, and various matters concerning black marketing.

Further examples of the work of the Inspector General of Foreign Assistance relating to Viet Nam, as transmitted May 7, 1966 by the Secretary of State to the Chairman, Senate Committee on Foreign Relations, are stated below.

' VIET-NAM

"1. After examining considerable quantities of usable heavy construction equipment which had been once employed on projects but which was now standing idle, IGA questioned AID's general policy of vesting title in such equipment in host governments. AID, as a result, issued

a new manual order, under which it will retain title to equipment in cases where it appears the host country would not be able to use it for other purposes after projects are completed.

"2. IGA on several occasions invited USAID attention to large numbers of new U.S.-financed trucks and tractors from the shut-down Cambodian program which were sitting idle on the Saigon docks. This IGA interest contributed to putting the vehicles to work.

"3. IGA collected statistics on the amount of time which USAID provincial representatives in the rural development program spent in the provinces, as contrasted with the time they spent in Saigon. The Mission took immediate steps to **work** out arrangements which resulted in the provincial representatives spending more time in the field.

"4. IGA ran on-the-scene spot checks on certain commodities in the counter-insurgency program and developed figures showing apparent significant discrepancies between the amounts of commodities leaving Saigon and the amounts arriving in the provinces. The study helped focus USAID attention on the problem of commodity control.

* * * * *

"15. In a classified investigation, IGA focused attention on what appeared to be excessive imports of a certain AID-financed commodity into Viet Nam. All further shipments of the commodity were stopped.

"16. Also in a classified investigation, IGA recommended suspension of shipments of another AID-financed commodity into Viet Nam. Shipments were suspended."

Time expended in Viet Nam by the Inspector General and his staff during fiscal year 1965 and the first 9 months of fiscal year 1966 is summarized on the following page.

	<u>Fiscal year 1965</u>		<u>First 9 months of fiscal year 1966</u>	
	<u>Trips</u>	<u>Calendar man-days</u>	<u>Trips</u>	<u>Calendar man-days</u>
The Inspector General	1 (Aug. 64)	5	1 (Feb. 66)	8
Deputy Inspector General	1 (Feb. 65)	6	-	-
Staff members (6)	<u>7</u>	<u>73</u>	<u>3</u>	<u>32</u>
Total	<u>9</u>	<u>84</u>	<u>4</u>	<u>40</u>

The above schedule reflects an average application of about one fourth of the time of one man in Viet Nam. We wish to point out that a dominant portion of the IGA work relating to Viet Nam has been accomplished in Washington and other parts of the world. We believe, however, that the volume and unique complexities of the Viet Nam activities in relation to total worldwide economic and military assistance activities are such that the Inspector General could well consider a materially greater application of manpower there.

Work of the IGA does not lend itself readily to quantitative terms of measurement, since much of it is performed in an indirect or informal manner. It is our understanding that the efforts of the IGA concerning Viet Nam have heretofore been directed primarily to economic assistance. We believe that there has been a continuing unfulfilled need for review and investigative effort in relation to the military assistance activities in Viet Nam, between the IGA and the Army Audit Agency which was assigned audit responsibility within Department of Defense. We understand that no such reviews have been made in Viet Nam by Army Audit Agency notwithstanding its assigned responsibility.

A draft of the section of factual material in this report concerning the Inspector General of Foreign Assistance was referred to

him for comment. While the IGA did not furnish any formal reply, he communicated with us and provided data informally which have been recognized in our report.

OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF AGRICULTURE--
PUBLIC LAW 480 RESPONSIBILITIES

The Office of the Inspector General, Department of Agriculture, is responsible for all internal audit and investigation within that Department and therefore has this responsibility in regard to the manner in which the Foreign Agricultural Service discharges its management function of following up on the shipment of title I, Public Law 480, commodities sold to ascertain whether the commodities have been received and used in the appropriate countries and do not increase the availability of those or like commodities to unfriendly nations. Such title I shipments to Viet Nam have been programmed for a total of about \$75 million for fiscal year 1966.

(AID is responsible for auditing all phases of title II commodity programs and for auditing the records of volunteer welfare agencies pertaining to the overseas distribution of title III commodities, observing the end-use thereof, and reviewing the program planning by such agencies overseas.)

The Office of the Inspector General, Department of Agriculture, made an investigation in the early part of calendar year 1964 of the receipt and disposition of about \$74 million worth of surplus agricultural commodities sold to the Government of Viet Nam (GVN) under title I, Public Law 480, from the inception of the Viet Nam title I program in July 1958 through calendar year 1963 (the first half of fiscal year 1964) and reported thereon in May 1964. The Inspector General also issued a report in August 1964 on the results of a survey of procedures for handling donated commodities amounting to \$102 million under titles II and III of Public Law 480. This survey was carried out in cooperation with the Department of State and AID.

We believe that there is a present need for inspections to be performed in Viet Nam by the Office of the Inspector General, Department of Agriculture, in line with his responsibilities concerning shipments of commodities to Viet Nam under title I of Public Law 480.

We were advised by the Inspector General on June 15, 1966, that his unit had recently been reorganized to place greater emphasis on, and to improve the audit coverage of, the overseas programs. The changes made were said to include the establishment of a position of Deputy Assistant Inspector General for International Programs and a position of Assistant Regional Inspector General and, in addition, an authorization to provide a separate staff to carry out overseas audits.

The Inspector General also informed us that his office had provided personnel to **work** closely with **AID** in a review of the commodity import program for Viet Nam. He stated that this review would include the disposition of commodities sold under title I, Public Law 480.

Comments by the Inspector General dated June 15, 1966, on the segment of our report draft concerning his activities, are included as appendix **VIII** to this report.

OTHER CIVILIAN AGENCY -ACTIVITIES

JOINT UNITED STATES PUBLIC AFFAIRS OFFICE, SAIGON

The Joint United States Public Affairs Office (JUSPAO) was established in Viet Nam as an element of the United States Mission in Saigon as a result of a Presidential decision in May **1965**, and it operates as a responsibility of the Director, United States Information Agency (USIA). The establishment of JUSPAO directly integrated the United States Information Service (USIS), Viet Nam, and the Communications Media Division of the **AID** Mission, Viet Nam, which was providing communications equipment and technical advice to the GVN. The Military Assistance Command, Viet Nam (MACV), assigned selected military officers to JUSPAO, and the Department of State assigned selected foreign service officers. These steps were intended to unite the production, equipment, and technical assistance aspects of United States psychological action relating to Viet Nam.

The United States Information Agency was established by Reorganization Plan **8** of **1953**, effective August **1, 1953** (**22 U.S.C. 1461** note), to carry out international information activities as authorized by the United States Information and Educational Exchange Act of **1948**, as amended (**22 U.S.C. 1431**). The purpose of the USIA is to help achieve United States foreign policy objectives by influencing public attitudes in other nations and by advising the President, his representatives abroad, and the various departments and agencies on the implications of foreign opinion for present and contemplated United States policies, programs, and official statements. This purpose is carried out by means of personal contact, radio broadcasting, libraries, book publication and distribution, press, motion pictures, television, exhibits, English

Language instruction, and other media of communication to encourage constructive public support abroad for United States policy objectives and to unmask and counter hostile attempts to distort or frustrate the objectives and policies of the United States,

JUSPAO provides policy direction to the psychological warfare operations of MACV's Political Warfare Directorate, having the objective of ensuring common policy and close operational coordination between United States civilian and military psychological warfare personnel in provincial operations and at the national level. The JUSPAO Director is also the State Department's Minister-Counselor for Information in the Embassy. In this capacity he oversees the United States Mission Press Center which is concerned with official information for foreign correspondents. The Minister-Counselor also provides policy direction for MACV's Office of Information in the coordination of United States civilian and military official information.

JUSPAO resources, as of January 1966, included 158 American officers, drawn from USIS, MACV, the Department of State, and the AID Mission; nearly 400 Vietnamese employees; and an annual budget of about \$3.5 million. JUSPAO installations include the headquarters, a Mission printing center, American cultural centers in four major cities in Viet Nam, and field representatives' offices in many of the provinces of Viet Nam. JUSPAO also oversees the United States support for seven Vietnamese-American Association Centers throughout Viet Nam.

JUSPAO's action programs are concerned with the Government of Viet Nam; the Vietnamese nationally; the Vietnamese provincially, including some 600,000 refugees; the Viet Cong; the North Vietnamese; and the Free World. Because of the scope of JUSPAO's

operations, it has required substantial assistance from USIA regional psychological organizations throughout the Far East. USIA's supporting elements in the Far East include the Tokyo Regional Production Center for motion pictures; the Manila Regional Service Center whose large printing plant devotes half of its production to Viet Nam; the Voice of America relay station in the Philippines; USIS Hong Kong's China Reporting Service, providing publications and books; and Bangkok's Voice of America and Motion Picture and Television Service technical assistance. The Commander in Chief, Pacific, also provides broadcast, audio-visual, and psychological warfare assistance from facilities in Okinawa.

Audit and inspection

The Office of Inspector General, United States Information Agency, was established in Washington in February 1965 to appraise the operations and administration of USIA's overseas establishments, including JUSPAQ. The Office consists of the Inspector General and a Deputy, without a full-time staff of inspectors. (The Inspector General makes up a team for each inspection, consisting of from one to six men drawn from their regular duties at an overseas post or in Washington, for the duration of an inspection.)

The audit staff of USIA conducts audits of financial and administrative operations of the USIA both domestically and overseas.

We were informed by responsible officials of WSEA that its Office of Inspector General and its audit staff had made no inspection or audit of JUSPAQ in calendar year 1965 and that none was planned for calendar year 1966. We were also informed that it was not the policy of the Inspector General or the audit staff to review the USIA Media Services' overall program operations, which include

planning, buying, producing, and providing informational materials pertaining to Viet Nam.

In late February 1966, USIA, Washington, sent a two-man survey team to Viet Nam for a period of about 5 weeks to review the organization and functions of **JUSPAO**. We were told that a preliminary report on the results of the survey had been submitted to the Director, **USIA**, on March 23, 1966, and that it was with **JUSPAO** as of May 9, 1966, for comment. We were informed earlier that the men on this review team were the only ones from **USIA** to have visited **JUSPAO** since its organization, other than consultants on a short-term, temporary duty basis, and that the team did not contemplate recommending changes in numbers of personnel assigned to **JUSPAO**,

The Director, **USIA**, informed us on June 13, 1966, that the two-man survey team's scope of authority and coverage were similar to those for a normal inspection and that he was personally reviewing the findings and recommendations. Concerning **USIA's** future audit plans, the Director stated that, while operating conditions were not appropriate for further inspection of **JUSPAO** at that time, an inspection and an audit would be scheduled as soon as conditions in Viet Nam would permit. (See app. VII.)

DEPARTMENT OF STATE

Internal auditing is centralized in the Department of State and is performed by an organizational subdivision designated as the audit program staff, reporting directly to the Deputy Under Secretary for Administration. The work of the staff is coordinated with the work of two other internal review groups--the Foreign Service Inspection Corps and the Operational Appraisal staff--by the Deputy Assistant Secretary for Budget and Compliance.

The audit program staff performed a special, limited review as of August 28, 1965, of financial management and related operations of the United States Embassy in Saigon. The review included an examination of:

Fund control procedures.

Cash control procedures and facilities.

Accommodation currency exchange procedures.

Cash counts of major imprest funds and examination into **con-** controls exercised over imprest funds by other agencies in out-lying areas of Viet Nam.

Payroll preparation and cash payment procedures.

Voucher examination and certification procedures.

Leave records and procedures.

Procurement, property, and supply operations.

We were informed by the Department of State on June 6, 1966, that internal audits by the audit program staff were currently planned for the Embassy operations in Saigon within the next 2 years and that a Foreign Service inspection was planned for early in fiscal year 1967 if political and military conditions would permit,

CONSTRUCTION ACTIVITIES

Construction projects in Viet Nam account for a very sizable portion of the United States funds being expended in support of United States objectives in that country. The major portion of this construction is being performed under contract and the following schedule summarizes the level of this contracting as of about the beginning of March 1966.

	Amount (<u>million</u>)
Cost-plus-award-fee contract with a joint venture for construction of air bases, port facilities, cantonments, and logistical and administrative facilities for United States and Vietnamese military forces; AID-provided medical facilities; a United States embassy; and other projects	\$503.6 ^a
Fixed-price contracts (83) for architect and engineering services, principally related to the above joint venture contract	6.4
Fixed-price, cost-plus-fixed-fee, and cost-plus-incentive-fee contracts (4) for construction of communications facilities	12.0
Fixed-price contracts (223) for minor construction projects for United States military facilities	<u>3.6</u>
Total	<u>\$525.6</u>

^aEstimated to amount to about \$900 million by November 1967.

In addition to the foregoing projects, there are at least five AID-financed, capital development projects being constructed under contracts totaling \$62.7 million. (See p. 34.)

Numerous minor construction projects are also being accomplished by engineer and construction units of United States Army and Navy commands in Viet Nam.

The atmosphere surrounding the billion dollar construction undertaking in Viet Nam and the conditions of urgency under which the work is proceeding, are at best conducive to a large element of waste, some of it unavoidable. Many of the management controls which are applied in a normal construction operation are precluded by the circumstances. In our opinion, this creates a greater than ordinary need for a searching management review and inspection function on a continuing basis. Further, we believe that this is necessary to offset in some degree the lack of cost consciousness which tends to thrive under such conditions of urgency. From our survey it appears that such counterbalance is essential to reduce avoidable waste without hindering the program.

AUDITS OF CONSTRUCTION CONTRACTS

Audits related to contracts for major construction in Viet Nam have been limited to voucher audits performed, for the most part, by the Defense Contract Audit Agency (DCAA) on one large cost-plus-award-fee, joint venture contract and subcontracts thereto. This contract, identified as NBy-44105, was awarded January 19, 1962, by the United States Navy Bureau of Yards and Docks (BuDocks)¹ to a joint venture which now consists of Raymond International of Delaware, Inc., Morrison-Knudsen Company of Asia, Inc., Brown and Root, Inc., and J. A. Jones Construction Company, all doing business as RMK-BRJ. As of February 28, 1966, obligations for this contract had reached about \$503.6 million and a BuDocks Resident Officer-in-Charge of Construction (ROICC) at San Bruno, California, estimated that by November 1967 costs would amount to about \$900 million. Projects to be constructed include air bases, port facilities, cantonments, and logistical and administrative facilities for United States military forces; United States-furnished military facilities for the Vietnamese Armed forces; AID-provided medical facilities for the Vietnamese; and a United States embassy.

Audit responsibility for the RMK-BRJ contract is presently being carried out by resident staffs of the DCAA in Saigon, Viet Nam, and San Bruno, California. On the basis of information provided by DCAA audit personnel in Saigon and San Bruno, the audits being conducted can be characterized, for the most part, as voucher-type audits, consisting of audits of the contractor's cost representations as shown on vouchers presented for payment. DCAA personnel stated that the voucher-type audits normally include examination of the

¹Redesignated Naval Facilities Engineering Command, effective May 1, 1966.

contractor's reimbursement vouchers and supporting documents, such as requisitions, purchase orders, and receiving documents. We were advised in March 1966 by the DCAA Resident Auditor-in-Charge in Saigon that his audit staff was reviewing overhead rates and payroll costs of RMK-BRJ. We found that, at the same time, the DCAA audit staff at San Bruno was planning to make surveys of RMK-BRJ's procedures relating to travel and relocation expense, home office expense, personnel and fringe benefits for employees in Viet Nam and at San Bruno, material receiving and control functions, and internal audit functions.

The audits in Viet Nam were being accomplished by a DCAA resident staff consisting of six United States Air Force officers and one United States Army enlisted clerk on a 1-year permanent-duty tour. The audits at the RMK-BRJ principal office in San Bruno, California, were being accomplished, as of April 1966, by two resident civilian auditors of the DCAA. Staff personnel of the DCAA East Bay, California, Branch advised us in April 1966 that they had requested their San Francisco Regional Office to provide five additional auditors to assist in the review of contract costs at the RMK-BRJ San Bruno office,

The Assistant Secretary of Defense (Comptroller) on June 17, 1966, advised us (see app. IX) as follows:

"Since the establishment of the Defense Contract Audit Agency (DCAA) Saigon suboffice with a staff of seven, considerable progress has been made in liquidating the audit backlog on cost-type contracts, and in developing comprehensive audit programs to replace the voucher-type audit ***. Contract audit workload has expanded so rapidly that DCAA now plans to increase the Saigon suboffice staff to a total of 11 people. With respect to audit work at the RMK-BRJ principal office at San Bruno, California, the San Francisco office of DCAA **has** reassigned

personnel. to meet the unanticipated workload generated by requirements in Southeast Asia, To meet increased workloads in Viet Nam and Thailand, DCAA **also** is planning to establish a Southeast Asia Branch Office to be located in Bangkok, Thailand. That office will supervise audit work in both locations and will, itself be under the constant surveillance of the San Francisco Regional Office. Staffs will be augmented further if work requirements dictate and other priority workloads permit."

The DCAA Resident Auditor-in-Charge in Saigon advised us that, prior to the establishment in January 1966 of a DCAA resident audit office in Saigon, audits of contract costs of major construction in Viet Nam were performed by one resident Navy area auditor between March or April 1962 and June 1964; by Navy area auditors on temporary-duty assignments from Tokyo between June 1964 and September 1965; and by DCAA auditors on temporary-duty assignments from October 1965 to January 1966.

Within Viet Nam, RMK-BRJ had claimed reimbursements of about \$89.4 million of costs incurred to March 1, 1966, and of these, the DCAA Resident Auditor-in-Charge estimated that about \$30 million of costs had been subjected to audit. We found that as of March 1, 1966, the auditors in Saigon had disallowed or suspended cost reimbursements of \$72,593.72; however, the DCAA Resident Auditor-in-Charge advised us that an additional \$59,525.34 of questioned costs had been submitted to the DCAA San Francisco Regional Office for final determination as to whether they should be suspended or disallowed.

In addition to the cost reimbursements claimed in Saigon, RMK-BRJ at its San Bruno office has claimed reimbursement for about \$173.9 million of costs incurred to April 5, 1966. About \$116.4 million of these claimed costs had been subjected to audit as of March 31, 1966, according to personnel of the DCAA East Bay,

California, Branch. We found that as of April 5, 1966, the auditors had disapproved \$14,543.85 of the claimed costs; and, according to DCAA East Bay Branch personnel, the auditors have informally suspended the approval of an additional \$180,695.51 of claimed costs until the contractor submits additional data to support the claimed costs.

The Comptroller of the Officer-in-Charge of Construction (OICC) in Viet Nam advised us in March 1966 that there were 83 fixed-price contracts amounting to about \$6.4 million for architect and engineering services in Viet Nam, most of which relate directly to construction work being performed by RMK-BRJ.

United States Army Strategic Communications Command (STRATCOM) officials in Saigon advised us that there were four contracts for construction of communications facilities in Viet Nam totaling about \$12 million, consisting of two firm-fixed-price contracts, one cost-plus-fixed-fee contract, and one cost-plus-incentive-fee contract.

We were advised that there were 223 fixed-price contracts for minor construction of Army and Navy projects in Viet Nam totaling \$3.6 million. These contracts concerned construction of military facilities in Viet Nam. Forty-four of them, amounting to about \$848,000, were awarded by the 1st Logistical Command, United States Army, Viet Nam (USARV), after June 1, 1965, and 179, amounting to about \$2.76 million, were awarded by the Navy Headquarters Support Activity, Saigon (HSAS),¹ for work starting on or after February 19, 1965.

¹ Redesignated United States Naval Forces, Viet Nam (NAVFORV), effective April 1, 1966.

Except under unusual circumstances, contractor records under fixed-price contracts are not subject to audit. However, the Assistant Secretary of Defense (Comptroller), on June 17, 1966 (see app. IX), advised us that DCAA provides advisory assistance in connection with such contracts upon the request of contracting officers and that, in this connection, on numerous occasions reviews of proposed hourly and/or per diem rates for use in negotiating fixed-price architect and engineering contracts had been made by DCAA auditors for the various OICC's in the Southeast Asia Area. The Assistant Secretary of Defense (Comptroller) further advised us that, to ensure that contract audit responsibilities are being met, DCAA will explore the entire contract situation to determine whether any recognized audit responsibilities do exist with respect to the fixed-price contracts, as well as with respect to the four contracts for construction of communications facilities in Viet Nam totaling about \$12 million. (See p. 60.)

AUDITS OF CONSTRUCTION PERFORMED BY MILITARY UNITS

We were advised by responsible United States Army and Navy officials that costs of minor construction projects performed in Viet Nam by the 18th Army Engineer Brigade and the 30th Naval Construction Regiment had not been audited by cognizant audit agencies of their respective services.

MILITARY ACTIVITIES

OTHER THAN CONSTRUCTION

In our survey to determine the extent of audit activities being carried out by agencies responsible for operations in Viet Nam, we included the following military audit activities in addition to audits of construction previously discussed on pages 55 to 61.

1. Audits of contracts other than construction.
2. Audits relating to military assistance provided to the Vietnamese armed forces.
3. United States Army Audit Agency audits related to the military effort within Viet Nam, including areas such as **supply**, procurement, materiel maintenance, troop training, and personnel utilization.
4. United States Air Force Auditor General audits related to Air Force operations in Viet Nam.
5. United States Naval Audit Service audits related to Navy operations in Viet Nam.
6. Internal audits conducted by:
 - a. Headquarters, Military Assistance Command, Viet Nam (MACV)
 - b. Headquarters, Support Activity, Saigon¹
 - c. Headquarters, United States Army, Viet Nam
 - d. Headquarters, United States 2d Air Division²
7. Audits of the Viet Nam Regional Exchange, Army and Air Force Post Exchange Service.

¹Redesignated United States Naval Forces, Viet Nam (NAVFORV), effective April 1, 1966.

²Redesignated United States 7th Air Force, effective April 1, 1966.

The Assistant Secretary of Defense (Comptroller) on June 27, 1966 (see appendix IX), advised us that, in addition to the contract and internal audits, as well as local internal reviews, discussed in this report, the operations in Viet Nam and special problems related thereto had been the subject of intensive management surveillance, inspections, and special reviews by all levels of management, including the Office of the Secretary of Defense. He advised us also that it was acknowledged that the frequency and depth of internal audits in Viet Nam had been less than that normally provided stateside and overseas operations under peacetime conditions but that the general practice was to curtail normal audit activities in combat areas due to the hazards involved and to minimize the disruption of forces engaged in conducting or supporting combat operations.

AUDITS OF CONTRACTS OTHER THAN CONSTRUCTION

The Defense Contract Audit Agency (DCAA) Resident Auditor-in-Charge in Saigon advised us in March 1966 that the United States Army, Ryukyu Islands, had awarded three cost-plus-fixed-fee contracts, totaling about \$20.4 million, to Pacific Architects and Engineers for repairs and maintenance of Army facilities in Viet Nam, such as cantonments, camps, and small buildings, as well as a limited amount of minor construction. The DCAA Resident Auditor-in-Charge advised us that one of the contracts, under which the contractor claimed reimbursements of about \$395,000, had been audited by a Department of the Navy auditor prior to October 1965, with about \$49,000 of the cost having been questioned, and that a DCAA audit was about 50 percent completed on another contract amounting to about \$3 million. He also said that no audit work had been performed on the third contract amounting to about \$17 million. We found documentary evidence that about \$4,000 in costs had been disapproved by the DCAA.

The DCAA Resident Auditor-in-Charge in Saigon advised us in March 1966 that, of five contracts that the United States Air Force has with Air Viet Nam, the DCAA resident audit staff had audited three having a total value of about \$58,960 and that the audits resulted in no disallowances.

Other construction and maintenance contracts had been awarded by the Public Works Department of Headquarters Support Activity, Saigon (HSAS)--a Navy activity--and by the Purchasing and Contracting Branch, 1st Logistical Command, United States Army, Viet Nam (USARV) .

We were furnished a list of contracts by the Assistant Public Works Officer of the Public Works Department, HSAS, which showed that there were 33 active fixed-price maintenance and repair contracts, valued at about \$149,300, as of February 20, 1966.

As of March 10, 1966, we were furnished a listing of 102 fixed-price contracts awarded by the Purchasing and Contracting Branch, 1st Logistical Command, USARV, for supplies, facilities maintenance and repairs, and miscellaneous services totaling about \$5.8 million and having completion dates after February 28, 1966.

The Assistant Secretary of Defense (Comptroller) advised us on June 17, 1966 (see app. IX), that, with respect to internal audit of contracts, the normal practice was to review periodically the contracting practices, procedures, and operations of procurement offices but that such audits had been limited in Viet Nam due to the combat conditions there,

AUDIT AND INSPECTION OF
MILITARY ASSISTANCE PROGRAM
ACTIVITIES IN VIET NAM

The most recent internal audit of the Military Assistance Program (MAP) activities in Viet Nam was concluded on November 29, 1960, by the Navy Area Audit Office, San Francisco, California, which had been assigned audit cognizance. The audit consisted of a review, analysis, and evaluation of the accounting and financial operations and of the related policies and procedures of the Military Assistance Advisory Group (MAAG), Viet Nam, the predecessor to MACV. Test-checks were made of accounting and financial records, internal controls, and operations. The specific functional areas covered were development and implementation of the MAP for Viet Nam, MAP end-item utilization, MAP training, and MAAG administration and disbursement.

The Army Audit Agency has now been assigned audit responsibility by the Department of Defense (DOD) for MAP activities in southeast Asia, which include's Viet Nam. However, insofar as we can determine, the program has had no audit of any consequence at least since November 1960.

The activities of the Inspector General of Foreign Assistance, who has a statutory responsibility for reviewing the effectiveness of military assistance programs, are discussed in a preceding section of this report. (See p. 44.) We understand that most of his efforts have been applied to economic assistance matters.

Accordingly, there has been very little audit or inspection of military assistance activities by the two responsible agencies in Viet Nam.

UNITED STATES ARMY AUDIT AGENCY AUDITS .
RELATING TO VIET NAM OPERATIONS

The Acting Comptroller of the Army advised the Assistant Secretary of the Army (Financial Management) on February 24, 1966, that, in order not to harass or hinder the troops in prosecuting the war in southeast Asia, the Comptroller of the Army instructed the United States Army Audit Agency (USAAA) in fiscal year 1965 to discontinue audit activity in Viet Nam except as specifically directed by him. Accordingly, at that date, the USAAA was not engaged in audit activity of any kind within Viet Nam. However, on April 22, 1966, the Acting Comptroller of the Army provided us information and data showing that the USAAA, since August 1963, had completed 61 audits and had initiated 25 audits directly or indirectly relating to support rendered to the United States military effort in Viet Nam.

The audits included such areas as supply management; procurement and production; maintenance management; personnel management; military assistance program support; and units' sufficiency of supply, training attainment, maintenance adequacy, and personnel sufficiency and utilization. The 86 audits initiated or completed were performed at various Army installations within the United States, as well as in such Pacific area locations as the Ryukyu Islands and Japan. In addition, the USAAA tentatively scheduled audits to start in the remainder of fiscal year 1966 at 38 locations within the United States, with many of these relating to reviews of unit readiness, particularly Strategic Army Forces, and logistical support activities pertaining to southeast Asia.

UNITED STATES AIR FORCE AUDITOR GENERAL AUDITS
RELATING TO VIET NAM OPERATIONS

Air Force internal audit responsibility for the southeast Asia area, including Viet Nam, is vested in the Western Division

of the Air Force Auditor General (AFAUD) located at Norton Air Force Base, San Bernardino, California. Internal audits conducted in Viet Nam are performed by personnel on temporary duty from Clark Air Force Base located in the Philippines.

On March 8, 1966, the Air Force Associate Auditor General in the Pentagon advised us of the following recent, and planned, internal audit activities for Viet Nam, utilizing temporary duty staffs.

1. On or about February 6, 1966, for 15 days:

Two officers to Da Nang
Two officers to Tan Son Nhut Air Base, Saigon

2. On February 20, 1966, for 15 days:

One officer to Nha Trang

3. On March 16, 1966, for 30 days:

Four officers to Headquarters, 2d Air Division (now 7th Air Force), Saigon, and other southeast Asia areas

Primarily, all auditing concerned the areas of accounting and finance, procurement, and some nonappropriated funds, plus a special survey of congressional interest. However, part of the audit effort was to be in support of the conversion of supply records to a UNIVAC 1050-11 Computer system which is intended to make available more effective supply data, to facilitate the monitoring of logistics requirements and to permit evaluation of the overall supply system.

On April 15, 1966, the Chief, Western Audit Division, AFAUD, reported that there had been an almost continuous review of logistical operations in southeast Asia (which includes Viet Nam) by inspection teams of the Air Force Inspector General, major Air Force

commands, and Headquarters, United States Air Force. In addition; special offices had been established by the Department of Defense to monitor logistical support. It was further reported that the Western Audit Division, AFAUD, had recently requested authority to send a team of eight auditors to the southeast Asia theater of operations on or about April 27, 1966. The responsibilities of this team include, but are not limited to:

1. Providing recommendations for currently recognized logistical management problems within southeast Asia for which improvements are needed.
2. Determining actions necessary to streamline the accountability system, giving consideration to support responsiveness, paperwork reduction, and the extent to which controls can be economically relaxed.
3. Improving the methods, within the Zone of the Interior, of determining requirements for and providing logistical support to southeast Asia.
4. Definitizing plans for future directed audit coverage within southeast Asia and supporting Zone of the Interior installations.

The Chief, Western Audit Division, AFAUD, further reported on April 15, 1966, that the following actions were in process to give more audit coverage to the southeast Asia theater of operations.

1. Headquarters, Pacific Air Force, had been requested to give Air Force auditors blanket clearance to enter southeast Asia without advance notification or without stating the purpose of an audit in order to improve the effectiveness of an audit and to provide for surprise cash counts where needed.
2. Manpower authorizations had been requested to establish a field audit office in Viet Nam in the first quarter of fiscal year 1967 in order to provide the amount and type of audit coverage deemed necessary.

The Office of the Comptroller, Department of the Air Force, on May 19, 1966, provided us information showing that Headquarters, Pacific Air Force, had included spaces in its program document dated April 4, 1966, to establish the field office in Viet Nam. This program document must be approved by the Commander in Chief, Pacific, and then by the Joint Chiefs of Staff. In the meantime, the Air Force Auditor General had taken steps to obtain the additional audit personnel required to establish a field office in Viet Nam in the first quarter of fiscal year 1967.

UNITED STATES NAVAL AUDIT SERVICE AUDITS
RELATING TO VIET NAY OPERATIONS

The United States Naval Audit Service has not conducted audit work relating to Viet Nam activities since about April 1965, prior to which time it performed a limited amount of contract audit work in the area of major construction work being accomplished under the jurisdiction of the Navy Bureau of Yards and Docks (BuDocks).¹

This area of audit work is now being performed by DCAA. (See p. 57.) The Assistant Secretary of Defense (Comptroller), on June 17, 1966 (see app. IX), advised us that:

"In April 1965, the Navy Area Audit Office, San Francisco, (now Naval Area Audit Services, San Francisco), completed an audit of the Office in Charge of Construction (OICC), Bureau of Yards and Docks Contracts, Southeast Asia, Bangkok, Thailand. A large part of the construction work for which OICC was then responsible was in the Republic of Viet Nam and his deputy in Saigon administered these contracts. Because auditors were not given ares clearance to visit the Republic of Viet Nam at that time, audit of OICC construction activities in Viet Nam was limited to a review of 'recordsavailable in Bangkok. The audit covered areas of financial management, procurement and

¹Redesignated Naval Facilities Engineering Command, effective May 1, 1966.

contract administration, personnel management and payrolls, and management of maintenance and repair. One significant finding dealt with accrued costs of projects being constructed under the large RMK-BRJ joint venture construction in Viet Nam *** which at that time were not being distributed and recorded in accordance with regulations, The OICC advised that corrective action would be taken."

Aside from the limited amount of contract audit work, the most recent audit report issued on Viet Nam activities by the Auditor General of the Navy was dated September 11, 1964. This report resulted from the audit of the Headquarters Support Activity, Saigon (HSAS), and reported as follows:

- Leasing of family housing
- Military mess arrangements and cost of living allowances
- Utilization of transient billeting facilities
- Controls over the issuance of certificates of nonavailability of Government quarters
- Issuance of certificates of nonsvailability of Government quarters for deployable units
- Per diem payments to civilian employees on duty for extensive periods of time

Staff members of the Naval Audit Service advised us on April 18, 1966, that plans had been made, as a result of a request by the Chief of Naval Operations, to make a special review, commencing about May 1, 1966, of the utilization and control of certain Department of the Navy funds being spent in Viet Nam. The Assistant Secretary of Defense (Comptroller), on June 17, 1966 (see app. IX), advised us that this special review was currently being conducted, He further advised us as follows:

"Also, an audit is scheduled to commence in the first quarter, Fiscal Year 1967, of the Pacific Division, Naval Facilities Engineering Command, Pearl Harbor. Although auditors are not planning, as part of the audit, to enter Viet Nam, the Officer in Charge of Construction in Viet Nam is under the direction and supervision of the Pacific

Division, and audit findings undoubtedly will apply to and have an effect on Navy construction activities in Viet Nam.

"As a consequence of certain realignments of functions and responsibilities, the Naval Audit Service plans to explore more fully the missions, responsibilities and functions of the various Naval activities located and operating in Viet Nam with a view toward determining precise responsibilities and audit potential thereof."

INTERNAL AUDITS BY MILITARY COMMANDS IN VIET NAM

Headquarters, Military Assistance Command, Viet Nam

The Military Assistance Command, Viet Nam (MACV), within its Comptroller's Office, has a five-man internal audit staff consisting of one Army Captain, a Sergeant (E-71, and three Vietnamese nationals. This audit staff performs internal audits of about 68 active, nonappropriated fund officers' and enlisted men's clubs and messes of MACV advisory groups located throughout South Viet Nam on at least an annual basis and has managed to audit most of them semiannually. Some of the smaller units send their records to MACV Headquarters for desk audit. The membership of these clubs and messes ranges from 2 to 700 persons; recent monthly sales of the larger funds were as high as \$36,500 to \$44,200, and the net worths of the larger funds were as high as about \$22,000 to \$53,000. We made a test-check of audit reports prepared, and these showed audit coverage of such matters as cash balances, check-cashing procedures, currency conversion practices, and practices relating to long past due accounts receivable.

A Sergeant from the MACV Comptroller's Office is assigned full time to the office of the counterpart fund custodian in the Viet Nam Ministry of National Defense to perform a review of voucher support and mathematical computations of voucher disbursements of counterpart funds originating from the USAID commercial import program (CIP). Disbursement vouchers for these funds are preaudited by the counterpart fund custodian, and, after review by the MACV Sergeant, checks are drawn for countersigning by an individual assigned to the MACV Comptroller's Office. Expenditures are made for the pay of indigenous labor employed by United States military activities in Viet Nam; leasing and maintenance of quarters for military personnel; housekeeping and administrative supplies; and local

contracts for maintenance, repairs, and minor construction. For fiscal year 1966, 2.5 billion piasters (\$34,357,177) had been made available in counterpart funds for use by United States military activities in Viet Nam.

Headquarters, Support Activity, Saigon¹

Headquarters, Support Activity, Saigon, in March 1966, had one United States civilian employee (GS-11) who performed (1) payroll audits, including reconciliations of timesheet data and verifications of payroll computations; (2) verifications of appropriated fund obligation document data to ledger controls; and (3) audits of one central nonappropriated fund for officers' and enlisted men's clubs and messes, with subfunds for the Saigon Commissioned Officers' Mess (Open) (SCOMO) and the Saigon Enlisted Mess (Open) (SEMO). The offices of the two subfunds controlled five subordinate officers' messes and nine subordinate enlisted men's messes in the Saigon area which had a January 1966 combined sales volume of about \$618,000. All transactions were channeled daily through the central fund, the Saigon Mess Accounting Office (SMAO) which was responsible for all purchasing for the subordinate mess funds. Physical inventories and cash reconciliations were being made monthly at each mess' location, and the SMAO, SCOMO, and SEMO accounts were being audited quarterly. All of these nonappropriated fund clubs and messes were scheduled to be transferred to Headquarters, United States Army, Viet Nam (USARV), by June 30, 1966.

headquarters, United States Army, Viet Nam

Headquarters, United States Army, Viet Nam (USARV), within its Office of the Comptroller, in March 1966, had a nine-man internal audit staff consisting of two officers and seven enlisted men.

¹Redesignated United States Naval Forces, Viet Nam (NAVFORV), effective April 1, 1966.

This audit staff performed internal audits of about 73 active, non-appropriated fund officers' and enlisted men's clubs and messes, established by United States Army units located in South Viet Nam, with audits being scheduled on a semiannual basis. Most of the clubs and messes fall within the following ranges: memberships of from 40 to 400; net worths of from \$10,000 to \$35,000; and monthly sales of from \$1,000 to \$5,000. By June 30, 1966, the USARV internal audit staff would assume responsibility for the audit of about 68 MACV advisory group club and mess funds previously audited by the MACV internal audit staff (see p. 73) and the central and 14 subordinate club and mess funds previously audited by the HSAS internal auditor. The Comptroller, USARV, is seeking authorization to increase the USARV internal audit staff to 3 officers and 13 enlisted men, and the MACV Comptroller plans to transfer 3 Vietnamese nationals from his staff to USARV, in order to permit absorption by USARV of the added internal audit responsibility by USARV.

Headquarters, 2d Air Division¹

The 2d Air Division was being provided internal audit services within South Viet Nam by the United States AFAUD from a resident staff located at Clark Air Force Base, Philippines. Reviews had been made at the request of Air Force commanders in South Viet Nam. For fiscal year 1966, it had been estimated that AFAUD would expend from 3,500 to 9,100 man-hours in South Viet Nam, including locations at Tan Son Nhut, Nha Trang, Bien Hoa, and Cam Ranh Bay. Audits had been performed in areas of such activities as officers' and noncommissioned officers' nonappropriated fund open messes, central accounting office, accounting and finance offices, purchasing agent petty cash funds, billeting funds, clothing sales store, and food

¹Redesignated United States 7th Air Force, effective April 1, 1966.

service. The Commander, 6250th Combat Support Group of the 2d Air
.Division, about February 1, 1966, requested that a resident audit
office, to be staffed by two or three officers, be established in
South Viet Nam in the near future in order to provide expanded, in-
.ternal audit coverage. (See related discussion on p. 70.)

AUDITS OF THE VIET NAM REGIONAL EXCHANGE, ARMY
AND AIR FORCE POST EXCHANGE SERVICE

The Viet Nam Regional Exchange (Post Exchange), a nonappropriated fund activity Located in Saigon, at March 22, 1966, had three internal auditors on duty. These three auditors, augmented by a fourth from the Pacific Exchange Headquarters in Honolulu (of which the Viet Nam Regional Exchange is a subordinate activity), were present during and after the transitional period when the Exchange operations for Viet Nam were transferred from HSAS (a United States Naval activity) on December 26, 1965. One of the three returned to his duty station in New York City on March 27, 1966. The two remaining auditors, who will remain in Viet Nam for 180 days, are spending a considerable amount of time at the sites of unit exchanges of United States military activities located throughout Viet Nam. They will be making monthly inventory counts and checking imprest funds at unit exchanges operated at Division, Brigade, Special Troop, and Battalion levels.

These internal auditors are assigned to Viet Nam from the Pacific Exchange Headquarters which makes them available as needed or to replace internal auditors whose temporary duty period expires. In addition, there are plans to assign two or three Philippine nationals, who are qualified internal auditors, to augment the internal auditors assigned to the Viet Nam Regional Exchange from the Pacific Exchange Headquarters. The Pacific Exchange Headquarters planned to conduct an audit in June or July 1966 of the operations of the Viet Nam Regional Exchange.

A physical inventory of stocks of the Viet Nam Regional Exchange had been taken on December 26, 1965, and we were informed by the Commander of the Exchange that another physical inventory had been scheduled for about April 26, 1966. The Assistant Secretary

of Defense (Comptroller), on June 17, 1966, (see app. IX) , advised us that the Department of the Navy reported that information available indicated that inventory losses of Exchange-type merchandise from damage, pilferage, and theft (including losses in transit to Viet Nam) for the period July 1, 1962, to April 30, 1966, amounted to less than 2.5 percent of sales.

The Audit and Inspection Office of Headquarters, Army-Air Force Exchange Service, New York City, makes audits and inspections of Regional Exchange accounts on an annual, and sometimes semi-annual, basis. In addition, a firm of certified public accountants, engaged annually by the New York Headquarters, annually audits a selected overseas area. However, the Commander of the Viet Nam Regional Exchange knew of no plans for his operations to be audited by a firm of certified public accountants; neither did he know when the Audit and Inspection Office, New York City, would schedule its first audit of the Viet Nam Regional Exchange.

As an internal control, the Viet Nam Regional Exchange had established a Ration Control Board which places a limit on the number of certain items an individual is allowed to purchase when such items might be susceptible to a high re-sale value on the local economy. During our survey, we noted that ration limits had been established for such items as radios, tape recorders, watches, television sets, cigarettes, and liquors. The Commander of the Viet Nam Regional Exchange informed us that thefts and pilferages experienced were most likely occurring while Exchange merchandise was in transit. Such losses, in the Commander's opinion, had probably occurred at any point between the Oakland, California, loading pier to the Saigon docks and from the docks to the Saigon warehouse and through the transportation from the warehouse to the sales stores. The Commander of the Viet Nam Regional Exchange also

advised us that guards had been placed on trucks and that unitized packs were being used in order to reduce the incidence of in-transit losses. He stated that the unitized packs inhibit pilferage to some extent by making contents unknown to persons engaged in pilfering; however, the contents could become known if the unitized packs were dropped and broken open during loading and unloading operations.

APPENDIXES

PRINCIPAL OFFICIALS RESPONSIBLE FOR
THE ADMINISTRATION OR AUDIT AND INSPECTION OF THE ACTIVITIES
DISCUSSED IN THIS REPORT

DEPARTMENT OF STATE

Secretary of State, Dean Rusk
Under Secretary of State, George W. Ball
Deputy Under Secretary of State for Administration, William J. Crockett
Inspector General of Foreign Assistance, J. K. Mansfield
Director, Audit Program Division, John J. Dugan
Inspector General, Foreign Service Inspection Corps, Fraser Wilkins
United States Ambassador to the Republic of Viet Nam, Henry Cabot Lodge
United States Deputy Ambassador to the Republic of Viet Nam, William J. Porter

AGENCY FOR INTERNATIONAL DEVELOPMENT

Administrator, David E. Bell
Deputy Administrator, William S. Gaud
Assistant Administrator for Administration, William O. Hall
Controller, Charles F. Flinner
Chief, Management Inspection Staff, Thomas A. Kennedy
Director, Mission to the Republic of Viet Nam, Charles A. Mann
Assistant Director for Financial Management, Mission to the Republic of Viet Nam, David R. Curtin

UNITED STATES INFORMATION AGENCY

Director, Leonard H. Marks
Director, Joint United States Public Affairs Office, Viet Nam, Barry Zorthian
Inspector General, Edgar D. Brooke

PRINCIPAL OFFICIALS RESPONSIBLE FOR

THE ADMINISTRATION OR AUDIT AND INSPECTION OF THE ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

DEPARTMENT OF AGRICULTURE

Secretary of Agriculture, Orville L. Freeman
Administrator, Foreign Agricultural Service, Raymond A. Ioanes
Inspector General, Lester P. Condon

DEPARTMENT OF DEFENSE

Secretary of Defense, Robert S. McNamara
Assistant Secretary of Defense (International Security Affairs),
John T. McNaughton
Director of Military Assistance, Office of the Secretary of De-
fense, Vice Admiral Luther C. Heinz
Deputy Director of Military Assistance, Office of the Secretary of
Defense, William M. Leffingwell
Assistant Secretary of Defense (Comptroller), Robert N. Anthony
Director, Defense Contract Audit Agency, William B. Petty

Army :

Secretary of the Army, Stanley R. Resor
Comptroller of the Army, Lieutenant General Robert Hackett
Chief, United States Army Audit Agency, Major General P. F.
Lindeman

Navy :

Secretary of the Navy, Paul H. Nitze
Comptroller of the Navy, Charles F. Baird
Director, United States Naval Audit Service, Captain Eugene K.
Auerbach
Commander, Naval Facilities Engineering Command, Rear Admi-
ral A. C. Husband

PRINCIPAL OFFICIALS RESPONSIBLE FOR
THE ADMINISTRATION OR AUDIT AND INSPECTION OF THE ACTIVITIES
DISCUSSED IN THIS REPORT (continued)

DEPARTMENT OF DEFENSE (continued)

Air Force:

Secretary of the Air Force, Dr. Harold Brown
Comptroller of the Air Force, Lieutenant General J. G. Merrell
United States Air Force Auditor General, Major General Don
Coupland

CINCPAC:

Commander in Chief, Pacific, Admiral U.S.G. Sharp
Commander, Pacific Division, Naval Facilities Engineering Com-
mand, Rear Admiral William M. Heaman

Viet Nam commands:

Commander, Military Assistance Command, Viet Nam, Gen-
eral William C. Westmoreland
Deputy Commanding General, United States Army, Viet Nam, Lieu-
tenant General Jean E. Engler
Commanding General, United States 7th Air Force, Viet Nam,
Lieutenant General Joseph H. Moore
Commander, United States Naval Forces, Viet Nam, Rear Admi-
ral Norvell G. Ward
Comptroller, Military Assistance Command, Viet Nam, Colo-
nel James B. Burkholder
Comptroller, United States Army, Viet Nam, Colonel Holton E.
Blomgren
Fiscal Officer, United States Naval Forces, Viet Nam, Com-
mander R. C. Tveita
Comptroller, United States Seventh Air Force, Viet Nam, Colo-
nel J. R. Douglass
Officer in Charge of Construction, Viet Nam, Rear Admiral R. R.
Wooding

OVERALL RELATIONSHIP OF INTERNAL AUDIT,

INSPECTION, AND MANAGEMENT REVIEW UNITS TO MAJOR FUNCTIONAL AREAS

Internal audit, inspection, and management review activities in regard to both the economic assistance and other nonmilitary activities, and the military activities in Viet Nam, are exercised (1) primarily by formally organized internal audit units, (2) by inspection/investigative units specializing in irregularity situations, and (3) by supplementary management review and evaluation either on an ad hoc basis or by organized units. These units and their functions are listed below and, with certain exceptions, exist in the field and at Washington levels for both nonmilitary and military activities, as follows:

I., Economic assistance programsAudits

AID Mission Internal Audit Unit
AID/Washington Internal Audit Staff

Inspections/Investigations

AID Mission Management Inspection Staff

AID/Washington Management Inspection Staff

AID Mission Special Projects Unit
Bureau of Customs Port Operation

Inspector General of Foreign Assistance (State Department)

Office of the Inspector General, Department of Agriculture

Management reviews

AID/Washington Operations Evaluation Staff
AID/Washington Management Review (ad hoc)

II. Other civilian agency activities

Audit Program staff (State Department)
Foreign Service Inspection Corps (State Department)
Inspector General of USIA

III. Construction activities

Defense Contract Audit Agency (contracts)
Other than contracts—see military activities, below

IV. Military activities other than construction

Audits

MACV

Internal Audit Staff, Office of MACV Comptroller

Internal Audit Staff, **Hq.**, United States Army,
Viet Nam (USARV)

Internal Audit Staff, United States Naval Forces,
Viet Nam¹

Army

Army Audit Agency, Washington, D.C. (including
Military Assistance Program audits)

Air Force

Air Force Auditor General, Norton Air Force Base,
California, and Clark Air Force Base, Philippine
Islands

Navy

Naval Audit Service, Washington, D.C.

¹Formerly Headquarters, Support Activity, Saigon (HSAS).

Defense Contract Audit Agency, Washington, D.C., Saigon Suboffice, and San Francisco Regional Office

Army and Air Force Post Exchange Service, Audit and Inspection Office, New York, N.Y.

Viet Nam Regional Exchange, internal audit staff, Saigon

Pacific Exchange Headquarters audit staff, Honolulu, Hawaii

Inspections/Investigations

Inspectors General of the Army, Navy, and Air Force

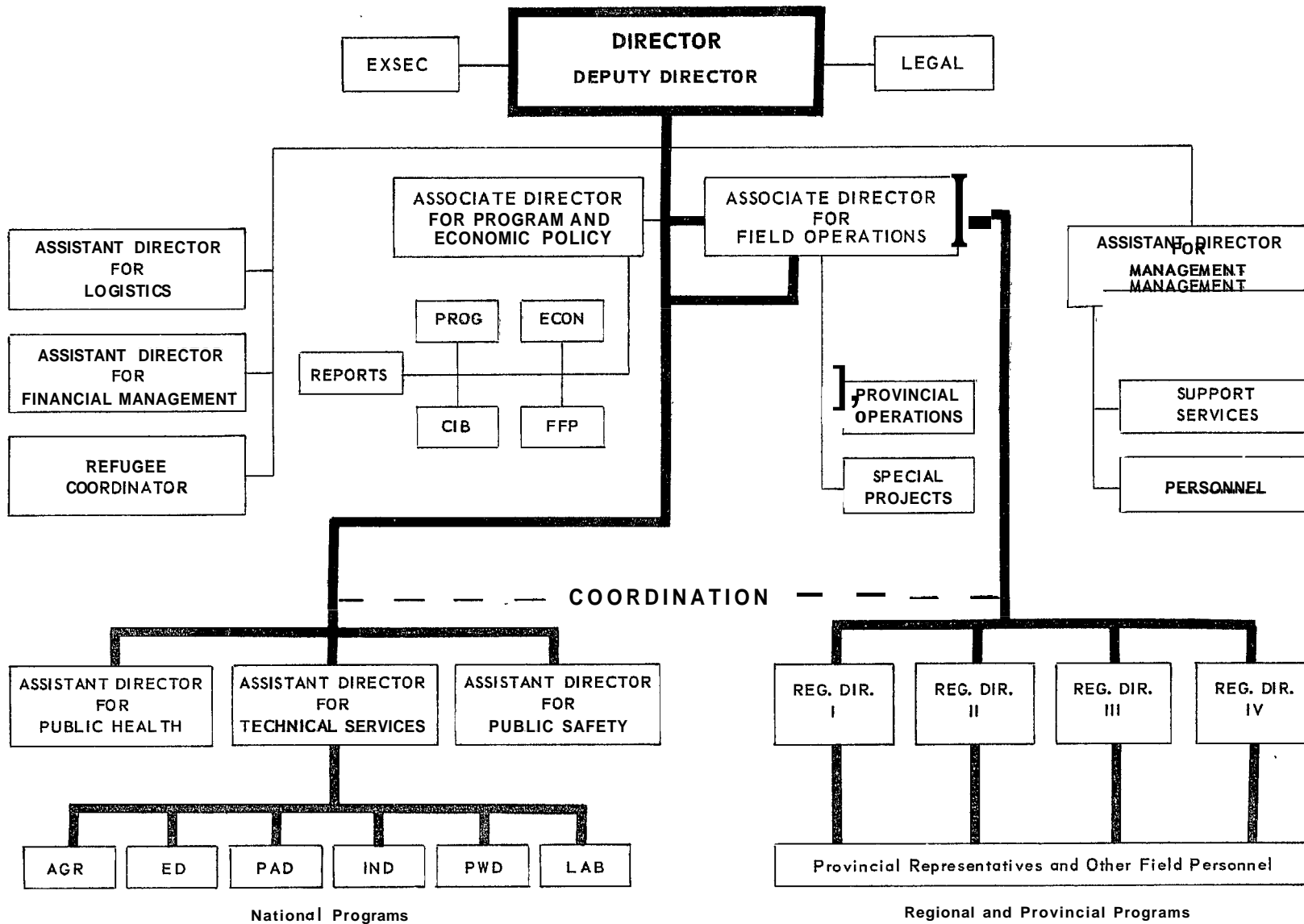
AID MISSION ORGANIZATION

The AID Mission in Viet Nam, under a recent reorganization, has the following structure;

1. A Saigon organization which develops and implements programs and economic policy in the areas of public health, public safety, and technical services in agriculture, education, public administration, industry, public works, and labor.
2. Appurtenant staff level advisory-type services, such as legal, management, financial management (including internal audit), and management inspections. Local audits and inspections are supplemented by AID/Washington audits and by inspections by the State Department Inspector General of Foreign Assistance .
3. Field operations, directed from Saigon, with regional directors in the four geographical areas into which Viet Nam is divided and AID provincial representatives and field personnel reporting to each region.

A current chart of the Mission organization is presented on the following page.

ORGANIZATION CHART USAID VIETNAM AS OF JANUARY 28, 1966



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MILITARY OPERATING COMMAND AND AUDIT ACTIVITIES

FUNCTIONAL STATEMENTS

1. MILITARY ASSISTANCE COMMAND, VIET NAM #

The Military Assistance Command, Viet Nam (MACV), is a subordinate unified command of the Commander in Chief, Pacific (CINCPAC). It has the mission of assisting the Republic of Viet Nam Armed Forces to maintain internal security against subversion and insurgency and to resist external aggression. The major component commands of MACV consist of the United States Army, Viet Nam; the United States 7th Air Force (formerly the 2d Air Division); the United States Naval Forces, Viet Nam (formerly Headquarters, Support Activity, Saigon); and the III Marine Amphibious Force. These component commands, although under the operational control of MACV, have direct access, for mi-service matters, to the Component commands of CINCPAC, i.e., United States Army, Pacific (USARPAC); United States Air Force, Pacific (PACAF); and the United States Navy, Pacific (NAVPAC). MACV and its component commands also contain organizational and staff elements for providing advisory services to the Viet Nam Armed Forces.

The act of March 25, 1966, Public Law 89-374, authorized a limited merger of military assistance financing for South Viet Nam with the funding of military functions and military construction functions of the Department of Defense. Under section 102(a) of the act, appropriations available to the Department of Defense during the fiscal year 1966 shall be available for their stated purposes (i.e., personnel, operations and maintenance, and procurement-type expenditures will be made only from their respective appropriations) to support Vietnamese and other Free World Forces in Viet Nam and for related costs. Unexpended balances of

funds previously allocated or transferred to the Secretary of Defense for military assistance to support Vietnamese and other Free World Forces in Viet Nam were transferred to any appropriation available to the Department of Defense for military functions (including construction) and merged with and made available for the same purposes and for the same time period as the appropriation to which transferred.

2, OFFICER IN CHARGE OF CONSTRUCTION
NAVY BUREAU OF YARDS AND DOCKS¹

The Bureau of Yards and **Docks** (BuDocks) is represented in the Pacific area by the Director, Pacific Division, Bureau of Yards and Docks (DIRPACDOCKS),² located in Honolulu, which reports and is responsible to BuDocks, Washington, D.C.

DIRPACDOCKS, because of its large area of responsibility, has established six subdivisions in the Pacific to carry out its construction activities. These subdivisions, referred to as Officers in Charge of Construction (OICC's), which are responsible and report to DIRPACDOCKS are listed below, along with their staffing as of December 31, 1965.

Middle Pacific (Pearl Harbor)	202
Mariana Islands (Guam)	73
Southwest Pacific (Manila)	166
Viet Nam (Saigon)	242 ^a
Thailand and Laos (Bangkok)	294
Australia (Perth)	87

^aIncludes about 100 local nationals paid with Assistance-in-Kind funds.

¹Redesignated Naval Facilities Engineering Command, effective May 1, 1966.

²Redesignated Pacific Division, Naval Facilities Engineering Command, effective June 16, 1966.

DIRPACDOCKS is responsible **for** the maintenance of Navy facilities in the Pacific, This maintenance work is carried out by Public Works Center (PWC) located **in** many of these locations and in Japan.

The responsibility of DIRPACDOCKS in the construction field is to ensure that all required installations and facilities are constructed in accordance with **approved** design criteria and within authorized fund allotments. DIRPACDOCKS obtains the design criteria and budgets the construction **funds**. It also performs initial site planning and acquires necessary real estate. The design criteria, general planning, and budgeting requirements are given to the OICC in the area where the construction is to be done, The OICC must then prepare the necessary detailed plans and specifications (accomplished by contract with an architect engineer) and contract for the actual construction. Negotiated contracts or contracts exceeding certain amounts must be reviewed and approved by DIRPACDOCKS and BuDocks. DIRPACDOCKS maintains central accounting for the construction projects based on feeder reports submitted from the OICC's. DIRPACDOCKS also has various technical personnel who assist the OICC's with engineering and design problems, providing a pool of specialized engineering talent that is impractical to maintain at each OICC. If additional funds are required to complete required construction, OICC's must request them from DIRPACDOCKS.

An OICC is assigned responsibility for military construction contracts in a designated geographical area, Air Force and Army requirements and funds for Pacific geographical areas are funneled into DIRPACDOCKS for accomplishment by the responsible OICC. The OICC works directly with the other military **services** in design

approval and problem areas, except, again, in the area of funding where DIRPACDOCKS handled the problem.

An OICC is a complete and autonomous office. The officer-in-charge is the contracting officer, and he administers a contract to completion. He has an administrative services staff and assistants in charge of facilities engineering and construction. Each of these assistants is in charge of various divisions which administer the various design and construction activities. The OICC approves and pays contractor vouchers for work performed. **As** a rule, the contractors maintain their offices and records at the site.

3. DEFENSE CONTRACT AUDIT AGENCY

The Defense Contract Audit Agency (DCAA) was established by Department of Defense (DOD) Directive 5105.36, dated June 9, 1965, as a separate and independent DOD agency under the authority, direction, and control of the Secretary of Defense to consolidate the contract audit activities previously performed by the three military department audit agencies. DCAA performs all necessary contract auditing for the DOD and provides accounting and financial advisory services, in connection with the negotiation, administration, and settlement of contracts and subcontracts, to all DOD procurement and contract administration activities. DCAA also provides contract audit service to other Government agencies when arrangements therefor are made. The role of the DCAA auditor is advisory, except that on cost-type contracts the auditor is required to examine reimbursement vouchers, to transmit those vouchers approved for payment to the cognizant Disbursing Officer, and to issue notices of contract costs suspended and/or disapproved with respect to costs claimed but not considered allowable.

The DCAA Saigon Suboffice at the time of our survey, in March 1966, was operating under the general supervision of the DCAA Pacific Branch, Tokyo, Japan, which in turn reports to the DCAA Regional Office, San Francisco, California. The San Francisco Regional Office reports to the Director of DCAA at Cameron Station, Alexandria, Virginia, and the Director of DCAA reports to the Secretary of Defense.

4. MAP AUDIT DIVISION, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Overall responsibility for the audit of the Military Assistance Program (*MAP*) rests with the *MAP* Audit Division, Office of the Assistant Secretary of Defense (OASD)(Comptroller).

The *MAP* Audit Division, OASD, establishes procedures for *MAP* audits throughout the Department of Defense, supervises the execution of those policies and procedures, evaluates their administration and management, and evaluates internal *MAP* audit reports and replies thereto. The *MAP* Audit Division, since it does not have an audit staff, assigns the audit responsibility for certain areas to the audit agencies of the military departments. Audits of *MAP* for Viet Nam, which is included in a designated Pacific area, have been the assigned responsibility of the Army Audit Agency.

5. UNITED STATES ARMY AUDIT AGENCY

The United States Army Audit Agency (USAAA), which performs the audit function assigned to the Comptroller of the Army, formulates, executes, and administers audit policies, plans, programs, and procedures for the performance of all audit service in and for the Department of the Army. Audits are performed relative to programs and operations of Department of the Army activities and installations, including logistics activities and nonappropriated funds, The USAAA also performs audits, as assigned by the

Department of Defense, of designated Department of Defense Joint Activities and military assistance advisory groups, The USAAA carries out its mission through its headquarters staff, six district offices (including one in Europe and one in the Pacific area), and 20 permanently staffed area offices. Audit residencies have been established at six national inventory control points in the United States and one each in Taiwan, Japan, Korea, Okinawa, and the Continental Army Command Headquarters at Fort Monroe, Virginia. As of March 30, 1966, USAAA was authorized 1,042 personnel, including 814 civilian and 27 military auditors.

6. UNITED STATES AIR FORCE AUDITOR GENERAL

The Air Force Auditor General, under the direction of the Comptroller of the Air Force, has the assigned mission of providing all levels of Air Force management with evaluations of the effectiveness, efficiency, and economy of the conduct of Air Force financial and operating responsibilities. The Air Force Auditor General has approximately 1,600 people dispersed on a worldwide basis at 182 field offices. Management control of the organization and audit activities is exercised through the central headquarters located at Norton Air Force Base, San Bernardino, California,

The work of the Air Force Auditor General is closely coordinated with that of the Air Force Inspector General whose headquarters is also located at Norton Air Force Base. Coordination is effected to avoid duplication of effort and similar coordination is effected between field auditors and inspectors of the two organizations.

7. UNITED STATES NAVAL AUDIT SERVICE

The Naval Audit Service, which came into being on February 1, 1966, as a result of a reorganization of the Navy's internal audit'

structure, is a field activity under the command of the Deputy Comptroller of the Navy. The Naval Audit Service is headed by a Director who also serves as Auditor General of the Navy on the staff of the Comptroller of the Navy. **The Auditor General of the Navy** is responsible for (1) the implementation of audit policies established by the Comptroller of the Navy and (2) the coordination of internal audit matters with the General Accounting Office, the Secretary of Defense, Department of Defense agencies, and other military departments. The mission of the Naval Audit Service is to provide a service to management through appraisal of the effectiveness and efficiency of the managerial controls over the utilization of resources and the business operations of the Navy and Marine Corps.

The Naval Audit Service is staffed by approximately 529 people dispersed on a worldwide basis at 6 major field offices and approximately 38 subordinate field offices and sites. The staff consists of about **398** auditors, 75 support personnel, and 56 military personnel. Management control is exercised by the headquarters located in Arlington, Virginia. The six major field offices are located at Washington, D.C.; Boston, Massachusetts; Philadelphia, Pennsylvania; San Diego, California; San Francisco, California; and Norfolk, Virginia. Subordinate field offices are located throughout the world.

APPENDIX V.

DEPUTY UNDER SECRETARY OF STATE
FOR ADMINISTRATION
WASHINGTON

JUN 6 1966

Mr. Oye V. Stovall
Director
International Operations Division
United States General Accounting Office
Washington, D. C.

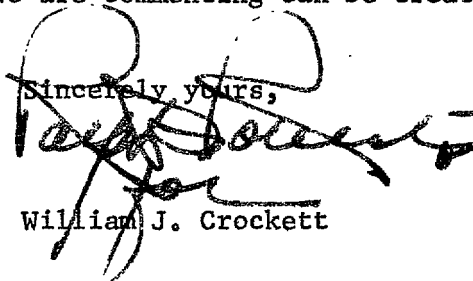
Dear **M**; Stovall:

As requested in your letter of June 1, 1966, we have examined the extracted page referring to the Department, taken from your proposed report to the Congress entitled Survey of Internal Audits and Inspections Relating to United States Activities in Viet Nam.

The comments in the extract are accurate except for the last sentence which does not reflect **the actual** plans of the Audit Program and the Foreign Service Inspection Corps. It is suggested that this sentence be replaced by the following:

"Internal audits by the Audit Program are currently planned for the Embassy operations in Saigon within the next two years. A Foreign Service inspection is planned early in Fiscal Year 1967 if political and military conditions permit,"

I agree that the page on which we are commenting can be treated as unclassified material.

Sincerely yours,

William J. Crockett

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

JUN 17 1966

Mr. Oye V. Stovall, Director
International Operations Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

Thank you for sending us the draft report entitled "Survey of Internal Audits and Inspections Relating to United States Activities in Viet Nam." As recognized in your letter of June 1, 1966, the limited time allotted for our review and comments precluded obtaining verification from the field of certain factual data contained in the draft report. We would like, however, to inform you of some of our more recent actions in augmenting our capability for evaluation and control of our activities in Viet Nam,

The attached comments list some of our most recent and continued efforts to improve management appraisal in Viet Nam. Our comments also undertake to clarify what we feel may be a misunderstanding regarding A.I.D.'s responsibility and authority with regard to Public Law 480, Title I. We also bring to your attention an important area of Agency control in the Financial Review Division of the Controller's Office which we believe has been overlooked. In addition, we suggest certain word changes to clarify the purpose of the economic assistance program in Viet Nam and to properly describe various activities discussed in the draft report.

We will be pleased to make arrangements for a meeting with you or members of your staff to discuss the Agency's comments, if you consider it necessary.

Sincerely yours,



William O. Hall
Assistant Administrator for Administration

Attachments : a/s

Agency for International Development
Comments on the General Accounting Office (GAO)
Draft Report Entitled
"Survey of Internal Audits and Inspections Relating to
United States Activities in Viet Nam"

Set forth below are suggestions which, if adopted, we believe will contribute to the overall receptiveness of the GAO report. These are keyed to the draft report by subheadings and page numbers.

Agency for International Development (page 6, first paragraph).

A more accurate statement of the thrust of the economic assistance program to Viet Nam would be "to provide sufficient aid to finance essential imports to cover the large balance-of-payments deficit as well as to dampen serious inflationary pressures and, secondarily, to generate needed local currency."

Agency for International Development (page 6, last paragraph)

Other Mission Audit Areas (page 18, first paragraph)

Other Mission Audit Areas - Title I, Public Law 480 (page 19)

Audit Responsibilities in Regard to Surplus Agricultural Commodities (Appendix V, last paragraph)

In discussions under the above topical headings, the report states that Public Law 480, Title I programs are administered by A.I.D.; that A.I.D. has not given sufficient audit attention to these programs; and, that to the extent such commodities are an element of assistance to the recipient country, A.I.D. audit staffs perform audits of arrivals, deliveries, distribution, and end use of such commodities.

Executive Order 10900 delegated to the Secretary of Agriculture all functions under Title I except those which were specifically assigned to other agencies. In 1963, it was pointed out by the GAO and acknowledged by the Department of Agriculture (Comptroller General Report No. B-146820, dated October 7, 1963), that responsibility for the functions ascribed to A.I.D. under the above topical headings actually do not fall within A.I.D.'s purview. Included in the above Comptroller General's report, was A.I.D.'s acknowledgment that it might be feasible to advise agricultural attaches or Embassy officers in the development of necessary procedures for maintaining arrival accounting as a part of the Department of Agriculture's overall system of control and reporting. Also, it was stated that, subject to staff limitations and the funds necessary to acquire additional personnel, it might be feasible for A.I.D. to provide audit services to the Department of Agriculture in response to individual requests for assistance to review the disposition of commodities made available to foreign countries under Public Law 480, Title I. In Viet Nam, reviews of some Title I commodities have been made, but only at the specific request of the Embassy officer responsible for the program. Therefore, we believe the GAO will wish to reexamine the data and clarify its presentation on Title I program responsibilities if it is to be included in the final report.

Commercial Import Program (pages 9 - 13)

Page 10, first paragraph

The last sentence beginning "Nor do any of the . . ." should reflect a recent report from USAID/Viet Nam to the effect that its Audit Branch has now scheduled a comprehensive review of USAID Commercial Import Program procedures and management controls.

Page 12, first paragraph

The last sentence beginning "After preparation of . . ." is not entirely accurate. A.I.D. plays an active part in the management and implementation of the Commercial Import Program subsequent to the preparation of the program - sometimes even to the extent of making specific procurement arrangements.

Pages 12 and 13

Actions to strengthen USAID management of the Commercial Import Program should be included at some point on these pages of your report. An experienced senior A.I.D. official has just been appointed to the new position of Assistant Director for Commerce and Industry, with the principal job of overseeing the implementation of the Commercial Import Program. The Commercial Import Division is being expanded by the addition of several commodity analysts and international trade specialists to a new authorized strength of 16. Several other USAID offices also contribute a number of man years to the supervision or inspection of the Commercial Import Program.

Page 13, second paragraph

The GAO concludes that there is a "critical need for more comprehensive and independent, and therefore, more effective internal audits and management reviews." Although we are not sure what connotation should be given to the word "independent" as used here, we can vouch for the independence of the AID/W internal audits, and wish to point out that audits and reviews of the type described have been scheduled by the recently reorganized USAID Audit Branch.

Rural Construction Program (page 15, second paragraph)

The last sentence should be changed to read as follows, "The Refugee Program relates to that portion of the Rural Construction Program financed from Government of Viet Nam (GVN) budgetary funds and was limited by the GVN to a superficial review"

Capital Development Project (page 18, second paragraph)

We suggest that the following three sentences be inserted in place of the last sentence which now reads "On the latter . . ." These sentences would read as follows: "Subsequent to the issuance of the USAID referenced audit report, permission was received to examine records to which auditors were originally denied access. These records pertained to disbursements made in U. S. dollars rather than piaster disbursements which was the subject of the audit report. The pertinent local records covering disbursements in U. S. dollars were reviewed by USAID auditors in September of 1964."

Technical Cooperation (page 19)

Although the composition of what is called "the technical cooperation program" is not clearly stated, from the figures given for fiscal years 1964 and 1965 it appears to be limited to grant type activity in the technical assistance category. On this basis, it would fall under the grant element of project type activities in the Viet Nam program and as the GAO recognizes in other segments of the draft report, a number of project and contract audits covering this program area were completed and issued or in process between July 1, 1964, and March 1966.

On the other hand, the \$10.6 million figure given for fiscal year 1966 appears to represent only the development grant funding category of the technical assistance grant program. A large portion of development grant funds were obligated for the Technical Support Project. Activities under this project as well as other development grant funded projects, have been included to some degree in a number of the audits referred to on page 19 under Administrative Audits. It should be noted that approximately 60 percent of the development grant funds obligated during fiscal years 1964 through 1966 (March 31) were for U. S. technical (contract and direct hire) and participant costs which are subject to normal voucher audit.

Independent Audits, Inspections, Investigations, and Management Reviews (page 20)

We believe discussion of an important organizational element in control of the Commodity Import Program would be appropriate under this section of the report. The system employed by A.I.D. for safeguarding the procurement process uses U. S. commercial banks for controlling the disbursement of funds. Financial transactions move in normal commercial channels with suppliers being paid by the U. S. commercial banks upon presentation of their invoices. After the bank has presented the required documents to A.I.D., and received reimbursement, the Washington Office of the Controller, Financial Review Division, performs a post audit to determine whether the disbursement was in accordance with legislative, policy, and procedural requirements. Two separate reviews are performed, one a voucher examination covering requirements as to source-origin, commodity eligibility, etc., and the second review by price analysts. The latter personnel employ their specialized knowledge of trade terms and practices to ascertain compliance with statutory and contractual provisions against discriminatory pricing, unauthorized commissions, rebates, kickbacks, and other unethical business practices. As violations are found, appropriate refund billings are issued against the supplier, bank, ocean carriers, or cooperating country, depending on the nature of the infraction.

Because more and more commodities are being financed for the GVN, the Financial Review Division has expanded in order to post-audit vouchers for the Viet Nam program. Seven additional positions have been authorized and at present the entire staff of the Price Branch is being devoted to the Viet Nam Commodity Import Program. They particularly look for problem suppliers and importers and review case files for suspects. Information on suspect transactions is made available to the USAID/Viet Nam audit staff, to the Agency's Management Inspection Staff, and to the Far East Bureau for further investigation.

Management Inspection Staff (pages 20 - 21)

In order to clarify the activities and staffing of the Saigon Office of the Management Inspection Staff (MIS), we suggest the following changes:

Page 11, line 1

Delete the word "Mission."

Page 11, second paragraph, line 1

Change to read: "MIS/Saigon, recently augmented by three inspectors on temporary duty from AID/Washington, completed 59 cases during the period January 1, 1965, to February 18, 1966. Of these cases, 27 resulted in remedial action; the remaining 32 being resolved without the necessity for specific action recommendations. In addition, there were 51 cases still in process of investigation. Although we did not review these cases in detail, we found that many of them are related to the Commercial Import Program, as illustrated by the following examples:

A. False Certification as to Origin of Commodities

1. Remedial action - six cases
2. Resolved - seven cases
3. Pending further inquiry - ten cases

B. Diversion of Commodities

1. Remedial action - two cases
2. Resolved - four cases
3. Pending further inquiry re "kickbacks" - three cases
4. Pending further inquiry re other issues - seven cases

C. Procurement Irregularities

1. Remedial action - two cases
2. Resolved - two cases
3. Pending further inquiry - five cases

D. Fraud Against the Government

1. Resolved - one case
2. Pending further inquiry - fifteen cases

E. Bribery, Forgery, Smuggling, and Theft

1. Remedial action - two cases
2. Resolved - three cases
3. Pending further inquiry - two cases."

Page 20, first paragraph, line 4

Change to read: "The Saigon office of MIS consisted of two regular staff members, and three on temporary assignment. Two of the latter left before the end of March 1966, to return to Washington. The third remained in Saigon until mid-May, at which time MIS/Saigon was reinforced by two TDY inspectors pending the arrival of the two new full time inspectors, who are now being processed."

Page 20, second paragraph, line 1

Change to read: "Following is a tabulation of the status of MIS investigations at Saigon since January 1965, ..., " etc.

Make following changes in tabulation at bottom of page 20:

Change line two to read: "False certifications of source of commodities"

Change line six to read: "Kickbacks to commodity importers"

Change line seven to read: "Procurement irregularities by importers (including USAID contractors) "

Page 21, first paragraph, line 1

Change to read: "Remedial actions consisted of refunds obtained (11 cases); employee separations (6 cases); suspensions of suppliers or importers (6 cases); barring of specific commodities (1 case); contracts terminated (2 cases); and discontinuance of improper use of contract aircraft (1 case). Reasons for remedial actions included: administrative irregularities (14); falsification of origin (6); diversion of commodities (2); irregularities by contractors (2); theft (1); bribery (1); and unauthorized use of aircraft (1).

"Of the 32 cases resolved without the necessity for specific action, 2 were closed upon resignation of employees involved, and 30 were discontinued because allegations were found to be without foundation. Of the 37 cases pending further action, 5 had been referred to other MIS field offices for additional investigation, and 9 were under review by the Department of Justice for consideration of criminal prosecution or civil recovery of damages."

Special Reviews of Economic Assistance Activities in Viet Nam (page 22, second paragraph)

Consideration should be given to adding another paragraph outlining some of the changes made based on the management review performed in November 1965. Among the changes are: Two Associate Director positions were created, one for Program Economic Policy and one for Field Operations. A new position of Assistant Director for Technical Services was established. The four regional directors were given clear line authority and responsibility for all aspects of regional and provincial programs. Improvements were effected in planning and programming

functions. The establishment of an Executive Secretariat is resulting in more effective coordination and prompt communication between elements of the rapidly expanding USAID and the USAID Director. Communications between the field and Saigon have been improved. The personnel and staffing policies suggested are being implemented. Recommended actions in other areas; i.e., provincial reports, cashier operations, communications and records, and program documentation are being implemented.

Review by A.I.D. Mission Assistant Director for Special Projects (page 23, second paragraph)

The customs unit referred to in this paragraph will consist of eight professional and seven non-professional employees and has just recently been transferred from the Office of the Assistant Director for Special Projects to the Public Administration Division. This group will work closely with the GVN Customs Authority on institutional development and at the same time will assist in the enforcement of customs laws and regulations.

Mission Internal Audit Problems and Action Taken and Proposed (pages 25 - 27)

We feel the report should reflect the following: "The Audit Branch has recently been reorganized, It now has five distinct sections each authorized and adequately staffed, The Audit Branch has an authorized U. S. staff of 29 positions. A problem still exists in recruiting local auditors; however, USAID has taken vigorous action to recruit Vietnamese and third country nationals. Applications for these auditor positions are now being processed." Attached is a current status of Audit staffing including Special Projects.

A.I.D. Mission Organization and Programs, Appendix III, Rural Construction Program (page 1)

We suggest that the first paragraph be changed to read as follows: "The rural construction program is A.I.D.'s major direct assistance effort, This rural construction program, sometimes referred to as counter-insurgency program is the civil action arm of the war effort in Viet Nam. It is addressed to both civil emergency requirements precipitated by war, such as the repair of sabotage, care of refugees, care of civilian war wounded, etc., but more importantly is its aim in a variety of ways to strengthen local government in the face of the Viet Cong assaults and to launch a positive program of ameliorating the basic problems on which the Communists base their insurgency appeal. It is described by A.I.D. as embodying"

Commercial Import Program (pages 2 - 4, Appendix III)

Page 2, second paragraph

This paragraph should be restated in terms similar to that suggested previously for page 6 of the draft report. We suggest language similar to the following: "This program was initially used in the 1955-61 period primarily as a means of generating local currency to finance GVN budgetary needs. The

Commercial Import Program has changed in emphasis throughout the years in response to changing conditions. Its principal function is to finance essential imports to cover a large balance-of-payments deficit and to combat inflation. The generation of local currency for GVN budget support is an important but secondary objective. It also helps industrial development, U. S. and local private enterprise, and increases the U. S. share of GVN imports."

Page 3, portion of text in parenthesis

We suggest the following rewording for a factual presentation: "(Compared with the de facto official exchange rate for imports of 60 to the dollar, the limited free market rate of 73.5 to 1 dollar and the recently negotiated 'Special Currency Fund' rate of 118 to 1 dollar at which all foreigners, including U. S. employees, can purchase piasters for dollars, and the even higher rate prevailing in the black market.)" However, when customs and various taxes are added, the real de facto exchange rate for A.I.D.-financed imports amounts to about 75:1 in terms of return to the GVN on each A.I.D. dollar.

Page 4, first paragraph, first sentence

To conform with existing procedure, we suggest that following the word "stipulations," the sentence be changed to read: "governing the source of the individual components in the project and/or the recent requirement that the country of procurement uses the dollar proceeds in the U. S."

Construction (page 4, Appendix 111) Table

The item marked Reconstruction and Urban Planning we believe should be marked Health Development. We know of no obligations for Urban Planning and Reconstruction during FY 66. On the other hand, hospital renovation construction is discussed on page 18 which is covered by the Health Development project, Note "a" quotes 73 piasters to 1 dollar as the official exchange rate. It might be preferable, since 73.5 is one of the official exchange rates (limited free market rate), to have the note read: "Local Currency calculated at 73 piasters to 1 dollar."

ATTACHMENTSTATUS OF STAFFING AUDITOR (AD/FM) AND INVESTIGATOR (AD/SP) POSITIONS

	<u>AD/FM</u>	<u>AD/SP</u>
<u>Established Positions</u>	29	9
On Board (at Post)	17	4
In Orientation	0	0
Mid-Tour Transfer Auth.	1	0
On TDY Saigon-HL/TR Auth.	2	0
On HL/TR Authorized	* 2	0
In Process - Pending Clearance for TR	0	0
In Process - EOD established	2	0
In Process - Pending Clearance for EOD	<u>5</u>	<u>2</u>
TOTAL ON BOARD AND IN PROCESSING	29	6
POSITIONS WITHOUT FIRM CANDIDATES **	0	3

Proposed Effective dates of EOD/Transfer

On June 12, 1966	1	0
On June 19, 1966	1	0
Prior June 30, 1966	1	0
Prior July 31, 1966	1	2
Prior August 31, 1966	6	0

* On June 5, 1966 (Transferred: not arrived Post)

** Lybrand Ross Brothers and Co. have furnished five candidates for hire under contract. Their papers are in process. In addition, another contracting firm, Ernst & Ernst have advised that they can furnish three or four auditors. The Mission is being queried re their interest.

Mission concurrence of four auditors in this category has been requested by cable.



OFFICE OF
THE DIRECTOR

UNITED STATES INFORMATION AGENCY
WASHINGTON

June 13, 1966

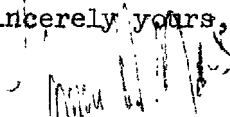
Dear Mr. Stovall:

Thank you for the opportunity of reviewing the draft of your report concerning a survey of internal audits and inspections relating to U. S. activities in Viet Nam transmitted by your letter of June 1, 1966.

The draft report points out correctly that no inspections or audits of JUSPAO had been made in calendar year 1965 and that none were planned for calendar year 1966. However, the two man survey team that was in Viet Nam in February of 1966, while not technically under the Inspector General, was appointed personally by me and directed to report to me in order to obtain the best information possible under the circumstances existing in Viet Nam at the time. Its scope of authority and coverage were quite similar to that of a normal inspection.

The team's findings and recommendations are being personally reviewed by me. Thus, we have taken steps to insure appropriate top level review of the very important JUSPAO activity. Operating conditions are not appropriate for further inspection of JUSPAO at this time. However, both an inspection and an audit will be scheduled as soon as conditions in the field make it appropriate, and we are now exploring the possibility of an audit later this calendar year. A consideration in our schedule, aside from the other unusual conditions inherent in our operation in Viet Nam, is that JUSPAO has been an organizational entity for only slightly more than a year.

If you have further questions, please do not hesitate to call upon us.

Sincerely yours,

Leonard H. Marks
Director

Mr. Oye V. Stovall
Director, International Operations Division
General Accounting Office
Washington, D. C. 20548

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE INSPECTOR GENERAL
WASHINGTON, D C 20250

JUN 15 1966

In reply refer to:
7099-23-H

Mr. Oye Stovall, Director
International Operations Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

I appreciate the opportunity to comment on those segments of the draft of your report on Survey of Internal Audits and Inspections Relating to United States Activities in Vietnam which pertain to the responsibilities of the Office of the Inspector General.

In the report draft, you state that OIG made an investigation of the receipt and disposition of commodities sold under Title I. The work performed at that time was not limited to Title I. In cooperation with the Department of State and AID, we also made a survey of procedures for handling donated commodities under P. E. 480 amounting to \$102,000,000. A report on this additional work was issued in August 1964.

In Appendix V, the statement regarding the audits of Title I activities performed by AID is not correct. Executive Order 10900, as amended, delegated responsibility for administration of Title I, P. L. 480, to the Secretary of Agriculture. These functions are carried out by FAS. Since OIG is responsible for all internal audit and investigation within the Department of Agriculture, we have the responsibility to examine arrivals, deliveries and distribution and end use of commodities as a part of our review of FAS operations.

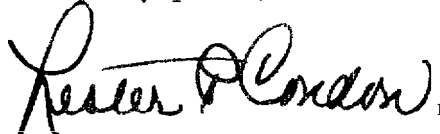
In your letter you suggested that I advise you of any significant actions or firm plans which we have taken recently. The most important step, I believe, has been our recent reorganization designed to place greater emphasis on and improve our audit coverage of the overseas programs. We now have established in the headquarters Office of the Assistant Inspector General (Operations), a new Deputy position for International Programs. At the same time, we established an Assistant Regional Inspector General position in Region II (which has responsibility for all overseas audits), and the authorization for this Region was increased to provide a separate staff to carry out these audits. This new organizational and staffing alignment will make it possible

for us to intensify the acquisition and training of highly qualified personnel and thus be able to conduct the audits of the Department's overseas programs more timely and efficiently.

I might **also** add that, because of the current situation in Vietnam, we have provided personnel to work closely with AID in a review of the commodity import program for Vietnam. This review will include the disposition of commodities sold under Title I, P. L. 480.

Should you have any questions regarding our current audit and investigation activities, I will be glad to discuss them at your convenience.

Sincerely yours,

A handwritten signature in cursive script that reads "Lester P. Condon".

Lester P. Condon,
Inspector General



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

17 JUN 1966

Mr. Oye V. Stovall
Director, International
Operations Division
U. S. General Accounting Office

Dear Mr. Stovall:

We have reviewed the Department of Defense segment of the GAO draft report on "Survey of Internal Audits and Inspections Relating to United States Activities in Viet Nam" submitted with your letter of May 31, 1966, (OSD Case #2459) and the comments which follow are submitted on behalf of the Secretary of Defense. As you anticipated in your letter, the short time allowed for comments did not permit us to check out some of the factual data, particularly the data relating to activities of Far East organizations,

Based upon review of the report, primarily at the headquarters level by the principal DoD components involved, the following comments are offered with the objectives of correcting or updating information in the report, or furnishing additional pertinent information with respect to the matters discussed. To the extent practicable, the comments are keyed to the pages of your draft report,

1. Page 33, first complete paragraph.

Since the establishment of the Defense Contract Audit Agency (DCAA) Saigon suboffice with a staff of seven, considerable progress has been made in liquidating the audit backlog on cost-type contracts, and in developing comprehensive audit programs to replace the voucher-type audit commented on in your report. Contract audit workload has expanded so rapidly that DCAA now plans to increase the Saigon suboffice staff to a total of 11 people. With respect to audit work at the FMK-BRJ principal office at San Bruno, California, the San Francisco office of DCAA has reassigned personnel to meet the unanticipated workload generated by requirements in Southeast Asia. To meet increased workloads in Viet Nam and Thailand, DCAA also is planning to establish a Southeast Asia Branch Office to be located in Bangkok, Thailand. That office will supervise audit work in both locations and will itself be under the constant surveillance of the San Francisco Regional Office. Staffs will be augmented further if work requirements dictate and other priority workloads permit.

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2. Pages 35 and 38.

The draft report mentions many fixed-price contracts which have not been audited. References are:

a. "83 fixed-price contracts amounting to about \$6.4 million for architect and engineering services." (p.35)

b. "223 fixed-price contracts for minor construction projects in Viet Nam totalling \$316 million." (9.35) Amount should be \$3.6 million rather than \$316 million.

c. "33 active fixed-price maintenance and repair contracts valued at about \$149,300." (p. 38)

d. "67 fixed-price contracts . . . totalling more than \$5.9 million," (p. 38)

These references might be misinterpreted to indicate that such fixed-price contracts represent a backlog of contract audit work. It is suggested that it be made clear that, except under unusual circumstances, contractor records under fixed-price contracts are not subject to audit. However, DCAA does provide advisory assistance in connection with such contracts upon request of contracting officers. In this connection, on numerous occasions reviews of proposed hourly and/or per diem rates for use in negotiating fixed-price architect and engineering contracts have been made by DCAA auditors for the various Officers in Charge of Construction in the Southeast Asia Area.

To assure that contract audit responsibilities are being met, DCAA will explore the entire fixed-price contract situation to determine if any recognized audit responsibilities do exist in conjunction with these contracts. They also will investigate the four contracts for construction of communications facilities in Viet Nam totalling about \$12 million mentioned in the second paragraph on page 35 of your draft report. It is understood that these are not all cost-plus-fixed-fee contracts as reported but that two are firm-fixed-price contracts, one a cost-plus-fixed fee, and one a cost-plus-incentive-fee contract;

Concerning internal audit of contracts, the normal practice is to review periodically the contracting practices, procedures and operations of procurement offices. Such audits have been limited in Viet Nam due to the combat conditions there.

3. Pages 42 and 43.

In amplification of the information presented under the caption, "United States Naval Audit Service Audits Relating to Viet Nam Operations," the following information is furnished.

In April 1965, the Navy Area Audit Office, San Francisco, (now Naval Area Audit Services, San Francisco), completed an audit of the Office in Charge of Construction (OICC), Bureau of Yards and Docks Contracts, Southeast Asia, Bangkok, Thailand. A large part of the construction work for which OICC was then responsible was in the Republic of Viet Nam and his deputy in Saigon administered these contracts. Because auditors were not given area clearance to visit the Republic of Viet Nam at that time, audit of OICC Construction activities in Viet Nam was limited to a review of records available in Bangkok. The audit covered areas of financial management, procurement and contract administration, personnel management and payrolls, and management of maintenance and repair. One significant finding dealt with accrued costs of projects being constructed under the large FMK-BRJ joint venture construction in Viet Nam (discussed in your report;) which at that time were not being distributed and recorded in accordance with regulations. The OICC advised that corrective action would be taken.

The audit, mentioned in your draft report, requested by the Chief of Naval Operations of the utilization and control of certain Navy funds being spent in Viet Nam is now being conducted. Also, an audit is scheduled to commence in the first quarter, Fiscal Year 1967, of the Pacific Division, Naval Facilities Engineering Command, Pearl Harbor. Although auditors are not planning, as part of the audit, to enter Viet Nam, the Officer in Charge of Construction in Viet Nam is under the direction and supervision of the Pacific Division, and audit findings undoubtedly will apply to and have an effect on Navy construction activities in Viet Nam.

As a consequence of certain realignments of functions and responsibilities, the Naval Audit Service plans to explore more fully the missions, responsibilities and functions of the various Naval activities located and operating in Viet Nam with a view toward determining precise responsibilities and audit potential thereof.

4. Page 46,

Under the caption, "Headquarters, Second Air Division," the report states, "During fiscal year 1965, a total of 27,800 man-hours of audit effort, was expended in South Viet Nam, ..." It is believed that this figure is overstated. In the effort to verify it, Mr. Hughes of your office was contacted and he indicated that the statement would be deleted,

5. Page 49.

The statement is made in the first paragraph that "An official of HSAS informed us that while the Exchange was operated by the Navy, inventory losses from damage, pilferage and theft generally amounted to about seven percent." While time did not permit checking the accuracy

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of this statement at its source, the Navy reports that information available indicates that inventory losses of Exchange-type merchandise from damage, pilferage and theft (including losses in transit to Viet Nam) for the period 1 July 1962 to 30 April 1966, amounted to less than 2.5 percent of sales rather than the 7 percent indicated in the above statement.

With respect to the over-all draft report, we have two general observations relating to the information reported. First, the report mentions management reviews, inspections and audits while the detail reported relates primarily to contract and internal audit as well as local internal reviews. From the over-all management standpoint, it should be mentioned that the operations in Viet Nam and special problems related thereto have been the subject of intensive management surveillance, inspections and special reviews by all levels of management including the Office of the Secretary of Defense. Some of this type of surveillance is alluded to in your report at the top of page 41. Secondly, it is acknowledged that the frequency and depth of internal audits in Viet Nam have been less than that normally provided stateside and overseas operations under peacetime conditions. The general practice is to curtail normal audit activities in combat areas due to the hazards involved and to minimize the disruption of forces engaged in conducting or supporting combat operations.

The opportunity to comment on your draft report is appreciated very much.

Sincerely,

Robert M. Anthony
Assistant Secretary of Defense