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COMPILATION OF GENERAL ACCOUNTING OFFICE  
REPORT FINDINGS AND RECOMMENDATIONS ON  
THE ADMINISTRATION OF U.S. ECONOMIC AND  
MILITARY FOREIGN ASSISTANCE PROGRAMS

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MARCH 29, 1971



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-172311

Dear Mr. Chairman:

In response to a request from your office, we have prepared for the Committee's use a compilation of recent General Accounting Office report findings and recommendations on the administration of U.S. economic and military foreign assistance programs.

We hope that this compilation is responsive to your request. If we can provide any further assistance concerning this matter, please let us know.

Sincerely yours,

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

Comptroller General  
of the United States

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

## CONTENTS

	<u>Page</u>
INTRODUCTION	1
<u>I. ECONOMIC ASSISTANCE</u>	
DEVELOPMENT PROGRAM ADMINISTRATION	3
Country programs	3
Development lending	7
DEVELOPMENT PROJECT MANAGEMENT	10
REVIEW, EVALUATION, AND MANAGEMENT SYSTEMS	18
Internal audit	18
Management and financial systems	20
FINANCIAL PARTICIPATION IN INTERNATIONAL ORGANIZATIONS	24
PRIVATE INVESTMENT PROGRAMS	30
CONTRACTOR ACTIVITIES	32
MANAGEMENT OF EXCESS PROPERTY	36
<u>II. MILITARY ASSISTANCE</u>	
OVERALL PROGRAM ADMINISTRATION	39
MANAGEMENT OF MATERIEL PROGRAMS	45
MANAGEMENT OF TRAINING PROGRAMS	52
FOREIGN MILITARY SALES PROGRAMS	54
<u>III. RELATED ASSISTANCE PROGRAMS</u>	
SECURITY AND SUPPORTING ASSISTANCE PROGRAMS	56
HUMANITARIAN ASSISTANCE PROGRAMS	62
COMMODITY TRADE ASSISTANCE	67
MANAGEMENT OF FOREIGN CURRENCY	69
<u>APPENDIX</u>	
I. U.S. AGENCY INDEX	73
II. GEOGRAPHICAL INDEX	74

## INTRODUCTION

The material contained in this compilation is a summary of United States General Accounting Office (GAO) reports concerning problems in the administration of U.S. economic and military assistance. The compilation summarizes GAO findings and recommendations, and agency responses to those recommendations, for more than 80 reports made by GAO to the Congress, its committees and members, or the executive agencies over a period extending generally from 1965 through 1970.

GAO is a nonpolitical, nonpartisan agency created by the Congress to independently examine the financial and management operations of the executive branch. GAO reports its findings to the Congress and executive branch agencies and recommends ways in which Government operations can be carried out more effectively, efficiently, and economically.

The accounting and auditing functions of GAO relating to U.S. Government international programs are carried out through the GAO International Division. In addition to its primary emphasis on U.S. foreign assistance programs, including the many facets of economic and military assistance and Food for Peace programs, this Division reviews foreign trade programs, U.S. participation in international organizations, management and utilization of U.S.-owned foreign currencies, programs affecting the U.S. balance-of-payments position, the management and operation of U.S. embassies, consulates, and other installations in foreign countries, and matters of current congressional interest such as U.S. activities and programs in Southeast Asia. The auditing resources of GAO's International Division are directed into tests of areas, programs, or agency management where GAO believes there are prospects for constructive disclosures or recommendations for needed improvements.

United States Government international programs are administered by the Department of State, the Agency for International Development (AID), the Department of Defense, and a number of other U.S. Government departments and agencies. Many programs require interagency planning and coordination of efforts by several departments or agencies.

The Department of State is responsible for establishing and implementing U.S. foreign policy goals, including representation in relations and negotiations with other countries and with international organizations.

AID administers U.S. economic assistance programs to selected foreign countries and international organizations under the provisions of the Foreign Assistance Act of 1961, as amended, and other related legislation.

The Department of Defense generally administers defense international activities. These activities include the military assistance program, which is also administered under the Foreign Assistance Act of 1961, as amended, and related legislation, together with Defense overseas activities involving cooperative efforts with foreign countries.

- Other U.S. Government departments and agencies conducting international programs include the Department of the Treasury (international financial functions), the Department of Agriculture (foreign agricultural functions), the Peace Corps, the United States Information Agency, and the Export-Import Bank of the United States.

The material in this compilation is organized under the major headings of economic assistance, military assistance, and related assistance, with functional or topical subheadings. For reference purposes, the date of issuance and GAO identification number (B- ) for each report have been included at the end of the summary of that report. In addition, the appendix contains U.S. agency and geographical indexes to facilitate cross-reference.

A considerable number of GAO reports dealing with economic and military assistance were issued as classified reports because executive branch agencies consider that they contain material affecting the national security. To the extent possible, this compilation includes unclassified summaries of these reports, and each such summary is footnoted as being an unclassified summary of a classified report. For a number of other classified reports, dealing with U.S. assistance programs in Ethiopia, Liberia, the Philippines, and Thailand and aspects of the military assistance programs in India, Indonesia, Korea, Pakistan, and the Philippines, meaningful unclassified summaries could not be prepared.

## I. ECONOMIC ASSISTANCE

### DEVELOPMENT PROGRAM ADMINISTRATION

Under the Foreign Assistance Act of 1961, as amended, the President is authorized to furnish assistance to promote the economic development of less-developed countries and areas, with emphasis on loans which assist long-range development plans and programs, and on technical cooperation and development grants which assist the development of human resources. (Sections 201 and 211.)

GAO has issued a number of reports on problems in the overall administration of development-oriented assistance programs in specific countries or regions, and has also issued several reports dealing with generalized problems of development lending, which has become the major form of U.S. economic assistance. Reports on these two general topics--country programs and development lending--are summarized below.

#### Country Programs

Administration of Nonproject Economic Assistance to Colombia. In a 1968 report, GAO concluded that, despite \$430 million of U.S. economic assistance and \$1.2 billion of economic assistance from other sources during the 1946-1967 period, Colombia's annual economic growth and social progress had been considerably less than planned, due in large part to problems encountered in Colombia's own self-help performance. While there was little question that AID's assistance had strengthened Colombia's development efforts and encouraged Colombian self-help measures to some degree, the real issue raised was whether AID actions had stimulated an optimum effort by Colombia in its development process.

GAO found that AID had not made systematic or substantive evaluations to gauge Colombia's progress and performance in many areas, and had not made an independent overall review of the adequacy and effectiveness of AID strategy for achieving U.S. objectives. In addition, AID had not established specific goals and targets in many areas, did not tailor its level of assistance to specific levels of country performance, and had not developed systems for gathering and evaluating basic data or for accumulating prior experience to use in developing future strategy.

GAO proposed that AID: (1) ensure that systematic substantive evaluations were made of Colombia's performance and progress in each key area affecting its economic and social development; (2) develop alternative annual levels of assistance tailored to specific levels of Colombian performance; (3) develop a method of funding under which the release of AID assistance would be related to specific levels of Colombian performance; and (4) require regular management reviews of the overall effectiveness of AID program strategy in Colombia by knowledgeable independent officials.

AID agreed that GAO proposals (3) and (4) deserved further consideration, but took exception to proposals (1) and (2), which they felt were already being carried out in Colombia. GAO did not agree, however, that substantive evaluations were being made in many areas, and noted a number of key areas where they were not. GAO also did not believe that AID had tailored annual assistance levels for Colombia to specific levels of Colombian performance. In GAO's opinion, these measures were called for by AID's stated policy and public pronouncements, as well as prudent management, thus GAO believed its proposals deserved reappraisal. (B-161798, July 8, 1968.\*\*)

U.S. Assistance to Nigeria. In 1969, GAO issued a summary of its observations on assistance provided to Nigeria by AID and the Peace Corps, which totaled about \$190 million through mid-1967. The report covered the period 1960-1967 and the early stages of the war following the secession of Biafra.

GAO found in most of the AID technical assistance projects reviewed that the Nigerian government had not met its manpower or funding commitments, thereby delaying project performance. GAO concluded that it should have been apparent before negotiation of the project agreements that Nigeria either did not have the capability or was unwilling to provide the necessary resources.

GAO also found several cases in which project agreements containing substantially the same provisions were negotiated year after year even though the host country consistently did not meet its obligations to the project. Other cases included disagreements on project objectives, which hampered the attainment of project goals, and several instances in which work plans and progress reports were not promptly furnished and thus could not be used to evaluate project performance and effectiveness.

In addition, GAO noted three instances where development loan funds had been committed to Nigeria in advance of need for long periods due largely to design problems. The delays resulted in increased or anticipated additional costs of \$6.2 million. In two other instances, GAO concluded that the AID Mission was not adequately monitoring progress on the projects.

GAO found indications that the planning, programming, training, and assignment of Peace Corps volunteers for Nigeria was not as effective as it could have been. GAO believed that undue emphasis had been placed on assigning large numbers of volunteers to Nigeria without sufficiently emphasizing their assignment to positions for which a demonstrable need existed or without consideration of the effect that other problems, including training, would have on the assignments.

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\*\*Unclassified summary of a classified report.

GAO proposed that AID (1) seek to determine the causes for the lack of host country support and appraise the extent to which this increased U.S. project contributions, (2) improve in-country management control through more formalized documentation and emphasis on meeting established requirements, (3) identify critical bottlenecks in loan project implementation and initiate corrective action, and (4) take action on a number of program administration matters in Nigeria.

AID agreed with or took no issue with GAO's recommendations. AID informed GAO that it was placing increased emphasis on evaluations of project management, centralizing AID Mission administration, and taking several actions to improve administration of development loans. AID also advised GAO that a loan commitment for the procurement of 85,000 telephone instruments had been reduced by \$400,000.

After GAO's review, the Peace Corps reassessed its program in Nigeria and made a major reduction in the number of volunteers being programmed and, perhaps more importantly, placed greater emphasis on better training and utilization of volunteers. GAO believed that such evaluations should be made continuously, and in a later response the Director of the Peace Corps said that every effort would be made to make evaluative efforts a regular and ongoing Peace Corps planning activity. (B-167677, August 14, 1969.)

Observations on U.S. Assistance to Guatemala. In a 1970 report, GAO concluded that although the U.S. assistance provided had in most cases been successful, Guatemala's basic economic and social problems remained, and Guatemalan self-help performance had been limited by political instability and a resistance to fundamental economic and social reforms. GAO found little basis for expecting significantly improved developmental progress in the near future.

Despite \$130 million of U.S. and \$45 million of other assistance provided to Guatemala from 1961 to 1968, GAO concluded that there was not a unified effort among assistance donors to influence the Guatemalan government to begin meaningful self-help measures or to use combined assistance leverage for this purpose.

GAO recommended establishment of a coordinating group, consisting of the principal donors of assistance to Guatemala, with the Secretary of State taking the leadership role in attempting to establish such a group. AID endorsed the GAO recommendation, and said that progress has been made, despite the difficulties inherent in coordinating AID's work with that of several international agencies. (B-167675, February 9, 1970.\*\*)

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\*\*Unclassified summary of a classified report.

U.S. Assistance to the Economic Unification of Central America.

In another report issued in 1970, GAO showed that while the Central American Common Market had been recognized as the most successful attempt to date at economic unification among developing countries, a number of problems existed in AID program management in support of this unification effort.

Twenty-four percent of AID's loan funds budgeted for the unification effort were available but unused for more than four years. AID could not appraise Common Market results and priorities in any meaningful sense because AID had not defined its goals and objectives in measurable terms. Also, AID had not developed evaluative techniques to gauge the impact of its programs on the Common Market effort or the impact of this effort on the region's rate of economic growth and development. In addition, a majority of the AID assistance was not directed to those problems which required solution on a regional basis.

GAO recommended that AID: (1) formulate long-term U.S. objectives and goals for the Common Market in measurable terms, accompanied by a statement of priorities and an explicit plan and time for achieving action; (2) make more comprehensive efforts to identify key regional problems and require AID's Central America regional office to direct its resources to such problems only; (3) accelerate efforts to measure with reasonable accuracy the impact of AID programs on the Common Market and the impact of the unification movement on the area's economic growth and development; and (4) give more attention to solving the problem of slow use of AID funds in Central America.

AID officials disagreed with GAO recommendation (1) with regard to the need for establishing measurable objectives. They agreed with recommendations (2) and (3) although they pointed out difficulties in applying them, and agreed with recommendation (4) but did not comment on how it would be implemented. Because of increasing congressional concern with problems in measuring the developmental achievements of U.S. assistance, GAO suggested congressional consideration of legislative action to require the formulation of programs, and the AID Central American regional program in particular, in a way that would permit objective measurement over time. (B-169350, August 13, 1970.)

Administration and Effectiveness of U.S. Assistance to Honduras.

In a third 1970 report on overall administration of assistance programs in specific countries, GAO found that Honduras' economic growth had accelerated during the 1960's, but that social and political development was less evident and serious obstacles to further economic development remained.

GAO concluded that basic changes in U.S. assistance program strategy would probably be required if existing U.S. objectives were to be achieved in Honduras during the 1970's. GAO concluded that the United States had adopted a number of goals in Honduras without fully considering the feasibility of their implementation; had focused planning on short-term rather than on long-term progress; had not established specific program goals; and had not developed criteria to determine whether Honduras was receiving more assistance than it could effectively absorb.

Based on these observations, GAO recommendations to the Department of State and AID included (1) a reevaluation of the political and economic feasibility of achieving U.S. development goals in Honduras during the 1970's, (2) increased systematic analysis of developmental experience in Honduras, (3) an emphasis on a long-run program evaluation system, (4) increased emphasis on Honduras' self-help actions with the U.S. assistance package negotiated annually on the basis of the actions taken, (5) the development of a long-range program planning and funding framework, and (6) the creation of a technical and policy coordinating group composed of representatives from each assistance donor. The Department of State and AID accepted these recommendations, with certain qualifications, and took them under advisement.

Since GAO believed that the State/AID system for evaluating the effectiveness of U.S. assistance, and for presenting and justifying annual programs to the Congress, had not been properly structured to show long-range program considerations in Honduras, GAO believed that the Congress might wish to consider: (1) whether executive branch foreign assistance program justifications to the Congress should be restructured to show (a) the past and prospective economic, social, and political progress of the recipient country, (b) a more explicit focus on the time period required before U.S. assistance could be phased out, and (c) the relative assistance levels during this period; and (2) whether congressional action might be desirable to encourage the development of improved analytical tools to more objectively and accurately measure the impact of U.S. assistance programs on a recipient country's rate of development. (B-169521, December 3, 1970.\*\*)

GAO is currently preparing reports on the overall administration of U.S. assistance programs in several additional countries, and is continuing its reviews of overall assistance programs or major program elements in other countries.

#### Development Lending

AID Loan Program Financial Statements. In a 1966 report, GAO expressed its opinion that AID financial statements did not present fairly the status of the AID loan program at June 30, 1964, or the results of program operations for fiscal years 1962, 1963, and 1964. GAO found several overstated

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\*\*Unclassified summary of a classified report.

and understated financial statement balances, caused by basic deficiencies which still existed in fiscal year 1966. In particular, GAO noted that a substantial part of the loan program assets, all of which were shown at their full face value as of June 30, 1964, consisted of cash, loans, and interest receivable which were repayable in foreign currency with fluctuating values. Because of the many indeterminable factors affecting these loans and the related interest, GAO did not believe that a reliable estimate of future losses on loans could be made. (B-133220, March 11, 1966.)

An AID loan program accounting system was designed as a result of cooperative efforts by AID, AID contractors, and GAO, and was approved by the Comptroller General in 1968. (B-158381, February 19, 1968.)

Questionable Recovery of Economic Assistance Loans. In another report on AID lending activities in 1969, GAO reported that AID had increased its outstanding economic assistance loans from \$7.4 billion at June 30, 1964, to \$12.6 billion at June 30, 1968. Of this increase, \$1.3 billion was in foreign currency loans subject to variations in exchange rates, which almost doubled the total loan amount subject to such variations.

At June 30, 1968, 70 percent of all outstanding loan balances were owed by borrowers in 14 countries, where reduced currency values had resulted in almost all the exchange rate reductions in the dollar value of local currency loans experienced during the 1964-1968 period. During the period, there was a \$1.1 billion reduction in the equivalent dollar value of AID's foreign currencies--an amount which was equal to or greater than the interest recorded as having been earned on all loans. Taking all income and direct expenses of the loan program into account, AID's loan program costs exceeded income by \$105 million.

AID recovered relatively little in loan repayments and interest collections between 1964 and 1968, primarily because of the terms of the loan agreements (e.g., long grace periods were allowed on many loans). Recoveries would have been larger, however, had all of the borrowers complied with the terms of their loan agreements. For some of the amounts scheduled for recovery during the period, AID agreed to amended loan agreements rescheduling payment dates. (B-133220, September 11, 1969.)

Procedures for Determining Loan Availability from Other Sources. In 1967 GAO reported on a review of 35 AID loans, totaling about \$347 million, made to 15 Latin American countries during 1963, 1964, and 1965. With few exceptions, GAO found that--except for formal solicitation of the Export-Import Bank's interest on 32 of the loans--AID had not documented any efforts it might have made to assess the borrower's ability to obtain financing from other free world sources.

GAO concluded that the significance and magnitude of AID's lending operations dictated a need for all transactions involving major free world financial institutions to be carried out in a businesslike manner and to be fully documented. GAO noted that a lack of formal solicitation of free world financial resources denied AID a key decision-making tool for processing loan proposals and might have tied up assistance funds which could have been better applied elsewhere or could have had an impact on appropriation requests.

AID agreed with GAO's proposals and said that it would develop loan procedures to require solicitation of U.S. private financing sources and an evaluation of the applicant country's efforts to obtain financing from other free-world sources, together with documentation of results. AID then notified all Latin America Bureau Missions of the procedures to be followed. (B-161954, August 4, 1967.)

Undercollections of Interest and Principal on Loans. In a 1965 report (which followed a similar 1964 report) GAO found that a substantial amount of interest had been and was being lost because of unnecessary time lags in advising borrowers of loan disbursements. On two loans, GAO found that repayments in foreign currency were being made at lower than necessary exchange rates.

In compliance with GAO's 1964 report, AID had taken action to collect an additional \$7 million in interest and principal payments, plus about \$300,000 in past underpayments that a borrowing government promised to pay. In the 1965 report, however, GAO found that an additional \$670,000 in interest had been lost on loans to India, Yugoslavia, and Morocco. To prevent further losses, GAO recommended that AID again advise its Missions that timely notifications of loan disbursements should be made and that steps should be taken to eliminate delays in issuing loan disbursement information on loans disbursed in the United States. (No B-number, March 29, 1965.)

Current GAO Reviews. GAO currently is reviewing the financial activities in AID's loan program for fiscal years 1969, 1970, and 1971. The results of this review will provide updated information on the overall status of the program, including the effects of management practices with respect to the furnishing of economic assistance in the form of loans and the administration of outstanding loans.

## DEVELOPMENT PROJECT MANAGEMENT

GAO has issued a number of reports concerning planning, implementation, control, and cooperation problems experienced by AID in its conduct of specific development assistance activities in various countries and in various economic sectors. Some of the most significant reports issued between 1966 and 1970, which deal primarily with capital development loan projects, are summarized below. These reports cover a wide range of situations, problems, and deficiencies. However, they do seem to indicate a general pattern of management problems in all phases of project operations from initial planning until final completion.

Problems in Implementing Capital Development Projects in Brazil.  
GAO's 1968 report on \$100 million of AID economic development projects in Brazil disclosed a number of major capital project problems.

A \$4 million industrial development bank loan was approved by AID without adequate financial planning, and bank operations had been delayed for 18 months because the bank could not find a guarantor to ensure loan repayment.

Two projects, for power facilities and a carbon black plant, had suffered lengthy delays in completion because of a severe inflationary period in Brazil, inadequate local currency funds provided by Brazil, and the Brazilian Government's refusal to permit imports of essential equipment and materials. GAO felt that these delays were caused, in part, because AID did not give sufficient consideration to the impact of inflation on the availability of local currency needs of the projects.

GAO also noted that AID had not made dependable technical and economic analyses before making some loans. Examples cited by GAO were (1) the construction of a synthetic rubber plant that was unable to successfully market its product, (2) a malaria eradication project that was being conducted in such a manner that it could not achieve its goal, (3) a power-generating facility that was not being used effectively, (4) increased cost and delays in the construction of a thermal power plant, and (5) delayed performance and limited accomplishment of a highway construction project in northeast Brazil.

GAO proposed that AID's Latin American bureau and Mission in Brazil undertake a specific program to improve the planning and implementation of capital assistance projects. AID informed GAO that stricter loan standards and a variety of preventive measures had been established for all projects planned after the time of the GAO review.

In a later response, AID commented on the political and economic situation in Brazil and informed GAO that normal AID criteria and procedures had had to be relaxed somewhat because of overriding U.S. political considerations. Notwithstanding this, GAO felt that the effectiveness of AID capital project activities in Brazil could have been substantially improved, especially since the problems that materialized were predictable at the time the projects were planned or approved. (B-133283, May 16, 1968.)

Economic Assistance Efforts in Tunisia. In a 1969 report, GAO found that progress had been made in furthering Tunisian economic development; but that still more could be made if AID would be more selective in choosing projects to be supported with counterpart funds and would control more closely the receipt and use of AID-financed commodities.

The following problems had arisen with several AID-financed projects: (1) a pulp mill incurred losses of about \$5.4 million through 1965 and became insolvent, with little prospect of it becoming financially sound in the future; (2) an irrigation dam and related facilities were being constructed although it was known that considerable underground water was obtainable by drilling less costly wells; and (3) construction of an airport terminal was planned without adequate consideration of the economic soundness of the project.

AID took action on a number of matters which GAO believed would strengthen the Tunisia program, particularly those relating to the selection, receipt, and use of commodities imported under AID loans. (B-166713, September 10, 1969.\*\*)

Development Project Problems in Pakistan. In a 1966 report on about \$100 million of projects in Pakistan for a water and sewer system, coastal embankments, highway development, and an irrigation project, GAO concluded that these projects had had such limited accomplishments that they had substantially failed to produce the benefits intended. GAO found that there had not been enough advance planning to ensure that technical, economic, and practical obstacles to accomplishment of the projects would be solved. GAO also found that after the projects were approved, AID did not see to it that the problems were being dealt with adequately as a basis for deciding whether to consider halting the disbursement of additional AID funds.

GAO proposed that AID (1) relate additional fund disbursements for these projects to the performance of corrective actions, (2) withhold future project approvals until the technical and economic soundness of the projects was assured and the recipient country was willing and able to fulfill its project obligations, and (3) require that future releases of project funds be directly related to the progress of such projects.

AID notified GAO that it had taken action to improve project performance, correct the identified problems, and require that releases of funds for all projects be directly related to specific implementation plans and control schedules. (B-158163, May 31, 1966.)

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\*\*Unclassified summary of a classified report.

Planning and Supervision Problems of Development Projects in Colombia.

In 1967, GAO reported that there was a need for improved planning and supervision of AID-financed development projects not only in Colombia but in other countries as well. In a private investment fund project, in which AID had invested \$38 million in dollar equivalents, GAO found that at least \$24 million had been used for purposes either contrary to U.S. objectives or of questionable need and priority. GAO felt that the primary cause of this situation was AID's release of project funds without establishing adequate criteria and controls to govern their use.

In other projects, in which AID had invested \$30 million in dollars and pesos, GAO found that progress had been so limited in terms of AID objectives that the intended benefits had not been achieved. GAO attributed these difficulties primarily to AID's approval of projects without determining that they were feasible or that the Colombian Government was willing and able to carry them out effectively.

AID officials generally agreed with the GAO findings, and stated that actions were being taken to strengthen control and supervision over the projects reviewed. GAO believed, however, that additional steps should be taken in Colombia and other countries, and accordingly recommended that AID establish criteria for determining the capability of recipient countries to implement and administer AID-financed projects. (B-161882, September 21, 1967.)

Problems in Developmental Assistance to Liberia. In a 1966 report, GAO concluded that AID assistance for Liberian educational and highway development purposes had not achieved the benefits that could have been expected because Liberian self-help efforts had been too limited to ensure that full benefit was derived from the resources contributed by the United States.

GAO found that the rates at which AID assistance was provided in Liberia had been adjusted from time to time because of Liberia's inability to perform its part in the programs. GAO felt that AID should attempt to stimulate Liberian self-help capabilities by more directly relating its educational and highway development programs to specific Liberian actions to develop those capabilities. AID did not wholly agree with these conclusions.

GAO recommended that AID (1) establish specific, reasonable objectives that Liberia should achieve in its educational and highway programs, and (2) obtain specific commitments from the Liberian Government to increase its capabilities and accomplishments in these areas. AID informed GAO that it was in general agreement with GAO's recommendations and was taking steps to implement them. (B-159380, October 6, 1966.)

Problems of Equipment Assistance to African Countries. In a 1967 report, GAO showed that AID, in programming equipment and vehicles to 10 of the 20 African countries receiving limited U.S. assistance, had not realistically recognized that the recipient countries were unable to maintain and effectively utilize the equipment and vehicles. Limited use and poor maintenance was generally due to an insufficient number of operators and mechanics, limited maintenance facilities and spare parts, and too low a level of recipient country budgetary support. In GAO's opinion, these countries thus were not receiving the benefits which could reasonably be expected from this assistance. GAO also found in several of these countries that AID had not maintained adequate surveillance over the equipment and vehicles and had not followed up on indicated deficiencies.

AID later made efforts to better plan and manage this type of assistance. In their response to the report they recognized the need to appraise the capabilities of the recipient countries more realistically, and to attain specific, meaningful support commitments from these countries. AID also took measures to improve their oversight over the equipment through better end use and financial reviews of projects in the field. (B-160789, May 18, 1967.)

Planning and Surveillance Problems of Capital Development Projects in India. GAO reported in 1967 on its review of six capital development projects in India which were financed by \$200 million in U.S. dollar and rupee economic assistance.

GAO found lengthy delays and other difficulties with several projects, which indicated a need for improved AID surveillance of project implementation. GAO noted a project where substantially changed conditions had forced AID to belatedly reevaluate the project's feasibility; problems in industrial credit subloans involving technical and economic feasibility and economical implementation; and a need for increased surveillance of two other industrial development projects and a grain storage project.

Although AID had made available the necessary foreign exchange to import equipment in support of major projects, GAO found continuous problems in connection with implementation of the projects because AID did not see to it that the equipment was imported. Instead, the Indian Government was following a practice of curbing imports to conserve foreign exchange on the AID projects and thus unnecessarily restricted the essential imports. GAO proposed that AID take action in future major development loan agreements to reach an understanding with the Indian government on timely importation of needed materiel to prevent project delays.

Based on its review of the six projects, GAO concluded that AID had approved projects without sufficient advance planning to ensure effective implementation and had not exercised the necessary subsequent surveillance over project implementation to attain the desired economic objectives. AID was in general agreement with GAO's findings and reported that it was working to improve procedures and staffing and that the Indian Government had taken steps to encourage sound economic development. (B-161854, September 21, 1967.)

Development Loan Project Delays in Korea. In a 1968 report primarily directed toward capital development projects, GAO concluded that, while U.S. assistance had contributed to significant Korean economic progress, the assistance provided to certain sectors of the Korean economy was not as effective as it could have been.

GAO found (1) delays in completing electric power projects which resulted in power shortages, (2) delays in procuring diesel engines and railroad shop equipment which prevented possible savings in operating costs from being fully realized, and (3) Korean emphasis on importing oil as a basic fuel rather than expanding domestic coal production.

AID began a number of actions to reduce serious and lengthy delays in the implementation of large capital projects. AID also informed GAO that the Korean Government had commissioned a Korean institute to make a study of overall energy demands and investment possibilities in Korea. (B-164264, July 16, 1968.)

Problems in Economic Assistance Management in Turkey. In a 1968 report on economic assistance to Turkey, totaling at that time about \$134 million a year, GAO disclosed a number of problems in AID's programming and surveillance over the commodities and equipment furnished as the primary component of the assistance program to Turkey.

GAO concluded that AID procedures for monitoring the receipt and use of U.S.-owned commodities and equipment were not as effective as they should have been. GAO found that (1) information was not obtained to identify a significant amount of imported commodities, (2) end-use checks were not made to determine whether commodities were being properly used, and (3) AID was not aggressively following up requests for refunds from Turkey for commodities which had been slow in clearing customs warehouses.

AID officials informed GAO that they were taking action to improve their arrival accounting system and to increase their audits of commodity use. AID determined that it had financed \$670,000 of ineligible commodities, and accordingly issued a bill for collection to recover that amount. AID was also attempting to obtain payment for outstanding claims against Turkey on commodities which had not cleared customs warehouses in a reasonable period of time. GAO believed that these actions, if properly implemented, could improve commodity management in Turkey and in other countries receiving such assistance.

GAO also found that (1) AID was financing steel product imports at a time when Turkey's domestic steel production facilities could have produced more to meet Turkey's needs, (2) U.S. funds had financed certain commodity imports although such financing was inconsistent with AID policy and could have been obtained from private sources, (3) AID had been unable to encourage Turkey to use its own foreign exchange to finance imports from the United States valued at \$5,000 or less.

AID officials agreed, in part, with GAO proposals for improving its programming of commodities and equipment, and AID was developing criteria as guidance for determining the benefits of importing commodities or producing them in country. GAO recommended that AID establish more precise lists of eligible and ineligible commodities and recognize the planned use of the commodities as an essential factor in proper commodity classification. (B-146995, February 28, 1968.)

Problems in Participant Training Program Management in Latin America. In a 1968 report on reviews in Argentina, Ecuador, and Venezuela and at AID offices in Washington, GAO concluded that there was a need and opportunity for improving AID's criteria and management for approving and evaluating its participant training programs.

GAO found that the AID missions in Argentina and Venezuela did not have a system for periodically evaluating the use being made of participants who had received AID training, and information on returned participants was generally incomplete, outdated, or not available. GAO also believed that training provided to 57 participants, at a cost of about \$173,000, was of questionable value and, on the basis of information available at the time, should not have been initially authorized. GAO noted (1) participants trained as expert consultants who were not able to function effectively in this role in Argentina, (2) economists from Ecuador given a 4-week U.S. tour from participant training funds because Department of State cultural funds were not available, and (3) training of Argentina participants under an AID-university contract after it should have been apparent that the trainees were not being used in the positions for which they had been trained.

GAO recommended that AID: (1) require AID missions to establish an appropriate system for periodic evaluation of the use of AID-trained participants; (2) develop criteria for (a) selecting participants for consultative service training and (b) determining the length of time that various types of participants are to serve in the positions for which they are trained and the actions required upon any noncompliance; and (3) develop controls to ensure that approval of future training projects will require consideration of the use made of previously-trained participants.

Although AID agreed that there were some aspects of the management of participant training programs in the three countries cited where improvements might be possible, it felt that the report did not reflect improvements made since the time of the GAO survey. (B-163582, March 13, 1968.)

Improper Use of Assistance Funds to Finance Vehicles for Defense Requirements in India. In 1969, GAO reported that about \$8.6 million of AID economic development funds provided to India had been used to fill orders for truck components and parts for the Indian Ministry of Defense. AID Mission auditors reported in 1968 that the items were imported under

AID loans and maintained that a refund claim should be filed against the Indian Government because the commodities imported were ineligible for AID financing. The financing was approved by the AID Mission, however, with AID/Washington concurrence, because it was felt that the items were not directly delivered to the military and were not inherently "military-type" items.

GAO noted that AID's general policy is that economic assistance funds are not intended to finance material directly for or on behalf of the defense establishment. GAO believed that AID's interpretation limiting this policy to items which are exclusively military indicated a need to reconsider the policy's intent. GAO also felt that these items were military assistance, and were therefore not legally available for financing from economic assistance appropriations.

GAO recommended that AID reexamine its guidelines to clarify its intent in loan agreement documents, so that the recipient country, supplier, and AID officials could better implement this intent. GAO also recommended that AID reconsider the decision not to seek refund in this particular case.

AID decided not to seek refund because there was no clear, unarguable violation of agreements between the United States and India. AID did, however, thoroughly review its guidelines and their application, and issued a Policy Determination formalizing guidelines on economic and military assistance. (B-167196, September 18, 1969.)

AID Assistance to the Transportation Sector in Latin America. In 1970, GAO reported on AID's administration of assistance to the transportation sectors of a number of Latin American countries. This assistance amounted to \$500 million for 17 Latin American countries from mid-1962 through mid-1968, most of which was for highway construction and maintenance equipment projects.

GAO found that about \$443 million of this assistance went to nine Latin American countries without the benefit of countrywide transportation studies and plans. In the few countries where transportation studies had been completed, or were in process, GAO believed that the results in most cases showed that too much emphasis had been placed on transportation as a whole or on particular types of transport, which thereby used funds which might have been made available for more desirable social and economic development projects.

GAO reviewed in some detail AID's transportation sector assistance in Bolivia, Brazil, and Chile, which had received \$364 million of the total AID assistance. The funds were programmed without the benefit of overall countrywide transportation studies and plans, and GAO was consequently unable to evaluate the effectiveness of the AID assistance provided to the transportation sector in these three countries. GAO found that because local currency funds were provided for road projects

in Bolivia and Brazil without adequate studies and plans they cost considerably more than estimated and fell behind schedule. A major portion of the AID transportation projects in Brazil could not be implemented largely because, in GAO's belief, AID loan funds were authorized before there was complete agreement as to how the projects were to be implemented. In Bolivia, construction problems that should have been pointed out in feasibility or design studies were overlooked or ignored, particularly for a \$7 million AID loan for a colonization road project. This loan was later raised to \$11 million even though severe flooding conditions had been predicted and had occurred and although the engineering firm for the project believed that construction was not economically feasible.

GAO believed that to meaningfully allocate funds to the transportation sector in a country, AID should study the adequacy of the transportation sector in relation to the total development needs of the country to provide some assurance that the projects have the highest priority, are justified in view of the country's overall needs and resources, and are making a maximum contribution to overall economic and social development goals. GAO believed that AID should relate future transportation assistance to recipient country efforts to develop countrywide transportation studies and plans, including systematic identification of key problems hindering transportation development, a definitive strategy for attacking these problems, and the establishment of priorities.

AID agreed with GAO that countrywide transportation studies were important and desirable and that they were not available during the period of the GAO review. AID felt, however, that it could not defer certain transportation investments until overall transportation studies and plans were completed.

This GAO report was later included in a study of U.S. economic assistance to transportation in Latin America, issued by the House Committee on Government Operations in June 1970. (No B-number, March 5, 1970.)

Current GAO Reviews. GAO is currently engaged in reviews relating to selected agricultural projects and related technical service contracts in the agricultural sector, AID-financed industrial intermediate credit institutions in Latin America, U.S. assistance to the motor vehicle industry in a large AID-assisted country (a case study of the efficiency of U.S. nonproject assistance), a review of an agricultural sector loan, and a review of capital development projects in a large AID-assisted country.

## REVIEW, EVALUATION, AND MANAGEMENT SYSTEMS

To obtain maximum benefits from the resources applied to the promotion of economic development in less-developed countries and areas, the responsible executive branch agencies must develop effective methods of managing their activities. This means that the agencies need systematic processes for accumulating valid information so that managerial judgment can be based, to the maximum practicable extent, on all the pertinent knowledge that is available. It means also that the agencies need strong internal audit activities to ensure that their established systems are operating and being utilized as intended. The need for effective methods of managing agency activities has been recognized by the Congress in a number of laws.

GAO has conducted a series of reviews of the review, control, and information systems of the executive branch agencies responsible for economic assistance programs. Problems disclosed by recent GAO reports in this area are discussed below.

### Internal Audit

AID Internal Audit Activities in Washington, D. C. In a 1969 report, GAO concluded that AID's concept of internal audit usefulness was limited to a relatively narrow approach that directed audit effort away from substantive program matters to lesser levels of audit coverage and disclosure that were not of maximum benefit to top management.

GAO found that a number of significant management areas were not audited. AID also needed to improve the timeliness of its audit reviews and reports on contractor performance under AID contracts and to require contracting officers to take more meaningful corrective action on its audit recommendations. The scope of AID's internal audit was not broad enough to systematically cover significant aspects of all AID-financed activities in Washington and in the field. GAO also believed that AID's internal audit staff was inadequate in number, training, and experience to provide the needed internal audit coverage.

GAO believed that AID/Washington's internal audit could be made more effective through a better recognition of its importance as a top management tool for controlling operations, by placing it higher in the AID organization, and by coordinating it with other review functions.

AID officials generally agreed with the GAO proposals. In May 1969 the President advised the Congress of the creation of an Auditor General in AID who would report directly to the AID Administrator. AID also informed GAO of a revision in its organizational structure to coordinate and upgrade its internal audit, inspection, and review functions. (B-160759, January 17, 1969.)

Internal Audit in the Department of State. In 1969, GAO also reported on a review of the internal audit activities of the Department of State, with respect to the overall management, adequacy of coverage, and independence of its Audit Program Unit.

GAO found that there was a need for the Department to redirect and expand its internal audit effort to include substantive program management rather than confining it to functional or housekeeping activities; that the independence and stature of the internal audit function suffered because of its subordinate organizational location and fragmented method of financing; and that better work plans and audit programs were needed. GAO also found that the scope of examination and size of staff needed expansion, that reports should be directed to higher levels, and that recommendations should be followed up.

GAO's four major recommendations were that the Department of State should: (1) broaden and refine internal audit objectives to be more selective and balanced in covering the full range of management responsibilities; (2) relocate the audit unit from its present subordinate position and join it with the Foreign Service Inspection Corps at the highest practicable level as a new management surveillance entity, with separate elements for internal audit, contract and grant audit, and inspections; (3) place more reliance on contract and grant audits by public accountants, and arrange maximum use of other government agencies' audit facilities; and (4) increase efforts to recruit qualified auditors, adequately and directly fund internal audit activity, and ensure that audit recommendations are carried out.

The Department of State did not agree with GAO's findings concerning the fundamental need to improve the independence and stature of the internal audit function nor the need for redirection of its effort, although it did inform GAO that it would attempt to rely more on public accountant and Government agency audits, and to establish adequate work plans and written review programs. The basic weaknesses are continuing, and at the end of 1970 the Department had not indicated to GAO any intent to deal with them. (B-160759, December 16, 1969.)

Actions Taken on AID Mission Audit Recommendations. In another 1969 report, GAO reviewed the problem of implementation of AID Mission audit recommendations in India and at AID's Near East and South Asia Regional Bureau in Washington, D. C. Since other AID Regional Bureaus had similar problems of old uncleared recommendations, GAO felt that the underlying reasons identified in this review might also apply to these other bureaus.

GAO found many instances in which AID Mission audit recommendations were not acted on for prolonged periods of time. AID officials felt that the slow follow-up action by Mission officials and AID/Washington offices was due to a shortage of qualified personnel, problems in obtaining retired records from contractor and AID files, delays in assist audits from the Defense Contract Audit Agency, and difficulties in negotiating certain disallowed charges with contractor personnel.

GAO observed that internal audit cannot effectively aid management control unless officials take prompt and positive action on internal audit reports. GAO noted AID efforts to persuade operating officials to deal promptly with audit recommendations, but cited the continuing problems as evidence that the underlying problems for the delays still existed. GAO recommended that if the number of unresolved recommendations did not decrease and remain at a low level in the near future, AID should make a high-level study of the justification for delays and take action to eliminate those found not to be justified. (B-161854, November 13, 1969.)

#### Management and Financial Systems

Merger of Department of State and AID Automatic Data Processing Systems. In 1967, GAO reported that AID and the Department of State were using separate automatic data processing (ADP) facilities, even though (1) their existing systems were oriented toward similar data, (2) the planned uses of the systems for substantive programs could be compatibly adapted to ADP, and (3) both agencies' activities were geographically located so as to permit full service to both through a merged ADP facility. GAO concluded that a merged ADP installation could serve the needs of both agencies more efficiently and economically. GAO had also urged consideration of the possibility of merger in 1965, when the Department of State was considering a new computer configuration which it subsequently procured and installed.

The Department of State and AID agreed with GAO's suggestion for a merged ADP facility and were considering a common system for the future, but felt that it was not feasible or desirable at that time. GAO, however, suggested that the two agencies reconsider the merger of their ADP operations to achieve the present benefits of joint utilization and prepare for a later extension of these benefits to other appropriate areas.

In July 1968, the Department of State and AID advised GAO that they had reestablished a joint working group which had set forth a 4-step plan to explore not only a bilateral integration but a common ADP capability for the foreign affairs community. The plan was to seek common, operational, ADP applications among the agencies, the design and establishment of a Foreign Affairs Data Processing Center, the linking of agency common systems to the facility, and, as a final step, increased use of the center facility and the gradual elimination of hardware at each user site. GAO agreed with this effort but felt that, since the project had been under consideration since 1965, the agencies involved should seek to complete the study as soon as possible and move to the implementation stage without further delay.

In January 1970, the Department of State and AID reported to GAO the progress made thus far in considering a common data processing facility for the foreign affairs community. The agencies also indicated their intent to continue working toward this objective, and asked for GAO's opinion concerning both their study efforts to date and their intent to proceed with a detailed definition of interagency equipment requirements.

In its response to the agencies' progress report in February 1970, GAO observed that some progress had been made toward a common data processing facility through several joint projects. However, considering the length of time the subject had been under study, GAO earnestly suggested a shift of emphasis toward an action program and away from continuing indefinite study. Without such emphasis, GAO believed that the distinct economic and operating advantages to be gained from a centralized service center installation would continue to be lost. (B-158259, July 14, 1967.)

Management of AID Cost Reduction Program. GAO reported in 1969 on its review of AID's Cost Reduction and Management Improvement Program. GAO found that (1) AID had adopted a low-keyed approach to the program and had devoted a minimum of manpower and resources to it; (2) the fiscal year 1967 and 1968 programs were geared primarily toward compiling material for the required semi-annual report to the President and only incidentally toward fostering increased cost consciousness throughout the organization; (3) top management support for the program was lacking; and (4) the program was not actively promoted and therefore resulted in limited participation by AID personnel.

Accordingly, GAO recommended that AID redirect the program to stimulate and encourage cost consciousness within AID, demonstrate top management support and active involvement in the program, promote and publicize the program throughout the year, and revise or promote closer adherence to certain internal guidelines for the program.

AID informed GAO that it disagreed with GAO's overall evaluation of its program. AID felt that, because of staff cutbacks and low appropriations which occurred during the period of the GAO review, it was understandable that the formal requirements and planning effort involved in the cost reduction program received less enthusiasm and interest than in the past. GAO felt, however, that in a tight budget period the effort to reduce costs would be intensified. GAO therefore believed that its evaluation was a fair one, and that AID should take action to improve its program as GAO had recommended. (B-163762, April 21, 1969.)

AID Financial Management Reporting System. In a 1968 report, GAO discussed its review of the AID Financial Reporting Manual--a segment of AID's overall accounting system--and AID's management of its report control system.

GAO found no evidence that progress was being reported in terms of performance related to plans, or that the concept of timeliness or usefulness of financial reports was being carried out. GAO also found a need for coordination in conceiving and designing the reporting system as an integral part of the overall management information system.

GAO returned the Financial Reporting Manual to AID for reconsideration and later resubmission for GAO approval when an adequate financial reporting system had been developed. GAO suggested that in developing a financial reporting system integrated with the overall AID management information system, AID should consider the following broad factors: (1) AID should develop a unified and comprehensive statement of management information needs; (2) AID should revise the existing, overlapping pattern of authority for planning and designing management information systems and individual management reports; and (3) AID should consider whether its existing organization of staff functions was appropriate for the evolution of good management information systems.

As of early 1971, AID had not resubmitted its Financial Reporting Manual to GAO for approval. (B-158381, June 19, 1968.)

Review of AID Technical, Capital, and Program Assistance Accounting Manuals. GAO reported in 1970 on its review of AID's accounting manuals for technical, capital, and program assistance--the three major types of economic assistance programs administered by AID.

GAO concluded that the AID manuals did not meet, in all material respects, the accounting principles, standards, and other related requirements prescribed by the Comptroller General. Specific problem areas included dual accounting for loans financed with annual appropriations, the relationship between U.S. dollar-financed economic assistance and economic assistance financed with local currency units, inadequate accrual accounting practices, and problems of system design, description, and documentation.

GAO noted AID's efforts to improve its overall accounting system as well as the evolving changes in the economic assistance program. GAO concluded, however, that AID needed to make additional efforts to develop and describe an accounting and reporting system for the assistance program manuals. Accordingly, GAO returned the subject manuals to AID for reconsideration and subsequent resubmission to GAO after the actions recommended by GAO, as prerequisites to an acceptable accounting system, had been taken. (B-158381, January 14, 1970.)

AID Commodity Accounting System in India. In 1970, GAO reported on AID's commodity accounting system in India. The report was part of GAO's review of AID management of U.S. dollar assistance to India as loans to finance imports needed to stimulate Indian economic development. In recent years this program has averaged over \$200 million a year in loans.

Under AID policy, the recipient country is to maintain detailed records for commodity accounting needs and summary reporting to AID missions. Where the country does not or cannot maintain adequate records, the AID Mission becomes responsible for this work. In India, the AID Mission maintained records for commodity accounting purposes.

GAO found that, at the time of its review in India, AID could not verify the arrival and customs clearance status of \$38.6 million of AID-financed commodities. This situation was primarily due to incomplete, inaccurate, and nonspecific data furnished the Mission by AID/Washington, limited compliance by U.S. suppliers in providing the AID Mission with required documents, and the receipt of partial data from the General Services Administration. AID/Washington voucher filing practices were also found to be inadequate and hindered management reviews.

GAO felt that AID's commodity accounting system problems were by no means unique because GAO and AID internal audit reports over the past decade had disclosed similar weaknesses in India and other countries. GAO noted that in almost every case, AID had acknowledged the existence of the weaknesses and agreed to correct them, but the long and continuing history of the problem, in GAO's opinion, indicated ineffective followup action.

GAO recommended that AID (1) evaluate the Indian Government's commodity accounting system for existing weaknesses and assist the Government in developing a system to meet the AID Mission's needs, and (2) strengthen its own commodity accounting system by following a specific series of GAO-suggested steps. In view of the long history of similar commodity accounting problems in other countries, GAO also recommended that AID distribute the report to other Missions for appropriate corrective action. (B-158381, March 3, 1970.)

Current GAO Reviews. GAO is now in the process of directing increased attention to the need for improved financial management practices in all the foreign affairs agencies. This is being accomplished by concentrating more heavily on audits of accounting systems in operation and related financial management activities. In addition to the increased audit effort, GAO is continuing past efforts to assist the agencies in developing acceptable accounting system designs. Managerial recognition of the need for better information has grown in recent years, as evidenced by the increased attention now being given to the strengthening of internal audit activities. Much remains to be done, however, in converting the desire for better information into effective methods of acquiring it.

FINANCIAL PARTICIPATION IN INTERNATIONAL ORGANIZATIONS

The United States holds membership in a large number of international organizations and makes annual payments to the organizations on the basis of assessments levied pursuant to the charters of the organizations. In addition, the Foreign Assistance Act states that, when he determines it to be in the national interest, the President is authorized to make voluntary contributions on a grant basis to international organizations and to programs administered by such organizations. (Section 301.) GAO has issued a number of reports in this area, including in particular a series of reports in 1969 and 1970 on U.S. financial participation in various United Nations agencies. GAO reports on the problems of U.S. financial participation in international organizations are summarized below.

Administration of U.S. Financial Participation in the World Health Organization. In a 1969 report, GAO stated that U.S. executive agencies had not obtained the specific analytical information on World Health Organization (WHO) proposed and continuing projects and programs needed to identify those programs whose justification might be questionable, or which could be accomplished with greater economy and efficiency. Budget and operational data furnished to members by WHO had been too sketchy and incomplete to make firm assessments of WHO projects and programs.

GAO found that the United States had no systematic procedure for evaluating WHO projects and programs, and evaluative attempts by the United States and by United Nations agencies had fallen far short of what was required by U.S. officials to make independent judgments on the efficiency and effectiveness of WHO operations. In three of the preceding four years, the United States had voted against proposed WHO budgets as being higher than the United States considered appropriate. The proposed budgets were adopted, however, on the votes of other members, and the United States thus contributed to budgets greater than it wished to support.

Although U.S. interests appeared to have been reflected in certain WHO programs, it was difficult to determine to what extent U.S. objectives had been met over the years because the executive branch had not decided on its relative priorities for the various WHO programs.

GAO recommended that the Departments of State and Health, Education, and Welfare take action to obtain the necessary factual data for analysis of WHO programs and budgets in order to exert meaningful influence on those programs and budgets. The two Departments agreed in principle with most of the GAO recommendations, but did not indicate any intention to actually implement them. The Department of State noted efforts on a United Nations-wide basis to seek improvements in fiscal and administrative practices

of international organizations. GAO believed that more aggressive action was needed in order to solve the specific and basic problems discussed in the report. (B-164031(2), January 9, 1969.)

Administration of U.S. Financial Participation in the United Nations Children's Fund. In another 1969 report, GAO found that procedures used by U.S. officials to analyze proposed United Nations Children's Fund (UNICEF) projects had to be abandoned in 1968 because UNICEF, despite State Department objections, ended its previous arrangements for providing the United States the information on which the analyses were made. Proposed alternative arrangements for future analyses were uncertain. General data available from UNICEF was not sufficient to permit reliable assessment of actual projects.

The United States and United Nations had attempted some independent project evaluations, but these were not adequate to allow informed judgments as to program efficiency and effectiveness or to provide a basis for encouraging UNICEF to solve indicated problems.

GAO recommended that the State Department: (1) obtain and analyze information on proposed UNICEF projects so that it could better judge whether to continue support of UNICEF activities; (2) obtain better operational data from UNICEF; and (3) arrange for U.S. overseas posts to selectively evaluate UNICEF projects until internationally constituted evaluations could be made.

The Department of State informed GAO that it was attempting to obtain more complete operational data from UNICEF, and to make arrangements to obtain UNICEF information for renewed evaluation of UNICEF projects. (B-166780, July 8, 1969.)

Administration of U.S. Financial Participation in the Food and Agriculture Organization of the United Nations. GAO also reported in 1969 that the Departments of State and Agriculture had not obtained the information nor developed the procedures needed to make adequate analyses of Food and Agriculture Organization (FAO) activities, and that the United States had no firm basis for making informed judgments--except in very broad terms--as to just what FAO was doing or planned to do with the contributions it received.

GAO found that attempts to evaluate FAO's performance had not provided a basis for assessing the way in which programs were carried out, even though there was considerable evidence that FAO organization, structure, and operating methods were not appropriate for the type of programs being carried on and had hampered effective and efficient administration of the program. GAO also found that the Departments of State and Agriculture, despite several attempts, had not met their responsibility for developing long-range U.S. policy objectives

and program priorities for FAO participation. It was therefore difficult, if not impossible, to determine the extent to which FAO activities were consistent with U.S. interests.

GAO recommended that the Department of State, with the assistance of the Department of Agriculture: (1) develop the information and procedures needed for adequate analyses of FAO activities; (2) evaluate FAO performance until the means for internationally constituted evaluations are developed; and (3) establish long-range policy objectives and program priorities relative to U.S. support of FAO.

The State Department agreed that the GAO recommendations should be implemented, but both Departments felt that recommendation (3) should not be implemented at that time because of the absence of a U.S. policy on the expansion of multilateral vs. bilateral aid and the lack of knowledge of planned future levels of support of FAO by other donors. GAO's opinion, however, was that the Departments must take the initiative in formulating long-range policy objectives and levels of U.S. support for FAO, and that their delay on this matter raised a question of whether they were meeting their responsibility of ensuring that U.S. interests are met concerning participation in the FAO. (B-167598, November 17, 1969.)

Improvements Needed in U.S. Financial Participation in the United Nations Development Program. GAO reported in 1970 that year after year the Department of State had requested increased funds for U.S. contributions to the United Nations Development Program (UNDP), amounting to \$550 million during the 1960's, even though the Department could not assure the Congress that the funds were being used to accomplish the intended objectives.

GAO found that the State Department had not established policy objectives and priorities for U.S. support of the UNDP. In addition, the Department had not been successful in persuading the UNDP to limit assistance to underdeveloped countries and to the priority needs of those countries. Consequently, from 1965 through 1969, the UNDP provided \$100 million in aid to relatively developed countries or countries seemingly in a position to pay for such assistance, and UNDP projects were often reported to be widely scattered and of low priority, thus lessening the impact that a more concentrated program might have achieved.

A 1969 UNDP study had concluded that the capacity of the United Nations system to handle development projects was overextended, and that, unless substantial reforms were made, the capacity of the system to handle projects would be limited to a \$200 - \$250 million annual level.

GAO found that the State Department had not obtained adequate information nor established procedures to make useful appraisals of proposed projects or to provide adequate assurance that approved projects

were effectively carried out. United States and United Nations independent evaluation efforts were not adequate to determine UNDP accomplishments or the effectiveness and efficiency of project implementation.

GAO recommended that the Department of State: (1) establish policy objectives and priorities for U.S. support of the UNDP related to the program's purpose of aiding the priority needs of underdeveloped countries; (2) relate future U.S. contributions to the extent to which UNDP projects meet these priority needs and are well-executed; (3) seek support from other governments in improving the United Nations development system; (4) make U.S. project appraisals more effective; and (5) encourage the establishment of a single United Nations-wide review body to evaluate United Nations activities, with improved U.S. evaluations by overseas posts until such a United Nations body is established.

The Department of State informed GAO that it did not have enough staff available to implement many of the GAO recommendations, but that it was doing its best to review and monitor UNDP operations. The Department agreed that U.S. policy objectives and priorities underlying support of the UNDP were needed, and stated that it would carefully consider the 1969 UNDP study to quickly implement those recommendations which would further long-term U.S. goals. (B-168767, March 18, 1970.)

U.S. Participation in the International Labor Organization. GAO also reported in 1970 that while U.S. contributions to the International Labor Organization (ILO) had increased steadily, the State Department could not give assurance that they were being used efficiently or effectively or that U.S. interests were being served by the expenditure of the funds. GAO concluded that the Department and other agencies must make vigorous efforts to correct weaknesses in the administration of U.S. participation in ILO.

GAO found that U.S. policy objectives for participation in the ILO were broadly defined and not easy to measure. The GAO review also indicated that there had been a lack of U.S. effort to implement a firm policy aimed at achieving U.S. political objectives, that the U.S. was not having any great success in achieving these objectives, and that the result had been almost unimpeded expansion of Soviet-bloc influence in ILO.

GAO found that the executive agencies had been unsuccessful in efforts to increase U.S. influence in ILO by substantially increasing the number of Americans employed by ILO. In addition, U.S. officials did not have sufficient information on most of the ILO programs, what the programs had accomplished, and how well they had been managed.

GAO recommended that the Departments of State, Labor, and Commerce frame definite and measurable U.S. objectives and develop a firm policy and workable plan for achieving them, specifically including steps to increase employment of Americans by ILO. GAO also recommended that the Department of State: (1) obtain more complete and informative budget and program proposals from ILO; (2) thoroughly analyze these proposals; (3) obtain adequate information on ILO operations; and (4) make effective evaluations of ILO programs and operations.

The State Department generally agreed with GAO's recommendations for more effective analysis and evaluation of ILO programs and activities. Concerning U.S. influence in the ILO, however, the Departments of State and Labor felt that the situation had recently improved. GAO noted, however, that: (1) in June 1970, the new ILO Director-General appointed a Russian as Assistant Director-General without U.S. consultation and despite known U.S. opposition; (2) the percentage of Soviet-bloc ILO employees increased by 3-1/2 times from 1956 to 1969 while the American employee percentage remained fairly constant; and (3) an American labor leader announced in August 1970 that the U.S. labor movement's delegate to the ILO could be withdrawn unless the situation changed.

GAO felt that the responsible agencies were directing much attention to their manner of participation in the ILO and were overly optimistic about the situation. GAO believed that this indicated a disinclination by the agencies to formulate objectives and take the actions required to deal with the remaining difficult problems. In late 1970 the Congress denied a U.S. contribution to the ILO for the remainder of the year. (B-168767, December 22, 1970.)

Administration of U.S. Financial Participation in the Organization of American States. In 1969 GAO issued a report on U.S. financial participation in the Organization of American States (OAS), in which the United States is one of 22 members but provides 66 percent of all members' contributions.

GAO found that U.S. representatives to the OAS governing body had not obtained the information needed to determine whether OAS programs were consistent with U.S. objectives to the extent warranted by the high level of U.S. contributions. Because other members were chronically behind in their contributions, U.S. contributions in the preceding four years were \$10 million more than necessary under the 66:34 ratio.

GAO also found that the Department of State, other member states, and OAS management authorities were not actively working to solve the recognized, long-standing problems of financial and personnel administration in the OAS secretariat.

State Department comments on the GAO report pointed out a number of recent actions taken to obtain better information on OAS activities, improve OAS administration, and accelerate quota payments by other members. GAO felt that these actions were encouraging, but believed that the State Department should work more effectively with other member states and OAS management authorities to seek correction of the indicated problems. (B-165850, April 9, 1969.\*\*)

In addition to the recommendations in all of the above reports calling for establishment of U.S. objectives and priorities, adequate appraisal and monitoring of proposed and ongoing programs, and evaluations of the efficiency and effectiveness with which the international organizations have performed, GAO found that there was no effective working mechanism within the U.S. executive branch for directing and coordinating the activities of all U.S. departments and agencies involved in international organization affairs.

In 1970, GAO made suggestions for a more effective executive branch organization for managing U.S. participation in the developmental assistance activities of international organizations. The State Department subsequently advised GAO that it had initiated action essentially in line with GAO's suggestions. Indications are that the State Department and other agencies have not moved as quickly to implement GAO's other recommendations. Hence, GAO intends to follow up in the summer of 1971 on the progress made by the executive agencies to implement these other recommendations.

Current GAO Reviews. GAO is currently reviewing the management of U.S. interests in the international financial institutions.

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\*\*Unclassified summary of a classified report.

## PRIVATE INVESTMENT PROGRAMS

In the Foreign Assistance Act, the Congress recognizes the vital role of free enterprise in achieving rising levels of production and standards of living essential to economic progress and development. Accordingly, among other things, it is declared to be the policy of the United States to encourage the efforts of United States enterprise toward economic strength of less-developed countries through private trade and investment abroad. (Section 601.)

AID has carried on several programs directed toward increased private investment in less-developed countries, and recently the administration of these programs has been transferred to the new Overseas Private Investment Corporation. GAO has issued a recent report dealing with problems under the investment guaranty program and is doing additional work in this area.

AID Project Support Under the Investment Guaranty Program. GAO reported in 1970 on AID support of a project owned primarily by the Calabrian Co., Inc., under the investment guaranty program of the Foreign Assistance Act. The project was for the raising and marketing of corn in Thailand.

GAO found that AID bore almost all the risk of loss in the privately-owned venture, although neither AID nor Calabrian intended this. AID issued three 100 percent loan guaranties during 1967 and 1968 and permitted Calabrian to use the loan guarantee funds to generate additional loans, all of which provided \$7.6 million of the \$8 million invested in the project from U.S. and foreign sources. AID intended that future adjustments be made to limit its final support to 75 percent of the planned U.S. and foreign investment, but neither the intended adjustments nor the planned investment ever took place. Although large-volume grain facilities were constructed in Thailand, inadequate project financing prevented full implementation of the plans. The planned farmer assistance program was not established and the project suffered from extensive operating losses.

AID concluded that the actual project financing differed so much from the intended financing that AID could no longer justify its continued support. As a result, project operations were cut back substantially at corn-harvesting time in 1968 and eventually stopped. Calabrian, however, felt that AID's financing actions had prevented the intended financing's becoming a reality and had caused the project's failure before its success was possible.

In view of the financing of the Calabrian project, and particularly because the Foreign Assistance Act of 1969 authorized similar financing arrangements, GAO felt that the investment guaranty program could be improved by modifying the existing legislation. GAO believed the improvement could best be made by requiring that the owner who controls a Calabrian-type project assume a meaningful share of the project's total

risk before he would be furnished support through extended risk investment guaranties.

AID advised GAO that the GAO recommendations were being considered by the officials responsible for management of the guarantee program. Subsequently, responsibility for administering investment guaranties of the Calabrian-type was transferred from AID to the Overseas Private Investment Corporation. (B-166077, April 1, 1970.)

Current GAO Reviews. GAO is currently engaged in a review of the development impact of U.S.-insured investment in less-developed countries.

## CONTRACTOR ACTIVITIES

The Foreign Assistance Act encourages the contribution of United States enterprise toward economic strength of less-developed friendly countries through private participation in programs carried out under the Act, including the use of private trade channels and the services of United States private enterprise wherever practicable. (Section 601.) As of mid-1970, AID alone had more than 1,200 technical service contracts outstanding valued at over \$631 million, not including the contracts with U.S. firms made by borrowers under AID development loan agreements. GAO has issued a number of reports concerning problems of contractor participation in assistance programs, which are discussed below.

Contracting Practices in the Procurement of Training Services. GAO reported in 1968 on a survey of AID and Peace Corps contracting practices for procurement of training services.

GAO found that AID and the Peace Corps were negotiating and awarding training service contracts on a "sole-source" basis without adequate solicitation of qualified sources. For 28 of 40 contracts--16 Peace Corps and 12 AID--GAO concluded that justifications for exclusive selection of contractors did not convincingly show that sole-source procurement was in the Government's best interests. GAO believed that the agencies' failure to solicit proposals from qualified sources and evaluate them on a common basis did not comply with existing Federal Procurement Regulations. GAO also doubted that the agencies could obtain the best possible training programs at reasonable cost unless more thorough consideration was given to the large public, private, and commercial training resources available in the United States.

GAO also found little evidence that the agencies had made even informal efforts to contact or screen training sources. In addition, GAO found a general lack of documents in AID and Peace Corps files to show the justification for not using competitive procurement, the basis for contractor selection, the extent of technical negotiations, and the extent of reviews of contractor budget estimates. GAO concluded that these deficiencies indicated the failure of the agencies' contracting officers to carry on adequate surveillance of training procurement actions.

GAO recommended that AID and the Peace Corps direct their contracting officers to: (1) solicit an adequate number of sources based on a statement of requirements which would advise interested parties of Government needs; (2) negotiate technical and price factors with each competitive offerer; and (3) exercise greater surveillance to ensure that adequate documentation is contained in the files.

GAO was later informed that the Peace Corps was improving its contracting procedures, particularly in obtaining contractor proposals for training needs and in reviewing and negotiating price factors with training contractors. The Peace Corps also undertook a review of its contracting procedures as a follow-up to the GAO report. (B-161724, April 16, 1968.)

Activities under AID Contracts with the American Institute for Free Labor Development. In 1970, GAO reported on its review of the activities of the American Institute for Free Labor Development. The Institute is an AFL-CIO-established private organization which seeks to promote free and democratic labor unions and economic and social development in Latin America, and which had been furnished about \$29 million in AID funds from 1962 through 1969.

GAO found that AID had made only limited evaluations of the Institute's programs and that under its existing contract the Institute had had an unusual amount of flexibility in the range of activities that it could perform. GAO also found that the concept of self-help was generally not being utilized in the countries where GAO made its review, that the Institute did not have a systematic program to evaluate its educational activities, and that a number of Institute social projects--such as low-cost housing--had not achieved their objectives.

While there had been some improvement in the Institute's financial management since a GAO review in 1968, GAO found that deficiencies continued to exist and substantial improvements were still needed. In addition, GAO concluded that neither AID nor the Institute had assessed technical assistance program activities under subcontracts with U.S. unions, including a determination of whether the activities followed U.S. policy guidelines.

GAO recommended that AID reevaluate the AID-Institute contract to implement a system providing for direct surveillance by AID, which GAO believed necessary for effective contract administration. GAO also recommended that AID take action to strengthen the Institute's financial management, including more direct AID control over Institute finances in the field.

AID recognized the need for improvements, and planned to make a comprehensive evaluation of the Institute's performance. AID also told GAO that the Institute was starting an evaluation system for its education program. The Institute recognized the need for continued improvement, but disagreed in general with GAO's conclusions and recommendations. (B-161794, April 23, 1970.)

Activities of the Center for Cultural and Technical Interchange between East and West. In 1969, GAO reported on the activities of the East-West Center, which seeks to promote relations between the United States and Asian and Pacific nations through cooperative study, training, and research. The Center was established under a grant-in-aid agreement between the State Department and the University of Hawaii.

GAO concluded that there was a need for making systematic, objective evaluations of East-West Center activities. Center officials were aware of this need and were attempting to establish evaluation procedures. GAO also found that there was no master plan for the location of future facilities and additional land sites for the Center, even though the University's expansion was making land increasingly scarce.

GAO recommended that the Department of State: (1) ensure that Center goals are defined and evaluations are made of the effectiveness of Center activities, so that the Department and the Congress could properly assess how well the Center is achieving its statutory purposes; (2) work with the various organizations concerned to develop an acceptable long-range land-use plan for the Center; and (3) consider revising the grant-in-aid agreement to reflect the actual responsibility and consequent authority of the University over the Center.

The University agreed that a long-range plan for future expansion of the Center was needed and that additional land should be made available as needed. The State Department noted the provision for land in the grant agreement and the University's commitment to make land available as needed. GAO was later informed that the University had appointed a Center representative to its Capital Development Planning Committee, but both the State Department and the University saw no need to change the grant-in-aid agreement to clarify the University's responsibility over the Center. (B-154135, May 20, 1969.)

Activities Under Contracts with the African-American Institute. GAO reported in 1968 on its review of activities of the African-American Institute, which administered over \$33 million of contracts for African educational programs for the Department of State and AID.

In reviewing Institute programs, GAO found that a scholarship program for study in American universities had had limited success since less than one-third of the graduates had returned home to work. In a graduate fellowship program, large numbers of students were selected from sources in the United States rather than from Africa, which was contrary to the purpose of the program. GAO found a lack of coordination between AID and the State Department in carrying out educational and training programs for refugees from southern Africa, and in paying different allowances to students at the same school and using different bases to reimburse the Institute for overhead expenses.

GAO concluded that AID and the Institute were taking or considering action which would help solve the problem of getting African students to return to their homeland after getting their degrees. GAO made several specific recommendations to strengthen the graduate fellowship program by extending the benefits to greater numbers of potential candidates and by precluding possible repatriation problems. GAO also recommended that the State Department and AID consolidate their refugee scholarship programs to save money and to reduce lengthy student orientation periods. GAO recommended that the agencies standardize their educational allowance rate system, and the agencies informed GAO of efforts to uniformly reimburse the Institute for overhead expenses. (B-161632, July 2, 1968.)

Procurement Procedures of the Afro-American Purchasing Center, Inc. In 1967, GAO reported on Afro-American Purchasing Center operations in procuring measles vaccine with \$930,000 of AID funds that had been granted to African governments or organizations. AID did not require formal competitive bid procedures or disclosure of the price paid for the vaccine procurement, and Center officials chose to follow the commercial practice of not revealing the award price.

AID advised GAO that if they had made the vaccine procurement directly they would have been required to follow the Federal Procurement Regulation requirement of disclosing the price paid. Under the circumstances, GAO felt that the safeguards provided by the regulations should not have been ignored, since the purpose of the fund expenditure was the same whether the funds were expended by the Center or directly by AID.

GAO proposed that, in cases where organizations like the Center were used for procurements under the economic assistance program, AID should require that established U.S. Government procurement practices be followed, unless compelling circumstances dictated otherwise. GAO believed that any such exceptional case should be fully justified as a part of the official program record.

AID informed GAO that the Center had agreed to use formal competitive bid procedures requiring public opening of bids on new AID-financed business of over \$50,000, unless waived by AID in specific cases. AID had been receiving a summary of offers and award on smaller transactions, and would make them available to suppliers on request. (B-160789, February 1, 1967.)

Current GAO Reviews. GAO is currently reviewing overall Peace Corps training program activities, which are primarily conducted through contracts, and which currently amount to almost 20 percent of total Peace Corps spending.

## MANAGEMENT OF EXCESS PROPERTY

The Foreign Assistance Act provides that Government-owned excess property which is serviceable and useful in assisting the developmental efforts of the less-developed countries should be used wherever practicable for U.S.-assisted projects and programs instead of the procurement of new items. (Sections 607, 608.) GAO has issued a series of reports dealing with problems in the management of excess property, which are discussed below.

AID Utilization of Excess Property. GAO reported in 1965 on its examination of AID's use of excess property in five countries receiving U.S. aid. GAO found that U.S.-financed property purchases and planned purchases valued at \$2,840,000 could have been avoided and additional purchases and planned purchases of about \$660,000 probably could have been avoided if excess property already owned by AID or available from other Federal agencies had been substituted. AID was financing new equipment while the military departments and other Federal agencies were selling or otherwise disposing of excess stocks of the same or similar items.

GAO's review covered only a limited number of U.S.-financed activities, screened only a small percentage of the total available excess property, and was conducted in only 5 of the 85 countries receiving U.S. aid. Accordingly, GAO estimated that the unnecessary procurements found represented only a fraction of the purchases which could have been avoided by using excess property already owned by AID or available from other sources.

AID generally agreed with GAO's findings, and, in accordance with GAO's recommendation, advised GAO that new directives and procedures had been devised to assure that AID Missions make and document thorough screenings to substitute excess property for new items before procurement. (B-146995, April 12, 1965.)

AID Management of Excess Property in Turkey. In 1967, GAO reported that there was a need for AID's Mission in Turkey to more effectively manage the programming, receipt, and utilization of excess property furnished to Turkey for use in AID-financed program and project assistance.

GAO found that the AID Mission in Turkey, in many instances, had not determined (1) the need for equipment prior to its approval for acquisition by Turkey, (2) whether equipment had been received in Turkey by the recipient, and (3) whether equipment received was in operating condition and was being effectively used.

GAO believed that the AID Mission, before approving excess property acquisition, should require the recipient country to provide details of its operating requirements to allow a determination of whether the equipment was really needed and could be adequately maintained and used by the recipient. GAO also felt that if the Mission had enforced requirements for Turkey to report receipt of the property and had followed AID procedures for inspecting the equipment when received, unserviceable equipment could have been located and action taken to correct the deficiencies.

AID informed GAO that it was taking action to remedy the deficiencies noted and to improve management of the program by enforcing requirements for property allocation forms and utilization reports, by requiring inspection of property received, and by continuing checks on proper use of excess property throughout Turkey. (B-146995, October 24, 1967.)

AID Management of Property Acquired for Foreign Assistance. GAO reported in 1968 that there was a critical need for AID to strengthen the management of its program in Europe for the rehabilitation and distribution of excess property. From mid-1962 through 1967, AID had rehabilitated and distributed excess property with an original cost of \$119 million, of which \$39 million was handled by AID's European office.

GAO found that AID generally distributed excess property to eligible countries on a first-come first-served basis without considering whether the intended use of the property was as a substitute for new procurement--the primary stated objective of the program--or as supplemental assistance to the recipient country. GAO also found that Government surveillance of private contractor rehabilitation work on excess property prior to distribution was inadequate, and GAO noted a number of deficiencies in AID's negotiation and administration of its primary contract in Europe for repair and rehabilitation of excess property.

The results of the GAO review were discussed in two reports on congressional reviews relating to AID's program for advance acquisition of excess property. These reports included recommendations to AID for improving its management of the program.

AID generally agreed with the GAO findings, and took action to emphasize the use of excess property as a substitute for new procurement, upgrade the quality of rehabilitation work, and strengthen and improve the negotiation and administration of present and future excess property rehabilitation contracts. (B-146995, August 2, 1968.)

Need for Improved Management of AID's Excess Property Program. In 1969, GAO reported that AID's excess property program in Kenya and Pakistan needed improvement in: (1) evaluating the recipient country's ability to maintain and use excess property before approving such property for delivery; (2) assuring that property was received in the country in usable condition; (3) assuring that proper records of accountability were maintained by either the AID Mission or the recipient country; (4) periodically inspecting recipient countries' maintenance and use of the property; and (5) performing periodic audits of the program.

Because of the actions begun by AID to correct these problems, GAO made no recommendations; however, GAO suggested that AID ensure that the needed improvements were made.

In addition to actions taken to improve program management in Kenya and Pakistan, AID instructed all AID Missions to restrict further acquisitions of excess property if property already received was not being adequately managed. AID also issued guidelines to assist the AID Missions in developing and maintaining a sound management system for excess property acquired by cooperating countries. The guidelines generally covered the improvements that GAO had identified as needed. (B-146995, December 5, 1969.)

## II. MILITARY ASSISTANCE

### OVERALL PROGRAM ADMINISTRATION

The President is authorized under the Foreign Assistance Act to furnish military assistance to any friendly country or international organization to strengthen the security of the United States and promote world peace. Military assistance is provided through loans or grants of defense articles and services, financial contributions to multilateral programs for facilities for collective defense, financial assistance for the expenses of U.S. participation in regional or collective defense organizations, and the assignment or detailing of U.S. defense personnel for noncombatant duty, including training or advisory functions. (Section 503.)

The purposes of military assistance programs in various countries are, basically, (1) to assist a country to develop a defensive capability against external aggression, (2) to maintain internal security and assist local forces in undertaking civic action programs, and (3) to assure continuation of certain United States military rights.

This initial subsection covers several GAO reports on problems relating to the general administration of military assistance programs.

Manpower Utilized to Administer Military Assistance. In 1966, GAO reported that the Department of Defense (DOD) planned to continue the operation of a military assistance group in a recipient country even though the military assistance grant-aid program for the country had been virtually completed and although available information indicated that other U.S. organizations in the country could perform the necessary residual functions.

DOD had made substantial reductions in the size of the group as the workload had decreased because of reductions in the military assistance program. GAO believed, however, that greater reductions in personnel and resultant savings could have been made if DOD had realistically evaluated the need to continue operations as carried out in recent fiscal years, and if DOD had made a determined effort to phase out the group and reassign responsibilities for essential functions to other U.S. organizations.

GAO recommended that DOD take action to (1) reduce the staff of the military assistance group to match its present reduced duties, (2) eliminate unnecessary functions and transfer necessary continuing functions to other existing U.S. organizations, and (3) terminate the activities of the group at the earliest practicable time.

DOD agreed that further limited reductions might have been possible. However, while DOD agreed in principle with GAO's recommendation to terminate the group as soon as possible, DOD felt that it was advantageous to continue operation of the group with reduced manpower. DOD later advised GAO of a reduction in the manpower authorization, and in 1969 the group was reduced

from a staff of 85 to a staff of 16. (B-159341, August 15, 1966.\*\*)

Military Assistance Furnished to Turkey. GAO reported in 1967 on its examination of military assistance furnished to the Turkish Air Force under the military assistance program.

GAO found that many of the same types of deficiencies that had been found in a prior GAO review of the program in Turkey and reported to the Congress in 1962 continued to exist. GAO also noted that some of the same types of deficiencies had been found by the Air Force Auditor General, and were covered in his 1967 report on U.S. military assistance provided to Turkey.

GAO found that some improvements had been made since its prior review. However, GAO also found that (1) funds were still being over-programmed, (2) excesses were not being recovered, and (3) unneeded items were being requisitioned. GAO believed that there was a need for improved management of the military assistance furnished to the Turkish Air Force to eliminate these deficiencies. GAO also believed that greater efforts by U.S. advisory personnel could achieve this objective and would thereby substantially reduce the cost of the military assistance program. (B-125085, June 7, 1967\*\*)

Cost Sharing of Military Construction Projects in Europe. The North Atlantic Treaty Organization (NATO) has an infrastructure program which is designed to provide the fixed defense installations and facilities required by NATO forces. The costs of this program are shared by member nations.

In 1969, GAO reported that improvements had been made in administration of U.S. participation in the NATO infrastructure program since GAO's last report on the program in 1965. GAO found, however, that further improvement was needed, particularly in recovering costs of projects initially financed by the United States. GAO reviewed several projects, valued at over \$9 million, and found delays both in the submission of Air Force projects for cost sharing and in the subsequent recovery of costs of initially-financed programs after they were included in the NATO program.

GAO believed that the need for further improvement could be largely attributed to the fact that the services did not fully understand the NATO financial system, a lack of specific instructions in some instances, a lack of centralized responsibility for certain cost-sharing functions, and the failure of the U.S. Command in Europe to fully examine delays in cost recovery and take corrective action. GAO also found that the U.S. Army in Europe, purportedly to maintain operational control, had followed a policy of not pursuing NATO cost sharing for certain facilities eligible under the

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\*\*Unclassified summary of a classified report.

program.

GAO proposed that DOD reconsider GAO's 1965 proposal to establish a single office within DOD to be responsible for and coordinate uniform infrastructure policies and practices. GAO also made several more specific proposals, including more specific arrangements with host countries, which were applicable to all U.S.-prefinanced projects and which GAO felt could bring earlier fund recoveries.

DOD generally accepted the GAO proposals and began needed actions, but felt that a single DOD office was not necessary and that new guarantee procedures in U.S.-host country relations and discreet diplomatic pressures could bring fund recovery without negotiating reimbursement agreements for all possible cases.

GAO recommended that DOD further consider a central DOD authority with definite responsibility for enforcing and monitoring DOD policies and procedures. GAO also recommended an evaluation of the effectiveness of the new procedures relating to the need for more specific U.S.-host country agreements. DOD subsequently advised GAO that DOD instructions were being revised to establish provisions for the European Command to monitor and enforce DOD policies and procedures relative to the cost sharing of NATO infrastructure programs. (B-156489, October 10, 1969.\*\*)

Payment of Taxes to Other Governments on U.S. Defense Activities Overseas. The U.S. and various other governments have arranged for U.S. purchases in and supply and equipment imports into those countries to be exempt from taxes and import duties when the items are for the common collective defense or for other purposes which are in their mutual national security interest.

GAO reported in 1970, however, that the United States had incurred substantial tax costs in several countries. Examples of significant direct and indirect tax costs which the United States had incurred over several years for property leases, family housing rentals, local procurements, and imports of supplies and equipment were \$28 million in Vietnam, \$4 million in Thailand, and \$2.2 million in Germany.

GAO believed that when the financial burden of a foreign tax is passed on to the United States indirectly and the tax is substantial, such action is inappropriate, particularly in view of the substantial U.S. expenditures for the common collective defense.

GAO recommended that the Departments of State and Defense (1) jointly

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\*\*Unclassified summary of a classified report.

develop and promulgate specific guidelines which would define the U.S. tax-exemption policy, (2) clearly establish the responsibilities of the concerned U.S. agencies, and (3) provide for an adequate management system to operate an effective tax relief program.

The two departments recognized that tax exemption problems existed. They generally agreed with the GAO recommendations and had begun corrective action. GAO believed that the benefits derived from these actions would have a favorable impact on the balance of payments and would also provide more funds for direct defense and other assistance efforts.

The Departments of Defense and State later provided GAO a joint response with a comprehensive analysis concerning the payment of taxes to other governments by the United States on a country-by-country basis. The gist of the Departments' analysis was that (1) the United States had succeeded in obtaining tax relief for its expenditures overseas, made for common defense purposes, in all major respects; (2) a joint task force had been formed by the Departments of State, Defense and Treasury, studies were being made, and steps were being taken to strengthen the management of the U.S. foreign tax relief program by issuance and implementation of revised instructions concerning administrative policies and procedures; and (3) audit programs initiated by the Departments would be adjusted to assure greater audit emphasis on the administration of foreign tax relief matters. (B-133267, January 20, 1970.)

U.S. Support of Philippine Troops in Vietnam. In 1970, GAO also reported on payments made by the U.S. Government to the Government of the Philippines in support of Philippine troops in Vietnam.

GAO found that the assistance given to the Philippine Government, which was funded by DOD, consisted of approximately \$35 million in equipment and logistics support, and about \$3.6 million of direct payments which were appropriated for DOD by the Congress and paid to the Philippine Government in a series of payments from 1966-1970. GAO also found evidence that other forms of U.S. assistance to the Philippine Government, such as military and economic assistance funded under the Foreign Assistance Act, were increased during the period of the Philippine troop commitment to Vietnam.

GAO reported that its work had been seriously hampered and delayed by the reluctance of the Departments of State and Defense to give GAO access to the records considered pertinent to the GAO review. Generally, GAO received access only to those records which it could specifically identify and request, and then only after time-consuming screening within the Departments. GAO concluded that because of the restricted access to records it was possible that the agencies might have withheld information which was pertinent to the GAO study. (B-168501, March 21, 1970.)

Purchase Commitment Made to an International Organization Prior to Availability of Funds. In 1960, DOD entered into a written agreement with

a consortium of five NATO countries formed to produce HAWK surface-to-air missiles in Europe. U.S. participation included providing certain materiel and services needed for production along with purchasing four of the missile systems. Part of the assistance provided was to be offset against the cost, but the total cost was not stated in the agreement. Preproduction performance began immediately.

DOD had only a portion of the funds available to purchase the four missile systems when the 1960 agreement was signed. Instead of making sufficient funds available or limiting U.S. liabilities, DOD had a clause inserted into the agreement stating that the U.S. purchase commitment was "subject to availability of funds."

In 1970, GAO reported that no express authorization existed in law allowing DOD to enter into the purchase commitment without having sufficient funds available. GAO believed the commitment did not comply with the intent of the Anti-Deficiency Act, which requires government agencies to have estimated funds available or advance congressional approval before entering into contractual obligations. This ensures that the Congress has the opportunity to pass on contractual obligations for which it will be required to appropriate funds.

GAO concluded that by signing the 1960 agreement and providing assistance to the consortium, which made it possible to proceed with production of the missile systems, DOD firmly committed the United States to buy four missile systems at an unknown cost, and committed the Congress to appropriate the additional funds after-the-fact, notwithstanding the proviso "subject to availability of funds." There was little practical control that the Congress could exercise over the amount of funds it would subsequently be required to appropriate if the United States was to meet its contractual commitments under the international agreement.

GAO also found that DOD funded the commitment incrementally, consistent with the annual assistance requirements but with little or no relation to the costs of the four systems because the funding was less than the projected costs of the systems. In mid-1969, DOD estimated the total costs of the four systems in millions of dollars, and also estimated that several million dollars would have to be paid to the consortium for an \$11.9 million claim to the consortium for documentation, services, and depreciation costs. The final cost was not expected to be known or final payment made until 1972 or 1973.

GAO recommended to DOD that a report be made to the President, through the Office of Management and Budget, and to the Congress of all pertinent facts concerning this matter and any action taken or to be taken, as required by law. GAO also recommended that the matter be brought to the attention of appropriate DOD officials to point out that decisions on the making of contractual obligations of the Government should be consistent with the requirements of law and pertinent DOD directives.

DOD did not agree with GAO's findings and recommendations. DOD stated that (1) the Mutual Security Act of 1954 was the authority for its actions and the term "subject to availability of funds" was used in accordance with then-current Comptroller General decisions; (2) the Congress had been clearly advised of the agreement through the military assistance budget estimates of U.S. funding support for the program on an incremental basis; and (3) the obligation to fund an additional amount covering the total U.S. liability was of a contingent nature and not an actual recordable obligation.

In May 1970, GAO was informed that \$9.1 million of the claim had been tentatively accepted, that the current cost projection for the four systems was higher than previously estimated, and that several millions of dollars had been obligated for a tentative payment to the consortium. After considering DOD's comments, GAO still believed that a violation of the Anti-Deficiency Act had occurred and that DOD should take appropriate action as recommended.

In December 1970, DOD stated that since it disagreed with the GAO conclusion concerning violation of the Anti-Deficiency Act and Section 1311 of the Supplemental Appropriations Act, 1955 (31 U.S.C. 200), no corrective action was deemed necessary. GAO is now taking steps to report this matter to the Congress and the Office of Management and Budget for their further consideration. (B-160154, October 2, 1970.\*\*)

Current GAO Reviews. GAO is currently initiating reviews of military assistance programs in several countries to evaluate whether the military assistance is being effectively utilized to achieve U.S. objectives. GAO is also reviewing assistance related to Free World Forces in Vietnam, to examine the costs borne by the United States to equip and support troops from other countries, and to examine other economic benefits which these countries may derive as a result of sending troops to Vietnam.

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\*\*Unclassified summary of a classified report.

## MANAGEMENT OF MATERIEL PROGRAMS

Military assistance consists primarily of military hardware and services and is furnished on both a grant and sales basis. This subsection summarizes recent GAO reports dealing with the furnishing and use of military hardware, including military excess property. The types of articles available under the military assistance program include aircraft, missiles, ships, vehicles, weapons, ammunition, communications equipment, and construction and support equipment.

Overprocurements from Ineffective Supply Management in Korea. GAO reported in 1965 that, under the military assistance program, about \$463,000 of overprocurements for unneeded spare parts and assemblies for Japanese-manufactured vehicles had been made because excesses within the Korean Army supply system were not identified and recovered.

GAO believed that inadequate advisory efforts of U.S. personnel had contributed largely to this deficiency. Additional procurements of similar unneeded parts, valued at about \$693,000, could have followed if DOD had not taken timely corrective action as a result of the GAO review. (B-125099, May 28, 1965.)

New Ships Provided to Iran Instead of Reserve Fleet Vessels. GAO also reported in 1965 that two new patrol frigates, constructed at a cost of about \$7.4 million, had been furnished to Iran under the military assistance program even though the Iranian navy's requirements could have been met by activating, overhauling, and modernizing available reserve fleet destroyer escorts at an estimated cost of \$3.8 million.

GAO found that adequate consideration had not been given to use of the reserve fleet vessels because the responsible officials were reluctant to request congressional approval required for their transfer to a foreign nation, and because cost data used in evaluating the advantages of furnishing new patrol frigates was unrealistic. GAO recommended that, in the future, DOD give adequate consideration to the use of available reserve fleet ships in fulfilling requirements under the military assistance program. (B-133134, February 3, 1965.\*\*)

Depot Construction in Iran. In another 1965 report on the military assistance program in Iran, GAO concluded that U.S. funds of \$8.4 million were for the most part wasted in construction of a depot.

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\*\*Unclassified summary of a classified report.

GAO found that the depot had had only negligible use since its construction in 1960, and that current plans called for dismantling and relocating many of its storage facilities. GAO believed that the facts available when construction of the depot began in 1958 clearly indicated that the depot was not needed or wanted by the Iranian Army.

In compliance with GAO's proposals, DOD instituted procedures to require continuing reevaluation and necessary revision of such construction projects to assure that they are justified. (B-133134, March 22, 1965.\*\*)

Air Defense Equipment for the Republic of China. In 1966, GAO reported on its review of air defense equipment furnished to and procured for the Republic of China under the military assistance program.

GAO found that the Chinese Army ordnance missile support unit had about \$450,000 worth of items which were excess to its current needs. The excess items accounted for over 37 percent of the inventory of high-value items. GAO concluded that there was a need for increased, continuing efforts by U.S. advisory personnel to identify military assistance program spare parts which are excess to the needs of the recipient country, and to report them for redistribution to meet other valid requirements. DOD later advised GAO that procedures would be implemented requiring faster identification and validation of requirements and that changes producing quantitative increases or decreases would be processed more rapidly. (B-125087, June 3, 1966.\*\*)

Aircraft Supply Support in a Far East Country. GAO reported in 1966 on the adequacy of supply support provided by the Air Force of a Far East country under the military assistance program. GAO found that the defense capability of the country's Air Force was impaired because a high percentage of F-104 aircraft was deadlined for excessive periods of time because of a lack of essential operating parts. Over a 6-month period the monthly average of inoperable F-104 aircraft was as high as 32 percent and represented nonfunctioning aircraft valued at \$21.5 million. GAO also noted evidence of decreased operational effectiveness of F-100 aircraft because of the lack of working jet engines.

GAO recommended that DOD establish effective procedures to coordinate supply activities with the country's Air Force and with U.S. supply units, and increase controls over stock levels, priority requisitions, and depot activities to ensure availability of priority items. The Air Force took action on these GAO recommendations, and DOD informed GAO that a complete stock level review had been made by the recipient country's Air Force and that country repair capability had been increased. (B-125087, February 23, 1966.\*\*)

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\*\*Unclassified summary of a classified report.

Supply Management of Spare Parts and Equipment for the Korean Air Force. In another 1966 report, GAO concluded that a substantial reduction in costs of logistical support for the Korean Air Force could be achieved through greater efforts by U.S. advisory personnel in assisting the Koreans to improve the management of materiel provided by the United States.

Because of a lack of effective supply management, the Korean Air Force had requisitioned and the United States had delivered large quantities of assemblies, spare parts, and support equipment--valued at several million dollars--in excess of actual needs. GAO believed that while the large accumulation of excess stock resulted from numerous problems in day-to-day supply operations, the major contributing factors were the failure to consider all stocks on hand at operational levels before computing requirements for more stock, the use of unreliable requirement data, and the ordering of supplies and equipment in excess of established requirements. During GAO's review, U.S. advisors began action to cancel \$314,000 of outstanding requisitions.

GAO proposed that DOD (1) identify and redistribute the stocks excess to Korean Air Force needs, (2) ensure that outstanding requisitions were really justified, (3) establish procedures to minimize future excess stock accumulations, and (4) ensure that requirement and requisitioning processes would be properly managed. DOD informed GAO, in classified comments, of corrective actions being taken. (B-160122, October 10, 1966.\*\*)

Procurement of Locomotives for Thailand. In 1967, GAO reported that the U.S. Army had spent about \$1 million to buy for and deliver to Thailand locomotives which did not meet Thailand's specific requirements for mainline use--the purpose for which they were intended. GAO also found that instead of clarifying the contradictory technical requirements, Army officials had prepared a purchase description and begun procurement of the locomotives before determining whether the locomotives could perform as intended. As a result, replacement locomotives costing \$2.3 million were to be delivered to Thailand.

GAO recommended that DOD require the military departments to establish procedures for review and approval by the user of purchase descriptions for the purchase of complex nonstandard equipment, with the review to be made before the contract award and to be documented in the procurement contract file. The Army advised GAO that it was exploring possible uses of the locomotives that were found unsuitable for Thailand's purpose. (B-157421, January 31, 1967.)

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\*\*Unclassified summary of a classified report.

Disposal of Excess Military Property in Turkey. GAO reported in 1967 that the United States had been disposing of excess military property in Turkey for many years at prices well below the market values of the property. The major causes of this practice were (1) the very restrictive nature of the bilateral agreement between the United States and Turkey for disposal of excess property, which permitted sales within Turkey to be made only to firms designated by the Turkish Government, and (2) the reluctance of the U.S. Embassy in Turkey to authorize the sale of U.S. excess military property outside Turkey, even though this was clearly provided for under the bilateral agreement.

U.S. officials in Turkey estimated that from early 1962 through late 1965 the U.S. lost about \$2 million in Turkish lira by not selling its excess property to open-market buyers outside Turkey or about \$3.2 million by not selling to open-market buyers in Turkey. These officials also estimated that the United States would continue to lose more than \$1 million annually on disposal sales unless action was taken to improve the existing disposal process.

GAO concluded that the unsatisfactory arrangements, which had existed since 1959, would continue until the United States could negotiate a more liberal agreement with Turkey allowing sales on the open market or until the United States began using the provisions of the existing agreement which permitted disposal by export. GAO noted that since its review some corrective measures had been taken. (B-160530, February 28, 1967.\*\*)

Excess Ammunition and Weapons in a Military Assistance Country. In another 1967 report, GAO found that several million dollars worth of ammunition and weapons in a military assistance country was excess to the military assistance purposes for which it was furnished. The responsible military advisory group had not carried out DOD guidance for obtaining the return of this material to U.S. control, and had not been required to do so by DOD or the U.S. European Command. Had this material been available, much of it could have been considered for use in meeting other U.S. requirements, particularly in Southeast Asia, instead of buying new items or renovating other available stocks.

During its review, GAO notified DOD that, in this review and in other reviews, it had found that military assistance advisory groups in many cases had not made a concerted effort to identify U.S.-furnished materiel no longer needed for the purposes provided, or to enforce existing agreements that require recipient countries to make such materiel available for redistribution.

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\*\*Unclassified summary of a classified report.

DOD notified the military services and unified commands of the importance of recovering excess items which were urgently needed by the military departments because of the conflict in Southeast Asia. As a result, military assistance countries declared more than \$30 million of MAP-furnished ammunition excess to their needs. GAO's follow-up of actions taken showed that, in early 1967, \$14.5 million of the ammunition had been recovered and an additional \$5.7 million was awaiting shipping instructions or ballistic acceptance. (B-125085, April 10, 1967.\*\*)

Recovery of Military Assistance Property Declared Excess by Recipient Countries. GAO reported in 1967 that a significant portion of military assistance property which had become excess to the needs of recipient countries was released to those countries by DOD without first determining, on a case-by-case basis, whether it would be worthwhile economically to recover the property for redistribution or disposal by the United States. GAO also noted that there were billions of dollars worth of military assistance property still being held by recipient countries which would eventually become excess.

GAO believed that the sale of this excess property by recipient countries had the effect of adding millions of dollars in additional U.S. aid to those countries which was not readily apparent since it was not a part of the usual aid program. GAO concluded that, if DOD had made case-by-case determinations of economic recoverability, these sales proceeds could have been received by the United States.

The U.S. practice of disposing of excess MAP property differed in many recipient countries. GAO believed that DOD could increase U.S. revenues by recovering a greater portion of the excess military assistance property in foreign countries for disposal by U.S. disposal agencies. GAO also believed that the release of economically recoverable property had deprived the United States of foreign currency which could have been used by the U.S. to reduce dollar expenditures and improve the U.S. balance-of-payments position.

The Departments of State and Defense informed GAO, in classified comments, that they could not agree with all of GAO's findings and conclusions, and pointed out some of the foreign policy and other considerations involved. However, GAO issued its report to advise the Congress of the additional assistance being provided to certain countries. (B-161049, July 12, 1967.\*\*)

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\*\*Unclassified summary of a classified report.

Management of Equipment Held in Storage. In another 1967 report, GAO found that millions of dollars worth of equipment, held in Army storage for the military assistance program, was not being used by DOD to fill program requirements. Significant amounts of military assistance funds were being used to meet grant-aid and sales requirements which could have and should have been met with the equipment on hand. In addition, more MAP funds were expended for storing and maintaining the unassigned equipment.

GAO attributed the problem to a lack of accurate inventory data and proper procedures for systematically screening and using equipment, a lack of controls to ensure that operating units were following existing policies, and the use of verbal hold orders to reserve certain equipment for potential but unconfirmed uses. GAO also found a need for better management to ensure that Army-owned equipment reserved for military assistance programs would be promptly released for general military use when a military assistance requirement no longer existed.

DOD and Army officials generally agreed with GAO's findings and recommendations, and were taking action to improve management procedures and controls for military assistance program inventories. (B-162479, November 14, 1967.)

Major Weapon System Provided to Far East Countries. In 1970, GAO reported on its review of the combat readiness of a major weapon defense system provided to Far East countries under the military assistance program. The system was to be a part of the defense system of the U.S. Pacific Command, and is subject to U.S. control in the event of hostile actions.

GAO found that the combat readiness of the weapon system was seriously weakened by inadequate supply and maintenance support by the United States and the recipient countries. The systems had not been combat ready--fully capable of accomplishing the assigned mission--for extended periods of time, even though a U.S. Army, Pacific regulation required full combat readiness at all times.

DOD felt that GAO's findings were valid for the period of GAO's initial review, during 1967, but stated that since that time corrective actions had been taken and the situation had improved. GAO made a follow-up review, however, and found that, while some improvements had been made, a low level of readiness still existed, primarily because of continued inadequate supply and maintenance support. GAO recommended that DOD stress to appropriate officials the need for continued improvement.

DOD informed GAO that the supply and maintenance problems cited by GAO were being gradually corrected, and that U.S. and recipient

country officials were well aware that much improvement was needed before full combat ready status could be sustained. DOD also stated that the U.S. Pacific Command was being requested to submit semi-annual reports of the progress made in taking corrective action. DOD later provided follow-on data that showed a slightly improved readiness status. (B-161764, January 14, 1970.\*\*)

Current GAO Reviews. GAO is currently conducting a review, at the request of the Senate Committee on Foreign Relations, of the need for and utilization of excess stock available under the military assistance program in countries receiving major amounts of excess military equipment and supplies from the United States. GAO is also doing a follow-on review of the military assistance for the Far East country discussed in this section, including an examination of supply activities and the identification of current aircraft operational effectiveness.

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\*\*Unclassified summary of a classified report.

## MANAGEMENT OF TRAINING PROGRAMS

Another major component of military assistance programs, in addition to the furnishing of military hardware, is the conduct of training programs in military assistance recipient countries. GAO has issued reports, as discussed below, on problems in administering this type of assistance.

Military Assistance Training Program for Greece. In 1965, GAO reported that the Joint U.S. Military Aid Group in Greece was carrying out a multi-million dollar training program without taking effective action to: (1) identify training deficiencies in the Greek armed forces; (2) screen and approve the most appropriate candidates for training; (3) obtain proper and full utilization of trained personnel by the Greek armed forces; (4) properly consider and further develop the training capabilities of the Greek armed forces; and (5) attain the objectives of in-country civilian specialists furnished by the United States.

GAO's limited tests of training provided or programmed from mid-1960 through mid-1963 indicated that training valued at about \$500,000 was unnecessary. GAO recommended that the Chief of the Military Aid Group in Greece be required to obtain and maintain the information needed to avoid the above deficiencies before beginning other training programs. (B-133055, June 29, 1965.\*\*)

Military Assistance Training Program for Iran. In another 1965 report, GAO showed that about \$650,000 of jet pilot training, programmed under the military assistance training program in Iran from mid-1961 through mid-1963, could have been saved if in-country pilot training programs had been developed, a sufficient number of qualified personnel had been available for the training program, trained personnel had been fully and properly used, and the most economical means of transporting students to the United States had been used.

GAO recommended that the chief of the military assistance advisory group in Iran take action to: (1) establish and further develop in-country training programs within the Iranian armed forces; (2) determine realistic and essential training requirements for the Iranian armed forces; (3) ensure that qualified candidates would be available to fill programmed training spaces; and (4) obtain and verify information on the qualifications and duties of skilled Iranian military personnel.

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\*\*Unclassified summary of a classified report.

DOD advised GAO that action had been taken to correct the deficiencies found. DOD subsequently informed GAO that, based on a DOD review, the DOD military assistance manual had been changed to require an agreement with host-country officials on the length of time that foreign personnel trained under the military assistance program should work in a job appropriate to the training that they had received. (B-133134, December 10, 1965.\*\*)

Current GAO Reviews. At the request of the Chairman, Senate Committee on Foreign Relations, GAO has recently completed a review of the Military Assistance Training Program in Greece, Iran, Turkey, Korea, and six other countries. Its report was issued to the Senate Committee on Foreign Relations on February 16, 1971.

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\*\*Unclassified summary of a classified report.

## FOREIGN MILITARY SALES PROGRAM

Under the provisions of the Foreign Assistance Act, DOD has administered a revolving fund known as the Foreign Military Sales Fund which has been used to extend credit to foreign military sales customers. In 1968 the foreign assistance legislation relating to this subject was consolidated in the Foreign Military Sales Act. The Act authorizes the sale of defense articles and defense services to friendly countries for internal security, legitimate self-defense, participation in regional or collective arrangements, participation in United Nations collective peace-keeping efforts, or for civic action activities in support of a country's economic and social development. (Section 4.)

Two recent GAO reports dealing with problems of foreign military sales program administration are discussed below.

Administration of the Foreign Military Sales Fund. In 1969, GAO reported that DOD needed to make improvements if the accounting records and related financial statements of the Foreign Military Sales Fund were to adequately disclose the Fund's financial condition.

GAO found that the Fund's accounting records were not in proper condition for auditing because the records were not maintained on the accrual basis or in a current condition, and because the accounting practices being followed made it difficult to attempt to verify the records. GAO noted that because financial statements for the Fund had not been prepared on the accrual basis, substantial balances had been left out. GAO also questioned the accuracy of the stated balances for loans receivable and certain other aspects of accounting and reporting.

In view of recent legislation which initiated an estimated 10-year period of Fund liquidation, that began in 1968, and directed that assets of the fund be available to discharge fund liabilities and for transfers to the Treasury during the liquidation period, GAO believed that it was quite important to get the Fund's accounting records on a sound basis.

GAO suggested that DOD place the Fund's accounting records on the accrual basis as soon as possible and also take prompt action to analyze and adjust the accounts to show the correct and proper balances. DOD informed GAO that it was awaiting extension of accrual accounting to all DOD accounting systems before fully implementing it for the Fund. DOD also stated, however, that special efforts were being made to improve the accounting records. (B-165731, April 16, 1969.)

Charges for Military Pilot Training Sold to A Foreign Country. The

Foreign Assistance Act requires that whenever military training services are sold to foreign countries DOD should charge the full value thereof in U.S. dollars.

GAO found that the price of about \$62 million established by the U.S. Air Force to recover the cost of pilot training provided to the Federal Republic of Germany for F-104 aircraft through 1966 did not include all direct and indirect costs incurred by the Air Force to provide that training. The Air Force excluded military pay and allowances, utilities, building and maintenance, and facility modification costs amounting to about \$6 million. The Air Force also excluded rental charges on the U.S.-owned aircraft and equipment used, and failed to collect for government-furnished housing supplied to the foreign students.

DOD agreed, after preliminary investigation, that training costs had not always been computed accurately, uniformly, and in accordance with DOD pricing policy. In line with GAO's recommendations, DOD conducted a study of the pricing of foreign military sales for training. As a result of the study, DOD policy and criteria for pricing sales of training were revised. However, DOD disagreed with GAO's recommendation that it attempt to collect for those charges omitted in the past. DOD later advised GAO that DOD instructions would be revised to require full recovery of actual and indirect costs applicable to military pay and allowances. (B-167363, November 19, 1969.)

### III. RELATED ASSISTANCE PROGRAMS

#### SECURITY AND SUPPORTING ASSISTANCE PROGRAMS

The Foreign Assistance Act authorizes the furnishing of assistance to eligible friendly countries, organizations, and bodies in order to support or promote economic or political stability. (Section 401.) Supporting assistance, which may be loans or grants, may be used to finance capital projects, commodities and services for relief projects or internal security activities, general commodity imports, and, in exceptional cases, cash transfers.

GAO has issued a number of reports dealing with problems of this type of assistance, as discussed below.

Summary of Deficiencies in the Administration of Military Budget Support Funds for Certain Countries. GAO issued a summary report in 1964 on its reviews of military budget support funds provided to numerous countries.

GAO found that U.S. agencies had failed to use adequate controls to ensure that U.S. funds had been used to further those programs and projects considered essential to attain military goals and mutual security objectives. The ineffective administration of the support program by U.S. agencies permitted the recipient countries to use funds for other purposes than those approved by the U.S. agencies, and for purposes not considered essential to military security objectives. At the same time, the attainment of specific military security objectives was hindered because the recipient countries did not spend available support funds to provide, maintain, and use facilities that the United States considered essential.

Based on its reviews, GAO made numerous recommendations to DOD to improve controls over military budget support funds by releasing contributed funds for mutually-agreed upon projects and by making more adequate reviews and inspections. DOD subsequently issued new guidelines for the administration of military budget support funds which incorporated many of the GAO proposals. The guidelines required that U.S. military officials participate as much as possible with the host country in estimating support requirements and make every effort to relate U.S. support to specific projects or clear categories in the host-country military budgets. (B-146943, September 28, 1964.)

Budget Support Loans to Ecuador - In 1965, GAO reported on two budget-support loans totaling \$15 million made to the Government of Ecuador. GAO found that, in determining the amount of U.S. assistance needed by the Government of Ecuador to fund its budget deficits for 1961 and 1962, AID did not insist, before providing U.S. funds, that the Government use all

potential sources of internal borrowing or that it fully develop certain tax sources. AID did not adequately consider the Government's borrowings from the Central Bank of Ecuador, and it believed that the use of other domestic financial resources was not warranted because of the internal political situation in Ecuador.

GAO concluded that the economic need for these loans was doubtful because of existing internal financial resources. GAO also believed that it was questionable whether this assistance complied with the intent of the Congress, as expressed in the Foreign Assistance Act, that aid-receiving countries should mobilize their own resources and help themselves.

AID admitted that its loans to Ecuador were excessive by about \$800,000 because of available credit in the Central Bank of Ecuador which had not been used at the time when the Government's receipts were lowest. AID advised GAO that in future transactions it would follow GAO's suggestion that recipient countries first utilize available internal credit sources. (B-146998, April 29, 1965.)

Military Budget Support Funds Furnished to Korea. In 1967 GAO reported on the administration of military budget support funds provided to Korea. The United States was contributing about two-thirds of the total Korean military budget, and had provided about \$1 billion for Korean military budget support through 1965, of which about \$375 million was contributed during 1962-1965.

GAO concluded that U.S. military officials in Korea did not have adequate control over the use of U.S.-contributed funds to assure that the funds were effectively used to achieve mutual security objectives. GAO found that: (1) although the United States had furnished \$1.3 million in raw materials, clothing needed to support Korean troops during emergency mobilization had not been manufactured; (2) combat rations to support Korean troops during emergency operations had not been procured; and (3) construction projects needed for Korean defense and for which the United States had delivered over \$1.3 million of building materials had not been constructed or scheduled for construction.

GAO believed that these high-priority defense projects could have been carried out if \$3.5 million of U.S.-contributed local currency had been allocated and used for this purpose. However, GAO found that, because of a lack of U.S. controls over fund use, U.S. military advisors had no effective means of persuading Korean officials to use available funds for high-priority defense projects, or of preventing their use for nonessential purposes. GAO found that the Koreans had used the U.S.-contributed funds for items which were not essential for defense purposes while essential defense projects went unfunded, and that unexpended funds at the close of the year reverted to the Korean Treasury and were lost to defense purposes.

In 1963, GAO had reported on weaknesses in U.S. agency controls over military budget support funds and deficiencies in Korean Army administration of the funds. GAO had recommended increased attention to more important projects and increased surveillance over U.S.-contributed fund uses. DOD accepted GAO's recommendations and began measures to implement them. GAO's followup review, however, showed that the DOD efforts had not been adequately implemented.

GAO recommended that DOD direct that U.S.-contributed funds be allocated to specific projects and the release of funds be directly related to the progress achieved in accomplishing such projects. DOD's response to GAO was classified. (B-125060, January 9, 1967\*\*.)

AID Management of Commodity Assistance to Vietnam. In 1968, GAO reported on AID's management of its various commodity programs in Vietnam at the request of a subcommittee of the House Committee on Appropriations. GAO did not solicit agency comments on its draft report, but did discuss report findings with agency officials and gave their comments appropriate recognition. GAO recognized the essentially advisory role played by U.S. personnel, the crisis-like conditions under which the program operated, and the nature of the commodity support programs, which sought to infuse commodities into the Vietnamese economy to hold down prices, but also noted a number of significant problem areas.

While cargo congestion at the port of Saigon had been greatly reduced, GAO found that large amounts of commodities were not being moved into the commercial market as intended, and that over \$25 million in commodities financed under the program were being pledged to banks by Vietnamese importers for periods of up to 3 years, with significant amounts pledged to finance non-program commodities. GAO also believed that AID's commodity analysts were only partially fulfilling their potential role since they were not trying to independently evaluate requests for commercial import program financing in relation to need.

GAO found a need for both AID and the U.S. Army to strengthen accountability control over the hundreds of millions of dollars worth of economic assistance program commodities entering Vietnam. There was no effective accountability over the receipt, storage, and movement to first destination of these goods. In addition, GAO found that actual and proposed levels of commodities such as fertilizer, medical supplies, and boats for use in the pacification program were excessive to needs; that necessary security measures to protect U.S.-financed economic assistance commodities had not been fully carried out, largely because of a fragmentation of responsibilities among agencies in Vietnam; and that significant cases existed of nonutilization of economic assistance commodities, including industrial equipment. (B-163634, March 20, 1968.)

Control Over Incoming AID Cargoes in Vietnam. In another 1968 report,

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\*\* Unclassified summary of a classified report.

GAO concluded that there was a need for AID and the U.S. Army to strengthen accountability and security control over the hundreds of millions of dollars worth of U.S. economic assistance commodities entering Vietnam. Over \$500 million was expended in fiscal year 1967 for such items as food, clothing, equipment, and medical supplies.

GAO found that accountability over the handling of these commodities was not effective, and that security efforts still seemed inefficient. There was no reliable measure of the cost, quantity, and condition of the commodities in and around Vietnamese ports or of the extent or causes of losses due to theft, diversion, and spoilage. GAO felt that these conditions were largely due to the fragmentation of responsibility among responsible agencies in Vietnam, and to the essentially advisory role played by U.S. personnel. While GAO recognized the difficulties of control under the unique circumstances in Vietnam, it did believe that improved efforts could be made.

GAO recommended that the agencies concerned (1) develop a synchronized inventory accountability system within existing structures and environmental conditions, (2) arrange for local escort service to first destination of all commodities until indemnification agreements were reached with trucking companies, and (3) file refund claims when the Government of Vietnam could not promptly provide evidence that cargoes reported to be stored in ports for long periods of time had been removed. GAO later found that significant improvements had been made in this area, although some security and accountability problems remained. (B-159451, May 15, 1968.)

Planning and Management of Assistance Programs in Laos. GAO reported in 1969 on U.S. economic assistance in Laos. These programs were directed toward Laotian security and political stability, and from mid-1964 through mid-1968 amounted to about \$267 million.

GAO found that the Foreign Exchange Operations Fund, which was the largest U.S.-supported economic stabilization program in Laos, did not provide for controls or restrictions on foreign exchange contributed to the Operations Fund. It was practically impossible to determine the extent to which the foreign exchange was used in gold trade, capital flight, or for other purposes which might not be in the best interests of the United States.

These problems had been studied at length by AID, other U.S. agencies, and the International Monetary Fund, but no acceptable solution had been found. GAO believed, however, that the AID Mission in Laos needed first to learn more about (1) the Laotian economy in general, including the establishment of a system to reveal foreign exchange availabilities, (2) Laotian consumption habits, and (3) actual uses of foreign exchange. GAO made several proposals concerning the stabilization programs in Laos.

Agency officials generally agreed with the proposals, and a number of actions were taken or were planned. (B-133003, August 28, 1969\*\*.)

Control Over Local Currency Available for Budget Support in Vietnam.

In 1970, GAO reported a follow-up review of corrective action taken in response to a 1966 investigation by a subcommittee of the House Committee on Government Operations. The 1966 investigation had found that AID had not established proper controls over U.S.-owned or controlled local currency made available for support of Vietnam's civil budget.

From 1966 through 1968 about \$629.7 million in local currency was made available to support Vietnam's military and civil budgets, with about two-thirds provided for the military budget under the U.S. Military Assistance Command and one-third for the civil budget under AID.

GAO found that while both AID and the Military Assistance Command had improved their controls over budget support programs since 1966 further strengthening was needed. GAO believed that the controls and procedures established generally would not find or prevent improper payments by Vietnamese, such as payments for unauthorized activities or for padded payrolls.

GAO found that the AID mission had made few postaudits of civil expenditures, and that the Military Assistance Command relied on an understaffed Vietnamese government audit group. As a result, local currency was released for both the military and civil budgets on the basis of unreliable and unverified Vietnamese government reports. For example, at the end of 1968 a few of Vietnam's civil agencies had accumulated about \$25.4 million in local currency, representing unspent funds released in 1968 and prior years.

GAO also found that needed facilities, which were being built under military and civil budget construction programs supported by U.S.-owned or controlled local currencies, were not constructed on a timely basis. Some of the civil facilities were of poor quality, in need of extensive maintenance, or not in use. This occurred primarily because of the failure to establish an adequate system for inspecting construction in process and on completion.

DOD and AID advised GAO that actions had been taken and would be taken to strengthen controls over local currency for support of Vietnam's military and civil budgets. Both agencies believed that existing control and review practices, plus actions to be taken such as procedural changes and staff increases needed to monitor the funds and programs, would provide adequate control.

In October 1970, the Departments of State and Defense advised GAO of

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\*\*Unclassified summary of a classified report.

the steps taken to tighten fiscal controls over U.S.-owned or controlled currency made available for support of Vietnam's civil budget and to improve audit personnel staffing, and of their provision for increased audit examinations of project activities. (B-159451, July 24, 1970.)

Commercial Import Program for Vietnam. In 1970, at the request of a subcommittee of the House Committee on Government Operations, GAO also reported on the actions taken on recommendations made by the subcommittee and in prior GAO reports for improved operation of the U.S. Commercial Import Program for Vietnam. Although formal agency comments on the report were not solicited, the subject matter and conclusions were discussed with agency officials and their comments were given appropriate recognition. GAO found that AID had taken a variety of corrective actions and had had some success in improving its administration of the commercial import program. Several problems, however, continued to exist.

GAO found that AID had been only partly successful in persuading the Vietnamese Government to keep its promise of increased spending in the United States during 1969 and to use a \$50 million escrow account to purchase U.S. rice and/or other products. GAO also found that AID had made no systematic investigation of the reliability and integrity of Commercial Import Program importers, and had not negotiated with the Government of Vietnam to uniformly apply newly-established licensing rules to old and new importers. The overall dollar coverage of AID Commercial Import Program audits had increased substantially, but verification of the end use made of commodities represented only a small fraction of audit coverage.

In addition, GAO found that AID's use of automated arrival accounting system reports was suspended in 1968 because of inaccurate input data and controls. No formal feasibility study or cost benefit evaluation had been made before the automated system was put into use. AID was concentrating on correcting the automated system's mistakes rather than reviving its old manual system. As of early 1970, AID was virtually uninformed about Commercial Import Program commodities arriving, in customs, and released to importers. (B-159451, June 2, 1970.)

## HUMANITARIAN ASSISTANCE PROGRAMS

The United States conducts a wide variety of humanitarian assistance programs under the Foreign Assistance Act, including disaster relief aid from the Contingency Fund (Section 451) and the furnishing of services and commodities to voluntary nonprofit relief agencies (Section 607), and refugee assistance and food programs under other related legislation. GAO reports dealing with problems in these areas are discussed below.

Management of Donated Food Programs for Mexico. GAO reported in 1966 that relief programs in Mexico carried out with U.S.-donated food under the Food-for-Peace program had expanded by nearly 500 percent between mid-1960 and mid-1964, even though the Mexican economy experienced a steady growth and Mexican agricultural production was greatly expanded during this period. In fact, Mexico was exporting the same kinds of commodities that were being donated under the U.S. relief programs.

GAO's review, together with those performed by AID, showed areas in which the program was being administered in a manner contrary to agency regulations and to agreements between the United States and the voluntary relief agencies. GAO believed that these conditions were largely caused by limitations in staffing and financial support by the food-distributing agencies, and by insufficient support and recognition of the programs by the Mexican Government.

GAO also found that commodities costing about \$700,000 annually had been substituted for quantities previously imported commercially by Mexico--mostly from the United States--or had contributed directly or indirectly toward Mexican exports. In addition, GAO found that program costs had been increased more than \$726,000 because of the donation of cornmeal rather than whole corn, which the Mexicans preferred, and that claims had not been made against voluntary relief agencies, as required, for violations of U.S. Government regulations.

GAO concluded that there had been only limited surveillance of the food donation programs by U.S. agencies, with limited consideration of voluntary relief agency requests for more food. As a result, ever-increasing amounts of food were made available, generally in the amounts requested by the voluntary relief agencies, without any real assurance that program deficiencies had been corrected.

Following GAO's recommendations, the responsible U.S. agencies generally agreed that corrective action was needed. The agencies later advised GAO that for the reasons GAO had noted, particularly Mexico's high degree of economic self-sufficiency and its exports of agricultural commodities similar to those donated by the United States, food donation programs to Mexico had been ended in mid-1965. (B-158798, June 30, 1966\*\*)

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\*\*Unclassified summary of a classified report.

Ocean Transportation Costs for Donated Surplus Agricultural Commodities. In another 1966 report, GAO concluded that ocean transportation charges incurred by the United States for the shipment of donated agricultural commodities to needy persons abroad were greater than was necessary.

Under procedures then in effect, the Department of Agriculture and each voluntary relief agency made their own arrangements for shipping donated commodities abroad at Government expense. The usual practice was to ship small quantities on ocean liners even though it resulted in higher costs than would have been incurred if the commodities were accumulated in boatload quantities and shipped in chartered tramp vessels. GAO found that, for one type of commodity sent to six countries during 1962-1963, better traffic management could have saved as much as \$1.7 million. GAO believed that greater savings could be realized by consolidating commodity shipments to other countries.

In accordance with GAO's proposals, the Department of Agriculture, AID, and the voluntary relief agencies subsequently cooperated in consolidating shipments of donated commodities, and informed GAO that at least \$880,000 had been saved by the consolidations. (B-152538, March 11, 1966.)

Transportation of Food Donated for Distribution Abroad. In 1967, GAO reported that of 107 countries receiving American foods in 1965 and 1966, only four had contributed toward ocean freight costs, although the governments of more than four of the countries appeared to be in sound financial condition during this period.

GAO concluded that the possible savings to be derived from encouraging recipient country contributions to shipping costs would be significant and would benefit the U.S. balance-of-payments position. Food-for-Peace laws permitted U.S. payment of ocean freight costs for donated foods if a determination had been made that such payments were necessary to accomplish program purposes. GAO found, however, that AID regulations did not require an evaluation of the recipient countries' financial ability, or willingness, to pay some part of ocean shipping charges, and that such evaluations had been made only in isolated cases.

AID agreed with several proposals made by GAO, and began a number of corrective actions. (B-159652, April 28, 1967.)

Processing of Claims Against Voluntary Relief Agencies. GAO reported in 1967 that the U.S. Government had had little success in processing and collecting claims against distributing agencies in cases of reported food loss or misuse that might create a monetary liability for those agencies.

GAO believed that the problems involved in processing claims were created by a lack of information to establish the nature and extent of loss and the liability of the parties involved. Other difficulties arose because of the division of claims responsibilities among U.S. agencies, and because of the problems involved in administering food donation programs in less-developed countries with inadequate administrative, transport, and storage support.

The Department of Agriculture, AID, and the principal voluntary relief agencies generally agreed with GAO's findings, and advised GAO that steps had been taken to revise program regulations and to realign administrative responsibilities. (B-159652, June 29, 1967.)

Audits of Food Donation Programs Administered by Voluntary Relief Agencies. GAO also reported in 1967 on the extent of audits of U.S. food donation programs administered by nonprofit voluntary relief agencies. GAO's survey studied the problem of providing a reasonable balance between the U.S. need to ensure effective operation of the programs and the need to avoid undue restriction on the voluntary agencies in administering the programs.

GAO found that, in 10 major recipient countries, 10 voluntary relief agencies and one intergovernmental organization were administering 177 food distribution programs. These programs were designed to feed about 39 million recipients through more than 200,000 distribution points in the countries. About 1.9 billion pounds of food valued at \$142 million was shipped abroad in the 18-month period from mid-1964 through 1965.

GAO concluded that the food donation programs abroad were so large in size, so varied in type, and so dispersed geographically that there had been only limited audit coverage of the programs despite a significant amount of audit effort by U.S. agencies.

AID and the major voluntary relief agencies generally agreed with the GAO findings, and AID stated that the U.S. regulations governing donation programs were being restudied. (B-159652, March 7, 1967.)

Planning and Administration of the Refugee Assistance Program in Hong Kong. In 1966, GAO reported that about \$3.5 million in funds for refugee assistance had been used by the Department of State in Hong Kong for facilities and services that served substantial numbers of nonrefugees. GAO doubted whether this usage was fully in accord with congressional intent, and questioned whether congressional committees had been fully informed of the extent of nonrefugee participation.

GAO also found that there was a lack of clear procedures for selecting supportable individual projects, that numerous agreements to participate in construction projects were made before adequate

planning was done, and that grant funds were disbursed immediately upon agreement in some projects rather than waiting until major work began and funds were really required.

The State Department agreed generally with GAO's proposals for improvement, but disagreed on the applicability of those proposals to many of the specific examples and situations cited in the GAO report. The Department also felt that assistance to nonrefugees in Hong Kong was incidental and unavoidable and therefore was not inconsistent with existing laws.

GAO recommended that the Department of State: (1) provide congressional committees with more information on refugee-nonrefugee use of project facilities and services for future Hong Kong refugee fund requests; (2) systematically evaluate and select future assistance projects to relate to priority groups and meet the Department's goals; (3) develop controls requiring adequate preliminary planning for refugee construction projects; and (4) disburse funds for all future grant projects on the basis of need or percentage of completion.

GAO made a further review of the Hong Kong program in 1970 and found that the State Department had made a reasonable effort to correct the problems noted and to improve administration, including disclosure to Congress of nonrefugee use; improved project planning, better U.S. identification with refugee projects, and restrictions on the use of grant funds. (B-155440, December 14, 1966.)

Assistance Program for Refugees from European Communist Countries. In 1967, GAO reported on the Department of State's administration of its program which provides services for refugees from European Communist countries through contracts with voluntary agencies, the U.S. Army, and an intergovernmental organization. GAO concluded that more effective financial management control procedures were needed to achieve more effective program management and fuller disclosure to the Congress concerning the expenditure of appropriated funds.

GAO found that a revolving fund was established to finance refugee transportation, administered by the inter-governmental organization under U.S. direction. GAO believed that the establishment of the fund was not consistent with existing laws and operational requirements and that the details were not fully disclosed to Congress. GAO found that about \$412,000 was withdrawn from this fund to finance refugee program operations, thus increasing the funds made available for this purpose in annual appropriation acts. The amounts expended were not reported to the Congress or the Treasury Department.

GAO also noted that payments made to the two voluntary agencies for services to refugees included \$203,000 in U.S. payments which were inadequately documented and \$67,000 in U.S. overpayments from

1960 through 1963. GAO was informed in 1966 that a settlement of the \$67,000 in overpayments had been agreed to with the voluntary agencies-- 3 to 6 years after the overpayments were made. In addition, GAO found that, as in the Hong Kong refugee program described above, a number of contract payments were not correlated with the number of refugees eligible for assistance under the contracts and, consequently, refugee assistance costs may have been higher than necessary.

The State Department contended that the revolving fund was not operated by the U.S. Government, but also indicated that the Congress had been kept well advised of the fund's status. GAO did not believe, however, that the State Department comments altered the report findings relating to disclosure of the status of the fund to Congress. (B-162143, September 18, 1967.)

Refugee and Social Welfare Program in Vietnam. In 1970, GAO reported on the refugee and social welfare program in Vietnam, which is managed by the Government of Vietnam with the aid of American advisory personnel and, for 1968, 1969 and (programmed) 1970, about \$162 million in U.S. direct dollar funding, local currency funding, and donated agricultural commodities. GAO's review was made to answer specific inquiries of a subcommittee of the Senate Committee on the Judiciary. GAO did not solicit formal agency comments, but parts of the report were discussed with agency officials and their comments were considered.

GAO found that neither the United States nor the Government of Vietnam had established priorities for the U.S. assistance programs. GAO also found that since early 1968 the refugee reporting system had undergone three major revisions, but the information being reported was still conflicting, confusing, and inconsistent--in part because it was compiled by untrained personnel. In addition, GAO found that a large reported decline in the number of refugees during 1969 was misleading because of questionable reporting practices; that there was a considerable shortage of facilities needed by war victims and that many of those that existed were inadequate; and that, because of slow spending in the refugee and social welfare program, many refugees had vacated controlled areas and returned to Viet Cong areas.

GAO found that \$44 million of U.S.-contributed food commodities, distributed equally by the Government of Vietnam and voluntary agencies, had not been distributed according to need, and therefore inequities had resulted. GAO noted that numerous nonfood commodities for refugees appeared to have been in storage for a considerable length of time. The commodities belonged to a Vietnamese government ministry, and the United States had been unsuccessful in obtaining action to redistribute the property so that it might be better used by other ministries. (B-133001, November 20, 1970.)

Current GAO Reviews. GAO is presently conducting a review of United States refugee assistance programs in Europe.

## COMMODITY TRADE ASSISTANCE

Commodity trade assistance--a form of foreign aid linked to imports of specific commodities--is provided by the United States to less-developed countries primarily through the operations of the United States Sugar Act and the International Coffee Agreement. Sugar is imported at prices generally above world market levels, and coffee is imported at prices above those likely to have prevailed in the absence of the Coffee Agreement. GAO has issued a recent report on this subject, as summarized below.

### Administration of Foreign Aid Provided through the Operations of the United States Sugar Act and the International Coffee Agreement.

In a 1969 report, GAO reviewed the magnitude of the foreign aid provided through the operations of the Sugar Act (sugar assistance) and the Coffee Agreement (coffee assistance), and attempted to identify some of the major problems of this type of foreign aid and how they have been dealt with.

GAO estimated that U.S. sugar assistance averaged between \$290 and \$340 million a year during 1965-1967, and increased total U.S. foreign economic aid by 7 to 9 percent during that period. GAO found that, despite its size, no explicit attention was paid to the use that recipient countries made of sugar assistance. AID and the Department of State took sugar aid into account only to the extent that it decreased traditional aid requirements.

GAO also estimated that U.S. coffee aid averaged \$314 million during 1964-1967 (of a total average of \$601 million for the United States and other coffee-importing countries). Inclusion of U.S. coffee aid increased reported U.S. foreign aid disbursements 8 percent a year, or about 16 percent for both sugar and coffee aid during the 1965-1967 period. GAO found that, under the 1962 Coffee Agreement, the United States and other signatory countries paid no explicit attention to the use made of coffee aid. Under the 1968 Coffee Agreement, a diversification fund was established to help coffee-exporting countries diversify their exports, but only a small fraction of coffee aid was to be used to finance the fund.

GAO recommended that AID and the Departments of State and Agriculture prepare annual estimates of the amount of sugar assistance received by each less-developed country, and comprehensive plans for using the aid for development purposes in each country. The plan would be a basis for reviewing and negotiating the uses that the countries would make of the aid.

In the case of coffee assistance, GAO recommended that the United States encourage other importing countries to join with it to attempt to increase, as soon as practicable, the tax on coffee exports, which

would finance the diversification fund at the maximum permissible level under the present agreement. GAO also recommended that, if it becomes necessary to negotiate another coffee agreement, the United States in cooperation with other importing countries attempt to raise the tax rate to an amount which will allocate a higher fraction of total coffee assistance to a diversification (or other development purpose) fund.

Both AID and the Department of Agriculture agreed that foreign aid is transmitted through the Sugar Act and the Coffee Agreement. However, both agencies disagreed with the GAO recommendation on sugar assistance. As to the coffee assistance recommendations, AID believed a gradual approach was necessary for better programming of coffee assistance, while the Department of Agriculture believed that nothing more could be done because of the opposition of coffee exporting countries. GAO agrees with AID and felt that its recommendations on coffee assistance were consonant with a gradual approach to more effective programming.

GAO concluded that the agencies had not used the flexibility of the present Sugar Act to review and negotiate development-oriented applications of sugar assistance with recipient countries. GAO suggested that the Congress might wish to consider whether the foreign aid element should be an explicit objective of the underlying assistance and treaty for commodity trade assistance. (B-167416, October 23, 1969.)

## MANAGEMENT OF FOREIGN CURRENCY

As a result of its nonmilitary foreign assistance programs, the United States has available a considerable amount of foreign currencies or credits which are owned by or owed to the United States Government. Under the Foreign Assistance Act, U.S.-owned foreign currencies can be purchased from the Treasury Department for dollars by U.S. agencies to pay their foreign expenses. U.S.-owned foreign currencies, when they are excess to normal U.S. agency needs, can also be authorized for use in programs under the Foreign Assistance Act. The Act states that, to the maximum extent possible, U.S.-owned foreign currencies are to be used instead of dollars. (Section 612.) As summarized below, GAO has issued several recent reports on U.S. foreign currency management problems related to assistance programs.

Use of Dollars to Finance Local Costs of Development Projects in Brazil. In 1967, GAO reported on AID's use of dollars rather than foreign currency to finance the local costs of five development loan projects in Brazil. The loans totaled \$69.8 million, of which \$44 million was to be converted to Brazilian currency (cruzeiros) to finance part of the local costs of the projects.

During its review, GAO questioned the need to use dollars to finance the local costs of the projects, since GAO concluded that U.S.-owned or controlled cruzeiros were available for this purpose. Since 1955, about \$572 million of surplus U.S. agricultural commodities had been sold to Brazil under Public Law 480, and the sales agreements allowed reservation of about \$468 million in U.S.-owned cruzeiros from the sales for development loans and grants to Brazil. In addition, AID had made three balance-of-payments loans to Brazil in 1963 and 1964, which generated \$225.5 million in counterpart cruzeiro funds which could also be used for mutually agreed-upon development purposes.

Since it appeared that adequate cruzeiro funds were or would be available to finance the local costs of the five development loan projects, GAO recommended that AID amend the loan agreements to permit the use of cruzeiros for local costs subject to their availability at the time loan disbursements were made. GAO also proposed that future AID budgets fully disclose to the Congress the extent to which dollar funds are used to finance local costs of AID programs, with explanations for such financing.

AID did not believe the first proposal was feasible because there had been an unexpected reduction in Public Law 480 cruzeiro funds. GAO agreed that action was no longer possible because of the decline in cruzeiro fund availability and because the loan expenditures had recently increased substantially. AID did not comment directly on the GAO proposal of full disclosure to the Congress of dollar financing of local currency costs.

Regardless of the action taken on the loans in Brazil, however, GAO believed it to be essential that AID, as a matter of continuing policy,

(1) provide in loan agreements for the use of local currency available at the time loan disbursements are made, and (2) not consider U.S.-owned local currency as unavailable because it is tied up in general commitments unsupported by specific project efforts.

GAO noted also that AID had adopted a policy to prevent the use of AID dollar funds to finance the local costs of AID projects, in countries with excess or near-excess foreign currency resources, where the AID program was directed toward completion of specific projects rather than the provision of foreign exchange. GAO believed that, if properly carried out, this policy could reduce the unwarranted furnishing of balance-of-payments assistance under the guise of project assistance. (B-146820, March 17, 1967.)

Administration of Interest Earned on Foreign Currency. In 1969, GAO reported that U.S.-owned local currency funds, generated from the sale of agricultural commodities in the Philippines and allocated for common defense purposes, had been withdrawn from a U.S. Treasury account far in advance of actual disbursement needs and invested in interest-bearing time deposits and short-term promissory notes by the U.S. Military Advisory Group.

The interest earned on the investments was used to finance Philippine construction projects, but GAO's review of applicable laws showed that it should have been deposited in the U.S. Treasury as miscellaneous receipts. GAO proposed that interest earned on the time deposits should no longer be available to finance construction projects, and that, as the time deposits matured, the principal not needed for current expenditures, along with the interest, should be returned to the Treasury. GAO was informed that the Military Group had stopped purchasing promissory notes and was depositing with the Treasury about \$210,000 in interest and \$255,700 in principal not currently needed.

GAO recommended that arrangements with other countries be reviewed to determine whether arrangements permitted the premature withdrawal of funds and the use of any interest earned on these funds in approved programs. GAO also recommended that the Department of Defense review the financial controls over U.S.-owned foreign currency maintained outside the Treasury accounts, and the necessity for and legality of such arrangements.

GAO was informed that DOD, AID, and the Treasury Department had issued instructions to all principal posts worldwide requesting a review of all program agreements in progress to learn whether premature withdrawals were permitted or whether interest was being used to augment country programs. The instructions also prohibited the maintenance of accounts outside the U.S. Treasury. (B-146820, April 24, 1969.)

Use of U.S.-Owned Excess Foreign Currency in India: In 1971, GAO reported on possible uses of the large amounts of Indian currency (rupees) which the United States had accumulated through the operation of its food and other assistance programs in India. In mid-1969, the amount of Indian rupees available for U.S. expenditures equalled \$678 million and would have lasted about 19 years at current expenditure rates. U.S. holdings were expected to increase substantially in the future.

GAO found that important economic, political, and legal factors limited the amount of U.S.-owned rupees that the United States could spend in India during any period. GAO also believed, however, that many opportunities existed for increasing the use of rupees in support of U.S. programs.

GAO believed that greater use of foreign currencies could be realized if the executive branch would seek congressional approval for well-documented excess currency projects without regard to agency dollar ceilings or would seek direct foreign currency appropriations. GAO also felt that the sale of foreign currencies to U.S. agencies at fixed official exchange rates was not always useful and discouraged greater use of the currencies by these agencies.

U.S. officials informed GAO that the growing balances of U.S.-owned rupees were a political liability in U.S. relations with India, and believed that the United States should grant India large amounts for economic development purposes. GAO believed that effective action in this direction would require action by the Congress.

GAO recommended that: (1) the Office of Management and Budget ensure that executive branch agencies can seek approval for well-documented excess currency funded projects without regard to overall agency dollar ceilings; (2) the Office of Management and Budget explore with the appropriate committees of the Congress the acceptability of direct appropriations of foreign currency; and (3) the Treasury Department establish new and more flexible procedures for valuing U.S.-owned Indian rupees in dollars to encourage greater productive use for U.S. programs in India without compromising congressional control.

The agencies generally agreed with GAO's recommendations. The State Department noted the urgency of the problems and stated that it had begun a study to complement the GAO report. AID agreed with the recommendations, but expressed reservations about the economic and political impact of greater local currency use in India. The Office of Management and Budget agreed with the intent of recommendation (1), but had some doubts about recommendation (2). The Treasury Department responded with classified comments.

GAO believed that the Congress might wish to favorably consider foreign-currency denominated appropriations as an advantageous funding

form and, with regard to the excessive accumulation of U.S.-owned foreign currencies in India, might wish to consider (1) whether a reduction in U.S.-owned rupees should be made to preserve good relations with India, (2) whether executive action in this regard meets congressional desires, (3) whether legislative action should be taken concerning the U.S.-owned rupee balance in India, and (4) whether authority should be given to use non-Public Law 480 excess currency in India for grants without appropriations, as is already permitted for Public Law 480 excess currency. (B-146749, January 29, 1971.)

U.S. AGENCY INDEX

## Agency for International Development:

Accounting manuals 22  
 ADP system 20  
 Basic functions of 1  
 Capital assistance projects 10, 11, 11,  
 12, 12, 13, 13, 14, 14, 15, 15, 16  
 Commodity accounting system 22  
 Commodity trade assistance 67  
 Contractor activities 18, 32, 33, 34,  
 35  
 Cost reduction program 21  
 Country programs 3, 4, 5, 6, 6  
 Development lending 7, 8, 8, 9  
 Excess property 36, 36, 37, 38  
 Financial management reporting system  
 21  
 Food donation and refugee programs 62,  
 63, 63, 63, 64, 66  
 Foreign currency use 69, 70, 71  
 Internal audit 18, 19  
 Investment guarantees 30  
 Supporting assistance 56, 58, 58, 59,  
 60, 61  
 Training projects 15

## Agriculture, Department of:

International organizations 25  
 Commodity trade assistance 67  
 Food donation programs 62, 63, 63

## Commerce, Department of 27

## Defense, Department of:

Common defense efforts 40, 41, 42, 42  
 Country programming 40  
 Country staffing 39  
 Excess property 48, 48, 49  
 Foreign currency use 70  
 Foreign military sales 54, 54  
 International functions of 2  
 Materiel programs 45, 45, 45, 46, 46,  
 47, 47, 50, 50  
 Supporting assistance 56, 57, 58, 58, 60  
 Training programs 52, 52, 53

Health, Education and Welfare,  
Department of 24

## Labor, Department of 27

## Peace Corps 4, 32

State, Department of (see also  
Agency for International  
Development):

and Defense 41, 42, 49  
 ADP system 20  
 East-West center 34  
 Foreign currency use 71  
 Functions of 1  
 Internal audit 19  
 International organizations 24,  
 25, 25, 26, 27, 28  
 Refugee and scholarship programs  
 34, 64, 65

## Treasury, Department of 70, 71