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

INTERNATIONAL DIVISION

NOV 16 1972

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Dear Mr. Secretary:

We have completed a test review of the effectiveness of management controls exercised by the Department of Defense (DOD) to control the military payment certificate (MPC) program in Korea and Vietnam. Our work was performed at various DOD activities in Korea, Vietnam, and the United States and at the Departments of the Treasury and State.

The basic principles behind the MPC program appear to be sound; however, we noted several weaknesses in the day-to-day administration and control of the program. We are enclosing a summary of findings which we believe are of sufficient significance to be brought to your attention. Various lesser problems were brought to the attention of officials in Korea and Vietnam for appropriate action.

In the enclosed summary, we are recommending that you instruct:

- The Assistant Secretary of Defense (Comptroller) to initiate a review of the need for continuing the MPC program in Korea and Vietnam. (See p. 3.)
- 2 / --The Secretary of the Army to reinforce procedures requiring individuals to fully explain and substantiate their reasons for late claims and to provide reasonable proof that MPCs presented for redemption were properly acquired. (See p. 5.) 20
- Military commands in Korea and Vietnam to strengthen their currency control systems to insure that all MPC transactions for dollars and dollar instruments are properly reported and compiled for identification of possible currency violators. (See p. 7.)

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--Military commands in Korea and Vietnam to broaden their current rationing systems to control black-market-susceptible items received in-country through mail-order-catalog services. (See p. 8.)

We shall appreciate being advised of the actions taken or planned concerning the matters discussed in this report and of the statements submitted under the provisions of section 236 of the Legislative Reorganization Act of 1970.

CI-4 Copies of this report are being sent to the Chairmen, House and Senate Committees on Government Operations, and <sup>< 1500</sup> to the Chairmen, House and Senate Committees on Appropriations. <sup>< 300</sup> Copies are also being sent to the Secretary of State and to the Director, Office of Management and Budget.

Sincerely yours,



Director, International Division

Enclosure

The Honorable  
The Secretary of Defense

SUMMARY OF GAO FINDINGS  
CONCERNING THE MANAGEMENT  
OF MILITARY PAYMENT CERTIFICATES  
IN KOREA AND VIETNAM

PURPOSE AND USE OF  
MILITARY PAYMENT CERTIFICATES

Military payment certificates (MPCs) are a form of currency issued by the United States Government through the Department of Defense (DOD). MPCs are used as a medium of exchange instead of dollars by members of the Armed Forces and by other U.S. nationals who support U.S. activities in Korea and Vietnam. MPCs are also used by Free World Military Assistance Forces in Vietnam. The Secretary of Defense may grant authorization for the use of MPCs under four different criteria: (1) to prevent U.S. dollars from falling into the hands of the enemy, (2) to comply with the request of an allied foreign government, (3) to prevent the introduction of sizeable quantities of U.S. dollars into a weak and unstable economy, and (4) to fulfill the need for cash when local foreign exchange regulations prohibit use of U.S. dollars. The Department of the Army has been assigned overall responsibility for administration of the acquisition, custody, and use of MPCs.

We were advised by DOD and State Department officials that the United States desired to continue the use of MPCs to prevent the flow of U.S. currency into local economies and thereby to (1) aid in the stabilization of these economies by enabling the host country governments to better enforce their currency control regulations, (2) ensure that the dollar earnings from the purchases of local currencies by the United States and its employees accrue to the host country governments, and (3) limit black-market activities.

MPCs are paper currency printed in denominations from 5 cents through \$20. Currently U.S. coins are used in lieu of MPCs of 5-cent through 50-cent denominations.

The currency is printed in distinct, numbered series by the Treasury and is prepositioned in the appropriate overseas areas. Individual series of MPCs have remained in use for

varying periods in both Korea and Vietnam before a "conversion," or changeover to the next series, has been effected. Conversions are initiated to maintain the integrity of the MPC system and to discourage unauthorized persons from participating in MPC transactions. Rigid precautions must be followed to avoid leakage of news to unauthorized holders of MPCs of an impending conversion.

When a series of MPCs is placed in circulation, the Department of the Army establishes a deposit fund account which is credited with the total face value of the MPC series. When a conversion from one series of MPCs to another takes place, the deposit fund account is reduced by the amount of MPCs converted (redeemed) by authorized holders. Periodically, but not before 1 year after the conversion date, the unredeemed balance in the fund account for the old series, minus an estimated amount to cover possible claims, will be transferred to Miscellaneous Receipts of the Treasury.

#### SCOPE OF REVIEW

The purpose of our review was to evaluate the effectiveness of the management controls exercised over the MPC program. Our work was performed at various DOD activities in Korea, Vietnam, and the United States. We analyzed accounting records and supporting documentation, and we made detailed evaluations on selected currency transactions. Discussions were also held with officials of the Departments of the Treasury and State.

#### FINDINGS AND RECOMMENDATIONS

Our review of the MPC program in Korea and Vietnam showed that:

- The Assistant Secretary of Defense (Comptroller) had not made annual reviews of the need for MPCs, although such reviews were required by DOD instructions.
- Inadequate controls allowed individuals to make questionable late conversions without providing reasonable support for their claims.
- Inadequate compilation of data on MPC transactions weakened the automated control system used to identify possible control violators.

--Black-market-susceptible items available through exchange mail-order services were not rationed although similar items in-country were rationed.

These problems and others of lesser significance were brought to the attention of responsible officials of the overseas commands, and we were advised that appropriate actions within their authority had been initiated or were under consideration. Following are brief discussions of the more significant problems found in our review, along with our recommendations to improve administration of the MPC program.

#### Need for continuing DOD review of MPC program

DOD has not regularly reviewed the need for the MPC program in Korea and Vietnam. DOD Instruction 7360.5 sets out the basic policy regarding MPCs and requires that the use of MPCs be curtailed or eliminated wherever possible without prejudicing the best interests of the United States, and the instruction states, in part, that:

"\*\*\* the responsibilities of the Assistant Secretary of Defense (Comptroller) will include the initiation and monitoring of a continuous program of review, in conjunction with other interested government agencies, of the requirements for continuing the use of the MPC system wherever it is installed. This includes review and determination, not less frequently than annually, of the prevailing local conditions in countries where MPCs are used, foreign government attitudes, and other factors which affect the possible elimination of MPCs."

This requirement, essentially unchanged since 1963, is explicit as to the responsibilities charged to the Assistant Secretary of Defense (Comptroller). However, we noted that the annual reviews had not been carried out even though in-country economic conditions were constantly changing and the withdrawal of U.S. troops, particularly in Vietnam, in recent months had possibly reduced the necessity for the program.

#### Recommendation

Because of ever-changing circumstances, such as the improving economic conditions in Korea and the decreasing

American troop levels in Vietnam, we recommend that the Assistant Secretary of Defense (Comptroller) make a continuing review of the need for MPCs.

Need to strengthen late-conversion procedures

Personnel were allowed to redeem large amounts of MPCs in Vietnam after the established conversion date. Adequate proof of ownership was apparently not obtained in all cases.

To preclude unauthorized conversion of old series to new series MPCs, the overseas commands generally require that all conversions take place on one day. This conversion day (C-day) is not announced in advance.

In Vietnam, we noted that during the most recent conversion, which took place early in October 1970, about 25 percent of the total amount of old series MPCs in circulation were not accounted for on C-day.

We examined documentation supporting 60 conversions that occurred more than 30 days after C-day. In five cases the evidence, in our opinion, did not reasonably support a conclusion that the MPCs had been acquired from proper sources.

These five cases involved amounts ranging from \$160 to \$500 and totaled \$1,316. The explanations given by the MPC holders in these cases were: money was found in a wallet after C-day (\$238); money had been misplaced in an old jacket (\$218); money was found under a drawer liner (\$160); money was found in a record folder (\$200); and money was acquired from sales of personal possessions and savings (\$500). In the last case we noted that the individual had converted an additional \$800 of MPCs to U.S. dollars just prior to the conversion date to finance leave. The case files contained no corroborating documentation.

We believe the approval of these conversion claims indicates that it would be possible for persons to acquire MPCs illegally after the conversion date, to present them for conversion with an explanation similar to those cited above, and to exchange them for new series MPCs. In our opinion, the burden of proof that MPCs presented for late conversion have been acquired properly should be on the individual presenting

the MPCs and explanations for late conversions that are not or cannot be corroborated should not be accepted.

#### Recommendation

To avoid the possibility of improper MPC conversions, we recommend that the Secretary of the Army reinforce the procedures requiring individuals to fully explain and substantiate the reasons for the late claims and to provide reasonable proof that MPCs presented for redemption have been properly acquired.

#### Strengthened controls needed to identify possible currency control violators

The present control system provides a record of persons using MPCs to purchase dollars, dollar instruments, and black-market-susceptible merchandise obtained through military sources. However, there is a need to strengthen these controls to assure the integrity of the MPC currency system.

In both Korea and Vietnam, automated systems have been instituted to identify persons who use MPCs to purchase dollars or dollar instruments, such as money orders, in excess of amounts determined to be reasonable. These systems are similar in principle; they require the recording of individual purchases and periodic compilation of this data at a control point to identify persons who may have used MPCs in amounts greater than they could have acquired from legal sources, such as pay and allowances.

For these systems to be fully effective, it is necessary to insure that all applicable transactions are accurately recorded, that all the individual transactions are reported to the central collection point, and that the records of all transactions are included in the periodic compilations used to identify possible violators.

Our review showed that not all activities selling dollars or dollar instruments had adequate reconciliation procedures for insuring that all applicable transaction reports were forwarded to the central collection point. For example, in Korea we found that the 8th U.S. Army Finance and Accounting Office and the San Diego Navy Federal Credit Union were performing no reconciliation of transaction reports with dollar

or dollar instrument sales records. Our inquiry in Vietnam showed that the Chase Manhattan Military Banking Facility in Cholon was making such reconciliations for only about 1 day each week.

We found that the central collection points in both countries had no procedures to insure that transaction reports had been received from all activities required to submit reports. Because transaction reports were often submitted without transmittal letters or other documentation indicating the number or dollar values of the reports submitted, the central collection point had no assurance that all applicable reports were received from a reporting activity.

At our request, a test of the computerized control system, which accumulates records of currency transactions, was conducted on February 23, 1972, at four currency-conversion facilities in Vietnam. We requested a printout on 40 individuals, involving 42 transactions that had occurred in December 1971.

Our examination showed that data accumulated at the time the currency conversion was made was not entered properly into the computer system for 19 of the 42 transactions. These transactions amounted to \$7,810 of the \$15,709 in our test. In eight of the 19 transactions, the computer data bank was unable to match the name with a valid record. The remaining 11 transactions were not entered against a valid record although other currency transactions were recorded against the individual's record. In addition, a transaction report for the 38th Army Postal Unit, apparently covering the December 28, 1971, sales of postal money orders, had not been submitted even though 7 weeks had passed since the date of the transactions.

In Korea, two additional weaknesses were noted in the system used to identify potential MPC violators. Key punched cards were prepared from the individual transaction reports so that the data could be compiled by machine. These cards were stored, prior to being compiled, with no special security precautions even though they had been machine interpreted to permit visual reading. Thus, it would have been possible for persons having access to the data processing facility where the cards were stored to identify and remove cards for transactions of specific individuals prior to their inclusion in the data compilations. Also, because of limited manpower and data

processing capability in Korea, all reported transactions of less than \$100 were excluded in compiling total transaction data.

We believe that deficiencies, such as those described above, make possible the accidental or intentional failure to compile data on MPC transactions in significant amounts and thereby weaken or circumvent the controls.

#### Recommendation

We recommend that the Secretary of Defense advise military commands in Korea and Vietnam to strengthen their currency control systems to insure that all MPC transactions to acquire dollars or dollar instruments are properly reported and compiled for identification of possible currency control violators.

#### Need to ration merchandise obtained in Korea and Vietnam through exchange mail-order services

Rationing systems limit the quantities of relatively expensive items of merchandise that individuals can purchase in post exchanges in Korea and Vietnam. However, there are no procedures to limit the number of similar items that these same individuals can acquire through mail-order catalog services operated by the Army and Air Force Exchange Service and the Navy Exchange Service. For example, an individual may be allowed to buy one television set or a limited amount of stereo or camera equipment from in-country exchanges during a tour of duty in either country; however, additional quantities of similar items may be obtained through the mail-order system by the same individual.

At present the Army and Air Force Exchange Service in Japan prepares a monthly listing of persons who have made cumulative mail-order purchases exceeding \$1,500. This listing is of very little value in identifying potential black-marketeers. It lists all individuals, regardless of location, whose purchases exceeded \$1,500; it includes the dollar values of all purchases, even though the merchandise may have been mailed by the Service to recipients in the United States; and it does not identify purchases of items which would be rationed if purchased in-country.

BEST DOCUMENT AVAILABLE

The lack of control over mail-order purchases, in our opinion, could defeat the purpose of the present in-country rationing systems because it offers a continuing source of merchandise to persons wanting to deal in the black market. A command official advised us that, commencing about June 1972, the post exchange in Vietnam would no longer stock items of merchandise selling for more than \$50. Therefore, high-value items having black-market potential will be available from the exchange only through the mail-order services, which will increase the need for effective rationing of these items.

#### Recommendation

We recommend that the Secretary of Defense instruct the military commands in Korea and Vietnam to broaden their current rationing systems to control black-market-susceptible items received in-country through exchange mail-order services.

#### Use of MPCs by Free World Military Assistance Forces

MPCs have been used in Vietnam by contingents of the Free World Military Assistance Forces, including those from Thailand, Korea, and the Philippines.

Before 1969 there were no procedures for controlling the MPC transactions of these forces to insure that only MPCs obtained from authorized sources could be used or converted to a new series of MPCs. The Comptroller of the United States Military Assistance Command, Vietnam (MACV), estimated that, between October 1968 and August 1969, the Republic of Korea Forces in Vietnam had spent or otherwise made use of about \$34 million in MPCs in excess of the amount they had acquired from proper sources.

In August 1969, MACV implemented procedures intended to limit MPC manipulations among the Free World Forces. These procedures have apparently reduced, but not eliminated, black-market dealings by members of these forces.

Basically these controls consisted of memorandum accounts showing the amounts of MPCs provided by U.S. funding officers, the amounts returned to the funding officers, and the amounts

expended by members of these forces in such authorized activities as post exchanges. A running balance for each contingent was computed by MACV by deducting the amounts returned or expended from the amounts provided by the funding officers. These balances should then be the amounts which these forces would be allowed to convert to a new series of MPCs or to return to the U.S. funding officers for credit. The rationale behind the controls was that, since these contingents could legally obtain MPCs only from the funding officers, any amounts in excess of the memorandum account balances that they attempted to return or convert would have been acquired from illegal sources.

After implementing these controls, problems continued to occur in connection with the use of MPCs by these contingents. Our review of the procedures used by MACV in maintaining the memorandum account balances for the Free World Military Assistance Forces showed that the Thailand contingent's balance was overstated by about \$113,000 at the end of January 1972, due to procedural reporting errors. When we brought this matter to their attention, post exchange officials submitted corrected reports to MACV; and we were advised that the Thai balance would be adjusted accordingly. If a conversion had occurred while this incorrect balance existed, MACV could have allowed conversion of MPCs in excess of the amount that the Thai forces had acquired from authorized sources.

#### Other weaknesses noted

While reviewing the effectiveness of control procedures, we noted several weaknesses which we pointed out to local officials for appropriate action. These weaknesses included such things as: opportunities for indigenous employees of post exchanges, military banking facilities, or clubs to acquire MPCs or dollar instruments through substitution of local currencies for MPCs; failure to record sales or money received in the form of tips; opportunities for authorized personnel to obtain excessive amounts of dollars or dollar instruments through falsification of authorization documents; and opportunities for post exchange and commissary patrons to acquire excessive quantities of merchandise for possible sale in the black market.

The military commands advised us that appropriate actions within their authority had been initiated or were under consideration.