

3 1967

PN-ARS-482
90136

VS
658.839597
G-326 d.2

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

Property of Central Research
and Reference File, Vietnam
Bureau A.I.D. Div.
Washington

B-159451

April 27, 1967

Dear Mr. Chairman:

Enclosed for your use is a copy of our analysis dated today of the report submitted to the President by the Administrator, Agency for International Development, on January 9, 1967, entitled "Management of AID Commodity Programs--Vietnam--1966." This analysis, which we prepared in accordance with your request dated January 21, 1967, is based, in large part, on field work that we have done in Viet Nam.

In our opinion the report accurately enumerates what we consider to be a series of well-conceived actions, initiated during the last half of 1966, to improve program management. In describing the purposes of these measures, however, the report could be taken as reflecting accomplishments; whereas, we believe that it is too early to reasonably assess their potential effectiveness. These actions were recent innovations and for the most part had been only partially implemented or were in the planning stage at the time the report was issued.

On page 2 of the cover letter transmitting the report to the President, the Administrator estimated that in recent months no more than 5 to 6 percent of all United States economic assistance commodities delivered to Viet Nam had been stolen or otherwise diverted. We are unable to express an opinion on the accuracy of this estimate in the absence of adequate supporting data regarding commodity accountability. We noted that the foundation for a system to yield such data had been laid at the time of our recent field work in Viet Nam; but, at the conclusion of that work in December 1966, it was not wholly satisfactory for this purpose. In view of the lack of reliable accountability data, we believe that it would be most difficult to identify commodity losses with any reasonable degree of precision.

In the absence of reliable data, the Agency derived its loss estimates from the results of test-checks of selected commercial import program commodities and from general estimates of operating officials regarding project stocks. According to the report, the most comprehensive and carefully reviewed findings available on commodity losses were utilized. Although we have no doubt that the best information available to the Agency

A.I.D.
Reference Center
Room 1C36 ES

|

B-159451

at the time was used, we have reservations as to the degree of accuracy which can be obtained by using such data. More detailed information as to the basis for the Agency's estimates for various commodity groupings is shown in the enclosure, beginning on page 5.

The report does not show that the selective tests of commercial import program commodities were performed on a fully representative basis. The report states that test-checks of foodstuffs are performed at a relatively early point in the import cycle. This militates against the inclusion of losses in the Agency's estimate, which occur after such early-stage inspections. Insofar as project commodities are concerned, the estimates of losses are in general based on the judgments of the Agency's advisors working with the Vietnamese Ministries' logistical systems. Although these technicians are closely associated with the problem of commodity losses in their areas, there is no way to assess the accuracy of the overall estimates.

In accordance with arrangements made with a member of your Committee's staff, our analysis of the Agency's report to the President is also being provided to several other committees of the Congress which have inquired as to our views thereon.

We are nearing completion of the reports on our surveys of construction activities in Viet Nam and of the management of the commercial import program, as well as the follow-up of our survey of internal audits and inspections which we mentioned in our response to you dated February 10, 1967. We are prepared to discuss these three matters with your staff if desired. Also, we have recently completed field work on our general survey of the management of the Saigon port. In accordance with your request we will be glad to provide your Committee, on a continuing basis, with information regarding this and other reviews that we may conduct, which would be useful in evaluating programs in Viet Nam.

Sincerely yours,



Comptroller General
of the United States

Enclosure

The Honorable J. W. Fulbright, Chairman
Committee on Foreign Relations
United States Senate

UNITED STATES GENERAL ACCOUNTING OFFICE

ANALYSIS OF
THE AGENCY FOR INTERNATIONAL DEVELOPMENT'S
REPORT TO THE PRESIDENT ENTITLED
MANAGEMENT OF AID COMMODITY PROGRAMS

VIETNAM 1966

April 27, 1967

COMMERCIAL IMPORT PROGRAM

How the program functions (pp. 3 and 4)

The report states that, after an import license has been issued by the Government of Viet Nam (GVN) but before United States funding of the transaction, a commodity analyst reviews the order to ascertain whether (1) the importer is eligible, (2) the commodity is a nonluxury item, (3) the commodity is adaptable for use by the enemy, and (4) the size of the order is reasonable in terms of current Vietnamese market demand.

Our inquiries indicate that program funds are made available to the GVN in lump-sum amounts before import licenses are issued and that, for all practical purposes, control of the funds rests with the Government of Viet Nam. Although Agency for International Development (AID) Mission personnel do review proposed import transactions for compliance with eligibility requirements, they have no de jure right to unilaterally disapprove individual requests for program financing for any reason--they can only recommend that the Government of Viet Nam do so. We know of no instance in which questions raised by the Mission reviewers in their license reviews have not been satisfactorily resolved.

The Mission is acquiring quantitative information about market conditions for commodities in Viet Nam in a series of "Sectorial Studies," a few of which had been completed at the conclusion of our field work in December 1966. The data developed as a result of these studies are not planned for use in directly interposing the Mission's judgment as to the quantity of a particular commodity that will be accorded program financing. Rather, these data are intended to be made available to Vietnamese importers in the hope of influencing their decisions as to what they will purchase with program funds. This procedure is in accordance with the Agency's basic concept that the Vietnamese import community is in the best position to determine commodity needs.

Reforms of the system

Devaluation (p. 5)

The Agency believes that a residual benefit of doubling the cost of the piaster was that it acted as a disincentive for importers to engage in illicit transactions. The difference between the official exchange rate for the dollar and the black-market exchange rate has dropped substantially since the devaluation. In our opinion, this tends to bear out the Agency's belief since it has reduced the profit possibilities of conversion on the black market of dollars obtained illegally.

The consequences of devaluation in terms of the Saigon port bottleneck are not mentioned. From our work in the commercial import program, it seems likely that the devaluation created problems to importers both in financing import licenses and in marketing goods, which resulted in

delays by importers in clearing their goods through the port. Agency officials have advised us of their view that this is a relatively temporary condition which will ultimately correct itself.

Other reforms (pp. 5 and 6)

The report cites as reforms of the system the opening up of import licensing, consolidation and broader advertising of procurement and the elimination of agents' commissions. Our field work in these areas has been limited, but within the limitations we believe that the changes generally reflect sound business practices and are steps in the right direction. We do, however, have the following comments:

1. Mission officials told us that newly eligible importers seem to be participating in the program to only a relatively limited degree.
2. The procurement of bulk commodities through the General Services Administration is thus far being implemented on a trial basis because of reservations regarding this procedure by the Government of Viet Nam.
3. There have been a number of consolidated procurement start-up problems on the United States' side pertaining to orders for these goods and safeguarding them after offloading from the vessels.

Physical control of commercial imports in Saigon port area (pp. 6 to 11)

AID's report states that nowhere has the military and civilian build-up which began in the summer of 1965 caused greater strain than at the Saigon port. The report outlines the measures taken to cope with the huge increase in cargo and states that by mid-1966 these measures had begun discernibly to relieve port congestion.

Our work in Viet Nam showed that the amount of commercial cargo being offloaded during the latter part of 1966 was increasing substantially. Because of high cargo input, however, the number of vessels waiting for berths, the average turnaround time of vessels, and the overall backlog of cargo in the port had increased.

More recent data indicate that the congestion situation in the Saigon port had not changed in any appreciable degree in January and February 1967. In March 1967, however, there was a decrease in the amount of backlogged cargo and in the number of vessels waiting for berths.

Our further comments on certain of the specific steps mentioned in the report follow.

Expansion of physical facilities (pp. 7 and 8)

We have not inquired into most of the enumerated physical aspects of the port. However, from our on-the-spot observation of the roads and storage areas in Saigon, we believe that considerably more needs to be done to eliminate the traffic bottleneck and to provide sufficient storage facilities. Since we did not visit the other ports mentioned, we have no comments regarding the progress there reported.

Improved port management (p. 8)

The report points out that a GVN decree which stated that all cargo must be removed from port warehouses within 30 days or be confiscated and auctioned by that government was not being enforced satisfactorily at the close of the calendar year. More recent information obtained from AID/Washington indicates that, although the confiscation law was still not

being enforced, the GVN suspended 98 importers during the period December 1, 1966, to January 27, 1967, for failure to remove their cargoes.

From our work in the commercial import program, it seems likely that the importers are not clearing their goods through the port promptly because of financial problems caused by economic factors in Viet Nam, including the 1966 devaluation of the piaster. In our opinion, the prompt removal of commercial cargo from the port area is basic to solving the overall problem of port congestion, notwithstanding the improvements being made in physical port facilities and in port management.

Improvement of documentation procedures (pp. 9 and 10)

The report accurately enumerates the steps under way to establish cargo documentation procedures, and we believe that such procedures are essential to an effective control system over incoming arrivals. In our view such a system is one of the highest priorities in the entire management spectrum.

Tightening of port security (pp. 10 and 11)

The Agency and the United States Army have taken a number of actions which we believe should result in improved protection for incoming cargoes.

Thefts of AID-financed imports (pp. 11 to 13 and 15 to 19)

The Agency believes that in recent months the following percentages of loss or diversion have been incurred in connection with its various programs in Viet Nam.

<u>Program and page number in report</u>	<u>Estimated percentage of loss or illegal diversion</u>	<u>Estimated calendar year 1966 expenditures (in millions)</u>
Project commodities:		
Public safety (p. 16)	1	\$ 9.5
Public health (p. 16)	10-15	2.9
Public works (pp. 16 and 17)	5	9.9
Central purchasing authority (pp. 17 and 18)	20	29.2 (note a)
Agriculture (pp. 18 and 19)	5-20	6.4
Material handling equipment and portable warehouses (p. 19)	-	7.0
Technical support of AID employees (p. 19)	Less than 5	.1
Education, public administra- tion, labor, and miscellaneous programs (p. 19)	20	2.3
All projects--total (p. 19)	10-15	<u>\$ 67.3</u>
Commercial Import program (p. 11)	2-5	\$ 299.6
Public Law 480, Title I (p. 11)	2-5 (note b)	\$ 88.1

Note a - Includes \$21.2 million in agricultural commodities made available under titles II and III of Public Law 480 which Agency officials advise us were interspersed among these project commodities.

Note b - The Agency considers that the loss rate on title I agricultural commodities is the same as that on commercial import program goods.

In arriving at the composite 5 to 6 percent figure, the Agency weighted the estimates for the individual programs by the relative dollar magnitude of each, based on the estimated calendar year 1966 expenditure figures shown above. Agency officials agreed with us that the use of delivery figures would have been preferable, but said that such data were not completely available because of imperfections in the Mission's commodity accountability system.

As shown in the above table, the Agency estimates the loss rate of project assistance goods as from three to five times greater than commercial import program and title I commodities. As noted in the report, these rates were not arrived at in a uniform manner. For project assistance goods, the exposure-to-loss cycle used by the Agency extends from shipment to Viet Nam, to the provinces or beyond, whereas the cycle for commercial import program and title I commodities normally stops at the port. In the latter case, subsequent losses would not be included in the Agency's estimates, and we think they would be most difficult to quantify broadly. Because of the relatively high level of commercial import program and title I expenditures, the loss estimate for such goods was the dominant in arriving at the overall 5 to 6 percent loss figure.

Regarding the loss estimates applicable to the commercial import program, we have the following observations.

1. Even if 10 to 20 percent of all such cargoes were spot-checked by the United States Customs Bureau Advisory Team, as stated on page 11, we have some reservations as to the reliability of estimating overall losses in this manner unless (a) the 10 to 20 percent sampled was representative of the entire spectrum of shipments and commodities under the program and the selection from the sample for actual physical checking was representative of the sample and (b) the spot checks are performed at a point in time in the cargo unloading and delivery sequence which precludes subsequent loss.

AID's report does not indicate that these principles were applied in the selection of items for checking. Also, the report states that test-checks of foodstuffs are performed at a relatively early point in the import cycle. This militates

against the inclusion of losses in the Agency's estimate which occur after such early-stage inspections. These comments are also pertinent to the selective spot checking by the Societe de Surveillance (Geneve) S.A., discussed on page 12 of AID's report.

2. On pages 12 to 13, reference is made to the AID Mission's audit activities. On the basis of our review of these activities in connection with the commercial import program, we have advised the Agency of our reservations regarding the measurement of audit coverage for reporting purposes entirely in overall dollar terms. These reservations are based on the varying breadth and depth of coverage of the various audits performed and on the testing techniques being utilized. Also, we noted in recent field work in Viet Nam that circumstances have inhibited extending end-use examinations beyond the importer to the ultimate user in many cases due to:
 - a. The multiplicity of parties in the chain of distribution from the original importer to the ultimate user, coupled with the fact that Agency regulations require that only the importer maintain accountability records.
 - b. Changes from the original form of many commodities imported, through subsequent manufacture and processing.

It is thus our opinion that the reporting that audit coverage was in process on the end use of over \$100 million worth of commercial imports could be misleading to persons relying on the results of such audits to evaluate overall program effectiveness. Further, we believe that, in striving to broaden coverage, the danger exists that qualitative shortcomings may arise in connection with the reviews undertaken, occasioned by expediting examinations to maximize coverage in the shortest possible time.

STRENGTHENING THE VIETNAMESE SOCIETY:
AID PROJECT ASSISTANCE (pp. 14 to 19)

Although described in the report as the "AID project program," what is discussed is essentially the Agency's assistance to the revolutionary development program of the Government of Viet Nam, formerly called "rural construction" and even earlier termed "counter-insurgency." This assistance takes the form of commodity, human, and minor infrastructure resources, the majority of which are embraced in the project program.

As indicated in the report, until July 1966 the movement of project commodities was impeded at the port by the same conditions as those affecting commercial import program commodities. In July 1966 operational responsibility over project commodities at the port was assigned to the United States Army. We believe that this was a sound and well-conceived move, and our work in Viet Nam has shown that there has been substantial improvement in the handling of project commodities in the port during the past several months.

To carry out the various project activities, commodities must be transported from the ports through the logistics systems of the Vietnamese ministries to regional and provincial warehouses and then distributed to the intended recipients or project sites in villages and hamlets. Although control of the distribution system is essentially Vietnamese, AID has informed us that there is significant United States supervision of its operation at all echelons and that the United States supervision, as well as a degree of United States control, is increasing. The involvement of the Government of Viet Nam at all levels in the distribution of project commodities is consistent with basic AID policy in Viet Nam.

We have not performed audit work in regard to project assistance other than in the port area. According to information furnished us by the Agency, varying degrees of United States supervision and control are exercised over project commodities at different stages. Transportation of commodities may be completely under United States control (as for medical supplies) via military airlift or it may be under only limited United States supervision as in cases where Government of Viet Nam vehicles are utilized. At the province level the degree of control over project commodities depends on the AID Provincial Representative's relations with the Vietnamese province chief. According to AID, in some provinces the Provincial Representative actually holds the key to the warehouse; in others he is present at the time of major receipts and issues; and in still others he verifies, through his independent checks, the performance of warehouse transactions as recorded by the provincial staff.

The Agency's report estimates the loss rate of project assistance goods as from three to five times greater than that of commercial import program and title I commodities. These estimates are in general based on the judgments of United States AID advisors working with the Vietnamese Ministries' logistical systems. These technicians are closely associated with the problems; but we are unable, until we review these activities, to assess the accuracy of such estimates, particularly in view of the wide dispersal of commodities throughout the country and, as noted above, the varying degrees of control said to be exercised at different locations.

The report discusses a number of efforts designed to assist United States and Vietnamese personnel in attaining better control over project

stocks. We are not in a position to comment on these efforts other than to state that, if properly implemented, they should improve United States control over project commodities.

ECONOMIC WARFARE AND GENERAL INSPECTION (pp. 20 to 22)

The Office of Special Projects in Viet Nam was created prior to the mid-1966 personnel buildup in the Mission, for the purposes of undertaking special studies and audits and of developing programs directed toward denying resources to the Viet Cong, with special emphasis given to the commercial import program. The information presented as to what is being done generally conforms to our understanding but does require some elaboration.

This unit's participation in the denial of resources to the Viet Cong is part of a broader effort in this area by the Embassy's Economic Warfare Committee, an interagency organization established in September 1965. The Committee's chairman, who is also in charge of the Office of Special Projects, submitted his resignation to the Embassy about August 1966, because of his view that effective leadership of each organization required full-time effort, that the Committee's mandate was unclear, and that he had insufficient powers to enforce authority over the Committee's diverse membership.

The official in charge of the Office of Special Projects also requested top USAID management to reappraise that organization's responsibilities, since much of the work otherwise falling within its purview could be performed by other elements within the USAID. For example, all

end-use audits are now performed by the Audit Branch, whereas previously both organizations were doing such work.

In March 1967 we were advised by AID that the Mission had been reappraising the organization and functions of the Office of Special Projects and that the indications were that the Office would be maintained, probably without auditors, but with analysts capable of conducting preaudit interviews and special inquiries concerning AID-financed transactions.