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REPORT TO THE CONGRESS 095843



Legislative Ceiling On
Expenditures In Laos Reduced Costs
But The Ceiling Was Exceeded B-133003

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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WASHINGTON, D.C. 20548

B-133003

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

This is our report on how the legislative ceiling on expenditures in Laos reduced costs, but the ceiling was exceeded. The Department of State was responsible for coordinating the reporting of assistance-related expenditures of the Department of Defense, the Agency for International Development, and the Central Intelligence Agency, pursuant to the Armed Forces Appropriation Authorization Acts for 1972 and 1973.

We made our review 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).

We are sending copies of this report to the Secretaries of State and Defense, the Directors of the Office of Management and Budget and the Central Intelligence Agency, and the Administrator of the Agency for International Development.

A handwritten signature in black ink that reads "Thomas B. Staats".

Comptroller General
of the United States

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ABBREVIATIONS

| | |
|---------------|---|
| AID | Agency for International Development |
| CIA | Central Intelligence Agency |
| DEP- CHIEF | Deputy Chief, Joint U.S. Military Advisory Group, Thailand |
| DOD | Department of Defense |
| GAO | General Accounting Office |
| GSA | General Services Administration |
| MASF | Military Assistance Service Funded |
| MASL | Military Articles Service List |
| USIA | United States Information Agency |

D I G E S T

WHY THE REVIEW WAS MADE

The Congress established dollar ceilings on U.S. expenditures for Laos at \$350 million and \$375 million for fiscal years 1972 and 1973, respectively.

GAO wanted to know how the executive departments and agencies have met the requirements and whether their reports to the Congress were consistent and complete.

FINDINGS AND CONCLUSIONS

The legislation establishing the ceilings is comprehensive regarding reported expenditures; only U.S. and South Vietnamese air combat operations over Laos and the normal and usual expenses of operating the U.S. Embassy in Vientiane are excluded specifically. (See pp. 1 and 2.)

1 The State Department had overall responsibility for implementing the law. It reported expenditures for Laos of \$349.8 million and \$332.8 million for fiscal years 1972 and 1973, respectively. This included assistance-related expenditures for the Department of Defense, the Central Intelligence Agency (CIA), and the Agency for International Development (AID). (See pp. 3 to 6.)

GAO identified an estimated \$28.2 million of assistance-related

expenditures not reported or not reported adequately, by the three reporting agencies for fiscal year 1972. If these costs had been reported, the \$350 million ceiling for fiscal year 1972 would have been exceeded by \$28 million. (See app. II.)

Despite this, the ceiling legislation had a definite positive impact on program management.

--Management was intensified.

--Expenditures were reduced.

--The Congress received additional information for use in monitoring U.S. activities in Laos. (See pp. 7 and 8.)

Defense and CIA reported fiscal year 1972 expenditures of \$299.2 million for military assistance, but the following assistance-related expenditures were not reported.

--Defense and CIA did not report an estimated \$21.6 million for transporting Laos-destined military assistance items from the United States to Thailand storage sites.

--Defense did not report other logistical support costs, including the Thailand storage site operated for the Laos program, or the cost of Laos-destined material and equipment lost in transit.

--CIA did not report the cost of its personnel responsible for managing the assistance-related program in Laos.

Defense told GAO that it did not report overseas transportation and other logistical costs because the earmarked material and equipment remained in U.S. custody until actually delivered to Laos, and it could therefore be used for other programs. CIA said it excluded transportation costs to be consistent with Defense reporting.

Although the Laos-destined material remained in U.S. custody until delivered, GAO believes that the applicable overseas shipping costs should have been reported when the items were delivered to Laos. (See pp. 9 and 11 to 13.)

For categories Defense considered under the ceiling, GAO found that--except for reporting on used material not excess to requirements--procedures and guidelines developed generally were adequate. However, the inadequate guideline for reporting nonexcess used material was not followed by program managers; thus the reports were more accurate. (See pp. 9 and 10.)

The guideline for reporting ammunition was not followed, but documentation was not available to determine the exact dollar impact. (See p. 11.)

AID reported expenditures of \$50.6 million for economic assistance programs, but in fiscal year 1972 it did not report the following expenditures which should have been reported.

--Administrative expenses of about \$1.2 million for the economic assistance program.

--Excess U.S. property with an estimated value of \$441,263, one third of the acquisition cost.

--Public Law 480 commodity transportation costs of about \$440,000. (See pp. 14 to 17.)

AID also did not report expenditures of \$369,953 to assist the Laotian Government to control international narcotics trafficking. GAO agrees that expenditures for the narcotics program were not reportable under the ceiling. (See p. 16.)

AID made several adjustments in the accounting and reporting procedures which were inconsistent with those of other reporting agencies and/or with its own accounting instructions. For example:

--AID reported commodity expenditures on the basis of actual disbursements, rather than of commodity arrivals. The effect of this inconsistency was negligible, and AID may have reported \$168,000 more by using this method. (See pp. 17 and 18.)

--AID reported contract air support costs on a cash-disbursement basis, rather than on an accrual basis that Defense and CIA used. This resulted in reporting about \$2.7 million less than would otherwise have been the case. (See pp. 18 and 19.)

--AID reported \$1.6 million for regional economic development projects, whereas the World Bank reports showed that AID's portion of fiscal year 1972 expenditures was about \$2.5 million. AID said that part of this difference resulted from expenditures in fiscal year 1972 for equipment and services delivered in prior years. (See pp. 19 and 20.)

--AID deferred payment of June 1972 General Services Administration billings amounting to \$922,000 until the next fiscal year. (See p. 21.)

RECOMMENDATIONS OR SUGGESTIONS

The Secretary of State should coordinate the reporting guidelines with the Secretary of Defense, the Director of CIA, the Administrator of AID, and other agency heads, to insure that any expenditure reports submitted to the Congress are complete and accurate and that, to the extent possible, accounting and reporting procedures are applied consistently by each agency. (See p. 22.)

The Secretary of State should also inform the Congress of:

- Any inconsistent accounting and reporting methods used by individual agencies reporting under the ceiling.
- The types and estimated amounts of expenditures which the agencies believe are not within the reportable categories required by legislation. (See p. 22.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

According to the Departments of State and Defense, the GAO report presents a balanced picture of the problems of developing a comprehensive report to the Congress on assistance-related expenditures for Laos and they are already working to refine procedures to insure that future reports are complete and accurate. (See app. III.)

State agreed with GAO's recommendations that, to the extent possible, accounting and reporting procedures should be applied on a consistent basis and that it should be noted on the reports when different methods are used.

State also agreed that the Congress should be informed of the types and estimated amounts of expenditures, excluding the normal expenses of operating a diplomatic mission and those unrelated to assistance, which the contributing agencies believed were not within the reportable categories required by the legislation. (See app. III.)

AID agreed that future reports to the Congress would be improved by noting any incompatibilities between accounting systems and agency decisions regarding reportable categories and exclusions. AID said that it would have no difficulty complying with GAO's recommendations in making future reports to the Congress. (See app. III.)

CIA agreed with GAO's recommendations, except, in its opinion, there was no need to inform the Congress of the types and estimated amounts of expenditures which it believed were not within the reportable categories required by the legislation.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report should help the House and Senate Committees on Armed Services, the House Committee on Foreign Affairs, and the Senate Committee on Foreign Relations to evaluate the agencies' compliance with the ceiling legislation.

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Because of the peculiarities of this legislation which imposed an overall ceiling on expenditures from several appropriations without specifying a ceiling on expenditures from an individual agency's appropriation, it was not possible for GAO to determine which agency caused the ceiling to be exceeded or to ascertain specifically at what point in time the ceiling was exceeded.

The difficulty of enforcing this ceiling suggests that, if the Congress wishes to impose in future legislation an overall ceiling on expenditures for a particular country, it may want to consider fixing, or delegating the responsibility for fixing, a specific allocation of the overall ceiling for each agency involved in that country. (See p. 23.)

CHAPTER 1

INTRODUCTION

The United States has provided direct assistance to Laos since its independence from France; it has been involved militarily in that country for many years. Although the identified economic and military assistance amounted to nearly \$2.2 billion from 1955 through June 1973, the exact amount provided from all sources is not known. For many years--particularly since the 1962 Geneva Accords on Laos--the type and extent of various U.S. activities in Laos has remained officially secret.

In November 1971 the Congress acted to limit U.S. activities in Laos and to disclose such activities by placing a ceiling on expenditures in, to, for, or on behalf of Laos. A legislative ceiling on expenditures (the Symington amendment) was established at \$350 million for fiscal year 1972 and at \$375 million for fiscal year 1973. These amounts appear in the Armed Forces appropriation authorization acts for the applicable year. (See app. I.) The acts required quarterly submissions of expenditure reports to the Congress.

The acts are quite specific and comprehensive as to the types and categories of expenditures to be reported under the ceilings. The only expenditure category specifically excluded was the cost of U.S.--and in 1973, U.S. and South Vietnamese--air combat operations over Laos. The Conference Report (No. 92-447, Nov. 11, 1971) which elaborates more fully on the costs which were to be reported under the ceiling, states, in part:

"The conferees intend that the \$350 million limitation should include all assistance-related activities in Laos. However, the conferees wish to make it understood that it is not the intent to place a ceiling on, or reduce, funds available for vital nonassistance-related activities in programs which must be carried on irrespective of assistance-related operations in Laos, such as the normal expenses incurred by the State Department in the operation of its embassy and such normal and usual expenses of the embassy as would be incurred in peacetime in the absence of any

military, paramilitary, or economic assistance programs of any kind."

At least seven U.S. departments and agencies were involved in administering and/or funding various activities and programs in Laos during fiscal years 1972 and 1973.

- The Department of State operated the U.S. Diplomatic Mission and provided overall supervision of U.S. programs and activities.
- The Agency for International Development (AID) administered the economic assistance programs of (1) economic stabilization, (2) refugee support, (3) social and economic development projects, and (4) narcotics control. It also administered the Public Law 480, title II, program and the regional economic development programs.
- The United States Information Agency (USIA) conducted public information, public relations, and cultural activities in Laos and administered special psychological operations funded by another Government agency.
- The Department of Defense (DOD) funded and/or administered various programs in Laos, including (1) the Military Assistance Service Funded (MASF) program, administered in-country by AID, (2) the Embassy military attaches' normal functions and, in addition, assistance-related activities of the attache's office in Laos commonly known as Project 404, (3) U.S. air operations in Laos, including both combat operations and assistance-related logistics airlift, medical evacuations, and search and rescue missions for non-U.S. Forces personnel, and (4) training Lao Forces and Thai Irregular Forces, regardless of where training occurred.
- The Department of Agriculture funded the Public Law 480, title II, program, and AID administered this program and reported expenditures for this program.

- The Drug Enforcement Administration of the Department of Justice assigned two narcotics agents to the Embassy. The agents advised the U.S. Ambassador and the Special Investigations Group of the Lao Government on international trafficking of narcotics in and through Laos.
- The Central Intelligence Agency (CIA) provided advice and assistance to the Lao Irregular Forces, including the Thai volunteers fighting with the Lao Irregular Forces.

DELEGATION OF REPORTING RESPONSIBILITY

The Symington amendment in November 1971 posed several technical problems which needed to be resolved to provide accurate and meaningful expenditure reports to the Congress. Several U.S. agencies were involved in numerous programs and activities, and it was essential that one agency have overall responsibility for coordinating the reporting guidelines and for consolidating expenditure data. The President delegated this overall reporting responsibility to the Secretary of State.

INTERAGENCY REPORTING CRITERIA

The \$350 million expenditure ceiling for fiscal year 1972 was developed by the Congress from an estimated program cost presented to it in July 1971 for certain programs.

| | <u>Amount</u> |
|--|----------------|
| | (millions) |
| DOD-funded military as-) sistance programs) | \$296.2 |
| CIA paramilitary programs) | |
| AID economic assistance) programs) | <u>50.6</u> |
| Total | <u>\$346.8</u> |

The agencies involved subsequently determined that the \$350 million ceiling would be allocated as follows:

| | <u>Amount</u> |
|-------------------|---------------|
| | (millions) |
| DOD expenditures) | \$300 |
| CIA expenditures) | . |
| AID expenditures | <u>50</u> |
| Total | <u>\$350</u> |

The principal agencies that administered and coordinated the U.S. programs and activities in Laos met in late November 1971 to jointly interpret the legislation. Because of the variety and complexity of the programs, a joint interpretation was essential to establish general guidelines and criteria for use by the several agencies in developing accounting and reporting procedures. This would insure that, to the extent possible, the basis for the reported amounts would be consistent among the agencies.

DOD, CIA, and AID were to report to State on expenditures for the following programs.

- DOD was to report expenditures for the MASF program for Laos; overhead costs for the Deputy Chief, Joint U.S. Military Advisory Group, Thailand (DEPCHIEF); and the assistance-related activities of the attache's office, known as Project 404; and U.S. air activities, other than combat operations, in Laos.
- CIA was to report expenditures related to the Lao paramilitary program.
- AID was to report expenditures for the Foreign Exchange Operation Fund; the commodity import program; development projects; regional economic development funds earmarked for expenditure in or for Laos; and the Public Law 480, title II, program.

The agencies also agreed that "expenditure," as used in the amendment, would be interpreted to mean actual deliveries to Laos insofar as commodities were concerned. The agencies recognized that accumulating expenditures on an arrival basis would require a reporting system different from that used for most internal and external reporting, but this was considered necessary for consistent reporting.

USIA program expenses for Laos--about \$1 million and \$846,000 for fiscal years 1972 and 1973, respectively--would not be reported under the ceiling because they were considered normal Embassy costs. It was later determined that DOD costs for military personnel performing normal attache functions and Drug Enforcement Administration costs related to controlling international narcotics trafficking would also be categorized as normal Embassy costs and would be excluded from the report. AID further excluded certain administrative costs from the ceiling report because it believed that these costs were not intended to be included.

REPORTED EXPENDITURES

In August 1972 the Department of State submitted the final report to the Congress for fiscal year 1972 and stated that the amounts were:

"* * * computed on the basis of the most accurate information that the responsible Agency and Department heads could provide on the categories subject to the limitation of \$350 million as set forth in Section 505 of the Act."

The following schedule shows the expenditure categories and amounts reported by State to the Congress.

| <u>Expenditure category</u> | <u>Amount reported</u> |
|---|------------------------|
| | (thousands) |
| Weapons | \$ 5,814 |
| Ammunition | 129,537 |
| Aircraft, spares, and accessories | 15,898 |
| Commodities, other equipment, and spares | 17,879 |
| Construction | 2,803 |
| Services and training (including air support for other than U.S. combat air operations) | 84,473 |
| Personnel and supplies | 71,764 |
| Stabilization programs | 18,580 |
| Title II, Public Law 480 | 1,380 |
| Regional development | <u>1,624</u> |
| Total | <u>\$349,752</u> |

The above schedule shows that reported expenditures for fiscal year 1972 were only \$248,000 less than the \$350 million ceiling. Certain operating decisions were made by each of the agencies which affected both actual costs and accounting for such costs and which may be categorized as (1) decisions to increase the efficient use of available assets and thus reduce costs, (2) decisions concerning reporting criteria and accounting methodology, and (3) decisions that certain categories of expenditures related to U.S. activities in Laos should not be reported under the ceiling.

Appendix II shows by agency the reported and unreported expenditures in, to, or on behalf of Laos for fiscal year 1972.

For fiscal year 1973 the agencies reported expenditures of about \$332.8 million--\$42.2 million under the \$375 million ceiling--using essentially the same guidelines and reporting criteria as those developed during fiscal year 1972.

CHAPTER 2

BENEFITS OF THE EXPENDITURE CEILING

The establishment of a ceiling on expenditures for Laos had a definite positive impact on agency program management and resulted in the Congress having additional information on the nature and scope of U.S. activities in that country. The departments and agencies generally tried to provide a full and honest report of expenditures; however, certain categories of expenditures were not reported because the agencies believed that the categories were not subject to the ceiling, and other expenditures were reported on an inconsistent basis within and among agencies.

As anticipated by the agencies, the ceiling and the reporting requirement created a variety of technical and managerial problems. Agencies' accounting and reporting systems were not designed for the type of reports required by the legislation, and the interagency fund transfers and management organizations required decisions as to which would report certain costs. These technical problems were generally resolved, however, without any apparent impairment of program management.

The very fact that a ceiling had been imposed on expenditures engendered management decisions which resulted in more efficient and effective use of available assets and in suspending deliveries of items not absolutely essential to the stated mission. Beginning early in March 1972, when the limiting impact of the ceiling became clear, program managers scrutinized planned operations, objectives, and priorities weekly to evaluate their effect on the ceiling.

Examples of some of the actions taken by program managers that resulted in more efficient use of assets follow.

--In March 1972 the decision was made to defer delivery of non-mission-essential material and to draw down stocks already in Laos. Deferred shipments during March through June 1972 amounted to \$21.7 million. The material's essentiality was reevaluated in fiscal year 1973 before being delivered to Laos.

--The number of aircraft sorties initially planned for the Royal Lao Air Force from February through June 1972 was progressively reduced. Reducing the sortie rate was possible through a constant reevaluation of the ratio of ground actions and ammunition to combat air sorties to insure the most desirable mix within the restriction of available dollars. According to DOD estimates, the cutback in the sortie rate saved about \$13 million.

--In May 1972, when the probability was very high of exceeding the ceiling, all automatic military shipments--except medical supplies--into Laos were stopped. Equipment and supplies were delivered only as specifically requested.

DOD management actions significantly reduced the fiscal year 1973 program. As of March 1973, program reductions of about \$72 million had been processed and program managers were identifying other items of equipment and supplies that might not be needed. These program reductions resulted both from intensified management efforts which were an outgrowth of the ceiling and from the February 1973 cease-fire in Laos.

According to DOD and AID officials, imposing a ceiling had certain salutary effects and the ceiling was used, on occasion, to discourage new projects which were not considered absolutely essential.

CONCLUSION

Despite any possible shortcomings in implementing the reporting requirement, imposing a ceiling on expenditures for Laos was beneficial. Program management efforts were intensified, expenditures were reduced, and the Congress was provided with additional information for use in discharging its oversight responsibilities.

CHAPTER 3

EXPENDITURE CEILING WAS EXCEEDED

The departments and agencies generally tried to develop systems to insure that all costs they considered reportable would be included; however, an estimated \$28.2 million of assistance-related expenditures were not reported or were not reported adequately by the three reporting agencies in fiscal year 1972. If these expenditures had been reported, the \$350 million ceiling for fiscal year 1972 would have been exceeded by about \$28 million. (See app. II.)

DOD

DOD expenditures reported for Laos for fiscal year 1972 did not include:

1. Transit costs between the United States and Thailand for MASF-furnished equipment.
2. Other logistical support costs, including the operation of a storage site in Thailand.
3. Losses in transit of Laos-destined equipment.

Although we do not know the exact amount not reported for these items, we estimate that transit costs applicable to DOD- and CIA-furnished material and equipment was about \$21.6 million. DOD officials in Thailand said that other logistics support costs and losses in transit were substantial but the amount was not known. DOD's expenditure reports did not include air combat operations which were exempted by legislation or attache costs associated with functions considered by State and DOD as normal Embassy costs.

Guidelines for expenditures included in the report

Because the Symington amendment was enacted in November 1971, DOD expenditures reported for the first half of fiscal year 1972 necessarily represented the best available delivery estimates. As DOD gained experience in implementing the legislation, it developed more definitive reporting guidelines and a more accurate system for accumulating expenditure data.

DOD, in developing guidelines and reporting systems, tried to report all expenditures in those categories it considered subject to the ceiling. The guidelines developed during fiscal year 1972 for those categories were generally adequate--except the guideline for valuing nonexcess used material--and, although revisions were made to improve reporting accuracy and to accommodate program changes, the guidelines remained essentially the same during fiscal year 1973.

Program managers generally complied with the procedures developed by DOD for reporting expenditures under the ceiling. According to a DEPCHIEF internal audit of January 1973 costs, reported expenditures were within 1.4 percent of being accurate. The audit report noted several discrepancies--inadvertently omitting expenditures; failing to use current Military Articles Service List (MASL) prices; and using call-forward orders, rather than actual deliveries, in reporting certain expenditures. The report concluded, however, that there was no attempt by the commodity managers to exclude expenditures considered to be in reportable categories.

Even though the guidelines developed for reporting were generally complied with, certain problems existed with respect to nonexcess used material and ammunition delivered to Laos.

Nonexcess used material

The guideline for valuing deliveries of used items not excess to requirements stated that such items were to be valued at 56 percent of the MASL price. This valuation method normally is not used in determining the unit price of non-excess used material delivered to Military Assistance Program recipient countries.

DOD officials were unable to explain the specific rationale for establishing the guideline that nonexcess used items should be reported at 56 percent of the MASL price. Although this valuation method was available for the Laos program, program managers did not use it when reporting expenditures under the ceiling but applied the MASL price to such material, which resulted in a more accurate report than had the guideline been followed.

Ammunition

The guideline for reporting the delivery of new items not excess to requirements--including ammunition--stated such items were to be valued at the standard MASL price, but, in reporting expenditures for ammunition, DEPCHIEF used the U.S. military service price.

DOD and CIA reported ammunition expenditures of \$129.5 million for fiscal year 1972, about one-half of the total reported expenditures. We could not determine the exact dollar impact of using the military service price rather than the MASL price because ammunition expenditures were reported by DEPCHIEF on a composite basis. The MASL price generally included an additional 6.5 percent for certain packing, crating, handling, and transportation costs in the United States which were not included in the military service price. Thus, if the MASL price had been used, the estimated accessorial cost could have increased the reported expenditures for ammunition by about \$8.4 million.

Because ammunition constituted a large share of reported expenditures, we believe that reporting it on the same basis as other categories would have resulted in more consistent reports.

Expenditures excluded from the report

The Office of the Secretary of Defense determined that certain logistical costs related to the MASF program for Laos would not be included in the expenditure report.

- Transportation and handling costs for shipping material and equipment destined for Laos from the United States to Thailand storage sites.
- Costs incurred by other DOD activities in providing logistical support for the Laos military assistance program, including the operation of a storage site--known as Peppergrinder--in northern Thailand.
- Losses in transit of MASF-furnished equipment ultimately destined for Laos.

DOD and CIA spent an estimated \$21.6 million for transporting and handling about \$172 million worth of material, equipment, and supplies delivered to Laos in fiscal year 1972. The estimated accessorial cost includes standard DOD percentage rates for (1) port unloading and handling costs in the United States and overseas, (2) overseas inland transportation costs, and (3) ocean transportation costs from the United States to the Far East.

Although estimates were not available for other logistical support costs or for losses in transit, we were told that these costs were substantial.

The amendment states that the ceiling applies to all expenditures directly or indirectly related to assistance programs of any kind for Laos. DOD said that expenditures in the above categories would not be reported on the basis that equipment, until actually delivered to Laos, remained in the physical custody of the United States and could be used to support forces other than in Laos.

The sole function of the Peppergrinder storage site was to receive, store, secure, and ship material and equipment for the Laos program as directed by DEPCHIEF. Also we found no instances in which commodities earmarked for Laos were diverted to another program. Although it may be true that equipment predestined for Laos remained in the physical custody of the United States until actually delivered, we believe that at the time the items were delivered to Laos, the applicable costs of shipment from the United States and other logistical support costs should have been included in the expenditure reports.

CIA

CIA told us that expenditures reported for Laos for fiscal year 1972 included all its assistance-related expenditures except (1) transit costs between the United States and Thailand for equipment furnished under the Laos Irregular Program and (2) personnel costs of CIA officials responsible for managing the Irregular Program in Laos.

Our review of CIA expenditures was limited to obtaining copies of CIA-submitted expenditure reports and discussing the overall reporting criteria with Washington officials;

it did not include an evaluation of the adequacy of CIA's data collection and reporting system.

CIA officials said that they generally followed the same criteria and reporting methods as those established by DOD and that, to be consistent with DOD, they reported only in-country and "last leg" transit costs but not the costs related to shipping commodities from the United States to Thailand storage sites. The unreported transportation costs, computed on the basis of standard DOD cost estimates for over-seas shipments, were substantial for weapons, ammunition, and commodities delivered under the Irregular Program in fiscal year 1972. We believe that these assistance-related transportation costs should have been included in the expenditure reports.

AID

AID reported total expenditures of \$50,551,000 for economic assistance programs in Laos in fiscal year 1972, including expenditures for economic stabilization, project assistance, Public Law 480 commodities, and regional economic development projects in Laos. Expenditures for certain administrative costs associated with the programs in Laos, and the value of excess property acquired for Laos were not included in the legislative ceiling report. AID also underestimated the transportation costs for Public Law 480, title II, commodities delivered to Laos. We believe that these assistance-related expenditures should have been included in the reports to the Congress.

AID did not report expenditures for the narcotics control program, but we agree that the ceiling did not apply to these expenditures.

AID also did not follow the interagency accounting and reporting guidelines promulgated in November 1971 or its internal accounting instructions, with the result that the expenditures reported in fiscal year 1972 were reduced.

Expenditures not reported

Administrative expenses

AID did not report the following fiscal year 1972 assistance-related administrative expenses.

| <u>Expenditure type</u> | <u>Estimated amount</u> |
|---|-------------------------|
| AID/Washington salary costs for Laos Desk | \$ 150,000 |
| AID/Washington-funded costs for Mission personnel | 538,476 |
| AID Auditor General costs for personnel located in Laos | 180,000 |
| AID/Laos-funded administrative costs (disbursements) | <u>302,367</u> |
| Total | <u>\$1,170,843</u> |

AID excluded the administrative costs associated with the Laos program because AID's General Counsel believed the Congress did not intend to include these costs in the ceiling. He based his belief primarily on the amendment's legislative history which he said indicated that the ceiling amount was intended to permit funding levels requested for economic supporting assistance for Laos. The requested levels included program costs, not administrative costs. He also concluded that administrative costs should be excluded because they were (1) separately appropriated and constituted overhead which could not be allocated to a particular country and (2) administrative expenses of employees engaged in activities of primary U.S. Government interest not properly charged against program funds but charged instead to the separately appropriated administrative expenses.

We do not agree that the legislative history of the Symington amendment justifies the exclusion of administrative costs. Although the request for fiscal year 1972 AID economic support funds did not include administrative expenses, the Congress clearly did not base its final ceiling figure of \$350 million on the support assistance presentation alone. The Conference Report states:

"The Congress has been advised that the ceiling established by the section, \$350 million, is equivalent to the total expenditures programmed by the Administration in Laos for Fiscal Year 1972, excluding the normal and usual expenses of the embassy discussed below." (Underscoring supplied.)

The Report goes on to explain that the conferees intended to include all assistance-related activities in Laos within the limitation, with the single exception of vital non-assistance-related activities such as normal and usual expenses of the Embassy as would be incurred in peacetime in the absence of any military, paramilitary, or economic assistance programs of any kind.

There is nothing in the legislative history of the 1973 appropriation act, which included substantially similar language, to indicate a change of intent. Therefore, all direct and indirect assistance to Laos must be reported to the Congress to determine whether the amounts expended are within the ceiling.

Narcotics control program expenditures

During fiscal year 1972 AID disbursed \$369,953 for the narcotics control program in Laos which was excluded from the expenditure report. The AID General Counsel believed that funds made available for controlling international narcotics trafficking under section 481 of the Foreign Assistance Act of 1961, as amended, were not subject to the Symington amendment ceiling.

AID believed that the Congress did not intend narcotics control activities to come within the purview of the ceiling and said the Congress knew the Laos program, exclusive of narcotics control, was planned at \$350 million for fiscal year 1972 when section 481 was enacted. Nevertheless, recognizing the importance of curtailing narcotics trafficking, the Congress expressly authorized narcotics control expenditures, "notwithstanding any other provisions of law." AID's General Counsel observed that, because both acts contained this provision, the rule of statutory construction would lead to the conclusion that the latter act should be presumed to constitute a waiver of the expenditure ceiling in the prior act.

We agree with AID's General Counsel that expenditures for the narcotics control program were not subject to the Symington amendment ceiling.

Acquiring excess property

During fiscal year 1972 the AID Mission obtained for use in Laos excess U.S. property with an acquisition value of \$1,323,789, but it did not include a value for the property in the fiscal year 1972 report.

The amendment stated that the value of any item provided to Laos shall be included in computing the limitation on expenditures. "Value" was defined as the fair market value but in no case less than 33-1/3 percent of the goods' acquisition cost. AID should have included in its fiscal year 1972 expenditure report the fair market value of the excess property obtained but in no case less than \$441,263--one-third of the acquisition cost. After we brought this matter to AID's attention, it did include the 1972 amount in its fiscal year 1973 report, plus an amount for excess property delivered during that year.

Public Law 480 transportation costs

AID reported \$1,380,000 for Public Law 480 commodities delivered to Laos during fiscal year 1972, with an estimated amount for ocean transportation. Commodities delivered, plus actual ocean transportation, amounted to \$1,820,000, or \$440,000 more than was included in the fiscal year 1972 expenditure report.

AID said that it reported estimates which were the best available data and that it did not know its actual expenditures for fiscal year 1972 until January 1973. AID said that it improved the fiscal year 1973 reporting system to more accurately show actual cost data as it became available.

Accounting and reporting adjustments

In developing its accounting and reporting procedures for implementing the Symington amendment, AID made several adjustments which sometimes were inconsistent with the guidelines agreed on at the late November 1971 interagency meeting. Other adjustments were inconsistent with AID's internal accounting instructions. These included (1) reporting commodity expenditures on a disbursement basis, rather than on an arrival basis, (2) reporting contract air support costs on a disbursement basis, rather than on an accrual basis, (3) reporting regional economic development expenditures on behalf of Laos; and (4) deferring payment of General Services Administration (GSA) billings until after the close of the fiscal year.

Reporting commodity expenditures

In the third quarter of fiscal year 1972, AID began calculating all expenditures, except air support costs, on an actual disbursement basis, rather than on a commodity-arrival basis. AID recognized that this reporting method was inconsistent with that followed by DOD and CIA. AID stated, however, that expenditures calculated on a disbursement basis would be more consistent with its standard reporting procedures.

AID said that reporting expenditures on an arrival basis required many adjustments and that the method had no direct relationship to its other accounting reports. AID said also that, although it might be more expedient for other agencies

to interpret "expenditures" to mean actual deliveries of commodities to Laos, it was doubtful that such an interpretation should be applied to AID-financed commodities. Under the bilateral agreement, commodities are purchased specifically for Laos and belong to the Lao Government--or the Mission for support-type commodities--as of the date of shipment. AID therefore concluded that expenditures on behalf of Laos occurred at the time funds were disbursed for such commodities.

The AID Mission in Laos compared first-half fiscal year 1972 commodity arrivals with disbursements, which showed that expenditures reported on a disbursement basis would be about \$3 million less. The final expenditure report, however, showed that the net result of reporting disbursements rather than arrivals was negligible and that AID may have reported \$168,000 more for commodities by using disbursements rather than arrivals.

Contract air support costs

Reporting each agencies' proper share of the contract air support costs for fiscal year 1972 was a particularly complex problem. So that all contract air support costs could be properly reported, it was agreed that the costs would be reported by the using agency on an accrual or usage basis. Periodic cost-sharing conferences were to be held to review the agency allocations.

The agreed method of assigning and reporting contract air support costs was followed by DOD and CIA--and by AID until the final report for fiscal year 1972. In May 1972 AID realized that using the accrual basis for reporting support costs would exceed the ceiling. The AID Mission advised Washington officials that, if expenditures were reported on an actual cash-disbursement basis, reported contract air support costs could be reduced by about \$2.2 million. AID therefore decided to report air support costs on a cash-disbursement basis, rather than on the accrual basis which DOD and CIA used. This change in reporting was consistent with AID's decision to report expenditures for commodities on a cash-disbursement basis.

The final fiscal year 1972 cost-sharing conference held in August 1972 showed that AID's share of contract air support costs amounted \$6,655,000. According to AID records,

a maximum of only \$3,957,000 was reported for contract air support costs using a cash-disbursement basis--\$2,698,000 less than would have been reported on an accrual basis.

Both methods of reporting expenditures may be valid. To provide more meaningful reports to the Congress, each agency should report similar types of expenditures on a consistent basis.

Regional economic development expenditures

AID reported \$1,624,144 for regional economic development expenditures benefiting Laos during fiscal year 1972. As shown below, the major portion of these expenditures were for the Nam Ngum Dam project.

| | <u>Amount</u> |
|---|--------------------|
| Nam Ngum Dam project | \$1,486,972 |
| Other regional expenditures allocated to Laos | <u>137,172</u> |
| Total | <u>\$1,624,144</u> |

This project, a multilateral undertaking supported by nine countries including the United States, was administered by the International Bank for Reconstruction and Development (World Bank). The United States agreed to contribute 50 percent of the project's costs.

AID could not provide any documentation as to how it arrived at the amount reported for the project for fiscal year 1972. AID received its expenditure data by telephone from the World Bank. As shown below, financial reports prepared for the World Bank showed that AID's share of the Nam Ngum Dam expenditures was at least \$2,412,227 for the fiscal year--about \$925,255 more than the amount in AID's expenditure report to the Congress.

| | <u>Amount</u> |
|--|--------------------|
| Expenditures reported to the World Bank for the period July 1971 through May 1972 | \$5,583,435 |
| Less exclusion for services and commodities provided prior to July 1971 | <u>758,980</u> |
| Total | <u>\$4,824,455</u> |

| | <u>Amount</u> |
|---|-------------------|
| AID's share of project expenditures | \$2,412,227 |
| Amount included in the expenditure report to the Congress | <u>1,486,972</u> |
| Difference | <u>\$ 925,255</u> |

In commenting on this report, AID said that a deduction of \$1.8 million had been made from World Bank disbursements--in addition to the \$758,980 deduction--for equipment and services provided before July 1, 1971. The total incentive fee paid by the World Bank to the contractor in fiscal year 1972 was \$2.3 million--\$500,000 in the first half and \$1.8 million in the third quarter--and that this fee applied to the entire 5-year contract period which began in 1967. The final fee payment was delayed because the World Bank questioned a portion of the fee. AID concluded that only one-fifth of the fee was applicable to fiscal year 1972 and commented that, although the \$1.8 million deduction was actually less than four-fifths of the total fee, the U.S. portion of this deduction--50 percent--would account for \$900,000 of the difference. The remaining \$25,255 difference was accounted for by AID's reporting expenditures based on estimates for the fourth quarter of fiscal year 1972.

We do not necessarily disagree with AID's rationale for deducting from its fiscal year 1972 expenditure report amounts paid in that year for commodities and services provided in prior years. This rationale, however, is not consistent with AID's decision to report expenditures under the ceiling on a disbursement basis.

Deferred payments

To stay within its allocation, AID deferred payment of June 1972 GSA billings amounting to \$922,000 until after the end of the fiscal year. AID accounting instructions state that GSA bills are to be processed for payment within 1 working day following receipt of the bill and that under no circumstances should payments be delayed.

The AID Mission in Laos told officials in Washington that it proposed to defer payment of GSA billings until after the end of the fiscal year in order to stay within the ceiling; Washington officials agreed but believed it was not necessary to consult or advise the procuring agency.

CONCLUSIONS

The departments and agencies generally tried to develop systems to insure that all costs they considered within the reportable categories would be included. Nevertheless, we identified an estimated \$28.2 million of assistance-related expenditures which were not reported or were not reported adequately by the three agencies in fiscal year 1972. If these expenditures had been reported, the \$350 million ceiling established in section 505 of the Armed Forces appropriation authorization for 1972 would have been exceeded. For example, in fiscal year 1972:

- DOD and CIA did not report certain logistical support costs, including an estimated \$21.6 million for overseas transportation.
- Commodity managers did not follow DOD guidelines for pricing ammunition expenditures.
- AID did not report about \$1.2 million for assistance-related administrative costs, \$441,263 for excess property acquired for Laos, and about \$440,000 for additional transportation costs on Public Law 480 commodities.

Although DOD and CIA material and equipment earmarked for Laos remained in U.S. custody until actually delivered to Laos, we believe that, at the time the items were delivered, the applicable overseas transportation and other logistical support costs should have been included in the

expenditure reports to the Congress. Also AID should have included in its reports all assistance-related expenditures.

Also, AID's reporting for commodities and air support costs was inconsistent with that of other agencies, its reporting of regional economic development expenditures was not compatible with previous management decisions, and the deferred payment of GSA's June 1972 billing until the following fiscal year was not in accordance with its internal instructions.

Various methods are available to the agencies for accumulating and reporting the type of expenditure data required by the Symington amendment. We believe, however, that similar types of expenditures should be reported on a consistent basis by each agency to provide more meaningful reports to the Congress.

RECOMMENDATIONS

We recommend that the Secretary of State coordinate the reporting guidelines with the Secretary of Defense, the Director of CIA, the Administrator of AID, and other agency heads to insure that any expenditure reports submitted to the Congress are complete and accurate and that, to the extent possible, accounting and reporting procedures are applied on a consistent basis by each agency. We recommend also that the Secretary of State inform the Congress of any inconsistent accounting and reporting methods used by reporting agencies and of the types and estimated amounts of expenditures which in the opinion of the agencies are not within the reportable categories.

AGENCY ACTIONS

The Department of State said that our report presents a balanced picture of the problems of developing a comprehensive report to the Congress on assistance-related expenditures for Laos and that they are already working to refine procedures to insure that future reports are complete and accurate.

State agreed with our recommendations that, to the extent possible, accounting and reporting procedures should be applied on a consistent basis and that it should be noted on the reports when different methods are used. They also

agreed that the Congress should be informed of the types and estimated amounts of expenditures, excluding the normal expenses of operating a diplomatic mission and those unrelated to assistance, which the contributing agencies believed were not within the reportable categories required by the legislation.

AID agreed that future reports to the Congress would be improved by noting any incompatibilities between accounting systems and agency decisions regarding reportable categories and exclusions. AID said that it would have no difficulty complying with our recommendations in making future reports to the Congress. CIA agreed with our recommendations, except, in its opinion, there was no need to inform the Congress of the types and estimated amounts of expenditures which it believed were not within the reportable categories required by the legislation. CIA's specific comments on this report were classified SECRET and were therefore omitted from appendix III.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report should help the House and Senate Committees on Armed Services, the House Committee on Foreign Affairs, and the Senate Committee on Foreign Relations to evaluate the agencies' compliance with the ceiling legislation.

Because of the peculiarities of this legislation which imposed an overall ceiling on expenditures from several appropriations without specifying a ceiling on expenditures from an individual agency's appropriation, it was not possible for GAO to determine which agency caused the ceiling to be exceeded or to ascertain specifically at what point in time the ceiling was exceeded. The difficulty of enforcing this ceiling suggests that, if the Congress wishes to impose in future legislation an overall ceiling on expenditures for a particular country, it may want to consider fixing, or delegating the responsibility for fixing, a specific allocation of the overall ceiling for each agency involved in that country.

CHAPTER 4

SCOPE OF REVIEW

We made our review to determine whether agencies were effectively implementing the reporting requirement and whether the Congress was receiving complete, consistent, and useful reports on U.S. expenditures for the various programs and activities in Laos. We studied the ceiling's impact on program management and operations and the problems agencies had in trying to stay within the ceiling.

We reviewed the applicable legislative history, reports submitted to the Congress, supporting documentation, and accounting procedures used by the various agencies in accumulating and reporting expenditures. Our detailed examination was directed primarily toward ascertaining the completeness of the final fiscal year 1972 report and evaluating the methodology used by the several agencies in accumulating and reporting expenditure data for both fiscal years 1972 and 1973. We discussed relevant matters with officials at the U.S. Embassy, AID, and USIA in Laos; DEPCHIEF; and the Department of State, AID, USIA, and DOD in Washington.

Our review of CIA expenditures was limited to obtaining copies of reports submitted by CIA to the Department of State for inclusion in the overall expenditure report and to discussing reporting criteria and guidelines with officials in Washington.

PERTINENT SECTIONS OF THE ARMED FORCES

APPROPRIATION AUTHORIZATION ACTS

Armed Forces appropriation authorization, 1972
Public Law 92-156, approved November 17, 1971

Sec. 505. (a) Notwithstanding any other provision of law, no funds authorized to be appropriated by this or any other Act may be expended in any amount in excess of \$350,000,000 for the purpose of carrying out directly or indirectly any economic or military assistance, or any operation, project, or program of any kind, or for providing any goods, supplies, materials, equipment, services, personnel, or advisers in, to, for, or on behalf of Laos during the fiscal year ending June 30, 1972.

(b) In computing the \$350,000,000 limitation on expenditure authority under subsection (a) of this section in fiscal year 1972, there shall be included in the computation the value of any goods, supplies, materials, or equipment provided to, for, or on behalf of Laos in such fiscal year by gift, donation, loan, lease, or otherwise. For the purpose of this subsection, "value" means the fair market value of any goods, supplies, material, or equipment provided to, for, or on behalf of Laos, but in no case less than 33 1/3 per centum of the amount the United States paid at the time such goods, supplies, materials, or equipment were acquired by the United States.

(c) No additional expenditures in excess of the limitation prescribed in subsection (a) of this section may be made for any of the purposes described in such subsection in, to, for, or on behalf of Laos in any fiscal year beginning after June 30, 1972, unless such expenditures have been specifically authorized by law enacted after the date of enactment of this Act. In no case shall expenditures in any amount in excess of the amount authorized by law for any fiscal year be made for any such purpose during such fiscal year.

(d) The provisions of subsections (a) and (c) of this section shall not apply with respect to the expenditure of

APPENDIX I

funds to carry out combat air operations in or over Laos by United States military forces.

(e) After the date of enactment of this Act, whenever any request is made to the Congress for the appropriation of funds for use in, for, or on behalf of Laos for any fiscal year, the President shall furnish a written report to the Congress explaining the purposes for which such funds are to be used in such fiscal year.

(f) The President shall submit to the Congress within thirty days after the end of quarter of each fiscal year, beginning with the fiscal year which begins July 1, 1971, a written report showing the total amount of expenditures in, for, or on behalf of Laos during the preceding quarter by the United States Government, and shall include in such report a general breakdown of the total amount expended, describing the different purposes for which such funds were expended and the total amount expended for such purposes, except that in the case of the first two quarters of the fiscal year beginning July 1, 1971, a single report may be submitted for both such quarters and such report may be computed on the basis of the most accurate estimates the Secretary of Defense can make taking into consideration all information available to him.

Armed Forces appropriation authorization, 1973
Public Law 92-436, approved September 26, 1972

Section 602 of the 1973 appropriation authorization act establishing the ceiling on expenditures and the reporting requirement for Laos for fiscal year 1973 is identical to Section 505 of the 1972 act, with the following exceptions:

Par. (a)--The amount was changed from \$350 million for fiscal year 1972 to \$375 million for fiscal year 1973. The fiscal year ending was changed from June 30, 1972, to June 30, 1973.

Par. (b)--The amount "\$375,000,000" was substituted for \$350,000,000, and "1973" was substituted for "1972".

Par. (c)--The year "1973" was substituted for "1972".

Par. (d)--The words " and South Vietnamese" were added in order to exclude from the ceiling the cost of air

combat operations carried out over Laos by both the U.S. and South Vietnamese military forces.

Par. (f)--This paragraph of Section 505 was deleted, and the following paragraph was substituted:

"The President shall submit to the Congress within thirty days after the end of each quarter of each fiscal year, a written report showing the total amount of expenditures in, for, or on behalf of Laos during the preceding quarter by the United States Government, and shall include in such report a general breakdown of the total amount expended, describing the different purposes for which such funds were expended and the total amount expended for such purposes."

APPENDIX II

REPORTED AND UNREPORTED EXPENDITURES FOR LAOS

| <u>Expenditure category</u> | <u>Fiscal year 1972</u> | | |
|--|---------------------------------------|-----------------|------------------|
| | <u>DOD and CIA</u> <u>(note a)</u> | <u>AID</u> | <u>Total</u> |
| | (000 omitted) | | |
| Expenditures reported (note b): | | | |
| Weapons | \$ 5,814 | \$ - | \$ 5,814 |
| Ammunition (note c) | 129,537 | - | 129,537 |
| Aircraft, spares, and accessories | 15,898 | - | 15,898 |
| Commodities and other equipment | 7,007 | 10,872 | 17,879 |
| Construction | 2,803 | - | 2,803 |
| Services and training | 66,378 | 18,095 | 84,473 |
| Personnel and supplies | 71,764 | - | 71,764 |
| Stabilization programs | - | 18,580 | 18,580 |
| Public Law 480 program | - | 1,380 | 1,380 |
| Regional economic development program | - | 1,624 | 1,624 |
| Total expenditures reported | <u>299,201</u> | <u>50,551</u> | <u>349,752</u> |
| Expenditures not reported (note b): | | | |
| Transportation and handling costs (estimated) | 21,600 | - | 21,600 |
| Public Law 480 transportation (additional) | - | 440 | 440 |
| AID administrative expenses | - | 1,171 | 1,171 |
| Excess property (1/3 of acquisition cost) | - | 441 | 441 |
| Additional contract air support (accrual basis) | - | 2,698 | 2,698 |
| Additional regional economic development expenditures (per World Bank reports) | - | 925 | 925 |
| Deferred GSA billings | - | 922 | 922 |
| Other logistical support costs including losses in transit | (d) | - | - |
| CIA personnel costs | (d) | - | - |
| Total | <u>21,600</u> | <u>6,597</u> | <u>28,197</u> |
| Total reported and unreported expenditures | <u>\$320,801</u> | <u>\$57,148</u> | <u>\$377,949</u> |

^a Expenditures reported separately are classified.

^b We did not verify the accuracy of each reported expenditure but tried to determine the completeness of the reports and whether expenditures were reported on a consistent basis.

^c Ammunition was reported using U.S. military price lists, even though DOD guidelines require that MASL price lists be used. Using the MASL price list could have increased reported expenditures for this line item by about 6.5 percent, or about \$8.4 million.

^d Estimated amounts not available.

BEST DOCUMENT AVAILABLE



UNCLASSIFIED
~~-(WITH SECRET ENCLOSURE)-~~
 DEPARTMENT OF STATE

CLASSIFIED ENCLOSURE
 HAS BEEN REMOVED

Washington, D.C. 20520

January 14, 1974

Mr. James A. Duff
 Associate Director
 International Division
 U. S. General Accounting Office
 Washington, D.C. 20598

Dear Mr. Duff:

I am replying to your letter of November 27, 1973, which enclosed a copy of the draft General Accounting Office report entitled, "Completeness of Expenditures Reported for Laos Under the Legislative Dollar Ceiling" and requested the Department to coordinate a reply with other agencies and to review the security classification of the report. I am enclosing the Department's comments on the report as well as those of the Agency for International Development, Department of Defense, and the Central Intelligence Agency. Please note that the CIA expenditures listed on pages 3, 8, 9, 18 and 19 of the report should remain classified at the SECRET level and that the Department of Defense will be commenting directly to the General Accounting Office on classification as it relates to DOD activities.

[i, 3,
 and 12]
 [See GAO
 note 1.]

We appreciate the opportunity to review and comment on the report.

Sincerely yours,

Richard W. Murray
 Richard W. Murray
 Deputy Assistant Secretary
 for Budget and Finance

Enclosure:
 As stated.

UNCLASSIFIED
~~-(WITH SECRET ENCLOSURE)-~~

CLASSIFIED ENCLOSURE
 HAS BEEN REMOVED

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UNCLASSIFIED
-(With ~~SECRET~~ Attachment)-

Department of State Comments on GAO Draft Report:
Completeness of Expenditures Reported for Laos
Under the Legislative Dollar Ceiling

The GAO draft presents a balanced report on the problems of developing a comprehensive report to the Congress on assistance-related expenditures for Laos, and on the efforts of the Departments and Agencies involved to prepare such a report. The Department of State is already working to insure that the reports submitted are complete and accurate and agrees with the GAO that accounting and reporting procedures should be applied on a consistent basis by each agency to the extent possible in any reports required in the future. We also agree with the GAO that it should be noted on the reports when different accounting and reporting methods are used, and that the Congress should be informed of the types and estimated amounts of expenditures, excluding the normal expenditures of the diplomatic mission and those unrelated to assistance, which the contributing agencies believe are not within the reportable categories required by the legislation.


The Department of State and the Agency for International Development approve the declassification of the report as it relates to their activities. The Central Intelligence Agency considers the dollar figures for CIA expenditures to be classified SECRET; therefore, pages 3, 8, 9, 18, and 19, which contain specific figures related to CIA expenditures must remain classified at the SECRET level. If the figures are deleted, these pages may be declassified. The Department of Defense will be commenting directly to the GAO on classification as it relates to DOD activities.

[i,3,
and 12]
[See GAO
note 1.]

In accordance with the GAO's request, we have attached comments on the draft report from AID, DOD, and CIA.

Attachments:

AID Comments
DOD Comments
CIA Comments


Seymour Weiss
Director
Bureau of Politico-Military
Affairs

A.I.D. COMMENTS ON GAO DRAFT REPORT TITLED
"COMPLETENESS OF EXPENDITURES REPORTED FOR
LAOS UNDER THE LEGISLATIVE DOLLAR CEILING"

1. General Comments:

We find very little to take exception to in this GAO review of an exercise that was, for the Agencies involved, entirely new and very difficult. A.I.D.'s compliance with the ceiling in fiscal year 1972 was complicated by several circumstances: (a) in several categories, e.g., World Bank expenditures and PL 480 transportation costs, the needed information was not directly or immediately available except as estimates within the required reporting period; (b) the categories of economic assistance determined to be reportable were not entirely consistent with the original construction of the ceiling, and (c) management options for cutting back expenditures were very limited given the fact that the limitation was imposed more than four months after the beginning of the fiscal year and the fact that a substantial amount of expenditures were being made from prior year obligations of funds.

2. The constitution of A.I.D.'s "share" of the ceiling:

[3] As noted in the GAO draft report, (page 8) the figure attributed to A.I.D. when the Congress imposed the ceiling for fiscal year 1972 was \$50.6 million. This figure corresponds to the \$50.6 million requested for Laos in the A.I.D. Presentation to the Congress for Economic Supporting Assistance for that year. The \$50.6 million figure, however, did not include A.I.D. Washington administrative costs nor the cost of administrative-funded personnel in Laos, which are presented to Congress in a separate overall category of A.I.D. costs. Moreover, the \$50.6 million figure in our fiscal year 1972 Congressional Presentation did not include the proposed PL 480 program for Laos, nor any part of the fiscal year 1972 East Asia Regional Program, nor expenditures for the Nam Ngum Dam which had been funded in prior years, nor for the narcotics control program which was initiated in the course of fiscal year 1972; there would have been a reasonable basis, therefore, to exclude all of these categories from the ceiling which were not included in the \$50.6 million figure. Nevertheless, A.I.D. did report, in attempting to comply as fully as possible with the spirit of the legislation, the expenditures for the PL 480 and Regional Development programs, and for the Nam Ngum Dam. A.I.D. did exclude administrative costs and the narcotics

A.I.D. Comments on GAO
Draft Report

control program for reasons discussed later in this statement. Obligation of new funds in the categories comparable to the \$50.6 million in the FY 1972 Presentation to Congress were actually held to \$47.8 million.

[ii, 5,
14, 15,
and 28]

3. Exclusion of administrative expenses (pages 3, 10, 20, 21, and 32):

[14 and 15]

The discussion of A.I.D.'s rationale for excluding administrative costs from the ceiling, in the paragraph commencing at the bottom of page 20 and ending on the top of page 21 of the draft report, appears to us much too abbreviated. We would like to see this section revised substantially as follows:

"A.I.D. excluded administrative costs pursuant to an opinion which has been supplied to the GAO, rendered by the A.I.D. General Counsel on May 22, 1972, that Congress did not intend A.I.D. administrative costs to be included in the Laos ceiling. This conclusion was based primarily upon the legislative history of the Symington amendment which indicated that the ceiling amount approved by Congress was intended to permit the funding levels requested by the Administration; the Administration presentation for Economic Supporting Assistance for Laos did not include administrative costs for A.I.D., but only program costs. It was also the opinion of the A.I.D. General Counsel that these expenses should be excluded on the grounds that (a) these costs are separately appropriated and constitute overhead of A.I.D. operations which could not be allocated to a particular country; and (b) administrative costs of employees engaged in activities of primary United States Government interest are not properly charged against program funds but instead to the separately appropriated administrative expenses."

[5] From the foregoing it can be seen that the statement on page 10 of the draft report concerning the exclusion of administrative costs and reading "A.I.D. believed that these costs should be considered normal embassy operating costs" is inaccurate and should be deleted. This deletion could be replaced by a statement similar to the following: "A.I.D. believed that Congress did not intend A.I.D. administrative costs to be included in the ceiling".

A.I.D. Comments on GAO
Draft Report

[ii, 16,
and 28] 4. Exclusion of narcotics control program (pages 3, 21, and 32):

[16] We find the discussion of narcotics control program expenditures appearing on page 21 of the draft report incomplete and we would like to see this section replaced by an expanded discussion substantially along the following lines:

"During fiscal year 1972, A.I.D. disbursed \$369,953 for a narcotics control program in Laos which was excluded from the expenditure report. An A.I.D. General Counsel opinion concluded that Congress did not intend narcotics control activities to come within the purview of those activities to which the Laos limitation is addressed for the following reasons:

"A. The legislative history of the Symington amendment did not contain an explicit intention that it apply to narcotics-related activity. It indicates that although a ceiling was to be placed on expenditures in Laos, Congress also intended to permit expenditures in the amount then deemed necessary by the Administration, exclusive of U.S. air operations. When the Laos ceiling was enacted, there was no consideration of narcotics activities in Laos since none had been presented to Congress.

"B. The context in which section 481 of the FAA, permitting expenditures for narcotics control activities, was later enacted, together with its legislative history, indicates an intention to exclude narcotics control from the Laos ceiling. Congress knew that the Administration's program in Laos, exclusive of narcotics control, was planned at a \$350 million level when it enacted section 481. Nevertheless, recognizing the importance of curtailing the illegal flow of narcotics to U.S. personnel overseas and to the U.S. itself, Congress expressly authorized narcotics control expenditures "notwithstanding any other provision of law." The plain purpose of that introductory language was to authorize expenditures for narcotics control despite restrictions ordinarily applicable to assistance activities because of the high priority

A.I.D. Comments on GAO
Draft Report

of the narcotics problem. Finally, comments made by Congressman Steel during hearings conducted by the House Foreign Affairs Committee expressly referred to Laos as a substantial source of heroin and of concern."

[ii, 16,
and 28]

5. Reporting of excess property (pages 3, 21, 22, and 32):

The failure to report a value for excess property delivered to Laos in fiscal year 1972 was an oversight which, as noted in the draft report, was corrected when it was brought to A.I.D.'s attention.

[ii, 17,
and 28]

6. Under-estimation of PL 480 transportation costs (pages 3, 20, 22, 27, and 32):

The draft report states that actual PL 480 transportation costs in fiscal year 1972 were \$440,000 more than reported by A.I.D. A.I.D. made a good faith effort to fully report PL 480 expenditures on behalf of Laos even though this program was not included in the calculation of the ceiling. The A.I.D. reports included Title II commodities provided to Voluntary Agency and government-to-government programs, transportation costs for both of these, and transportation costs for commodities provided by Voluntary Agencies. Firm data on actual ship loadings and actual transportation costs, however, were not available within the required reporting periods and the reported figure of \$1,380,000 was composed of the best estimates available from various sources as of June 30, 1972. The figure of \$1,820,000 used in the GAO draft report is found in an A.I.D. report based on actual expenditures that was not published until January 31, 1973.

For fiscal year 1973 reporting, A.I.D. improved the system so that quarterly estimates were adjusted to the extent that actual figures became available and the final annual report was revised accordingly.

[See GAO note 2.]

A.I.D. Comments on GAO
Draft Report

7. A.I.D.'s basis for reporting different from other agencies - commodities, air support, and deferred payments - (pages 3, 4, 23-27, and 32):
[ii, 17, to 21, and 28]

We believe it would be helpful to point out that because of the difference in the methods used by the agencies in allocating resources to country programs, a uniform method of determining expenditures should not be expected and, it appears to us, would be inappropriate.

We understand that the earliest time DOD commodities could be attributed to the Laos program and, thus, be considered as "expenditures" and under the "Symington" ceiling, corresponded generally to the time they were removed from nearby stockpiles and delivered to Laos. Thus, the value of commodity arrivals appears to be a meaningful method of reporting DOD expenditures.

[17 and 18] In contrast to DOD, as pointed out in GAO's draft report on page 23, A.I.D. purchased commodities specifically for the Laos program. Accordingly, we concluded that a more meaningful report would result if A.I.D. reported expenditures for commodities at the time of disbursement rather than reporting expenditures as of the time the commodities actually arrived in Laos. The fact that A.I.D. reported all transportation costs for commodities while DOD reported only last-leg transportation costs is consistent with this interpretation. For internal consistency we applied the disbursement concept for other A.I.D. activities.

[ii, 21, and 28] In the interest of reporting in meaningful terms the level of assistance provided to a country by fiscal year, GAO may wish to consider that while for DOD such assistance may generally correspond to the level of expenditures made, or arrivals in country, for A.I.D. the corresponding level of assistance could probably best be measured in terms of the amount of funds obligated. Furthermore, A.I.D. could have controlled commitments but the measures available for controlling arrivals or expenditures resulting from prior year obligations are (1) stopping cargo in transit, which is impractical and costly, or (2) deferring payments, as in the case of the GSA procurement mentioned on pages 4, 26, 27 and 32 of the draft report. Management options are even more limited when, as in the case of fiscal year 1972, the limitation is imposed well into the fiscal year (November 17, 1971).

A.I.D. Comments on GAO
Draft Report

- [ii, 19, 20, and 28] 8. Rationale for the reporting of World Bank expenditures on the Nam Ngum Dam project (pages 4, 25, 26, and 32):

[19] The draft report states (page 25) that A.I.D. was unable to provide the documentation to show how it arrived at the amount reported for the Nam Ngum Dam project for fiscal year 1972. A.I.D. does not have, of course, direct access to the accounting records of the World Bank nor to the supporting documents for payments made. Estimates received by telephone were the best information available within the required reporting periods. A.I.D. regrets that the original working papers showing the estimates of disbursements and deductions received from the World Bank were not found and made available to the GAO team until after it had completed its draft report. These working papers show that a deduction of \$1.8 million was made from total World Bank disbursements in fiscal year 1972 in addition to the deduction of \$758,980 for equipment and services provided prior to July 1, 1971. After checking again with the World Bank, we believe we have reconstructed the rationale for this deduction. The total incentives fee paid to Hazama Gumi was \$2.3 million; \$500,000 was paid in the first half of fiscal year 1972 and \$1.8 million in the third quarter. However, this fee applied to the entire contract period beginning in 1967 - a period of five years. Only one-fifth of the fee, therefore, would be properly attributable to fiscal year 1972. The rounded figure of \$1.8 million that was deducted actually is somewhat less than four-fifths of the total fee. One reason for the delay in the final payment on the fee was that some part of it was questioned by the World Bank and these questions were not resolved until March 1972. The U.S. portion of this \$1.8 million fee payment - 50 percent - would account for \$900,000 of the \$925,255 discrepancy noted in the draft report. The balance of the discrepancy would be due to the fact that our report necessarily had to be based on estimates for the fourth quarter, whereas the GAO report is based on published figures that became available at a later time.

- [ii and 22] 9. Comments on recommendations (pages 4, 5, and 28):

A.I.D. will have no difficulty in complying with the GAO's recommendations with respect to future reports to the Congress. We agree that such reports would be improved by noting any incompatibilities between accounting systems, and noting Agency decisions regarding reportable categories and exclusions.

A.I.D. Comments on GAO
Draft Report

10. Classification:

A.I.D. would not object to a complete declassification of the draft report.

11. Principal Officials:

[See GAO note 2.]

UNCLASSIFIED

Department of Defense Comments on GAO Draft Report:
Completeness of Expenditures Reported for Laos
Under the Legislative Dollar Ceiling

The Department of Defense considers the draft GAO report an accurate reflection of the implementation problems encountered by the Department in accounting for and reporting of expenditures for Laos under the legislative ceiling, passed by the Congress in November 1971, for retroactive application to 1 July 1971. We are continuing to refine our guidance and procedures with the goal of improving our ability to implement this type of legislation.

Central Intelligence Agency's Comments on GAO Draft Report:
Completeness of Expenditures Reported for Laos
Under the Legislative Dollar Ceiling
(See GAO note 1.)

- GAO note:
1. The classified CIA expenditure data was deleted or combined with similar expenditures of other agencies, and our final report was modified in consideration of DOD comments on classification related to its activities so that this final report could be issued as an unclassified report. The CIA comments on our draft report were classified SECRET and therefore were not included in this appendix.
 2. Deleted comments relate to matters discussed in the draft report which were modified in the final report.

Note: The numbers in brackets refer to pages in this final report.

PRINCIPAL OFFICIALS RESPONSIBLE FOR MATTERS
DISCUSSED IN THIS REPORT

| | Tenure of office | |
|--|------------------|------------|
| | From | To |
| <u>DEPARTMENT OF STATE</u> | | |
| SECRETARY OF STATE: | | |
| Henry A. Kissinger | Sept. 1973 | Present |
| William P. Rogers | Jan. 1969 | Sept. 1973 |
| ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS: | | |
| Robert S. Ingersoll | Jan. 1974 | Present |
| Arthur W. Hummel, Jr. (acting) | May 1973 | Jan. 1974 |
| Marshall Green | Apr. 1969 | May 1973 |
| UNITED STATES AMBASSADOR TO LAOS: | | |
| Charles Whitehouse | Aug. 1973 | Present |
| John Gunther Dean (Charge d'Affaires) | Apr. 1973 | Aug. 1973 |
| G. McMurtrie Godley | July 1969 | Apr. 1973 |
| <u>AGENCY FOR INTERNATIONAL DEVELOPMENT</u> | | |
| ADMINISTRATOR: | | |
| Daniel Parker | Oct. 1973 | Present |
| John A. Hannah | Mar. 1967 | Sept. 1973 |
| ASSISTANT ADMINISTRATOR FOR SUPPORTING ASSISTANCE (note a): | | |
| Robert H. Nooter | Sept. 1972 | Present |
| Roderic L. O'Connor | Aug. 1971 | Sept. 1972 |
| ASSISTANT ADMINISTRATOR FOR EAST ASIA (note a): | | |
| Roderic L. O'Connor | July 1969 | July 1971 |
| DIRECTOR, U.S. AID MISSION TO LAOS: | | |
| Charles A. Mann | Dec. 1968 | Present |

| <u>Tenure of office</u> | |
|-------------------------|-----------|
| <u>From</u> | <u>To</u> |

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

| | | |
|------------------------------|-----------|-----------|
| James R. Schlesinger | June 1973 | Present |
| William P. Clements (acting) | Apr. 1973 | June 1973 |
| Elliot Richardson | Jan. 1973 | May 1973 |
| Melvin Laird | Jan. 1969 | Jan. 1973 |

ASSISTANT SECRETARY OF DEFENSE
(INTERNATIONAL SECURITY
AFFAIRS):

| | | |
|-------------------------------|-----------|-----------|
| Robert C. Hill | May 1973 | Jan. 1974 |
| Lawrence Eagleburger (acting) | Jan. 1973 | May 1973 |
| G. Warren Nutter | Mar. 1969 | Jan. 1973 |

DIRECTOR, DEFENSE SECURITY AS-
SISTANCE AGENCY/DEPUTY ASSIST-
ANT SECRETARY OF DEFENSE
(SECURITY ASSISTANCE) (note b):

| | | |
|------------------------------|------------|-----------|
| Vice Adm. Ray Peet | June 1972 | Present |
| Lt. Gen. George M. Seignious | Sept. 1971 | June 1972 |
| Lt. Gen. Robert H. Warren | July 1968 | Aug. 1971 |

COMMANDER IN CHIEF, PACIFIC:

| | | |
|--------------------------|------------|------------|
| Adm. Noel A. Gayler | Sept. 1972 | Present |
| Adm. John S. McCain, Jr. | July 1968 | Sept. 1972 |

DEPUTY CHIEF, JOINT U.S. MILITARY
ADVISORY GROUP, THAILAND:

| | | |
|--------------------------------|-----------|-----------|
| Brig. Gen. Richard G. Trefry | Feb. 1973 | Present |
| Brig. Gen. John W. Vessey, Jr. | Feb. 1972 | Feb. 1973 |
| Col. Robert J. Kantz | Aug. 1971 | Feb. 1972 |

APPENDIX IV

| <u>Tenure of office</u> | |
|-------------------------|-----------|
| <u>From</u> | <u>To</u> |

CENTRAL INTELLIGENCE AGENCY

DIRECTOR:

| | | |
|--|------------|------------|
| William E. Colby | Sept. 1973 | Present |
| Lt. Gen. Vermon A. Walters (acting) | July 1973 | Sept. 1973 |
| James R. Schlesinger | Feb. 1973 | July 1973 |
| Richard Helms | June 1966 | Feb. 1973 |

^aIn August 1971 AID revised its organizational structure of East Asian programs. The changes in titles are reflected accordingly.

^bBefore September 1971 this was Deputy Assistant Secretary of Defense (Military Assistance and Sales).

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