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AUDIT REPORT

UNITED STATES A.I.D. MISSION TO VIETNAM (USAID/VN)

COMMUNITY DEVELOPMENT SECTOR

Period covered: July 1, 1969 through December 31, 1973
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AUDIT REPORT

UNITED STATES A.I.D. MISSION TO VIETNAM (USAID/VN)

COMMUNITY DEVELOPMENT SECTOR

PART I - PURPOSE AND SCOPE

The Office of the Area Auditor General/East Asia has performed an examination of the USAID/VN Community Development Sector. The Rural Development and Ethnic Minority Affairs projects cited in Exhibit A comprised the elements of this sector. Two major aspects of the Rural Development project were the National Fund for Local Development and Village Self-Development. These projects constituted a part of the development activities of the U.S. supported pacification and development program. The examination covered the period from July 1, 1969 to December 31, 1973.

The primary purposes of the examination were to review and evaluate program implementation as compared with the projects' objectives and to determine the quality and effectiveness of financial and administrative management. Other related purposes were to ascertain the degree of compliance with AID policies, regulations and procedures.

The examination was made in accordance with generally accepted auditing standards and accordingly included such tests of financial records, site inspections and discussions with Government of Vietnam (GVN) and USAID/VN officials as we considered necessary in the circumstances. Field trips were made to Long An, Bien Hoa and Pleiku provinces.

Before issuance, the findings of the report were reviewed with appropriate USAID/VN officials and their comments were given due consideration.

PART II - BACKGROUND

Under the GVN's structure of government all functional authority has been centralized. Such functions of government as education, public health, etc. have been centrally planned and funded. Levels of government below the central authority have thus had only limited functions and responsibilities delegated to them. For example, at the province level, the highest level of local government, budgets have consisted of monies largely allocated by the central government for specific programs to be spent by officials of the ministries stationed there. Villages, which are subordinate to province administration, have similarly depended on revenue grants from the central government to defray operational expenses. Under this centralized structure the GVN was sometimes unable to respond quickly and effectively to development needs of the people. This deficiency was acutely underscored by Viet Cong guerilla type activities. Thus, in 1966, the Community Development (CD) program was formulated to address itself in part to this situation. Its purpose was aimed at "winning the hearts and minds of people" through an action program.

For the CD program to be effective it was essential that linkage be established with the rural areas. The Ministry of Rural Development (MORD) and the Ministry for the Development of Ethnic Minorities (MDEM) were therefore utilized to achieve this linkage. The utilization of these two organizations subsequently provided the programming mechanisms to transfer funds to the rural areas. These funds were then used for construction of schools, dispensaries and village and provincial roads. In a quantitative sense these organizations provided the bulk of all development funds for the expansion of such activities. However, by 1968, it was recognized that some fundamental program changes were necessary. Most importantly, through over-management and paternalistic tendencies, the activities were effected without regard for local desires and indigenous political and social structures. The rural population was consequently left largely unaffected psychologically by such efforts. Commencing in 1969 the program was therefore designed to support GVN plans to expand the authority and autonomy of local government. This redirection was predicated on the belief that it would contribute to the political mobilization of the rural population within an anticommunist framework.

In the context of this redirection the implementation system was expanded to include the Central Reconstruction and Development Council (CRDC), formerly the Central Pacification and Development Council, located in the Prime Minister's Office. Under CRDC, at the province level, were the Province Pacification and Development Councils (PPDC's). The PPDC's were responsible for province-wide

activities and funded by CRDC from the National Fund for Local Development. This fund was used to finance province-wide activities. MORD and MDEM continued as programming entities but now concentrated on the approximately 2,100 villages. Coordination of all CD program activities was invested in the PPDC's.

Under current USAID planning the CD sector program will be phased out as of June 30, 1974. The USAID anticipates that any subsequent funding for schools, roads, etc. will be channelled directly through the respective ministries.

A total of $45 million, including about $27 million of Department of Defense (DOD) funds, has been allocated to the sector program since its inception in 1966. Of this sum the projects under current review accounted for $41.3 million (Exhibit A). In addition, AID local currency allocations over this same period totalled VN$31.4 billion, or the equivalent of about $165 million, of which VN$28 billion was covered in the current review (see Exhibits B and B-1).

A - PROGRAM MANAGEMENT

Responsibility for implementing the sector program is currently assigned to the Assistant Director for Rural Development (ADRD) located, under the Associate Director for Local Development. In 1967 the ADRD field advisory effort and staff was under the U.S. Military Assistance Command - Vietnam/Civil Operations and Rural Development Support (MACV/CORDS). Over the subsequent 6 years until CORDS was phased out (1/73) the sector program was an operational part of MACV/CORDS pacification and development activities.

The staffing of ADRD is presently comprised of six U.S. technicians. Current USAID personnel ceilings call for a phase out of all six positions by June 30, 1974.

There are no open recommendations from prior audit reports.

PART III - SUMMARY

The major undertaking of the CD program was to develop popular support at the local level for the GVN constitutional government. The amount of popular support generated was not ascertainable.

The program played a constructive role in upgrading provincial and village government. The transfer of authority to local government attained under the program is to be continued.

There were thousands of impact-type projects constructed under the program, for example, roads, schools, etc. The quality of project construction has generally been poor. Projects constructed under the National Fund for Local Development were largely poor due to inadequate GVN technical backstopping. Village Self Development projects reflected the low level skills of the communities. These latter projects were usually built by voluntary labor efforts of the villagers.

The major findings disclosed by our examination are cited below:

(a) No formal USAID evaluations of the CD program were performed (page 5).

(b) The implementation system for the National Fund for Local Development (NFLD) program was weak in management control and technical expertise (page 7).

(c) The Directorate of Irrigation and Rural Engineering does not appear to have the technical capability to implement its planned activities. Yet in 1974, the NFLD plans to spend more funds for irrigation than in any prior year (page 9).

(d) Increasing tax revenues have enabled some villages to initiate a self-development process (page 11).

(e) The credit limit of the Village Self Development agricultural credit program should be substantially increased (page 14).

(f) The Ethnic Minority program has not materially increased the social and economic level of the group (page 15).

(g) Accounting controls and financial reporting have not been properly established for the National Fund for Local Development program (page 18).

(h) Scheduled commodity support for the cadres should be reviewed in the context of large existing inventories (page 20).

PART IV

STATEMENT OF FINDINGS AND RECOMMENDATIONS

For the Office of the Director, USAID/VN

A - SECTOR GOALS

The principal sector goal of the Community Development (CD) program has been to develop strong popular support at the local level for the GVN constitutional government. To achieve this goal the sector strategy sought to enlist the active participation of the people in local affairs. It aimed to do so largely through the interaction of local officials in the selection and implementation of projects essential to the social and economic welfare of the community. Relevant to this process was the delegation of more autonomy to local government. Hence the up-grading of local government was an objective of all projects comprising the sector.

ADRD has not had full responsibility for all tasks relevant to the achievement of this objective. Yet in recent years it has reflected many such tasks in its project agreements. For example, in the Village Self Development and Ethnic Minority activities, several key tasks have been implemented by other USAID divisions. These tasks included the Local Revenue Improvement and the Montagnard Boundary Identification programs. The overstatement of tasks and the nature of the CD program have thus posed evaluation problems which the USAID has not effectively resolved. No formal evaluation of the sector program has consequently been performed, although some attempts were made.

B - NATIONAL FUND FOR LOCAL DEVELOPMENT (NFLD)

1 - Organizational Structure

In 1969 the NFLD was established to fund CRDC-PPDC activities. Its purpose was to produce a provincial government capable of implementing projects which would support the welfare, security and development capabilities of the provinces. To realize this objective more planning and decision making authority had to be transferred to the provincial authorities.

Under the formal structure of provincial government the GVN technical service staffs have been funded and held functionally responsible to their respective ministries in Saigon. Centralized planning and funding decisions have been a traditional element of this structure. Under these circumstances, the GVN/USAID felt that

the program objective could not be realized through the established bureaucracy. The CRDC-PPDC system was thus created to circumvent the existing structure of government.

The composition of CRDC included the Prime Minister and chiefs of all ministries. Within CRDC a coordinating council was created to manage the program. The PPDC in turn comprised the province chief and province service chiefs. Under the system PPDC developed a list of province priorities neither funded in the ministerial budgets nor under the MORD or MDEM programs. These projects were then presented to CRDC through regional coordinating councils. On CRDC approval, NFLD funds were later made available to the PPDC. Implementation of the projects would then be executed through the province service staffs. Within the methodology of this system province government was given substantial latitude in setting priorities, planning and decision-making. These characteristics also gave it the flexibility to respond quickly to pacification requirements. Weaknesses evolved under the CRDC-PPDC system. Yet, in an institutional sense, the program has influenced the shift of authority to provincial government. This shift of authority is expected to be continued.

2 - Province Development Fund (PDF)

In 1970, as a sub-activity of NFLD, the PDF was created. Its objective was to enhance the prestige and authority of the province councils initially elected in 1970. Overall management control for PDF funds was vested in CRDC; however, this CRDC control was of a perfunctory nature. The intent was to give the elected councils autonomy in the use and control of such funds. Through the use of these funds the councils could finance activities which would up-grade their image among their constituents.

The PDF objective was not fully realized. Temporarily, at least, the use of PDF funds created an awareness of the province council's existence. But PDF was less successful in establishing the council as a responsible and effective organ of government. This latter shortcoming was in part due to the obscure and limited authority which was delegated to the councils. This vagueness had the effect of making the council's effectiveness dependent on the attitude of the province chief. This situation was reenforced by the methodology of the CRDC-PPDC system. The system, whether by design or otherwise, up-graded the province chief's decisional authority vis-a-vis the council. This fact was reflected under the CRDC-PPDC system whereby the province chief was held accountable for the province program. The result has been an increasing consolidation of authority and responsibility in the province chief. The representative notion behind the PDF activity was not consistent with the realities of the

CRDC-PPDC system. Thus, for the most part, province chiefs were unsympathetic to the councils. The PDF activity was subsequently terminated in 1972.

3 - NFLD Financed Elements

The NFLD program has been financed in part by American Aid Chapter (AAC) and DOD funding. From 1969 through September 1973 USAID/GVN allocations to NFLD amounted to VN$13.9 billion. CRDC had in turn allocated those funds to the PPDCs for the following purposes:

Project Type	Number	Amount VN$ (Millions)
Public Works	939	VN$ 8,906
Irrigation	200	2,065
Provincial Council (PDF)	*	2,014
Education	267	485
Public Health	135	303
Agriculture, Animal Husbandry and Fisheries	178	88
Other	4	26
Totals	1,723	VN$13,887

* No Records Maintained.

4 - Evaluation of Project Performance

Over the years the NFLD projects have responded to a wide range of needs. Some 3,000 of the 12,000 kilometer road system have been up-graded. Irrigation projects have reportedly made possible the addition of more than 300,000 hectares of new riceland. School and health facilities have been expanded. These quantitative achievements are significant. Yet underlying these achievements have been some management type deficiencies which, we believe, have led to some wastage of resources.

a. Planning

From inception until 1972 the spectrum of CRDC-PPDC activities was all-inclusive. In 1970, when PDF was started, it likewise sponsored a wide range of project activities. PDF overlapped with village self development project activities in that its funds were used to build the same types of projects (i.e., elementary classrooms). The lack of guidelines in fund usage resulted in a subsequent

duplication of effort with both funds building the same kind of projects. Arising in part from this situation, facilities were sometimes constructed and then not utilized. Prior audit reports cited such examples as non-utilized schools, dispensaries and markets. Inadequate integrative planning thus characterized the early phase of the program. However, with the termination of PDF in 1972, and the restriction of NFLD activity to secondary roads and irrigation, the duplicative problem was resolved.

Since 1972 the NFLD program has only financed secondary road and irrigation projects. Of the two, roads have over-whelmingly received the largest proportion of funds. This distribution of funds is explainable by the fact that the GVN has been unable to provide budgetary support for secondary roads. NFLD thus constitutes the only source of funds available to the provinces for this purpose. The selection of the road projects has been partly motivated by political considerations; however, these roads did in part open up new areas to socially and economically self-sustaining secure populations. Overall planning has consequently been somewhat irrational and highly fragmented. This fragmented type planning may have been suited to the needs of the overall program; however, it is questionable whether these traits are appropriate for a continuing development program. We therefore believe, as does the USAID, that continued efforts in secondary road construction could be more effectively realized through the established bureaucracy.

b. Quality

The quality of projects under the NFLD program has been generally unsatisfactory. In this context a 1971 audit report cogently asked, "are roads that soon become impassable or dirty and repellant dispensaries desirable examples for demonstrating the interest and concern ... of the Government." Over the subsequent two years the scope of the NFLD program was considerably narrowed. Quality improvement, however, has not resulted from the concentration of activity. Road projects, for example, still continue to be poorly constructed. A factor contributing to this deficiency has been the use of GVN army engineers. Both USAID and Vietnam Highway Agency officials were critical of the army engineers' performance. Quality control was stated to be loose and difficult to enforce. It was also indicated that projects can usually be constructed more economically with private contractors. Yet from 50 to 70 percent of all secondary road construction has been performed by the army engineers.

c. Technical Backstopping

Technical backstopping support for the projects has been the major deficiency. Technical responsibility (design and supervision) for the NFLD program was assigned to the province service

staffs. These additional tasks have enlarged the service staffs' workload considerably. In 1973, according to USAID officials, the Directorate for Irrigation and Rural Engineering was thinly staffed to implement its own VN$2.1 billion budget program. Yet through the NFLD it had to assume responsibility for another VN$300 million. Vietnam Highway Agency officials cited a similar problem. This has resulted in few projects receiving proper technical planning and supervision.

Under the CRDC-PPDC system the CRDC approval process was structured to review the feasibility and soundness of the projects. The responsibility for technical soundness was assigned to the respective Saigon staffs of the ministries concerned, i.e. road projects by the Vietnam Highway Agency. The Director of one GVN agency, for example, stated that projects were usually approved prior to his staff's review. In his opinion the technical design of the projects was not good. This weakness has been augmented by CRDC's lack of surveillance capability to monitor the projects. Periodically, the province chiefs are required to report orally on the status of the projects; however, minimal qualified independent technical inspection or reporting was structured into the system. Technical management of the program was thus weak at all levels of the system.

In mid-1973 the Vietnam Highway Agency was reorganized. Under this reorganization the provinces will receive full responsibility for the secondary road system. Technical backstopping support to the provinces will be provided by Vietnam Highway Agency District Offices. By channelling future funding through the Vietnam Highway Agency the USAID intends to strengthen the technical linkage between the province and district office. This focus on the technical aspect, we believe, will help to correct one of the major deficiencies in the construction of secondary roads. The need for additional qualified staff, however, will continue to remain a problem.

The Directorate of Irrigation and Rural Engineering has responsibility for the water control system. To effect this responsibility it has only 29 engineers. As stated, this staffing has been inadequate to monitor NFLD irrigation projects properly. The projects have generally reflected this situation. As an example a USAID engineer informed us that a recently completed VN$10 million dam built at Xuan Phu may last less than two years due to the inferior surfacing. Prior audit reports observed similar type problems (cracking surfaces, etc.) throughout the country. If these construction deficiencies are to be reduced and/or avoided the Directorate must then increase its level of supervision over the contractors. Yet we noted that the CRDC-PPDC system has planned to spend more funds for irrigation in 1974 than in any prior year-over VN$700 million.

The above circumstances would appear to dictate that the Directorate's extrabudgetary program be reduced to a level commensurate with its technical capability. We believe that the above situation should be reviewed in both a current and future context by the USAID.

Recommendation No. 1

USAID/VN should review and determine that the level of extrabudgetary funding support programmed for irrigation through the National Fund for Local Development is commensurate with the Directorate of Irrigation and Rural Engineering's technical capability.

C - VILLAGE SELF DEVELOPMENT PROGRAM (VSD)

1 - Program Purpose

The VSD program evolved in 1969 from a GVN/USAID re-emphasis of village government. Its purpose was to establish the village as an effective and responsible unit of government. To realize this objective the prestige and authority of popularly elected officials had to be enhanced. Villages were thus granted autonomy in the operation and fiscal management of their VSD projects. A key element of the program was the selection of projects via open village meetings. The intent was to let the people decide through democratic processes what improvements they wanted.

An understanding of the program was essential to its success. This was of particular significance within the context of local government responsibilities. To foster such understanding VSD guidelines were developed and a training program was instituted at the National Training Center for the cadres and village officials. To complement this training over 100 community development officers, engaged under a USAID funded Eastern Construction Company contract, were located among the villages as advisors. The first two years of the VSD program generated little comprehension among the villages. Activities were implemented with little consideration given to the principles involved. From subsequent experience the program has now come to be better understood. Emerging from this understanding is a self-development process. At present some 32 of the 2,100 villages are classified as "development villages."

The projects were required to be selected by communal consensus reached at open meetings. This stipulation was based on the premise that all members of the community had to be involved to achieve popular support. For the most part, however, it would appear that projects

had been selected by the village councils. Once selected, an interested group would usually undertake responsibility for the voluntary financial support and construction of the project. There have been some reported instances where village chiefs arbitrarily selected projects. But these instances have supposedly been minimal. The consensus among USAID officials was that the pure democratic concept of full community participation was not practicable because it restricted the authority of the elected officials.

Fiscal self sufficiency has been a concern to the VSD program. Until recently village taxes generated insignificant revenues. The village budgets therefore relied heavily on the Ministry of Interior for funding support. In October 1972, under USAID's Local Revenue Improvement Program, upward revisions were made in the basis and rate of the local tax assessment. As a consequence of implementing this new tax law local revenues have started to increase dramatically. Local revenues, for example, have been projected to increase from a level of VN$2.2 in 1971 to VN$8 billion in 1973, of which VN$7.2 had been collected as of September 30, 1973. By 1975 the local revenues are expected to reach VN$14 billion. These increases more than keep abreast with the rate of inflation.

The financial impact on the villages has been significant. Of approximately 2,100 villages 806 are now self sufficient in defraying their operational expenses; of these, 32 are classified as development villages. Another 318 villages are between 40 to 65 percent self sufficient, with some 1,000 villages at lesser levels. The 1972 tax reform has thus enhanced local autonomy.

On the basis of increasing revenues MORD has endeavored to reenforce self-development in the richer villages. The 1973 VSD program was predicated on a matching fund basis. In this regard funds allocated to the VSD program from village budget revenues rose from VN$58 million in 1972 to VN$340 million as of September 30, 1973. This matching fund effort would thus appear to have been relatively effective.

2 - Program Financed Elements

Funding for the VSD program has been provided from AAC funds. From 1969 through September 30, 1973, USAID/GVN allocations to VSD amounted to VN$11.1 billion as shown below:

Project Type	Number	Amount (VN$000)
Bridges	2,941	VN$ 979,037
Construction Repair	7,888	1,284,245
Markets	609	365,400
Medical Units	412	185,400
Roads	2,334	1,333,800
Schools	4,181	1,483,970
Other	46,870	1,773,165
	65,235	VN$ 7,405,017
	No. of Loans	
Credit Program	167,143	VN$ 3,717,520
Total		VN$11,122,537

3 - Evaluation of Performance - Projects

Projects were classified into two categories based on VSD fund usage. Category I included those projects which used VN$300,000 or less; and category II those in excess of VN$300,001. Category II projects had to receive prior provincial approval. Additionally, for those projects in excess of VN$500,000, a technical plan had to accompany the request for approval. This approval requirement was to serve as a basis for coordinating the implementation of larger projects with the ministerial expertise located at the province. Yet, despite this system, category II projects were reportedly poorly constructed. This was due to the inadequacy of provincial technical backstopping. Additionally, according to MORD officials, these projects have been the target of some corrupt practices. The diversion had usually occurred in the procurement phase. By hedging on materials the quality of construction was resultantly poor.

USAID and MORD reports stated comparatively little on the qualitative aspects of the projects. This lack of reporting may have been due to the character of the program which regarded the projects as catalysts. We observed that the projects have generally been simple and functional. This type of construction has been encouraged under the program. The guidelines, for example, precluded the assignment of construction to professional Vietnamese engineering firms (though such firms were used). If necessary, technical advice could be secured, but the construction per se had to be performed by the voluntary labor efforts of the villages. Under this system the quality of construction has generally been reflective of the low

level skills of the communities. As such USAID and MORD have not considered quality an essential ingredient to the objective of the program.

4 - Evaluation of Performance - Credit Program

From 1970 the villages have been permitted to use a portion or all of their annual VSD allocations for credit. The Agricultural Development Bank (bank) has then matched these allocations. Use of credit funds have been restricted to production related activities. At present loans up to a maximum of VN$50,000 are made at 24 percent interest per annum. These terms have compared favorably with the 60 percent or higher rate charged by money lenders.

Aggregate statistics on the credit program as of September 30, 1973 were:

Year	Loan Amount (VN$000)	No. of Loans	Amount Delinquent (VN$000)
1970	VN$ 746,680	39,223	VN$119,440
1971	781,880	41,131	216,404
1972	1,157,826	51,997	- 1/
1973	1,031,134	34,792	-
Totals	VN$3,717,520	167,143	VN$335,844

1/ Outstanding balance of VN$581 million. Not due until February 1974.

The delinquency rates for 1970 and 1971 were unusually high due to the inclusion of several villages which incurred heavy war damage or were subject to security problems. Where security and war damage have been minimal the delinquency rate was only about 7 percent. The latter delinquency rate, we feel, was not unreasonable. Yet from a revolving fund effect the high rate of delinquency has reduced the availability of credit.

Management responsibility for the credit program has been assigned to the bank. Under the credit system village VSD funds are deposited at the province branch of the bank in the name of the village. The bank is responsible for the accounting and disbursement of the funds. Loan processing or approval has been vested with the village credit committees, which are comprised mostly of village officials. The bank can decline village approved applications but this seldom happens. Disbursement and repayment of a loan is made either directly to or from the borrower or through the village credit

committee, depending on the distance to the bank. For delinquent accounts the bank notifies the province chief who then exerts pressure on the village credit committee to undertake collection.

The qualitative aspects of the loans have hinged on the effectiveness of the village credit committees. Since these committees lacked experience, problems were predictable during the initial phase. Among the early problems cited by MORD were:

1. Loans were mostly granted to the relatives of village officials and popular force soldiers;

2. Loan applications were kept at the villages for undue periods of time before being forwarded to the bank; and

3. The program was carried out without an understanding of the VSD principles involved.

MORD officials informed us that their inspection teams have regularly addressed themselves to these problems. These problems, however, have not been effectively resolved. To some extent we found that loans were still granted to relatives or for a "fee". The delay in forwarding the applications to the province bank was a much more widespread problem. The principal reason for this delay was that the village credit committees tended to wait until they had processed all applications committing the available loan funds. Only after this time consuming process (sometimes 60 or more days) was the application forwarded to the province bank. Despite these problems the credit program has still been generally effective.

The USAID is at present formulating plans to increase the funding of the credit program. Under these plans up to VN$2 billion will be loaned to the bank. The bank will then make these funds available to selected villages under existing operational procedures. The purpose of this funding increase, according to USAID officials, is to test the magnitude of the relationship between credit and production. Relevant to these plans, we believe, is the need for a higher credit limit. We found a consensus among GVN and USAID officials that the VN$50,000 limit is too low. The recent rise in fertilizer and seed prices requires a higher limit. It was generally felt that a three-fold increase is necessary. A higher limit would obviously decrease the number of loans which could be made. Yet we believe this aspect is of sufficient importance that it merits careful consideration.

Recommendation No. 2

USAID/VN should (a) in cooperation with the Agricultural Development Bank study the feasibility of substantially increasing the maximum credit limit under the VSD credit program, and (b) improve loan granting procedures which would reduce the time required to process loan applications.

D - ETHNIC MINORITY PROGRAM

The ethnic minorities of South Vietnam consist of approximately 900,000 Montagnards and Chams or about 4.7 percent of the total population. Because of cultural and linguistic differences they have traditionally lived in an atmosphere of mutual distrust with the ethnic Vietnamese. In 1967 the GVN established the MDEM to promote the interests of this group. USAID assistance was concurrently provided to develop an MDEM capability and responsiveness to integrate the ethnic minorities into Vietnamese society.

One of MDEM's highest priorities has been the identification and title registration of traditional Montagnard land. In support of this priority a USAID program has aimed to identify land historically a part of the public domain but occupied by the Montagnards. The unit of title registration is the "main living area" which constitutes the land needed to support a hamlet. The titles to these "main living areas" are then registered in the name of the villages (hamlets are not a legal entity). At present all "main living areas" (about 1,400) comprising some 1.4 million hectares have been identified. Titles are now in the process of being registered. Yet only about half the land of all the "main living areas" is presently in GVN controlled territory. Thus, as a practical measure, the transfer of "main living area" titles has not settled the Montagnard land problem.

An audit (Report No. 9-730-72-11) performed in late 1971 disclosed that a construction program to provide needed public facilities for the Montagnards had been unsatisfactorily implemented. The National Montagnard Training Center was completed; however, only 32 of 100 other planned facilities (community centers, schools, etc.) were constructed. This program shortfall was attributed to planning delays and rising prices. Among the more positive aspects cited were the organization of Peoples Self Defense Forces among some 384 ethnic minority villages; and efforts to develop a formal education system for Montagnards. Essential to the latter has been a much needed increase in the number of qualified teachers. The Ban Me Thuot normal school, for example, has been the only institution training Montagnard elementary teachers.

Yet, until 1971, the institution had only graduated 123 teachers. Due in part to USAID assistance, we found that the annual number of graduates has subsequently increased to 268. These efforts in education, while significant, do not begin to meet the enormous needs of the minority group. For example, only 19 percent of all ethnic minority children of school age attend school. Of these, less than 2 percent are in secondary schools. The educational needs are perhaps most cogently expressed by the illiteracy rate which is about 90 percent among the ethnic minority population. Education has thus been one of the ethnic minority's more pressing needs.

In this regard the National Montagnard Training Center has recently introduced vocational courses. Instruction has been offered in a variety of areas such as agriculture, home economics, land management, cooperatives, health, and trade skills. The training of literacy teachers has been another important subject matter. To date about 200 literacy teachers have been trained and sent into the villages to teach about 4,000 people. The training center has thus served as an important adjunct in MDEM's effort to educate its population. Operational support for the center has been in part provided by AAC funding. A continuation of this financial support, we believe, merits consideration by USAID.

The socio-economic improvement of the ethnic minorities has hinged in large part on inter-ministerial coordination. Yet, until recently, this has been the one aspect where results have been least fruitful. This situation has been in part attributable to a reluctance of MDEM to coordinate with other ministries. MDEM has tended to regard itself as a kind of mini-government. To change this attitude has been one of the more difficult USAID tasks under the program. Some progress, however, is now becoming evident. The MDEM has recently started to cooperate much more effectively with the Ministry of Education; for example, 100 students have been enrolled at Dalat University's pedagogical school. A similar situation has occurred in agriculture whereby 200 Son Thon cadre have been trained as extension agents. These results have not been dramatic but at least they constitute a start in a long-term process.

Poor organization and lack of qualified staff within the MDEM has augmented the coordination problem. These deficiencies have been most cogently reflected in MDEM's inability to identify problems and then design a corresponding plan of action. Steps have been taken to up-grade the MDEM staff. At present, 51 Montagnards are receiving long-term training at the GVN's National Institute of Administration; another five have been sent abroad (Philippines and U.S.) for training in agriculture. The assimilation of these trained personnel should eventually strengthen the MDEM organization.

Among the ethnic minority villages we found that the selection of VSD projects seldom involved the people. In Pleiku province, for example, USAID officials stated that district or province officials usually made the decision. Construction of projects, contrary to VSD guidelines, were largely performed by construction firms. These projects were nonetheless poorly constructed. We observed that the cement work on buildings had an apparent sandy texture. This and other similar deficiencies suggested to us that contractors had hedged on materials. MDEM and USAID officials stated that such practices were not uncommon.

There was little understanding of the VSD credit program. For example of VN$800,000 allocated for credit purposes in Pleiku, only VN$400,000 had been loaned. One reason for this slow movement of credit funds was the low socio-economic level of the ethnic minorities. Most are subsistence type farmers who have little comprehension of a money economy. It would thus appear that the program has been too sophisticated for the majority of these villages.

E - PROJECT ACCOUNTING CONTROL

1 - Allocation Procedures

Annually the USAID and the GVN's Directorate General of budget and Foreign Aid (DGBFA) determine the amount of local currency funding which will support the various projects. The amounts are then programmed for specific uses through project agreements. These agreements allot funds through DGBFA to CRDC, MORD and MDEM. Each of the three organizations is thus responsible for exercising control over fund usage.

Under the established procedures the organizations allocate funds to the implementing unit of government. CRDC allocations are made to the provinces and MORD and MDEM allocations to the villages. The allocations are forwarded to the DGBFA for approval. On approval, payment orders for the amount of the allocations are issued by the national treasury. These payment orders then flow to the province treasury branches which credit the province and village accounts for the allocated amounts under the respective programs. The withdrawal of funds is subsequently made from these non-interest bearing treasury accounts.

In an accounting context the GVN recognizes the allocation as the obligation and the payment order as the liquidation of the obligation. The funds for the payment order constitute a GVN advance of funds under the project agreements. Thus, to reimburse itself, the GVN through the DGBFA submits a periodic report to the USAID which reflects the obligations (allocations) and liquidations (payment order transfers). This GVN system of reporting facilitates reimbursement

of GVN advances; however, it provides no details on the actual expenditure of funds.

Details on fund usage have depended on the internal reporting of the organizations. Under these procedures the organizations require the provinces and villages to report monthly on the expenditure of funds. If done, and properly collated, this reporting would provide pertinent information on total fund utilization. For MORD and MDEM this was generally done; however, in the case of CRDC, we found that not all provinces were reporting. Nor had CRDC established procedures to collate the data that had been received. The consequence was that CRDC did not have adequate information on fund usage. This information is not only necessary for management purposes but it was required under the agreements.

Recommendation No. 3

USAID/VN should request CRDC to submit the required reporting on project fund usage.

One of the problems arising from this situation is the accumulation of unexpended CRDC allocations at the province level. From limited CRDC data these balances would appear to be significant. Seven provinces, for example, had about VN$80 million in such balances for 1970 thru 1972. The availability of these balances could reduce the need for some new year funding.

Recommendation No. 4

USAID/VN should request CRDC to (a) furnish information by year including 1973 on unexpended balances retained at the provinces, and (b) return the unexpended balances to GVN/USAID control.

CRDC received $16.4 million from DOD for secondary roads and bridges. These funds were then converted at varying rates of exchange. Prior to 1973 these DOD funds were commingled with other AAC funds allocated for roads and bridges. Commencing in 1973, however, the CRDC allocations were identified separately. This change will facilitate the separate accounting of DOD funding.

2 - Project Expenditure Support

Documentary support for expenditures was retained by the provinces and villages. Only through field audit is it possible to ascertain whether funds have been expended as reported. In 1970, MORD and more recently MDEM established financial inspection groups which periodically (every 2 years) review all village projects. However, CRDC, the largest recipient of funds, did not have such an audit capability. This widespread distribution of documentation has thus not lent itself to good financial control.

The inspection groups of MORD and MDEM, we believe, were generally effective. Their audit techniques included a verification of the documentation supporting the expenditures. The costs were then compared with the construction work to ascertain whether the expenditures were realistic. From these inspections a number of questionable practices were uncovered. These ranged from overpricing of building materials to the use of funds for personal purposes.

Under CRDC procedures all projects have been subject to an acceptance inspection. Projects under VN$6 million are inspected by the regional CRDC groups and those over VN$6 million by CRDC in Saigon. Adequate inspection standards should therefore have rejected much of the unsatisfactory construction. From our discussions, however, we found that the inspections were often a matter of form rather than substance. CRDC's management controls over expenditures have thus been minimal at most.

USAID has had U.S. engineers assigned to review the CRDC administered projects. For the most part the workload of the program has been too great for the engineers assigned. Without their services, however, construction activities might have been even less satisfactory than they otherwise were.

F - MORD AND MDEM (CADRE) SUPPORT COSTS

1 - Payroll

From inception the U.S. government has been funding the MORD and MDEM payroll and related costs. Commencing in April 1973, the administrative responsibility for the payroll was transferred from the DOD to USAID. The status of payroll funds from the time of this transfer through September 30, 1973, was as follows:

	Obligations	Expenditures
MORD	$3,552,000	$2,293,558
MDEM	548,000	298,743
Total	$4,100,000	$2,592,301

The above obligations cover the period through June 30, 1974.

Because of the large dollar input, we reviewed the payroll payment procedures at MORD and MDEM headquarters in Saigon. We then tested the system at the province and village level during our field trips. No serious deficiencies were discerned in the structure of the administrative system. A key element in this system was MORD's inspection directorate.

The draw-down of U.S. dollars is made on a reimbursement basis after each payroll period. Pursuant to these procedures the GVN advances the ministeries the funds to cover the payroll. The supporting documentation for each payroll is subsequently accumulated and submitted to USAID which then reimburses the GVN. The entire cycle usually takes about 6 weeks. Under this system dollars are only converted at the current rate of exchange for the amount of local currency required.

2 - Commodities

On June 19, 1973, the USAID obligated $1,551,900 of DOD funds for cadre commodity support. The need for some of this scheduled procurement, we believe, is questionable. For example, large cadre inventories in several items are currently on hand at the Central Logistics Agency Warehouse in Saigon. Additionally, inventories of the same items are maintained among the provinces; however, no record of these province inventory balances are available. The amounts cited below thus reflects only the Saigon inventory situation for these items:

Description	Saigon Inventory Quantity
Sleeping Cot	127,937
Mosquito Net	68,841
Laundry Bag	57,840
Black Pajama (pair)	256,403
Bath Towel	148,049
Undershirt	212,069
Slouch Hat	69,171
Canvas Boots, Jungle (size 9w)	6,933
Bed Pillow	4,478
Rod Welding	1,200
Cotton Bed Sheet	1,568
Fatigue Trousers - (large)	3,042

Our review of the inventory records on the above items disclosed no significant utilization during the past year. Under these circumstances we feel that cadre procurement should be reviewed in closer detail before being processed.

Recommendation No. 5

USAID/VN should review in detail the existing inventory of commodities in relationship to current and projected need. This should be accomplished prior to any further procurement.

3 - Other

On July 12, 1971, an obligation for $2,542,573 had been effected under Project Agreement No. 71-076 for support to the National Training Center. As of September 30, 1973, a total of $1,031,457 had been expended. No further charges against this obligation are anticipated. Thus, at our request, the USAID deobligated the unexpended balance of $1,510,916.

G - COMMODITIES - HIGHWAY EQUIPMENT

In 1971 the USAID obligated $2.3 million for the procurement of U.S. highway equipment. Of this obligation, $1.1 million had been expended as of September 30, 1973. The remaining $1.2 million of procurement is currently out for bids and should be finalized by mid-1974. The commodity procurement consists of 44 "packages" of maintenance equipment, one for each province. The "package" includes: a roller, a grader, a front-end loader, a D-4 tractor, an asphalt kettle and three 2½-yard dump trucks. All proposed procurement was first screened against excess property located in Vietnam.

Province road maintenance has been generally inadequate. Lack of funding and equipment have been causal factors. The equipment procured under this program is thus expected to resolve one of the problems. However, according to the Vietnam Highway Agency, it has only been able to provide the provinces with about VN$400-500 million annually for maintenance. The Agency estimated that VN$1.6 billion was actually needed for maintenance. The current level of maintenance funding is thus far below existing needs. This problem should be considered in the context of any projected USAID assistance for secondary roads.

H - CONTRACTS

Under the CD program USAID contracted the services of the Eastern Construction Company (Contract No. 730-3191). The services of the company were engaged from October 1, 1969 to September 30, 1972.

The costs incurred under the contract as of the terminal date were as follows:

	U.S. Dollars	VN Piasters
Obligations	$2,606,951	VN$177,413,075
Expenditures	2,595,714	175,480,926
Balance	$ 11,237	VN$ 1,932,149

A final examination of these costs was recently performed under a separate AAG/EA audit (Report No. 9-730-74-23 dated September 28, 1973).

Pursuant to the contract the company provided the advisory services of third country nationals (Philippine) to work as Community Development officers (page 10). The number of such officers varied from a high of 108 in April 1970 to a low of 47 in March 1972. Our review indicated that the performance of these officers was considered satisfactory by the USAID.

USAID/VN (COMMUNITY DEVELOPMENT SECTOR)

EXHIBIT A
(Page 1 of 2

Summary of Projects Under Current Review
As of September 30, 1973
($000)

Project Title and Number	Personnel Obligations	Personnel Expenditures	Participants Obligations	Participants Expenditures	Commodities Obligations	Commodities Expenditures	Other Obligations	Other Expenditures	Total Obligations	Total Expenditures
Amounts Previously Audited	$ 3,515	$ 3,483	$105	$ 80	$ 227	$ 101	$ 13	$ 13	$ 3,860	$ 3,757
Current Review:										
Rural Development 730-11-995-332										
AID Funds 1/	8,989	8,983	168	120	5,050	3,905	9	9	14,216	13,017
DOD Funds 2/					1,552		9,978	7,144	11,530	7,144
DOD Funds - "Fund Cite" 3/	2,543	1,032							2,543	1,032
Subtotal - Project 332	$11,532	$10,015	$168	$120	$6,602	$3,905	$ 9,987	$7,153	$28,289	$21,193
Ethic Minorities Affairs 730-11-995-335										
AID Funds	$ 176	$ 179	$ 65	$ 69	$ (45)	$ 1	$ 25	$ 24	$ 221	$ 273
DOD Funds					182		712	299	894	299
Subtotal - Project 335	$ 176	$ 179	$ 65	$ 69	$ 137	$ 1	$ 737	$ 323	$ 1,115	$ 572
Subtotal - Current Review	$11,708	$10,194	$233	$189	$6,739	$3,906	$10,724	$7,476	$29,404	$21,765
Grand Total	$15,223	$13,677	$338	$269	$6,966	$4,007	$10,737	$7,489	$33,264 4/	$25,522

Summary of Projects Under Current Review
As of September 30, 1973
($000)

Notes: Explanation of Funds

1/ AID - Regular AID. Allocation allotted to USAID/VN.

2/ DOD - DOD Funds turned over to AID/W and allotted to USAID/VN under an AID appropriation. About $0.2 million were converted to local currencies and used in the Projects.

3/ DOD "Fund Cite" - DOD Funds the USAID/VN was authorized to obligate by letter from DOD. Obligation is against a DOD appropriation hence "Fund Cite" appellation.

4/ Does not include any DOD Funds administered by DOD directly or $11.9 million obligated under Project 294 but utilized in Project 332 (see Exhibit B-1 DOD (ADD).

Current Projects
Status of AID Local Currency Funding
As of September 30, 1973
(VN$000)

Project Title and Number	Expenditures: Prior Audit	Expenditures: Current Audit	Expenditures: Total	Total Funded	Unliquidated Balance
Rural Development 730-11-995-332	VN$3,272,074	VN$25,728,205	VN$29,000,279 1/	VN$30,571,182	VN$1,570,903
Ethnic Minorities Affairs 730-11-995-335	154,358	554,307	708,665	852,188	143,523
Totals	VN$3,426,432	VN$26,282,512	VN$29,708,944	VN$31,423,370	VN$1,714,426

1/ Excludes dollar conversions of DOD funds:

a. Included in Exhibit A (see Footnote 2). - $ 8,175,861
b. Obligated under project 294 (see Exhibit A Footnote 4) - $11,868,957

Local Currency Funding 1/
As of September 30, 1973

Project Title and Number	Expenditures				Total Funded				Unliquidated Balance
	AID	DOD	DOD (ADD)	Total	AID	DOD	DOD (ADD)	Total	AID
Rural Development 730-11-995-332	VN$29,000,279	VN$3,741,251	VN$2,138,700	VN$34,880,230	VN$30,571,182	VN$3,741,251	VN$2,138,700	VN$36,451,133	VN$1,570,903
Ethnic Minorities Affairs 730-11-995-335	708,665	-	-	708,665	852,188	-	-	852,188	143,523
Totals	VN$29,708,944	VN$3,741,251	VN$2,138,700	VN$35,588,895	VN$31,423,370	VN$3,741,251	VN$2,138,700	VN$37,303,321	VN$1,714,426

Notes:

1/ Funding: AID - Local Currencies accruing from Commercial Import Program and allocated to the projects.

DOD - Dollar Funds made available by DOD and allocated to the projects.

DOD (ADD) - Dollar Funds made available by DOD and obligated under other USAID/VN projects (mainly highway programs) and converted to local currencies. The local currencies were however utilized under projects in the Community Development Sector.

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