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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

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Dear Mr. Secretary:

The General Accounting Office has examined the management of property disposal in Vietnam. Our examination included the three major installations at Cam Ranh Bay, Da Nang, and Long Binh. We were also concerned with the type of supervision and direction provided by the Army Disposal Agency and the Area Support Commands, elements of the U.S. Army, Vietnam.

During fiscal years 1969-71, property disposal activities in Vietnam processed \$1.7 billion of materiel, of which \$300 million was usable property and the remainder was scrap. The volume for fiscal year 1971 was \$117 million of usable property and \$194 million of scrap.

We are bringing our observations to your attention at this time because of the volume of excess property generated as forces are withdrawn from the Pacific. Prompt attention could result in improving management and increasing the returns realized from disposal operations.

SAFEGUARDING AND ACCOUNTING FOR MATERIEL

The Army has had difficulty in safeguarding and accounting for the materiel being turned in for disposal in Vietnam, and large quantities of usable materiel have been written off the records because they could not be located. In fiscal year 1971 the three disposal activities wrote off about \$18.3 million of such materiel. Our tests indicated that substantial additional quantities of materiel were missing. For example, at the Long Binh activity, we could not locate property with a book value of \$8.1 million which the records showed as being on hand.

There is no way to ascertain what part of this discrepancy was due to recordkeeping problems and what part was due to loss or theft. The state of the records was such that no meaningful analysis of past transactions was possible.

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At Long Binh our tests showed that 39 percent of the records were inaccurate--that is, the records indicated that materiel was on hand, but it could not be located.

At Da Nang, we tried to locate materiel shown as being on hand on 20 vouchers we had examined for items received during fiscal year 1971, but we were unable to locate any of it. New procedures were installed at Da Nang in fiscal year 1972, and we had no difficulty in locating items received after July 1, 1971.

We believe that there were two principal reasons for the control problems in the disposal yards--divided program management and lack of qualified personnel.

Divided program management

The U.S. Army Disposal Agency, Vietnam, was responsible for supervising the total property disposal effort in Vietnam but lacked the operational control to effectively accomplish this task. The Disposal Agency established broad policy for all disposal activities and ran consolidated sales for all offerings throughout the country. Implementation of policies issued by the Disposal Agency was left to the discretion of the Area Support Commands.

The Area Support Commands provided administrative, logistical, and security support in their geographical areas. Their property disposal officers maintained operational control of the property disposal activities and facilities.

Three different Area Support Commands were responsible for disposal activities at the three installations reviewed. We found that disposal practices were not consistent among the activities. For example:

- Receiving practices and inventory recordkeeping procedures varied by location.
- Disposal activities at Da Nang and Cam Ranh Bay required scrap to be segregated (by type of raw material) before it was sent to them, whereas scrap was being sent to Long Binh unsegregated.

- Disposal activities at Da Nang and Long Binh emphasized local screening of usable assets whereas the activity at Cam Ranh Bay had discontinued local screening.
- Some activities required all materiel to be weighed, but others did not.

These variations in procedures made it difficult for officials of the Disposal Agency to exercise effective control over operations. The Disposal Agency had published and issued adequate procedures and policies for the receipt, storage, segregation, screening, and issuance of property turned in to disposal activities, but it lacked the authority to enforce these policies.

We suggested to officials at the U.S. Army, Vietnam, that the Disposal Agency should have complete responsibility and authority for direction of all property disposal activities--operational as well as technical. We have since been informed by Army officials that this recommendation will be accepted and implemented.

Personnel shortages

During the past several years property disposal operations in Vietnam were staffed with military personnel. In the United States these operations are staffed primarily with civilians. Because there is no adequate training base for military personnel to gain experience in disposal operations and because of the 1-year rotation policy in Vietnam, inexperienced personnel were assigned to property disposal activities.

The Army decided in July 1970 to replace military personnel with civilians in Vietnam and revised the personnel authorizations to increase the number of Army civilians and the number of local nationals. Although recruitment for qualified civilian personnel has not been satisfactory, it may improve as Army and contractor-operated supply operations, which employ civilians, phase out and some of these civilians enter the job market in Vietnam.

REDISTRIBUTION SCREENING

Our review did not include an examination of the effectiveness of screening prior to the transfer of excess materiel. However, significant redistributions have been

accomplished as a result of this screening, especially by the Pacific Command Utilization and Redistribution Agency.

After receipt by disposal activities, property receives two additional types of screening. First, certain property not previously screened is reported directly to the Defense Logistics Service Center (DLSC) for worldwide screening. Second, the materiel is made available for local screening by potential users.

In fiscal year 1971 property disposal activities in Vietnam transferred usable materiel originally costing about \$51.7 million to various authorized recipients. Redistributions accounted for about 44 percent of the usable materiel processed through property disposal. Approximately half of this materiel was transferred to U.S. military services or other agencies and half to foreign governments.

Not all the materiel eligible for redistribution was being reported for screening, however. A Department of Defense (DOD) report dated October 1971 indicates that about 5 percent of the property transferred to disposal activities meets the criteria for reporting to DLSC. On the basis of this estimate, Long Binh and Cam Ranh Bay should have reported about \$182,000 and \$79,000, respectively, during each month of fiscal year 1971. We estimated that only about \$8,800 per month was being reported at Long Binh, and as previously stated, Cam Ranh Bay had discontinued reporting materiel for worldwide screening. DOD officials have advised us that they are considering clarifying policies and procedures for screening of excess property.

DIFFICULTIES EXPERIENCED IN MARKETING EXCESS PROPERTY

Materiel which has survived the screening process is offered for sale to a wide range of potential purchasers. Revenue from sales is used to support property disposal activities and any funds not so needed revert to the U.S. Treasury. During fiscal years 1969-71, a total of \$69.5 million was transferred to the Treasury by DOD from its worldwide program.

DOD's objective is to maximize the return on surplus property by selling it in a competitive market. Competition is sought by soliciting bids from a broad spectrum of potential purchasers to ensure a fair return on property being sold. Our work indicated that despite restrictions imposed

by the Vietnamese Government, reasonable efforts were being made to market property under competitive conditions.

Restrictions imposed by the Vietnamese Government

The sale of excess property in Vietnam is governed by a 1968 country-to-country agreement which states, in part, that "Excess property which is sold for export shall not be subject to custom duties, taxes, or other restrictions by the Vietnamese Government." We found, however, that Government-imposed restrictions and harassment of foreign contractors had continually hampered marketing of excess property. As a result, only about 21 percent of the active bidders during fiscal year 1971 were foreign. In contrast, on Okinawa where no restrictions are imposed about 63 percent of the active bidders were foreign.

The problem was not that agreements were being directly violated, but that they were being circumvented. For example, the Vietnamese Government required that exporters have a license, and we were told that exorbitant prices were charged for them.

Also, Vietnamese port officials were stopping non-U.S. flag and chartered ships from using the U.S. military port at Da Nang, thus forcing the ships to use the commercial port where they were charged excessive and discriminatory port and stevedoring charges. To enforce use of the commercial port, officials threatened to confiscate one of the ships using the military port.

One foreign contractor doing business in Vietnam told us that, as a result of this type of harassment, he paid exorbitant costs for operating and shipping rights. He said he negotiated a monetary settlement in order to operate in a relatively unrestricted manner.

In July 1970 a procedure was implemented that should alleviate some of these problems. Under this procedure, the United States retains title to property that has been sold for export until it reaches international waters. In this manner, the exporter takes title outside the jurisdiction of the Government of Vietnam. However, this procedure results in increased costs to the United States and reduces the revenue available from the disposal program.

NEED TO REVISE PROCEDURES FOR
SEGREGATION OF SCRAP

We estimate that revenue from the sale of scrap could be substantially increased in Vietnam if Long Binh segregated scrap prior to sale. The practice at Long Binh has been to accept mixed truckloads of scrap without requiring the organization turning it in to segregate it. The scrap has then been sold in its mixed state. The Army Audit Agency noted that some contractors removed the higher value metals from the lots purchased and then defaulted on the balance of their contracts, leaving the United States holding the lower value scrap.

An attempt has been made to solve this situation by monitoring the activities of the contractors and requiring them to remove mixed lots, rather than separating out the higher value metals. We believe, however, that a better course of action is available. At Da Nang the average return on scrap increased from \$20 to \$47 per ton after segregation of scrap was required. The Long Binh activity has been receiving an average of about \$28 per ton for its scrap. On the basis of fiscal year 1971 volume and prices obtained by the Da Nang organization, we estimate that Long Binh's revenue would be increased by about \$1.2 million annually if it adopted a similar practice.

RECOMMENDATIONS

These problem areas were discussed with appropriate officials in Vietnam and in the Office of the Army's Deputy Chief of Staff for Logistics. They agreed, in general, with our findings and with the need for some corrective actions.

To correct the problems noted, we recommend that

- emphasis be given to improving the control over material in disposal yards during the extensive phasedown now in progress,
- plans be developed for ensuring that a qualified cadre of property disposal personnel is available to meet the needs of any future exigencies,
- action be taken to ensure that all property disposal activities comply with procedures for reporting usable property to DLSC, and

B-163742

--procedures be implemented to require all units to segregate scrap materiel before it is turned in to property disposal yards.

We will be happy to discuss these matters in greater detail with you or your staff.

Sincerely yours,

Handwritten signature of J. K. Farick in cursive script.

Director

The Honorable
The Secretary of Defense