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REPORT TO THE CONGRESS



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Suggestions For Changes In U.S. Funding And Management Of Pacification And Development Programs In Vietnam

B-159451

Department of Defense
Department of State
Agency for International Development

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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

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

This is our report on "Suggestions for Changes in U.S. Funding and Management of Pacification and Development Programs in Vietnam," administered by the Civil Operations for Rural Development Support organization.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; the Secretary of Defense; and the Administrator, Agency for International Development.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
ARVN	Army of Vietnam
CORDS	Civil Operations for Rural Development Support
DOD	Department of Defense
GAO	General Accounting Office
MACV	Military Assistance Command, Vietnam
MASF	military assistance service funded
USAID	Agency for International Development's mission in Vietnam

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

SUGGESTIONS FOR CHANGES IN U.S.
FUNDING AND MANAGEMENT OF PACIFICATION
AND DEVELOPMENT PROGRAMS IN VIETNAM

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D I G E S T

WHY THE REVIEW WAS MADE

During the massive buildup of U.S. involvement in Vietnam, particularly in 1965 and 1966, U.S. assistance programs for pacification and development were administered separately by several U.S. agencies.

After trying several approaches for coordinated management under increasingly chaotic conditions, the Civil Operations for Rural Development Support (CORDS) organization was created in May 1967 to consolidate the administration of all U.S. support for pacification under a single-manager concept. It provided a single line for management coordination under the U.S. Military Assistance Command, Vietnam, and served well in the war environment within which it was created.

The CORDS operation is unique. CORDS is not an independent agency but is an administrative device operating with resources and personnel from several agencies that was designed to meet the exigencies of the situation in 1967. It does not have responsibility for financial stewardship or financial reporting.

CORDS receives funds from the Department of Defense (DOD), the Agency for International Development (AID), and other U.S. agencies.

The contributing agencies procure most of the equipment and commodities used in CORDS programs and provide the U.S. personnel to oversee the programs.

The agencies are also responsible for the accounting and auditing of their programs administered by CORDS. CORDS itself has no financial management or reporting responsibilities. The costs of the programs administered by CORDS have been, for the most part, exempted from the reporting and program accountability procedures normally required of foreign assistance programs.

Through fiscal year 1971 the United States has spent about \$2.1 billion for direct support of pacification and development programs. Most of these funds came from DOD and AID appropriations. The General Accounting Office (GAO) wanted to know what financial controls and program accountability were being maintained for these funds.

FINDINGS AND CONCLUSIONS

Neither CORDS nor DOD had developed a reporting system that provided reliable data for budgeting the funds needed for its programs or for measuring the assistance already provided. Estimates provided to the Congress in the required quarterly reports for 1971 on the total military assistance service-funded (MASF) program for Vietnam were about \$400 million less than actual costs. (See p. 16.)

CORDS estimated that the cost of deliveries to Regional and Popular Forces, a major element of the CORDS activity, totaled \$1.8 billion for the years 1967 through 1971. GAO believes that the actual costs were approximately \$900 million--a 50-percent difference. (See p. 20.)

The lack of reliable budget and cost data is due, in part, to the fact that funds for military assistance in Vietnam, including certain pacification assistance, are provided from the regular appropriations of the military services rather than from separate appropriations. This fundings method, called the MASF system, does not require program accountability for those programs administered by CORDS. (See p. 16.)

The MASF system was intended to simplify and consolidate administration of military assistance in Vietnam with a minimum of budgetary and accounting controls so as not to restrict military activities under the conditions prevailing in 1966. In view of the current phasedown of U.S. military activities in Vietnam and in view of the lack of financial accountability and information on the use of funds and material, the MASF system may no longer be justified. (See p. 27.)

Financial controls over other programs administered by CORDS were loose.

--About \$360 million in U.S. owned or controlled local currency had been obligated for CORDS programs from 1967-71. The United States had limited say over how the money would be spent. Funds were released on the basis of reports of transfers among the accounts of Vietnamese Government entities, rather than on the basis of actual expenditures. As a result the United States cannot verify that funds are being used for the highest priority projects, that they are needed to pay current expenses, or that they are being used effectively for the purposes intended. (See p. 28.)

--Effective controls over commodities provided to war victims were not established. Large quantities of food had spoiled, unneeded items had been purchased but not used for long periods, and items had been diverted to ineligible recipients. (See p. 44.)

GAO's findings, together with the emphasis on Vietnamization and on the withdrawal of U.S. military personnel who make up the majority of U.S. personnel assigned to CORDS, indicate that it may now be appropriate for the agencies which support CORDS to reexamine the justification for continuing its existence. (See p. 49.)

RECOMMENDATIONS OR SUGGESTIONS

The Secretaries of Defense and State and the Administrator of AID should jointly reappraise the need to retain the present CORDS organizational arrangement.

If the present arrangement is continued, the Secretary of Defense and the Administrator of AID should also ensure that:

- CORDS reviews the Government of Vietnam's local-currency budget submissions to ascertain whether funds are budgeted for priority projects and whether the amounts requested are reasonable. (See p. 35.)
- AID takes action to urge and assist the Government of Vietnam to initiate a system that will enable it to comply with its local currency agreements with the United States Government. (See p. 35.)
- CORDS urges and assists the Government of Vietnam in implementing controls over War Victims Program commodities. (See p. 46.)
- CORDS takes steps to redistribute U.S.-provided equipment and commodities no longer required by the CORDS activities. (See pp. 41 and 46.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

GAO has not followed its usual practice of obtaining written comments on this report from the Department of State, DOD, and AID. Several members and committees of the Congress have expressed an intense interest in CORDS activities. In view of that interest and in view of the significance of the report's subject matter, GAO believes that the report should be issued to the present Congress without delay. To obtain written comments would postpone issuance of the report for several months and thereby minimize its usefulness to this Congress.

The subject matter of the report that relates to GAO's work in Vietnam was provided to U.S. officials in Vietnam by memorandum, to which they responded with written comments. Also the draft report was provided to and discussed with officials of DOD, the Department of State, and AID, in Washington, D.C. From those discussions it appeared that those officials agreed generally with the facts in the report but that they believed it to be overly critical in tone and that it failed to sufficiently recognize the war environment or that CORDS activities were Vietnamese programs administered by the Vietnam Government.

Those officials also stated that, in view of the recent invasion of the south by North Vietnam, GAO's recommendations questioning the need for the CORDS organization to continue its existence and also the need for the United States to continue funding military assistance to Vietnam under the MASF system might be a little premature. The comments and views of those officials in Vietnam and in Washington were considered in preparing this report.

MATTERS FOR CONSIDERATION BY THE CONGRESS

In view of the phasedown of activities in Vietnam and in view of the lack of financial and program accountability and information on the use of materials and funds in the CORDS program, the Congress may wish to reexamine the need to continue funding assistance to Vietnam under the MASF system. By appropriating these funds as military assistance under the Foreign Assistance Act, the Congress would have more meaningful program and cost data on aid to Vietnam and could exercise more control over the amounts of assistance to be provided and the purposes for which the aid will be used.

CHAPTER 1

INTRODUCTION

We have included, as background for the matters discussed in this report, appendix I entitled "Pacification and Development Plans for Vietnam," which is a summary statement describing the component Vietnamese programs and their origins, purposes, and sources of financing.

During the period 1954 through 1966, U.S. assistance programs for pacification were administered separately by several agencies, including the Agency for International Development (AID), the Joint U.S. Public Affairs Office, and the Department of Defense (DOD). The programs administered by these agencies were not well coordinated in that Vietnamese officials sometimes had to deal with as many as four or five separate American officials, each of whom possibly could give different and conflicting advice on the same subject.

To remedy this situation the United States Government decided in May 1967 to establish the Civil Operations for Rural Development Support (CORDS) organization to consolidate the administration of all U.S. support for Vietnam's pacification and related development programs under a single-manager concept. We believe that CORDS served well as an emergency administrative device and that it was successful in many respects. We recognized throughout our review that the CORDS organization and supporting departments and agencies could not have resolved all the problems they faced under the war conditions that existed in Vietnam.

The CORDS operation is unique. CORDS is not an independent agency but is an administrative device operating with resources and personnel from several agencies that was designed to meet the exigencies of the situation in 1967. It does not have responsibility for financial stewardship or financial reporting. CORDS receives funds from the individual appropriations of DOD, AID, and other U.S. agencies. These contributing agencies procure the greater part of the equipment and commodities used in CORDS programs and provide the U.S. personnel to oversee the programs. The contributing agencies also are responsible for maintaining accounting records and for auditing their programs, although the assistance may be administered by CORDS.

DOD, however, has not established program accounting for its participation in the CORDS program, and we were advised that it did not expect to modify its accounting system, which is not geared to provide this type of stewardship accounting for this military assistance pacification activity since it is submerged in the broader military assistance service-funded (MASF) system.

Since most of the personnel and financial resources were contributed by DOD, the Commander of the U.S. Military Assistance Command, Vietnam (MACV), was charged with leadership of the program under the overall supervision of the U.S. Ambassador. AID and the U.S. Public Affairs Office continued to operate independently of CORDS for programs not related to pacification; however, their field staffs were placed under CORDS direction for all assistance programs in Vietnam.

The Commander of MACV administers U.S. assistance for the programs through his Deputy for CORDS, Chief of Staff, and Assistant Chief of Staff for CORDS. At the Saigon headquarters, CORDS has 11 directorates which advise the Government of Vietnam's Ministries and perform staff and administrative functions. These directorates are under the command of the Assistant Chief of Staff for CORDS and are manned by both military personnel and civilians. CORDS field personnel are under the direct command of the Deputy for CORDS. The organization in the field is similar to that of CORDS in Saigon in that each of the four military regions has staff advisors organized along the same functional lines as the Saigon directorates.

The efforts of CORDS personnel are directed primarily toward the operational and technical aspects of the assistance program. Although CORDS is headquartered in Saigon, about 90 percent of CORDS personnel are located in field posts.

At June 30, 1971, CORDS had a total of about 12,700 personnel, of which about 5,500 were U.S. citizens and the balance were Vietnamese or third-country nationals. As shown below, the majority of CORDS U.S. personnel were provided by DOD.

<u>Source of personnel</u>	<u>Number</u>
DOD:	
Military	4,660
Civilian	41
AID	<u>790</u>
	<u>5,491</u>

During most of the period that CORDS has been in existence, the emphasis of U.S. assistance programs has been directed toward military and security problems. During 1971, however, CORDS experienced significant changes in its programs and began focusing its efforts on political and economic development. In addition, the degree to which CORDS personnel participate in the assistance programs is decreasing as CORDS advisors are withdrawn from Vietnam.

We estimate that United States and Government of Vietnam support of pacification and development programs has amounted to about \$4.3 billion during the approximate 4-year period, fiscal years 1968-71, as shown in the following table.

	<u>Amounts obligated</u> <u>(millions of dollars)</u>	
AID:		
Dollar costs, primarily for U.S. personnel and commodities used in CORDS activities	\$227.4	
Local currency generated under the U.S. financial commercial import program and from sales of U.S. agricultural commodities under Public Law 480 (See p. 28.)	<u>330.7^a</u>	\$ 558.1
DOD:		
Estimated costs of equipment and other materiel support to the Regional and Popular Forces for fiscal years 1967-71 (See p. 17.)	849.2	
Estimated direct dollar support, principally to finance commodities and contract services for other activities under CORDS	72.3	
Estimated purchases of local currency with U.S. dollars for support of:		
Rural Development Cadre program	120.5	
Other CORDS activities	29.6	
Estimated dollar costs of U.S. military and civilian advisors to CORDS	<u>405.4</u>	1,447.0
Other U.S. agencies		<u>55.4</u>
Total U.S. contributions		2,090.5
Government of Vietnam for calendar year 1968 to June 30, 1971 (piaster dollar equivalent)		<u>2,207.2^a</u>
Total		<u>\$4,297.7</u>

^aThe local currency (piaster) equivalent in dollars here and elsewhere in this report is based on a conversion rate of 118 piasters to \$1.

During 1970 we performed a survey of CORDS programs, to obtain background information for planning detailed reviews.

In a statement presented before the House Committee on Government Operations, Foreign Operations and Government Information Subcommittee, on July 16, 1971, an official of GAO summarized our views concerning the origin and purpose of CORDS, as follows:

"The operating arrangement, now known as the Civil Operations and Rural Development Support (CORDS), grew out of an effort in 1967 to improve the U.S. capability for management of its pacification efforts by establishing a single line of management responsibility for U.S. teams and advisors out in the regions, provinces and districts throughout Vietnam.

"Previously there had been no effective mechanism for coordination of the U.S. pacification activities in the field among the various military and civilian chains of responsibility. It was stated at the time it was initiated in May 1967 to be an arrangement:

'to provide for the integration of Civil Operations and Revolutionary Development Support activities within MACV -- to provide for single manager direction of all U.S. Civil/Military Revolutionary Development activities in the Republic of Vietnam.'

"It was placed under the managerial responsibility of a Deputy, with the rank of Ambassador, responsible directly to the Commander, U.S. Assistance Command, Vietnam (COMUSMACV), for the following stated reasons:

'There were two basic reasons for giving the responsibility for the performance of United States Mission field programs in support of Revolutionary Development to General Westmoreland. In the first place, it is the

United States Military Assistance Command, Viet-Nam, which performs the supporting advisory role to the Republic of Viet-Nam Armed Forces, who are primarily responsible for providing continuous local security, the indispensable first stage of pacification. In the second place, the greater part of the United States advisory and logistic assets involved in support of Revolutionary Development are controlled by and provided through MACV. Therefore, if unified management of United States Mission assets in support of Vietnamese programs is desirable, COMUSMACV is the logical choice to direct it.'

"Looking back after four years to the conditions that prevailed in 1967, the sometimes conflicting advice, the uncoordinated actions, and the lack of any unified management mechanism, the CORDS arrangement that was established has in my view, even with all its imperfections, provided a vastly improved management mechanism."

During our survey we noted that CORDS had not been given responsibility for establishing management controls for financial accountability over the substantial U.S. contribution to Vietnam's pacification and development programs. We observed that:

- CORDS was unaware of the value of assistance provided by the United States to these programs, including that provided to the Regional and Popular Forces.
- CORDS had not prepared satisfactory estimates of the funds required for the programs supported by AID and DOD and, as a result, had requested and received unneeded funds.
- Responsible CORDS officials were unaware of the amounts obligated under their programs and, in some cases, did not know the amounts in their budgets.

--The internal audits of the U.S. departments and agencies contributing to CORDS activities had, in general, not been including reviews of CORDS programs.

Our observations were included in the GAO document entitled "Background Information on United States Participation in Pacification and Development Program in Vietnam Administered by Civil Operations for Rural Development Support." This document was provided to several congressional committees in July 1971.

The July 1971 document was transmitted to DOD on July 1, 1971. On December 23, 1971, we received DOD's comments concerning certain aspects of our work that were specifically called to its attention on July 28, 1971, by the Comptroller General. (See app. II.)

We have not followed our usual practice of obtaining written comments on the current report from the Department of State, DOD, and AID. Several members and committees of the Congress have expressed an intense interest in CORDS activities. In view of that interest and in view of the significance of the report's subject matter, we believe that the report should be issued to the present Congress without delay. To obtain written comments would postpone issuance of the report for several months and thereby minimize its usefulness to this Congress.

The subject matter of the report that relates to our work in Vietnam was provided to U.S. officials in Vietnam by memorandum, to which they responded with written comments. Also the draft report was provided to and discussed with officials of the Department of State, DOD, and AID, in Washington, D.C. From those discussions it appeared that those officials agreed generally with the facts in the report but that they believed it to be overly critical in tone and that it failed to sufficiently recognize the war environment or that CORDS activities were Vietnamese programs administered by the Vietnam Government.

Those officials also stated that, in view of the recent invasion of the south by North Vietnam, our recommendations questioning the need for the CORDS organization

to continue its existence and also the need for the United States to continue funding military assistance to Vietnam under the MASF system might be a little premature. The comments and views of those officials in Vietnam and in Washington were considered in preparing this report.

GOVERNMENT OF VIETNAM'S CONTRIBUTIONS
FOR CORDS-SPONSORED PACIFICATION PROGRAMS

Records that we examined showed that from 1968 the Government of Vietnam had contributed the equivalent of about \$2.5 billion to CORDS pacification programs. We estimate that \$1.4 billion, or roughly half of the Vietnam Government's contribution, was derived from revenues obtained either directly from U.S. sources or indirectly through the presence of U.S. activities and through U.S. programs. Adding the indirect contribution of \$1.4 billion to the direct U.S. dollar contribution of \$1.8 billion during the fiscal years 1968 through 1971, the combined U.S. contribution totaled \$3.2 billion, or about 74 percent of the total \$4.3 billion spent on pacification programs.

The amounts obligated by the Government of Vietnam for pacification programs are shown below.

<u>Agency</u>	<u>Obligated</u>		<u>Total</u>
	<u>Calendar years</u> <u>1968 through 1970</u>	<u>Calendar year 1971</u> <u>(note a)</u>	
	<u>(millions of piasters)</u>		
Ministry of National Defense (note b)	142,749	57,335	
Ministry of Interior	41,952	15,207	
Ministry of Chieu Hoi	3,335	1,118	
Ministry of Social Welfare	10,024	4,351	
Ministry of Ethnic Minorities	1,106	363	
Ministry of Rural Development	11,819	3,220	
Central Pacification and Development Council	<u>3,377</u>	<u>3,513</u>	
Total obligations	<u>214,362</u>	<u>85,107</u>	<u>299,469</u>
Amount in U.S. dollars			\$2.5 billion ^(c)

^aRepresents obligations for the first 6 months of calendar year 1971.

^bIncludes only that portion of the Ministry's obligations estimated to be applicable to Regional and Popular Forces.

^cIncludes the equivalent of \$330.7 million of U.S. owned or controlled local currency (piasters) generated with Public Law 480 and the U.S.-financed Commercial Support Program. Conversion rate: \$1=118 piasters.

We estimate that for calendar year 1971 about 56 percent of the Government of Vietnam's funds earmarked for CORDS programs were derived either directly from U.S. assistance or indirectly through the presence of U.S. activities and through U.S. programs. Of the 89.9 billion piasters budgeted for CORDS programs, about 51.1 billion piasters represented U.S. contributions, as shown below.

	<u>Amount</u>		<u>Per-</u> <u>cent</u>
	(billions of piasters)		
United States:			
Direct	11.9		
Indirect	<u>39.2</u>	51.1	56.8
Government of Vietnam:			
Tax receipts and other income	25.1		
Deficit financing	<u>13.7</u>	<u>38.8</u>	<u>43.2</u>
Total		<u>89.9</u>	<u>100</u>

Direct U.S. contributions to the Government of Vietnam budget for 1971 were estimated to have been 11.9 billion piasters. These funds were obtained from the sales of commodities imported to Vietnam under the U.S.-financed Commercial Import Program and from the sales of surplus agricultural products under title I, Public Law 480.

The indirect contributions of 39.2 billion piasters were derived from revenues related to U.S. assistance. These included the taxes and customs which the Government of Vietnam levied on (1) imports of commodities under Public Law 480 and under the Commercial Import Program and (2) imports of commodities financed from the dollar proceeds of DOD piaster purchases. In the latter case the Government of Vietnam made the dollar proceeds available to Vietnamese commercial importers and then levied a tax on the imports.

During calendar years 1968 through 1971, the Government of Vietnam obligated about \$2.5 billion. Applying our analysis of the 1971 budget to the entire 4-year period, we estimate that about \$1.4 billion of these funds were derived from U.S. sources.

Therefore we estimate that, during fiscal years 1968 through 1971, the United States contributed directly or indirectly about 74 percent of the total costs of pacification.

	<u>Amount</u>		<u>Per-</u> <u>cent</u>
		(millions of dollars)	
United States:			
Direct dollar			
contributions	\$1,760		
Budget support	<u>1,434</u>	\$3,194	74
Government of Vietnam:			
Tax receipts and			
other income	707		
Deficit financing	<u>397</u>	<u>1,104</u>	<u>26</u>
Total		<u>\$4,298</u>	<u>100</u>

As shown in the schedule above, about \$707 million was derived from internal revenues. Although portions of these revenues were also derived from U.S. programs or presence, we have not included these additional amounts under U.S. contributions because they are not susceptible to measurement. Examples of these amounts were the income taxes paid by Vietnamese employed by U.S. agencies or contractors and the licensing fees paid by Vietnamese firms that sold goods and services to U.S. agencies or contractors.

CHAPTER 2

GAO SUMMARY OBSERVATIONS

The specifics of our review, including our conclusions and recommendations, are set forth in chapters 3 through 7. Our observations are summarized below.

Recognizing that CORDS was created as an administrative device to function under the emergency situation that prevailed in 1967, we believe that it served well. We believe also that CORDS was suited to the war conditions and environment within which it was created to operate. Normal considerations of program accountability and financial reporting were not possible and were largely suspended.

With the shift in emphasis of the pacification program rehabilitation, the phasedown of U.S. participation, and the President's recent action to remove all U.S. combat forces from Vietnam, we believe that the war-related suspension of program accountability is no longer justifiable. Accordingly we believe that the need for continuance of CORDS as an emergency management device is doubtful and should be reappraised.

DOD has indicated that it is impracticable to develop procedures for program accountability or financial reporting to the Congress on the CORDS operation other than in terms of very broad estimates which, from our review, appear to be highly unreliable.

The lack of reliable financial accounting to the Congress on the pacification programs is also due, in part, to the fact that the DOD pacification programs in Vietnam are submerged within its appropriations and the fact that a separate accounting is not required. In view of DOD's reluctance to establish procedures which would provide the Congress with a reliable financial stewardship accounting on its assistance budgets and activities conducted through CORDS, it may be necessary, in order for the Congress to be able to have such information, to place the Vietnam pacification appropriation back under the Foreign Assistance Act. We are suggesting that the Congress may wish to consider this.

CHAPTER 3

ABSENCE OF FINANCIAL CONTROL OVER

DOD SUPPORT OF CORDS ACTIVITIES

Funds for military assistance in Vietnam are provided from the regular appropriations of the several military services under DOD. This method of funding assistance is known as the MASF system.

The MASF system was not designed or intended to provide program data, budgets, costs, and other management information normally required by the Congress when military assistance is funded under foreign assistance legislation. It follows that the system was also not designed to segregate the costs of assistance provided to the pacification and development programs from that provided to Vietnam's military activities. We estimated roughly that DOD's assistance to CORDS activities for fiscal year 1971 amounted to about 13 percent of the total reported MASF support to Vietnam. Since the system was not intended to provide such information, the Congress has included in the appropriate appropriation acts each year a provision requiring the Secretary of Defense to provide the Congress with quarterly reports of the estimated value of MASF assistance to Vietnam. Our work in Vietnam showed, however, that the estimated amounts reported to the Congress were significantly understated.

For example, the quarterly reports submitted to the Congress for fiscal year 1971 showed that the total assistance provided to Vietnam under MASF was estimated at \$1.5 billion. Although reliable figures are very difficult to obtain, we believe, on the basis of the best information available to us at this time, that such assistance amounted to about \$1.9 billion. Accordingly, the program accountability to the Congress through these reports appears to have been understated by about \$400 million for fiscal year 1971.

The MASF system began in fiscal year 1966 when the Congress first authorized DOD to assume the funding responsibilities of military assistance to Vietnam previously authorized under the Foreign Assistance Act of 1961, as amended.

The change of the method of funding assistance was to be a temporary measure intended to simplify and consolidate administration of military assistance to Vietnam with a minimum of budgetary and accounting controls so as not to restrict military activities under the conditions prevailing in 1966.

The MASF system of providing military assistance to Vietnam may have been justified under the chaotic war conditions existing in 1966. The absence of program accountability or of a reliable budget and cost system for MASF support to CORDS pacification and development activities, however, is not generally consistent with the basic proposition that all foreign assistance programs be administered under procedures which will permit an orderly and reliable determination of program requirements and the actual costs of assistance subsequently provided to the various programs. As administered, the MASF system effectively precludes the Congress from obtaining reliable data concerning the programs.

REGIONAL AND POPULAR FORCES

The largest single activity administered by CORDS is the assistance to the Regional and Popular Forces. This activity, which supports the pacification objective "local self-defense" (see p. 54), consisted of a military-type force approximating 540,000 men in August 1971. During fiscal years 1967 through 1971, the United States provided these forces with equipment and supplies which, on the basis of the most reasonable estimate we can make, were valued at \$849 million. Excluding the costs of U.S. civilian and military personnel funded by DOD, the \$849 million represented about 50 percent of total U.S. assistance to CORDS activities.

The Regional and Popular Forces are uniformed, full-time national military organizations. These forces and the People's Self-Defense Force collectively are referred to as the Territorial Security Forces. Although the forces are part of the Army of Vietnam (ARVN), their primary mission is pacifying areas which regular ARVN units have cleared. Unlike regular ARVN units, they are assigned to the province and district chiefs. Together, these forces constitute more than half of the manpower in the Vietnamese Army, as shown by the table below.

	<u>Assigned strengths at August 31, 1971</u>	<u>Percent</u>
Regional Forces	289,543	31
Popular Forces	249,350	26
Regular ARVN	<u>405,745</u>	<u>43</u>
Total	<u>944,638</u>	<u>100</u>

The personnel in the Regional and Popular Forces are recruited from, and usually serve in, their native provinces. The Regional Forces are assigned to the province chiefs and support pacification and development efforts by conducting offensive operations against local enemy force units. Generally Popular Forces are assigned to the command of the district chiefs but are under the operational control of the village chiefs. Their mission is to assist in providing security and order within the villages or hamlets. The Regional Forces are primarily organized into companies of 63 to 123 men; the Popular Forces are limited to platoons of about 30 men.

CORDS is responsible for advising the Regional and Popular Forces on operations and logistics. At the headquarters level, the CORDS Territorial Security Directorate advises the Vietnamese Joint General Staff on Regional and Popular Forces matters. In the field, CORDS advisors are stationed at the province headquarters and at the 46 Sector Management and Direct Support Logistical Centers which provide direct supply support to the Regional and Popular Forces. CORDS also employs about 200 Mobile Advisory Teams which provide training and advice to the using units. At the time of our review, CORDS field advisors were being phased down and the Mobile Advisory Teams were scheduled to be withdrawn by March 1972.

The material which the United States provides to the Regional and Popular Forces is funded under the MASF system and is charged against the appropriation of DOD. This material is controlled and distributed by the logistical system. Distribution is made from the ARVN's base depots in the Saigon area to five Area Logistics Command depots located in the military regions. The Area Logistics Commands provide logistical support to regular ARVN units, the Regional and Popular Forces, other free world military forces. They also

provide common-item support to the Vietnamese Navy and Air Force. MACV's J-4 staff provides advisors for ARVN's base depots and for the Area Logistics Commands. MACV is also responsible for programing MASF system support.

MACV programs material in two broad categories: investment items and operating items. Investment items are the initial issues of equipment programed to meet unit authorizations. Since MACV programs investment items for specific units, the MASF system can segregate the costs of issues of investment items to the Regional and Popular Forces as well as to other customers. Investment items, however, make up only about 15 percent of the support to ARVN under the MASF system. The balance of the material is programed as operating items, which include replacement equipment, subsistence, ammunition, and spare parts. Unlike investment items, operating items are programed on the basis of combined ARVN-wide attrition and usage factors, including those of the Regional and Popular Forces, and consequently it is not possible to determine for which units this material is programed. In addition, since the ARVN logistic system is not designed to accumulate information on issues to specific units at the depots, it was not possible to determine where operating items had been delivered except by tracing individual items through each level of the system.

LACK OF BASIC MANAGEMENT INFORMATION

Our review showed that neither CORDS nor MACV knew the amounts of assistance budgeted for and provided to ARVN, principally to the Regional and Popular Forces, that related specifically to pacification. We found that CORDS, not having been given financial responsibility, had made no serious attempt to develop an effective means by which it could allocate costs or collect other data that would enable it to determine the magnitude of the material being provided to the forces or to manage the program effectively.

To illustrate how little information was available, we found that CORDS was not able to prepare a reasonable estimate of the cost of the material programed for or delivered to the Regional and Popular Forces. In 1970 we surveyed the CORDS organization, financing, and operation. During that survey CORDS provided us with figures which had been prepared especially for hearings before the Senate Foreign Relations Committee early in calendar year 1970. CORDS also provided this same cost data to the Commander in Chief, Pacific, and the Department of the Army since neither of these commands maintained accounting records showing deliveries to the Regional and Popular Forces. During our current review CORDS updated its estimate and provided us with figures which showed that the costs of deliveries totaled \$1.8 billion through fiscal year 1971. From our analysis, however, we believe that the costs of such deliveries were closer to \$0.9 billion--a 50-percent difference.

CORDS overestimate was a superficial figure projected primarily on the relative strengths of ARVN and the Regional and Popular Forces. On the basis of the best information we could obtain, although both organizations had about the same number of personnel, the Regional and Popular Forces were not as heavily equipped as were the regular ARVN units. Consequently the investment costs for the forces were about 23 percent of the total costs of investment material delivered to the ARVN's depots, as shown below.

	Fiscal years <u>1967-71</u>	<u>Percent</u>
Equipment investment, ARVN	\$423,746,906	77
Equipment investment, Regional and Popular Forces	<u>127,246,770</u>	<u>23</u>
Total	<u>\$550,993,676</u>	<u>100</u>

The investment costs also provided a realistic basis for estimating MASF operating-item support for the Regional and Popular Forces because the quantities depend on the number of items required to support the investment items. For example, ammunition items depend on weapons density and vehicle spare parts depend on motor-vehicle density. On this basis, therefore, we estimated the operating costs for the Regional and Popular Forces at 23 percent of the \$3,139 million programed for delivery to the ARVN depots, or \$722 million during fiscal years 1967 through 1971. As shown below, this was significantly less than the amounts estimated by CORDS.

MASF Support--Regional and Popular Forces
Fiscal Years 1967-71

(millions)

CORDS estimate		\$1,768.1
GAO estimate:		
Investment cost	\$127.2	
Operating cost	<u>722.0</u>	<u>849.2</u>
Difference		<u>\$ 918.9</u>

Our estimate, which we believe is more reasonable, cannot be considered precise because there was no system which would permit a more accurate determination of the actual operating costs.

MASF SYSTEM

Prior to fiscal year 1966, the United States provided military assistance to Vietnam and other free world forces in Vietnam through the Military Assistance Program under

Foreign Assistance Act legislation. On January 19, 1966, however, the President of the United States submitted to the Congress a proposed supplemental appropriation request for DOD, for fiscal year 1966.

The submission contained a request for \$12.8 billion for DOD for assistance in support of U.S. operations overseas, principally in Southeast Asia. Included in the request was \$200 million which was to be applied to military assistance for the forces of South Vietnam and other free world forces fighting there. The reason given for including this amount in DOD appropriations in lieu of foreign assistance appropriations was to "permit our commanders in Vietnam to simplify and expedite supply operations for all fighting forces there."

As a result of the President's request, Public Law 89-374, the Supplemental Defense Appropriation Act of 1966, and subsequent DOD appropriations acts for each fiscal year through 1972, provided that appropriations available to DOD be available for their stated purposes to support Vietnamese and other free world forces in Vietnam and for related costs on such terms and conditions as the Secretary of Defense may determine. These acts allowed the military services to charge all costs incurred in Vietnam for the support of Vietnamese and other free world forces, except regular pay and allowances, to military functions appropriations. Therefore such costs have been exempted from the reporting and program accountability procedures normally required when military assistance is funded under the Foreign Assistance Act.

Military assistance provided under the Foreign Assistance Act of 1961, as amended, required specific appropriations of the Congress. Established procedures require the maintenance of financial records to account for delivered material, obligated funds, undelivered balances of funded programs, and liquidations. A major justification for implementation of the MASF system in 1966 was to program, budget, and fund all military requirements under a consolidated financial and supply system for the support of all free world forces fighting in Vietnam, which would avoid the necessity for maintaining separate financial and logistics systems by recipient country in a combat zone.

This justification was brought out by the House Committee on Appropriations report dated March 11, 1966, which stated:

"This section has the effect of merging that portion of what would otherwise be military assistance appropriations for application in South Vietnam into the regular operating funds of the Department of Defense. This is a requirement of the immediate situation, so as to avoid the necessity for separate accountability for goods and services by recipient country, where actual combat precludes ordinary peacetime accounting procedures." (Underscoring supplied.)

The Senate Committee on Appropriations also issued a report, dated March 17, 1966, that contained similar language.

"This limited merger of funding of support of allied forces with that of our own forces engaged in the same areas and for the same purposes is desirable in order to avoid cumbersome, time-consuming, and inefficient parallel and separate financial and logistics systems in the combat zone." (Underscoring supplied.)

The Secretary of Defense, in support of the President's proposal, testified before three subcommittees of the House Committee on Appropriations on January 26, 1966, that:

"*** now that large U.S. and other free world military assistance forces (e.g., Korean) have joined in the defense of South Vietnam, the maintenance of separate financial and logistic systems for U.S. and military assistance forces is proving to be entirely too cumbersome, time consuming, and inefficient. The same problem was encountered at the outset of the Korean War. It was solved, then, by programing, budgeting, and funding for all requirements under the 'military functions' appropriations and providing a consolidated financial and supply system for the support of United States,

Korean, and other friendly forces engaged in that effort. This arrangement gave the field commanders maximum flexibility in the allocation of available resources and improved the support of the forces employed." (Underscoring supplied.)

At the time Congress was considering the President's fiscal year 1966 request to transfer the funding of military assistance to Vietnam from the Military Assistance Program to military functions appropriations, it expressed some concern about losing control over the levels of military assistance to be provided. Because of this concern the following provision has been included in the annual appropriation acts of DOD.

"Within thirty days after the end of each quarter, the Secretary of Defense shall render to Congress a report with respect to the estimated value by purpose, by country, of support furnished from such appropriations."

A restriction was placed on the Secretary of Defense, beginning in fiscal year 1970, limiting MASF support to a maximum of \$2.5 billion a year. Our work in Vietnam pertaining to fiscal year 1971 indicated that, although the \$2.5 billion ceiling might not have been exceeded, the quarterly reports to the Congress had been significantly understated.

The Congress authorized merging the funding of military assistance to allied forces in Vietnam with the appropriations of the U.S. military services on the basis of the steadily increasing levels in U.S. and free world troop strengths at that time. As a result of the President's Vietnamization program, U.S. forces were phased down from a high of over 500,000 in 1969 to 69,000 by May 1972. Also, the forces provided by the Philippines, Thailand, Australia, and New Zealand, except for a few advisors, have been withdrawn; Korea, the only free world nation, other than the United States, with forces remaining in Vietnam, is in the process of withdrawing about 20 percent of its forces.

The United States has recently announced the deactivation of the last remaining U.S. ground combat units in South

Vietnam. This will virtually end the U.S. land combat role in Vietnam.

Therefore the original considerations under which the MASF arrangement was established and justified to the Congress no longer exist.

DOD VIEW ON PRACTICALITY OF ESTABLISHING
FINANCIAL ACCOUNTING FOR CORDS

When we performed our original survey and prepared our background document, we commented that we had been unable to ascertain the amount of obligations for the military hardware and other commodities delivered to the CORDS-administered Regional and Popular Forces under the MASF system. We stated that the reasons for this were that the MASF system also provided commodities to other Vietnamese military organizations which were not supported by CORDS and that the records did not segregate deliveries to the Regional and Popular Forces.

On July 13, 1971, DOD issued a press release in which it stated that records of these obligations were available. In this press release DOD stated that:

"The GAO survey either overlooked or failed to indicate that obligation records are not nor are they intended to be maintained in Vietnam. Records supporting the amounts questioned in the survey are available at activities outside of Vietnam where the financial accounting is actually performed." (See app. III.)

Our followup work at military installations in Vietnam and the United States showed that DOD's records did not, either in the United States, Vietnam, or elsewhere, segregate the obligations and costs of materials supplied to the Regional and Popular Forces and personnel costs of its advisors in Vietnam from obligations and costs not related to pacification.

On the basis of our original survey and our discussions with DOD officials, we subsequently suggested that DOD modify its system to identify and account for that portion of the assistance flowing through the military pipeline to CORDS pacification activities. (See app. II.)

In a letter dated December 28, 1971, the Secretary of Defense informed us that he recognized that the records then maintained would not show the amounts of support provided to the CORDS-managed units and that he had concluded that it

would not be practicable or beneficial to establish a financial accounting system over the material delivered to the Regional and Popular Forces. (See app. II.)

We agree that it would be impracticable to attempt to obtain detailed costs relatable to Vietnam's field units, and our suggestion did not contemplate such detailed costs. The real question we were, and are, concerned with was whether DOD was providing a meaningful and reliable financial accounting to the Congress for these programs. We believe that it was not.

CONCLUSION

We believe that the two illustrations cited above--the understatement of about \$400 million by DOD in the quarterly MASF system reports made to the Congress for 1971 and the overestimate by CORDS of about \$900 million in the support furnished to the Regional and Popular Forces over a 4-year period--indicate the unreliability of program data and of reports furnished to the Congress that were based on broad estimates necessitated by the use of the MASF system.

MATTER FOR CONSIDERATION BY THE CONGRESS

In view of the phasedown of U.S. military activities and in view of the lack of basic program accountability and information on the use of materials and funds, as discussed in this and other chapters, the Congress may wish to re-examine the need to continue with the present MASF system and to consider appropriating such assistance to Vietnam under the Foreign Assistance Act. This would enable the Congress to obtain more meaningful program and cost data on military assistance to Vietnam, including the assistance to Vietnam's pacification programs, and would permit the Congress to exercise more control over the amounts of military assistance to be provided and the purposes for which the assistance will be used.

CHAPTER 4

NEED TO STRENGTHEN CONTROLS OVER LOCAL CURRENCY

During the approximately 4-year period ended June 30, 1971, U.S. owned or controlled local currency, equivalent to about \$360 million, was obligated for support of Vietnam's pacification and development programs under CORDS jurisdiction. Our examination indicated that the AID's mission in Vietnam (USAID) and CORDS had not implemented measures to (1) ensure the reasonableness of projects and budgets developed by the Vietnam Government to which local currency was released nor (2) assure the United States that funds released to the Vietnam Government were currently needed, were used effectively, or were used for intended purposes. USAID and CORDS have a divided responsibility for these functions.

LOCAL-CURRENCY MANAGEMENT

The \$360 million of U.S. owned or controlled local currency obligated for programs under CORDS jurisdiction during the approximately 4-year period ended June 30, 1971, were generated from the following sources.

	Amount (<u>millions of dollars</u>)
Commercial Import Program	\$278.7
Purchase of local currency with DOD dollars	29.6 ^a
Special funds which derive their resources principally from local currency generated under the Commercial Import Program and Public Law 480	<u>52.0</u>
	<u>\$360.3</u>

^aExcludes approximately \$120.5 million reimbursement to the Vietnam Government for salaries and allowances of the Rural Development Cadre. (See ch. 5.)

The responsibility for managing local currency discussed herein is shared jointly on the U.S. side by USAID and CORDS. Although their respective responsibilities are not clearly defined, CORDS, as a general rule, is responsible for monitoring the planning and implementation of programs financed with this local currency while USAID is responsible for approving overall budget requests and for releasing the funds to the Vietnam Government when requested.

The U.S. owned and controlled local currency used in Vietnam's pacification and development programs was generated through the sale of surplus agriculture commodities under title I of the Agriculture Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1701), Public Law 480; through the sale of commodities imported to Vietnam under the U.S.-financed Commercial Import Program authorized by the Foreign Assistance Act of 1961, as amended; and through the purchase of local currency from the Vietnam Government with dollars provided by DOD.

NEED FOR U.S. REVIEW OF VIETNAM'S PROJECT PLANNING AND IMPLEMENTATION

The Government of Vietnam is responsible for preparing the detailed local-currency projects. Since the majority of the projects are programmed for implementation in the provinces and villages, the central Government delegates this responsibility to the province governments. The province governments select the projects, prepare the technical dossiers, and estimate the funds which are required to complete the projects. The province governments submit the plans to the respective Vietnamese Ministries in Saigon where they are reviewed and consolidated. Subsequently CORDS and USAID review the plans to determine whether sufficient funds are available.

The province governments are responsible also for implementing the projects and maintaining the accounting records. Using the funds which the Saigon Ministries transfer periodically to the province treasuries, the province governments purchase the necessary materials and hire the contractors or construct the projects with the assistance of the Government of Vietnam's Ministry of Public Works.

The Office of the Director General for Budget and Foreign Aid is the Vietnam Government's focal point for financing the local-currency projects. Periodically the Director General applies to USAID for the release of local-currency funds.

We found that CORDS exercised only minimal oversight of the planning for, and implementation of, local-currency projects. Although CORDS has advisors stationed in the field, they do only superficial monitoring of projects. They generally have relied on the Vietnam Government to select the projects and to determine the amount of funds needed to finance them. CORDS field advisors informed us that they had little influence on the selection of projects because the projects were Vietnamese devised and controlled.

Our visits to several Secondary Roads and Bridges projects in the provinces showed that CORDS field personnel often had little or no knowledge of the specific projects.

U.S.-CONTROLLED FUNDS RELEASED ON BASIS OF
INCOMPLETE VIETNAM GOVERNMENT REPORTS

In our report to the Congress entitled "Need for Increased Control over Local Currency made Available to the Republic of Vietnam for Support of its Military and Civil Budgets" (B-159451, July 24, 1970), we reported that USAID had released large amounts for civil budget activities before they were needed. We recommended that the Administrator, AID, require USAID to develop and implement whatever procedures and controls might be necessary to ensure that local currency made available for support of the Government of Vietnam's civil budget be released only in amounts essential to meet valid cash requirements.

We pointed out that, to accomplish this recommendation, it would be necessary for USAID to assist the Government of Vietnam in revising its reporting system so that the reports to USAID would be more timely, reliable, and meaningful and would reflect actual expenditures. In our later review we found that USAID had continued to release funds prematurely and that the Government of Vietnam had not reported actual expenditures. Consequently USAID had no assurance that the funds were needed by the Vietnam Government.

In the calendar year 1970 and 1971 joint agreements, the Government of Vietnam agreed to submit monthly reports of expenditures by program and province. The agreements provided that USAID would periodically reimburse the Government of Vietnam for actual expenditures. Under this system U.S. officials would be able to relate the amounts released with the actual expenditures reported by the Vietnam Government and would thereby have some assurance as to reasonableness of the Government of Vietnam's requests.

The Government of Vietnam had not complied with the agreements and was instead submitting reports of lump-sum amounts which consisted primarily of transfers from the Central Government to the province treasuries. USAID continued to release funds on the basis of these reports. Since the funds could remain in the province treasuries for extended periods, the USAID releases were, in our opinion, premature. A recent USAID study concluded that, as a result of this practice:

"*** large amounts of funds have been released for projects which have not been performed and the funds have not been returned or used to offset future releases."

The Government of Vietnam's reports did not specify the provinces to which the funds were transferred, and consequently it was not possible to determine the specific projects for which USAID was releasing funds.

During our visits to Vietnam's provincial offices we found reports in the Vietnamese language showing the amounts obligated and expended under each project. We learned, however, that such information, although available, was not generally communicated or provided to U.S. provincial personnel. Our review of a few of these reports showed that in most instances funds had been released to the provinces in amounts that were excess to actual requirements. We did not observe any instances in which the excess funds or prematurely released funds had been returned to Saigon and to the U.S.-controlled accounts from which they had been released.

For example, we found that, of 26.5 million piasters made available for three projects in Ninh Thuan Province, only 22 million piasters were actually needed. A Province official advised us that the 4.5 million piasters (equivalent to \$38,000) would be retained in the Province and would be used to finance other projects and needs.

Representatives of AID's Area Auditor General office in Vietnam reported instances in which unneeded funds had been released. During 1971 the Auditor General's reports showed premature releases for two CORDS projects, as show below.

<u>Project</u>	<u>Piasters released</u>	<u>Piaster unspent at December 31, 1970</u>
	(millions)	
Correction Centers	179.8	92.4
Rural Development	1,627.4	304.2

Since the Government of Vietnam was not reporting actual expenditures to USAID, it was not possible for us to readily determine how widespread this condition was. In September 1971, at the time we were inquiring into local-currency controls in Vietnam, USAID took action to correct the problem.

USAID advised the Vietnam Government that additional funds would not be released to it until it complied with the reporting requirements of the joint agreements.

MANAGEMENT APPRAISAL BY AID AUDITOR GENERAL

The January 18, 1971, report of the Operations Appraisal staff of AID's Auditor General Office included comments to the effect that CORDS was responsible for substantial amounts of local currency made available by AID. The report continued with a statement that the project agreement, signed December 8, 1970, for activities of the Central Pacification and Development Council provided that the Assistant Chief of Staff, CORDS, agreed to (1) provide advisory staff and liaison personnel at the national, regional, and province level as required for close, continuing coordination of program activities, including the planning, approval, and inspection of all projects, and (2) provide continuous guidance, direction, and inspection through U.S. channels of projects related to the program.

The key clause is "continuous guidance, direction, and inspection." The appraisal staff report stated that the guidance and direction was, by necessity, low keyed to enable the Vietnamese to develop a capability to carry out such projects on their own. The report concluded that, if "inspection" is defined as knowledge that there are no corrupt practices involved or that completed projects are measured against the original specifications in any detail, no inspection takes place.

USAID and CORDS responded to the appraisal staff report by agreeing that CORDS was not in a position to conduct continuous inspection of project activities. USAID and CORDS stated, however, that they would take action to modify the language in the current and future agreements to indicate that they would work closely with the Vietnam Government's project manager in all phases of the project. Although the low-key approach may be desirable for implementing the Vietnamization Program, we believe it essential for U.S. agencies to be knowledgeable with regard to local-currency utilization.

CONCLUSIONS

We believe that little effort was exerted by either USAID or CORDS, under their split responsibilities, prior to releases of funds to the Vietnam Government to obtain such management information as (1) the status of funds released but unexpended, (2) whether funds previously released had been used effectively or as intended, (3) the technical adequacy of projects financed with local currency, and (4) whether the projects proposed by Vietnam were, in fact, really needed.

We brought these problems to the attention of CORDS officials who advised us that USAID and CORDS were of the opinion that their procedures provided a reasonable degree of control over the release and use of the funds. They advised us also that, under the Vietnamization Program, it was essential for the Vietnam Government to plan and implement local-currency projects with a minimum of interference by U.S. personnel. They stated that they did not have enough personnel to monitor all local-currency activities or to bring about revisions in Vietnam's financial system that would provide the needed information. CORDS stated that:

"One of the basic purposes *** in any underdeveloped country would seem to be to develop the management/decision making skills of the country so that it can be responsible for its actions. This is especially true in view of the Vietnamization Program."

Although we do not disagree with the above statement and although we recognize that human resources were not available to permit detailed examination into each of the hundreds of small projects supported with these local currencies, we believe that CORDS should become more involved so as to have some reasonable measure of assurance that the funds provided by the United States are effectively programmed and used. We believe also that CORDS could and should exert much more effort toward monitoring and inspecting the major local-currency projects, especially as to their technical adequacy, and toward implementing the provisions of United States-Vietnamese local-currency agreements which require Vietnam to submit monthly reports of expenditures prior to releases of additional funds.

During discussions with AID officials in Washington, we were advised that, in the latter part of calendar year 1971, USAID, CORDS, and the Vietnam Government reached an understanding of responsibilities that would get USAID more involved in the program development process and, if properly implemented, should help to improve the administration of these local currencies.

RECOMMENDATIONS

We recommend that:

1. The Secretary of Defense require CORDS to review the Vietnam Government's local-currency budgets submitted to it in sufficient depth to ascertain whether funds are budgeted for priority projects and whether the amounts requested are reasonable.

2. The Administrator, AID, require USAID to take aggressive action to urge and assist the Vietnam Government to initiate a system that will enable it to comply with its local-currency agreements with USAID.

CHAPTER 5

LACK OF CONTROLS OVER SUPPORT TO

RURAL DEVELOPMENT CADRE PROGRAM

During fiscal years 1968 through 1971, the United States provided about \$175.6 million to pay the costs of CORDS' Rural Development Cadre program teams which had the primary mission of maintaining security in the villages. Most of these funds were made available to CORDS from funds appropriated for the U.S. Army, Vietnam. The cadre was supported solely by the United States, and about \$120.5 million was converted to piasters to pay the cadre's salaries and allowances. At June 30, 1971, there were about 36,000 personnel on the cadre's rolls.

CORDS prepared the annual budgets and provided the field advisors and program direction. The U.S. Army, Vietnam, in addition to providing funds for the program, accounted for the funds expended and, on the basis of instructions from CORDS, ordered or purchased the supplies used in the cadre program.

Neither the Army nor CORDS had established controls over the programing and use of U.S. Army funds in this program. During our review we noted that:

--CORDS budget requests were inflated and did not represent reasonable estimates of anticipated costs.

--CORDS had not implemented controls over cadre payrolls.

NEED TO IMPROVE BUDGET PREPARATION AND REVIEW

The cadre's budget needs for fiscal year 1971 were substantially overstated; consequently excess funds had been available to CORDS.

CORDS budget requests

Cadre budgets are prepared by the CORDS' Community Development Directorate. The Directorate's Programs Officer

computes the annual funding requirements, and CORDS transmits them through MACV Headquarters to the U.S. Army, Vietnam, for approval.

Prior to submitting the CORDS budget request for support of the Rural Development Cadre in fiscal year 1971, the Department of the Army established a \$40.6 million ceiling for the cadre program. Nevertheless CORDS submitted a budget request for \$52.3 million and predicted degradation of the pacification program if it did not get all the funds requested. By late March 1971 the Department of the Army increased the ceiling to \$45.2 million. Only \$38.2 million was obligated by the end of the fiscal year. This amounted to \$14.1 million less than the amount requested and \$7 million less than the authorized ceiling. The funds authorized but not obligated were reprogramed by the Department of the Army.

Included in CORDS request was \$39.3 million for the purchase of local currency to pay the salaries of 56,600 cadre personnel--the authorized strength at the time--and \$2.8 million for personnel compensation of 2,496 positions authorized at the National Cadre Training Center. However, only \$32.5 million was actually obligated for this purpose at the close of the fiscal year.

CORDS officials computed their dollar requirements on the basis of funds needed to pay and supply the authorized cadre strengths. Since cadre strengths had always been below the numbers authorized, we believe that actual, instead of authorized, strengths should have been considered when preparing budget estimates.

CORDS officials informed us that cadre budgets were overstated primarily because budget computations had been based on inflated cadre strengths. Another reason for the overstated budget request was that some supplies and subsistence were obtained from U.S. sources in lieu of local procurement.

We believe that the budget for 1972 is also overstated. For example, as noted below, CORDS had already ordered supplies that were excess to cadre requirements through fiscal year 1974.

Availability of excess funds
contributed to questionable expenditures

Our review showed that the availability of excess funds contributed to CORDS decisions to expend funds for purposes which normally would not be considered valid. For example, we found that considerable amounts of excess existed in some commodities. We identified about \$300,000 worth of supplies on order that were excess to cadre requirements through fiscal year 1974 when U.S. support would terminate. Among the reasons offered by CORDS for these orders was that the supplies were needed to meet "unknown contingencies" and that the supplies were required to fill the requirements of past years. After our review CORDS officials agreed that some excesses existed and stated that they would inquire into the feasibility of canceling some of the excess orders. The management of commodities provided to other CORDS programs is discussed in chapter 6.

In another example, we found that CORDS had paid the faculty and staff of the National Cadre Training Center separation allowances even though these employees were not U.S. employees and were not, in fact, separated from their employment; therefore the United States had no legal obligation to pay them. In July 1969 CORDS began supporting the National Cadre Training Center. CORDS advisors at the Center employed about 750 Vietnamese. The Center's Vietnamese commandant employed about 1,000 additional Vietnamese who worked directly under his control and supervision.

CORDS had withdrawn the advisors by July 1971 but continued to provide financial support. The personnel who worked for the U.S. advisors were granted separation allowances in accordance with applicable MACV directives. In July 1971 the commandant's staff and the personnel who had been employed by the U.S. advisors were transferred to the Government of Vietnam's civil service payroll. This transfer was made before transferring funding responsibility from the United States to Vietnam. At the time the transfer was announced, the commandant's staff sought separation allowances on the grounds that, although they were direct-hire employees of the Vietnamese commandant, their salaries had been funded by the United States.

At CORDS request the Chief of Staff, MACV, sought authority to pay the separation allowances to the commandant's employees. CORDS cited the U.S. moral obligation to these employees, the likelihood of public protest and adverse publicity, and the availability of unused funds in the cadre's budget as justifications for the payment. After reviewing this request, both the Deputy Staff Judge Advocate, MACV, and the Staff Judge Advocate, U.S. Army, Vietnam, concluded that there was no legal basis for expending appropriated funds for this purpose. Despite this, MACV, on the basis of CORDS representations, authorized the payment.

NEED FOR U.S. CONTROLS OVER CADRE PAYROLLS

The U.S. Army, Vietnam, obligated \$38.2 million for the cadre program for fiscal year 1971. As noted above most of this money was provided through dollar purchases of piasters. About \$32.5 million went to reimburse the Government of Vietnam for salaries, and about \$3.1 million went to obtain supplies.

Both the cadre payrolls and the requisitions for supplies require the certification of CORDS advisors. In the past these certifications were made by CORDS province level cadre advisors who also witnessed payroll payments on a test basis. CORDS began phasing out the cadre program in fiscal year 1971, however, and all cadre advisors are to be withdrawn from the provinces during fiscal year 1972. U.S. support for the program nevertheless will continue through fiscal year 1974.

At the time of our review, CORDS had withdrawn all cadre advisors from the provinces in Military Region 3 and the payrolls were being certified by other CORDS advisors. According to these advisors, they were reviewing the payrolls for mathematical accuracy but, because of their other duties, they were unable to make onsite observations of cadre operations or to verify the accuracy of payroll disbursements. In Military Region 4, cadre advisors had been withdrawn in two Provinces. Two responsible advisors still remaining in the region stated that they did not know of any requirement for U.S. personnel to certify cadre requisitions, a statement which is contrary to the requirements of MACV Directive 700-10, dated March 23, 1971.

In a letter dated April 17, 1971, the Chief of CORDS Rural Development Cadre Division stated that supply excesses and shortages, cadre absenteeism, and padded payrolls were problems of common knowledge. Although efforts were being made to solve these problems, the best that could be hoped for, according to this official, was to keep them at a minimum.

Near the end of our review, we proposed to CORDS officials that steps be taken to reestablish U.S. controls over cadre payrolls. We suggested that, under the circumstances, the best method for accomplishing this was to establish a

system of spot checks under which U.S. advisors would travel to the provinces and perform unannounced payroll inspections. CORDS officials replied that, under the project agreements, inspections were a Vietnam Government responsibility. We believe, however, that, because U.S. funds are used directly to pay the cadre, CORDS has some responsibility to safeguard their use.

CONCLUSIONS

Our review showed (1) that controls over the budgeting and use of U.S. Army, Vietnam, funds were unsatisfactory, (2) that CORDS budget requests had been inflated; excessive funds had been received; and, because of this, CORDS had made expenditures for purposes which, we believe, were questionable, and (3) that CORDS had failed to reestablish controls over cadre payrolls and requisitions after U.S. advisors had withdrawn.

RECOMMENDATIONS

We recommend that the Secretary of Defense require CORDS to:

1. Urge and assist in the development of a system of surveillance over Rural Development Cadre payrolls to ensure that U.S. funds made available to pay cadre salaries are used as intended.
2. Review all commodities on order for the Rural Development Cadre and cancel all open procurement actions to the extent that such actions will result in deliveries of commodities in amounts excess to requirements through fiscal year 1974.
3. Ascertain the extent to which commodities on hand, plus commodities on order that cannot be canceled, are excess to cadre requirements through fiscal year 1974 and take steps to redistribute the excess commodities to other CORDS or U.S.-supported activities requiring them.

CHAPTER 6

NEED TO IMPROVE CONTROLS OVER FUNDS

USED IN CORDS CIVIL PROGRAMS

Five of CORDS civil programs receive funds from AID, DOD, or both. The amounts obligated during fiscal years 1968 through 1971 are shown below.

<u>Program</u>	<u>Total</u>	<u>Source of funds</u>	
		<u>DOD</u>	<u>AID</u>
		(millions)	
Secondary Roads and Bridges	\$ 9.8	\$ 9.8	\$ -
Chieu Hoi (note a)	22.8	21.9	0.9
Public Safety	101.4	33.4	68.0
War Victims	37.6	-	37.6
Rural Development	<u>24.7</u>	<u>-</u>	<u>24.7</u>
	<u>\$196.3</u>	<u>\$65.1</u>	<u>\$131.2</u>

^a A program designed to convince the Viet Cong that they should support the Government of South Vietnam. (See app. I.)

The first program cited above began in 1971 and is funded entirely by DOD, although similar programs in the past were funded by AID. The next two programs cited above were originally AID programs. Because of reductions in AID's appropriations, however, in 1967 DOD agreed to finance those AID civil-type programs which DOD considered had military import. This arrangement has since been called the AID-DOD Realignment Program. The last two programs cited above are funded solely by AID and are not a part of the realignment program.

The majority of AID funds provided for the CORDS programs cited above were used to pay their U.S. civilian employees. During the 4-year period, fiscal years 1968-71, about 55 percent of the programs' funds were obligated to pay the salaries of their employees assigned to CORDS. We

understand that, although participating agencies supply the manpower for CORDS, they do not decide on the adequacy of the manpower requirements. An audit report of the AID Auditor General, dated January 18, 1971, stated that:

"The manpower component of AID dollar-funded projects handled by CORDS comprises over 70% of the total \$38.1 million costs (FY 71) of such projects. In other words, nearly three out of every four AID dollars spent for CORDS projects goes for U.S. payroll costs."

The need for such large payroll expenses was questioned by the Auditor General, as follows:

"*** AID has not established any effective device for determining the validity of CORDS requests for AID manpower."

"Over 90% of the AID personnel assigned to CORDS may be categorized as 'temporary help,' i.e., non-career, employees who have not served elsewhere with AID, and, for the most part, are unlikely to be qualified for further service at other AID posts."

"There are approximately 75 Foreign Service Officers [FSOs] serving in CORDS under an AID reimbursable detail. In exchange for a commitment for continued FSO participation, CORDS has agreed with the Department of State to continue to take a number of FSO's at the FSO-2 and FSO-3 levels for Province Senior Advisor, Deputy or senior staff positions even though there is a surplus of personnel in CORDS at these levels at the present time."

The majority of DOD funds used in the Secondary Roads and Bridges and the Chieu Hoi programs were converted to piasters and released to the Government of Vietnam as a part of counterpart funds. Our observations on the controls over these funds are discussed in chapter 3.

The major part of DOD funds, excluding those converted to piasters, were used to provide commodities. Also about 31 percent of AID's funds used in CORDS programs were for the procurement of commodities under the two largest of CORDS civil programs--the War Victims and Public Safety programs. Our review of the controls over the distribution and use of these and other commodities provided under the Public Law 480 program showed a number of weaknesses, which are discussed below.

NEED FOR CONTROLS OVER COMMODITIES PROVIDED FOR WAR VICTIMS RELIEF

We found that large quantities of food provided by the United States under the Public Law 480 program had spoiled and that other commodities had not been used or had been diverted and improperly used because reliable controls had not been established over commodities for war victims.

During our review we attempted to trace a test selection of commodities from the point of receipt in Vietnam through the Vietnam Government's logistical system. Because records were poor or were nonexistent, we were unable to trace some of the commodities included in our test. In our examination of available documents and our discussions with U.S. and Vietnamese officials, however, we learned of instances of improperly managed or diverted U.S.-provided commodities. We believe that the logistics system needs much improvement. For example, we found that:

- About 13,000 tons of food, valued at nearly \$3 million, had spoiled in a warehouse near Saigon. On our trips to the field, we found food spoiling in province warehouses.
- 550 sewing machines, intended for use by war victims, had been given to ineligible recipients, such as Vietnamese senators and the Mayor of Saigon.
- Tool kits, carpenter kits, and other commodities, procured at a cost of \$200,000, had remained unused in Vietnamese warehouses for over 3 years.

--CORDS had ordered unneeded tents valued at \$300,000 and had programed the purchase of additional unneeded tents valued at \$180,000. We noted an apparent loss of accountability of tents valued at \$400,000 from a warehouse in Sa Dec Province.

Near the conclusion of our review, we informed CORDS headquarters in Saigon of the problems we had noted. CORDS later informed us that it had initiated a joint CORDS-AID effort to correct some of the problems described above.

In our discussions with AID officials, they pointed out that an element of food spoilage was inherent in the prepositioning of food stocks for emergencies.

NEED FOR IMPROVED MONITORSHIP OF
EXCESS OR UNUSED NATIONAL POLICE COMMODITIES

We found that CORDS had been successful in establishing a reliable distribution system for National Police commodities. In tracing items through the system, we found satisfactory accountability in the national and field warehouses and in the individual police units. We found, however, that CORDS had not taken action to redistribute equipment which had become excess to police requirements.

For example, we found that weapons and gas masks, valued at about \$340,000, had been stored in the Saigon warehouse for over 2 years. These items were originally ordered to meet anticipated strength increases. Since the increases did not materialize, these items eventually became excess. Some of these items were M-16 rifles, and we noted that CORDS had on order 1,440 additional M-16 rifles.

During our field trips we also observed shotguns and submachine guns still in their original packing or open and rusting. CORDS field advisors told us that the recoil from these weapons was too great for the Vietnamese and that they preferred not to use them. Since CORDS had provided 6,200 shotguns and 13,000 submachine guns, we suggested that CORDS officials redistribute these weapons.

CONCLUSIONS

The Ministry of Social Welfare had not established a satisfactory distribution system for commodities intended for refugees and other war victims; the Ministry's warehouse records were unreliable and in many cases the Ministry had no records, which made it impossible for anyone to determine where the commodities were being used. We believe that the large quantities of food that had spoiled and the commodities that were not being used or that had improperly been given to Vietnamese officials not connected with the refugee program all pointed up the need for an accountability procedure.

RECOMMENDATIONS

We recommend that the Secretary of Defense require that CORDS:

1. Actively urge and assist the Vietnam Government to implement controls over and establish records of commodities provided to the War Victims Program.

2. Take whatever action is necessary with the Vietnam Government to redistribute equipment and commodities no longer required.

We are not making any recommendation regarding the evaluation of manpower requests, because of our overall recommendation in chapter 7 regarding the CORDS organization.

CHAPTER 7

NEED FOR REAPPRAISAL OF

CONTINUATION OF CORDS ORGANIZATION

The CORDS organization was established in 1967 as a temporary administrative device to meet the intense pressures of a wartime situation. We believe that it served well under those conditions. It is an unusual organization in that it has no parent agency in Washington. It has no resources or personnel of its own but uses those provided by the various military and civil agencies supporting its activities; it does not have financial accountability for the programs it administers. At the time CORDS was being established, U.S. officials decided to retain the staffs and budgets for CORDS activities within each supporting agency. One reason for this decision was to not restrict DOD or MACV with a slew of new budgetary, comptroller, and personnel management problems.

Over the years since CORDS was organized, the U.S. military has been the driving force behind pacification as is evidenced by the fact that DOD provided most of the financial and personnel resources CORDS needed. This trend, however, has begun to change in that the number of military personnel assigned to CORDS is expected to drastically decrease by 1974 from 4,700 on June 30, 1971. The number of civilian personnel assigned to CORDS is also expected to substantially decrease by 1974 from about 800 on June 30, 1971, but at a much lower percentage than will military personnel. Estimates indicate that the civilian personnel remaining by 1974 will consist mostly of AID employees.

These reductions are in general accord with U.S. policy as expressed in the Nixon doctrine and with the increasing emphasis placed on the Vietnamization Program, i.e., pacification is a Vietnamese problem and must be basically solved by them. Ambassador William E. Colby, who was deputy to the commander of MACV for CORDS from 1968 to 1971, stated, in testimony before the Senate Foreign Relations Committee in February 1970, that considerable improvement had been made in the internal security of Vietnam from the middle 1960's. He stated also that:

"The outcome will depend more and more upon Vietnamese leadership, upon Vietnamese commitment and even upon Vietnamese resources. We Americans have played a substantial role in learning about this new kind of war but one of the lessons is that it must be waged by the people and not merely the government of Vietnam. The American contribution in personnel and in resources will gradually reduce, to be replaced by full mobilization of people willing to sacrifice to remain free and to carry out the programs to make these sacrifices meaningful."

CORDS has begun focusing its efforts on political and economic development and rehabilitation aspects. As the direction of U.S. efforts change, most of the U.S. resources in support of such activities are expected to be transferred gradually from direct military action, pacification, and security to economic and social development.

Although at one time CORDS was deeply involved in some of the pacification and development programs, emphasis has since been directed toward transferring CORDS responsibilities to the Government of Vietnam. While CORDS continues to exercise some influence over the policies and over pacification efforts, the extent of its involvement is steadily declining and probably will continue to decline as U.S. personnel are withdrawn under the Vietnamization Program. The lessening involvement of U.S. personnel was obvious to us during our review. CORDS efforts to monitor programs and projects in the field had often become superficial. This was discussed in prior chapters.

Although the pacification and U.S. involvement therein have been changing, there has been a major weakness in the financial management and accountability of CORDS. The organizational arrangement of CORDS has been such that the agency providing the resources for the programs not only did not have responsibility for the management of those resources but also did not have any effective method for determining the validity of the CORDS request for the resources.

In November and December of 1970, a high-level management appraisal was made by the Operations Appraisal staff of AID's Auditor General's Office of AID's financial support to CORDS. The staff report, dated January 18, 1971, stated that:

"Since the creation of CORDS in May of 1967, AID has provided over \$200,000,000 (in addition to substantial local currency) to CORDS. Over 50% of all AID-funded personnel in Vietnam are assigned to CORDS. This substantial transfer of resources is not accompanied by any inter-agency agreement or directive that specifies the managerial responsibilities of USAID and CORDS concerning the use of these resources."

The appraisal staff report stated also that AID's management of these resources had been minimal and that its relationships with other agencies had been unclear as had responsibilities within AID itself. The report stated further that there was considerable ambiguity about the responsibility for the management of AID's resources provided to CORDS and that, although USAID had been assigned some programming responsibility for these resources, it had not been assigned management responsibility. The staff report concluded that:

"USAID officials and personnel are unclear as to what their responsibilities are, if any, in CORDS programs. There is no common understanding among AID officials in Saigon and in Washington as to their respective roles at either end vis-a-vis CORDS."

During our fieldwork in Vietnam late in 1971, we observed a number of instances in which the major management problem mentioned in the appraisal staff report continued to exist.

CONCLUSIONS

Our review has recognized:

--The changing emphasis in U.S. objectives from war-oriented pacification to political and economic development and rehabilitation.

- The accelerated withdrawal of U.S. military personnel and the associated closing of U.S. military facilities and support activities.
- The U.S. plan to civilianize administration of CORDS activities.

Because of these factors and the inherent management weaknesses of an emergency administrative device designed in 1967 to meet a near-catastrophic situation and because the critical situation that previously existed and justified the creation of CORDS has changed (see Ambassador Colby's comment on p. 48), we believe that this is an appropriate time for the executive branch to reappraise the need for, as well as the propriety of, continuing the present CORDS organizational arrangement.

In discussions of our draft report with officials of the Department of State, DOD, and AID, we were advised that a task force had been established in 1971 to make a study of CORDS. We do not know whether the task force completed its work, and we have not seen any reports that may have resulted from the study.

RECOMMENDATION

We recommend that the Secretaries of Defense and State and the Administrator of AID jointly reappraise the need for continuing with a joint military-civilian organizational arrangement as a part of MACV and consider alternative methods for carrying out CORDS programs in the event the appraisal concludes that CORDS has fulfilled its purpose.

CHAPTER 8

SCOPE OF REVIEW

Our review was directed toward identifying the financial controls exercised by CORDS and its supporting agencies to budget and use the funds provided by U.S. sources in support of pacification and development programs in Vietnam.

We inquired into the extent of the support provided by the Government of Vietnam. We reviewed available budget and program records, obligation and expenditure documents, reports, correspondence, and other pertinent material furnished by U.S. agencies and the Government of Vietnam. We discussed relevant matters with responsible officials and made onsite inspections at a number of CORDS-funded projects located at various points throughout Vietnam.

Our initial survey work was performed in Vietnam from June to October 1970. Because of the management deficiencies noted during our fieldwork, we undertook this detailed review and performed our work during the period July to November 1971. Our review was made at the following locations.

Continental United States:

- Department of Defense, Washington, D.C.
- Agency for International Development, Washington, D.C.
- International Logistics Center, New Cumberland, Pennsylvania

Pacific Command Headquarters, Hawaii:

- Headquarters, Commander in Chief, Pacific
- Headquarters, U.S. Army, Pacific, and Centralized Financial Management Agency
- Headquarters, Commander in Chief, Pacific Fleet
- Headquarters, Pacific Air Forces

Vietnam:

- Headquarters, U.S. Agency for International Development
- Headquarters, Military Assistance Command
- Headquarters, Civil Operations for Rural Development Support
- Headquarters, U.S. Army

Various Government of Vietnam Ministries; the Central Logistics Agency; military base depots, area logistics commands, field depots, supply centers, and using units in Phu Yen, Khanh Hoa, and Bien Hoa Provinces; civilian central warehouses, province warehouses, and using units in Phong Dinh and Bien Hoa Provinces; and construction projects in Khanh Hoa, Kontum, Ninh Thuan and Phu Yen Provinces.

PACIFICATION AND DEVELOPMENT PLANS FOR VIETNAM¹

The Government of Vietnam's Central Pacification and Development Council prepares, and has the primary responsibility for implementing, the pacification and development plans for Vietnam. The Council is composed of representatives from the Ministries and agencies which participate in the plans and is chaired by the President of Vietnam.

PRIOR YEAR PROGRAMS

The Council initiated the first plan on November 1, 1968. The plan, called the Accelerated Pacification Campaign, was devoted to extending Government control to 1,209 contested hamlets. The plan included goals for the Chieu Hoi and People's Self-Defense Force programs and other key programs.

The 1969 Pacification and Development Plan emphasized the role of the people as participants in the plan's military, social, and economic programs. Under this plan the Government of Vietnam deployed the Regional Forces, Popular Forces, and Rural Development Cadre in as many Viet Cong-controlled villages as possible.

The 1970 Pacification and Development Plan had eight objectives. These were:

Increasing territorial security.

Protecting the people against terrorism.

Providing for the people's self-defense.

Improving local government administration.

Increasing national unity.

Providing relief for and rehabilitation of war victims.

¹Excerpts from MACV translation of the Vietnam Government's "Community Defense and Local Development Plan for 1971."

APPENDIX I

Providing a people's information program.

Improving economic conditions.

PROGRAMS UNDER 1971 PLAN

Under the 1971 plan the Government of Vietnam attempted to stimulate greater self-reliance on the part of local governments. The plan was named the Community Defense and Local Development Plan.

The plan had three objectives: local self-defense, local self-government, and local self-development. In addition, the plan included two special programs: the Ethnic Minorities and the Urban programs. A description of the objectives and the programs follows.

Local self-defense

The first objective of the 1971 plan was to provide security to the Vietnamese. CORDS supported five local self-defense programs. They were:

- Territorial Security
- People's Self-Defense Force
- Phung Hoang
- National Police
- Chieu Hoi

CORDS advised the Regional and Popular Forces through the Territorial Security Directorate and CORDS advisors stationed in the field. MACV programed the supply support for the Regional and Popular Forces. DOD provided U.S. funding.

CORDS also advised the People's Self-Defense Force, a civilian militia which was organized from village and hamlet residents. The People's Self-Defense Force was armed with weapons excess to Vietnamese Army requirements. At the time of our review, the People's Self-Defense Force had a membership of over four million men and women.

The Phung Hoang program was an intelligence program designed to seek out and neutralize the Viet Cong political,

administrative, supply, and recruitment leadership. Working through a series of intelligence centers, the program attempted to identify, capture, or kill Viet Cong or persuade them to surrender. The Special Police Branch of the National Police was responsible for the Phung Hoang program. CORDS provided advice through the Phung Hoang Directorate.

The objective of the National Police program was to increase the numbers and quality of National Police and the National Police Field Forces and thereby to provide greater security. The police were conducting, as part of this program, a national registration program under which Vietnamese citizens were issued identification cards. CORDS Public Safety Directorate advised and programed the commodity support. U.S. support was funded by DOD and AID.

Under the Chieu Hoi program, the Government offered amnesty to Viet Cong who voluntarily surrendered and returned to the Government of Vietnam's side. Viet Cong were induced to surrender through propaganda, primarily disseminated through armed propaganda teams. The Chieu Hoi program attempted to exploit intelligence information from returnees and to assist them in resuming a normal life.

Local self-government

The Government of Vietnam also attempted to improve the organization and management of the province, district, and village governments. The programs under the local self-government were:

- People's Administration
- People's Information
- People's Organization
- Youth

The People's Administration program was intended to improve the economic, administrative, and financial capabilities of local governments. Under this program local elections were held and local officials were trained. The program was directed toward increasing local self-sufficiency by promoting local revenue programs and gradually decreasing central government financial support. CORDS Community Development Directorate provided advice at the national level.

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Funding for the program was provided by the Government of Vietnam.

The People's Information program had the objectives of publicizing the Community Defense and Local Development Plan and of developing national and community spirit. The program operated through television, radio, indoctrination courses, a government information cadre, and printed material. U.S. advisory support was provided by the Joint U.S. Public Affairs Office in Saigon; however, the Public Affairs Office field personnel were under the operational control of CORDS. U.S. funding was provided by the U.S. Information Agency, AID, and DOD.

The People's Organization and Youth programs were designed to organize individuals into blocks of support for the Government of Vietnam. The Vietnamese youth have been a prime source of support for the Viet Cong.

Local self-development

The goal of local self-development was self-sufficiency. Local self-development emphasizes the principle of self-help and is aimed at developing the economy and society through the following programs.

- Land Reform.
- Agriculture and Fishery.
- Local Economic Development.
- Veterans.
- War Victims.
- Public Health.
- Education.
- Manpower Development.
- Public Works.
- Communications and Post.
- Rural Credit.
- Prefecture, Province, and City Self-Development.
- Village Self-Development.
- Two special programs:
 1. Urban.
 2. Ethnic Minority Development.

Under the Land Reform program, the Government of Vietnam distributed land to the farmers. Land reform included four subprograms.

1. The land-to-the-tiller program began late in 1970. Farmers were to be issued registered land titles for 600,000 hectares of land by March 1972, and the eventual goal was to distribute 1.3 million hectares of land.
2. The program of land survey for Montagnard people aimed at economic, political, and social development for Montagnards. About 40,000 hectares of land were to be given to the Montagnard people on the basis of land surveys to be made during 1971.
3. The program for regularization of the status of squatters on public land.

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4. The program for distributing land in resettlement camps and land development centers aimed to distribute 15,000 hectares of land to people in resettlement camps.

U.S. funding for the Land Reform program was provided by AID and DOD.

The Agriculture and Fishery program strove for crop diversification and modernization of agriculture and fishing in 1971. In addition to providing for achieving self-sufficiency in rice production in 1971, the program provided also for developing corn and sorghum cultivation, expanding pig and poultry raising, increasing fishery production, and executing small irrigation projects. AID provided funds for the program.

The Local Economic and Development program established short-term economic measures. In 1971 the program was directed toward:

- Stabilizing the cost of living.
- Increasing personal income.
- Improving the system of rice collection and purchase.
- Supporting the program for industrial development relative to agriculture and fishing.

U.S. funds for this program were provided by AID.

The Veterans program provided job opportunities and health, welfare, and educational benefits to disabled servicemen, dependents of war dead, and veterans. CORDS supported the program with funds provided by AID.

The War Victims program attempted to provide relief--through rehabilitation or resettlement or by return to their villages--for war victims in the following categories.

- Evacuees.

--Victims who suffered damage to their houses or properties, who were injured, or whose family heads were killed in the war.

--Repatriates from Cambodia.

--War orphans and widows and disabled war victims.

CORDS supported the program with funds provided by AID.

The Public Health program attempted to (1) improve community living conditions by initiating a countrywide "sanitary hamlet" campaign and (2) accelerate the preventive-medicine program through inoculation and the eradication of communicable diseases. The program planned to improve the cooperation between civilian and military health agencies, improve the quality of personnel, and initiate a system of treatment which required the payment of fees. AID provided funds for the program.

The Education program emphasized technical and vocational guidance programs, especially those reserved for ex-servicemen and temporarily resettled refugees, and the operation of Agriculture and Animal Husbandry Training Centers for ethnic minorities.

During 1970 the Ministry of Education reported that it had implemented compulsory education up to the fifth grade and had increased admittance at the sixth-grade level to 50 percent. In 1971, the number of secondary education teachers was to be increased to 19,300 and secondary schools were to be available for 63 percent of the primary school graduates. AID provided funds for the program.

The Manpower Development program attempted to distribute manpower resources to meet national requirements. To assist workers the program was to develop a system of occupational classification, improve labor relations, and develop vocational training programs for workers in both public and private sectors. U.S. funding of the program was provided by AID.

The goals of the Public Works program for Saigon, provincial capitals, and rural areas were to complete projects

APPENDIX I

involving water supply, electrification, sewers, roads, bridges, town planning maps, and civil servants' and disabled veterans' housing projects. Projects which were beyond local means were to be undertaken by the Ministry of Public Works. U.S. funding of this program was provided by AID and DOD.

The Communications and Post program was directed toward improving local economic development efforts. Railway reconstruction, waterway dredging, postal station construction, and telephone installation projects were scheduled for 1971. The United States provided funds through AID and DOD.

The objective of the Rural Credit program was to increase agricultural and fishery production through the establishment of 24 new agricultural banks and an increase in loans. The Agricultural Development Bank was to grant loans to farmers and fishermen at an annual interest rate of 20 percent compared with the free-market rate of 65 percent. U.S. funding was provided by AID.

The Prefecture, Province, and City Self-Development program was to provide funds to Saigon, the provinces, and the autonomous cities for development projects. The cities and provinces engaged in projects of public works, irrigation, public health, education, agriculture, and animal husbandry. The program is supported by AID and DOD.

The Village Self-Development program aimed at improving cooperation between the people and the government. The program allowed the village governments a freer hand in planning development projects and managing their resources. Each village was granted a minimum fund of VN\$400,000; some villages were to receive more, depending on their population. Under the plan the village council could use all the funds for public interest projects but only 50 percent of the funds for income-producing projects. The Agricultural Development Bank was to match funds set aside for income-generating projects. The program was financially supported by AID and DOD.

The Urban program was keyed to improving the living conditions in the growing urban areas. The Urban program focused on administrative organization; developing

self-defense and security programs; building community centers; public works; social welfare; and sanitation projects. U.S. financial support was provided by AID.

The Ethnic Minority Development program aimed at bringing about improvement in the livelihood of the more than one million Montagnards and at the development of the highland area. U.S. financial support was provided by AID.

Shown below is a synopsis, provided by CORDS, of the programs, sources of U.S. assistance, and the implementing U.S. agency for the 1971 Community Defense and Local Development plan.

Program	Source of U.S. assistance				Implementing U.S. agency
	Piasters		Dollars		
	AAC	DOD	USAID	DOD	
	(note a)	(note b)			
LOCAL SELF-DEFENSE:					
Territorial Security				X	CORDS
People's Self-Defense Force				X	CORDS
Phung Hoang				X	CORDS
National Police		X	X	X	CORDS
Chieu Hoi		X		X	CORDS
LOCAL SELF-GOVERNMENT:					
People's Administration (note c)					CORDS
People's Information	X	X	X	X	JUSPAO ^d
People's Organization (note c)					CORDS
Youth			X		CORDS
LOCAL SELF-DEVELOPMENT:					
Land Reform	X	X			USAID
Agriculture and Fishery	X				USAID
Local Economic Development	X				USAID
Veterans			X		CORDS
War Victims	X		X		CORDS
Public Health	X				USAID
Education	X				USAID
Manpower Development	X				USAID
Public Works	X	X	X		USAID
Communications and Post	X	X	X		USAID-MACV
Rural Credit	X				CORDS-USAID
Prefecture, Province, and City Self-Development	X	X	X	X	CORDS
Village Self-Development	X		X	X	CORDS
Two special programs:					
Urban	X				CORDS
Ethnic Minority Development	X		X		CORDS

^aAmerican Aid Chapter (USAID Commercial Import program).

^bRepresents piasters purchased with DOD dollars.

^cFunded by Government of Vietnam. CORDS provides advisory support.

^dJoint U.S. Public Affairs Office.

COPY



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D C 20548

B-159451

July 28, 1971

Dear Mr. Secretary:

On July 1, 1971, we transmitted to your office a survey document prepared by our staff in Saigon titled "Background Information on United States Participation in Pacification and Development Program in Vietnam" relating to the operating arrangement known as the Civil Operations and Rural Development Support (CORDS). A copy of our transmittal letter is attached. In Chapter 12 of that classified document, concerning CORDS financial aspects, we made reference to the absence of obligational records in Vietnam for the support being furnished by the military services to the CORDS programs. This was discussed with the Assistant Secretary of Defense (Comptroller), and was the subject of testimony by our Office before the House Committee on Government Operations on July 16, 1971.

As pointed out in our statement to the House Government Operations Committee, the military financial budgeting and accounting system does not, however, provide information which would identify and account for that portion of materiel flowing into Vietnam which is supplied to the CORDS program through the U.S. military pipeline. We believe that the system should be modified to provide such information. This is consistent with the basic proposition that all Foreign Assistance Programs should be conducted and accounted for under procedures which would permit the orderly and reliable determination of the costs of those programs.

Our staffs will plan to pursue this with the Assistant Secretary of Defense (Comptroller) for consideration of procedures which we believe as a minimum should provide reliable financial cost data and reporting on the foreign assistance programs being conducted in Vietnam by the Department of Defense.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States

Enclosure

The Honorable
The Secretary of Defense

THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

28 DEC 1971

Honorable Elmer B. Staats
Comptroller General of the
United States
Washington, D.C. 20548

Dear Elmer:

Reference is made to your letter dated July 28, 1971, control number B-159451. My staff has reviewed your suggestion that the Defense Department establish a financial budgeting and accounting system that would identify and account for that portion of materiel flowing into Vietnam which is supplied to the Civil Operations and Rural Development Support program through the U.S. military pipeline. As stated on page 137 of the survey document referenced in your letter, the largest part of the support referred to was to provide military hardware and other commodities to the Regional and Popular Forces of the Vietnamese Army.

As of June 30, 1971, the strength of the Vietnamese Army, including Regional and Popular Forces, was about 1,000,000. The Regional and Popular Forces, which are part of the Infantry Branch of the Vietnamese Army, numbered about 290,000 and 250,000, respectively. These forces, which were made part of the Vietnamese Army as of July 1, 1970, by Presidential Decree, are organized into about 10,000 units consisting mostly of companys and platoons.

The Regional and Popular Force units are supported logistically the same as any other company or platoon size units in the Vietnamese Army. The Vietnamese Army supply accounting system is mechanized only at the base depot level in Saigon and all supplies are distributed through the Vietnamese Army field depot system that is one echelon below the base depots. Support to the Regional and Popular Forces is provided by the field depots or direct support units of the Vietnamese Army. Regional and Popular Force logistic support units can and do support Vietnamese Army and other Free World Forces when they are operating in the Regional and Popular Forces zones of operation.

APPENDIX II

The Vietnamese Army primarily maintains item accountability below the base depot level in Saigon. Any system for accumulating and reporting cost data at the unit level would necessitate the use of manually kept records operated by the Vietnamese. Complete and accurate pricing data would have to be established and kept up-to-date by a manual system at each of the Vietnamese Army field depots, direct support units and the 10,000 Regional and Popular Force units in order to cost out the value of support actually received by each unit. It is highly questionable that accurate or complete cost data, if such a system were to be imposed, could be accumulated and reported by the Vietnamese Army because of the limited technical capability of the Vietnamese personnel.

The detailed cost accounting suggested in your July 28, 1971 letter is not maintained for other units of the Vietnamese Army, and for that matter, is not maintained for units in the U.S. Army because the costs to establish and maintain such a system outweigh the benefits. I have concluded that it would not be practical or beneficial to the Department of Defense to establish the financial accounting system in Vietnam that would be needed to produce the cost data recommended by your office.

Sincerely,

A handwritten signature in black ink, consisting of several loops and a final downward stroke.

GAO note: This matter is discussed on p. 26.

COPY

DEPARTMENT OF DEFENSE PRESS RELEASE

July 13, 1971

RESPONSE TO INQUIRIES:

A recent newspaper article based on a secret GAO survey stated that \$1.7 billion of U. S. support to the Government of Vietnam (GVN) pacification program was not accounted for and that GAO could not determine how most of the \$2.1 billion authorized for the program was used. The article contains misleading information.

In forwarding the classified survey, GAO informed Secretary Laird that the document should not be construed as a report of the GAO. It was not subjected to the strict review processes normally applied to GAO reports and it was not submitted to the responsible agencies for official comment, as is customary. The primary purpose of the document, GAO said, was to use it for planning and preparation of work programs for conducting more detailed reviews of CORDS programs and activities at some later date. Although a document of this type is not released normally for use outside of GAO, its distribution to certain Congressional Committees was based on what was considered by GAO to be of current significance.

In making its limited release of the classified survey, GAO qualified the coverage and substance as follows:

1. Much of the statistical data, other information, and evaluations were for the most part not developed by GAO.

2. This background document is directed toward presenting what were described as GAO's very limited observations on the progress of the pacification and development programs in Vietnam toward achieving overall program objectives.

APPENDIX III

3. It did not include in-depth examinations into CORDS activities and expenditures as reported by the Governments of the United States and the Republic of Vietnam.

4. The document is not a report but is intended for use as general background information on the organization, financing and operation of CORDS.

The GAO survey concludes that they were unable to obtain obligation data in Vietnam for \$1.7 billion of the \$2.1 billion budget. The GAO survey either overlooked or failed to indicate that obligation records are not nor are they intended to be maintained in Vietnam. Records supporting the amounts questioned by the survey are available at activities outside of Vietnam where the financial accounting is actually performed. These records all are subject to periodic audit by the Army Audit Agency.

The largest part of the \$1.7 billion, for example, about \$1.3 billion, was budgeted to provide military hardware and other commodities to the Regional and Popular Forces (RF/PF) under the Military Assistance Service-Funded Program (MASF). This fact is recognized in the GAO survey. Commodities are brought into Vietnam through the U.S. Army logistics system and are turned over to the Republic of Vietnam Armed Forces (RVNAF) for distribution. CORDS participates to a limited degree in computing requirements but does not participate in ordering or delivering commodities. Assistance to the RF/PF is part of the regular MASF program. As such, material furnished to RF/PF units is accounted for the same as assistance to any other Republic of Vietnam Army, Navy or Air Force activities. Materiel for the RF/PF is requisitioned by the Vietnamese Army, Navy or Air Force

under the MASF program. Obligations are recorded by the U. S. military department through which the materiel is requisitioned at the time the requisition is processed. When the materiel is received in Vietnam, it is controlled and accounted for in the Vietnamese logistics system until it is issued to RF/PF units.

The RF/PF is another customer of the ARVN, VNN or VNAF -- the same as an Army division, Navy vessel or Air Force squadron. The RF/PF part of the program is not subjected to individual control. To do so would be the same as establishing individual programs for each unit within the ARVN, VNN and VNAF.

Funds used to support the RF/PF are accounted for and controlled in the same manner as funds provided to support other RVNAF activities.

Over the past several years, the Deputy Comptroller for Internal Audit (DCIA) within the Office of the Secretary of Defense has devoted its efforts in Vietnam to auditing the MASF logistics program. A number of these audits were performed in conjunction with the Army Audit Agency, Navy Audit Service and the Air Force Auditor General. Since the RF/PF are customers of the ARVN, VNN and VNAF, the logistics audits have included coverage of the RF/PF.

The balance of the \$1.7 billion, \$400 million, is for services and personnel costs and is also funded separately.

Documentation concerning the delivery of materiel that supports the obligations questioned by GAO has been and will continue to be reviewed by DoD audit agencies as part of the continuing audits of the MASF program for Vietnam.

APPENDIX III

In summary, obligational records are maintained outside of Vietnam and are periodically audited. Within Vietnam the materiel records are audited continuously for validity of requirements and distribution to users. Validity of inventory records at the Vietnamese Armed Forces Depot level is verified during these audits.

PRINCIPAL OFFICIALS RESPONSIBLE FOR
ADMINISTRATION OF U.S. ASSISTANCE TO VIETNAM'S
PACIFICATION AND DEVELOPMENT PROGRAMS DISCUSSED
IN THIS REPORT

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>			
SECRETARY OF DEFENSE:			
Melvin R. Laird	Jan. 1969	Present	
Clark M. Clifford	Mar. 1968	Jan. 1969	
Robert S. McNamara	Jan. 1961	Feb. 1968	

<u>DEPARTMENT OF STATE</u>			
SECRETARY OF STATE:			
William P. Rogers	Jan. 1969	Present	
Dean Rusk	Jan. 1961	Jan. 1969	

<u>AGENCY FOR INTERNATIONAL DEVELOPMENT</u>			
ADMINISTRATOR:			
Dr. John A. Hannah	Apr. 1969	Present	
Rutherford M. Poats (acting)	Jan. 1969	Apr. 1969	
William S. Gaud	Aug. 1966	Feb. 1969	

<u>ACTIVITIES IN VIETNAM</u>			
AMERICAN AMBASSADOR TO THE REPUBLIC OF VIETNAM:			
Ellsworth Bunker	Apr. 1967	Present	

APPENDIX IV

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
<u>ACTIVITIES IN VIETNAM</u> (continued)			
COMMANDER, MILITARY ASSISTANCE			
COMMAND, VIETNAM:			
General Creighton W. Abrams	July 1968	Present	
General William C. Westmoreland	June 1964	July 1968	
CIVIL OPERATIONS AND RURAL DEVELOPMENT SUPPORT, DEPUTY TO COMMANDER, MILITARY ASSISTANCE			
COMMAND, VIETNAM:			
General Frederick C. Weyand	Oct. 1971	Present	
Ambassador William E. Colby	Nov. 1968	June 1971	
Ambassador Robert Komer	Apr. 1967	Nov. 1968	
ASSISTANT CHIEF OF STAFF FOR CIVIL OPERATIONS AND RURAL DEVELOPMENT SUPPORT:			
George D. Jacobson	Dec. 1968	Present	
William E. Colby	Mar. 1968	Oct. 1968	
L. Wade Lathram	May 1967	Mar. 1968	
DIRECTOR, AGENCY FOR INTERNATIONAL DEVELOPMENT, VIETNAM:			
John R. Mossler	July 1970	Present	
Donald G. MacDonald	Aug. 1966	July 1970	

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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