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REPORT TO SUBCOMMITTEE TO 71-274
INVESTIGATE PROBLEMS CONNECTED
WITH REFUGEES AND ESCAPEES
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

Need For Improvement In
The Control Over Refugee
Relief Commodities
Shipped To Laos B-132001

Agency for International Development
Department of State

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

700417

SEPT. 21, 1970



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

B-133001

Dear Mr. Chairman:

The accompanying report presents the results of our limited review of shipping arrangements for supplies originating in or transiting Thailand for use in refugee and civilian casualty and health programs in Laos. This information was requested by your staff on April 29, 1970.

In the interest of expediting our report, we have not followed our usual practice of submitting a draft report to the Agency for International Development for formal written comment. However, we have made segments of a draft of the report available to the Acting Mission Director of the Agency for International Development in Vientiane, Laos, and we have included in the report his written comments to our representatives. Similarly, we have not discussed or submitted our findings to contractors involved in this report.

These factors should be given due consideration in any use made of this report.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

The Honorable Edward M. Kennedy, Chairman
Subcommittee on Refugees and Escapees
Committee on the Judiciary
United States Senate

COMPTROLLER GENERAL'S REPORT TO THE
SUBCOMMITTEE TO INVESTIGATE PROBLEMS
CONNECTED WITH REFUGEES AND ESCAPEES,
COMMITTEE ON THE JUDICIARY,
UNITED STATES SENATE

NEED FOR IMPROVEMENT IN THE
CONTROL OVER REFUGEE RELIEF
COMMODITIES SHIPPED TO LAOS
Agency for International
Development
Department of State B-133001

D I G E S T

WHY THE REVIEW WAS MADE

On April 21, 1970, Senator Edward M. Kennedy, Chairman, Subcommittee to Investigate Problems Connected with Refugees and Escapees, Committee on the Judiciary, U.S. Senate, requested the General Accounting Office (GAO) to inquire into the movement of refugees and the occurrence of civilian war casualties in Laos.

In connection with this request, the Senator's staff specifically requested GAO to review shipping arrangements for refugee supplies moving from and through Thailand to Laos.

This report presents the results of GAO's review of these shipping arrangements. In the near future, GAO plans to issue other reports on accidental bombings, the movement of refugees, and the occurrence of civilian war casualties in Laos.

In the interest of expediting release of this report, GAO has not followed its usual practice of submitting a draft report to the Agency for International Development for formal written comment. However, GAO has made segments of a draft of the report available to the Acting Mission Director of the Agency for International Development in Vientiane, Laos; and his written comments to our representatives have been included in the report. Similarly, GAO has not discussed or submitted its findings to contractors involved in this report.

FINDINGS AND CONCLUSIONS

The United States Agency for International Development (USAID) Mission in Laos had not established the controls necessary to safeguard U.S. interests and to account for the large amounts of commodities sent to Laos under its programs to assist refugees and other victims of the conflict. During fiscal year 1970, \$14.1 million worth of commodities were programmed for Laos.

The Bangkok Operations Branch of USAID had approved for payment transportation billings submitted by the Express Transportation Organization, a Thai Government entity, without documentation that refugee commodities had been received in Laos. GAO found that some refugee commodities

Tear Sheet

shipped with the Express Transportation Organization could not be satisfactorily accounted for by USAID. (See p. 8.)

The Bangkok Operations Branch approved payments for shipments made by a second transportation company--Ear Peng Chiang--normally after receipt of signed receiving documents from Laos. Many of the commodities shipped with this carrier were signed for by employees of a USAID contractor and the Royal Laotian Government. GAO observed some weaknesses in the receiving operation, including the use of inexperienced students and lack of signature authorization procedures. (See p. 9.)

On the basis of very limited tests, GAO found unexplained shortages amounting to about \$109,000 worth of commodities shipped with the two companies identified above. GAO was not able to determine whether any of these commodities were diverted to private use. After GAO's field review was completed, USAID informed GAO that receiving documents were found to account for most of the shortages. (See p. 9.)

A USAID internal audit report dated August 1969 stated that USAID controls over receipts of bulk commodities were weak and that rice inspection services did not conform to requirements of the contracts. The report showed that rice quantity and quality certifications were made at the shipping sources in Thailand rather than at the delivery points in Laos. The report showed also that no count of rice was made at the receiving warehouse in Laos. (See p. 11.)

GAO does not know what improvements, if any, were made after issuance of the USAID report. GAO can only conclude, on the basis of its own review, that weaknesses in the controls over receipts of refugee supplies still exist and that there is a need for USAID to restudy its operation and make improvements. (See p. 11.)

GAO was advised that the quantity and quality of rice bought in Thailand still was not being verified at Laotian destination points. (See p. 11.)

GAO's review showed that USAID was not processing most claims against carriers for shortages or damages incurred in transit. GAO observed weaknesses in internal control, both in evaluating losses or damages and in not processing potential claims against carriers, among the responsible organizational elements of USAID. (See p. 12.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

So that immediate corrective action might be initiated, GAO gave the Acting Mission Director of USAID in Laos draft segments of this report.

The Acting Mission Director, by memorandum dated August 5, 1970, advised our representatives that a working group of officers from Supply Management, Transportation, Refugee Relief and Resettlement, and Finance was being established to pull together all the pertinent facts as to how shipments were being received and handled, both trans-Thailand

and within Laos, and to develop procedures for bringing all such shipments under a single system of control within the Supply Management Branch. In addition, he advised that the records would be searched to identify all instances of shortages, damages, or other bases for claims against carriers, to determine what action was taken or should be taken in each case. (See app. I.)

On August 18, 1970, USAID advised GAO that they had strengthened the procedures for receiving and accounting for refugee commodities at all receiving points in Vientiane, Laos, and had placed all responsibility in the Supply Management Branch. That Branch was assigned responsibility for all discrepancy reports and for claims against carriers or suppliers. USAID advised further that it planned to implement the new procedures before the end of August on a temporary basis, pending assignment of three qualified third-country-national receiving clerks. USAID's Action Memo dated August 13, 1970, is attached as Appendix II.

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ABBREVIATIONS

USAID	U.S. Agency for International Development (Mission in Laos)
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

The General Accounting Office, as part of an overall review of the administration of refugee programs in Laos, has examined into the controls exercised by the United States Agency for International Development (USAID) to ensure that shipments of supplies and materials from and through Thailand arrive in Laos and are distributed to intended recipients. The scope of our review is shown on page 14.

This report presents the results of GAO's review of shipping arrangements. In the near future, GAO plans to issue other reports on accidental bombings, the movement of refugees, and the occurrence of civilian war casualties in Laos.

SHIPPING ARRANGEMENTS

In 1954 the Thai Government created an entity known as the Express Transportation Organization and gave it sole authority to transport international cargo off-loaded in Thailand for consignment to Laotian border points.

The U.S. Government started using this organization in 1955, the year the United States began shipping aid commodities to Laos.

USAID uses the Express Transportation Organization to ship agricultural commodities donated to Laos under title II, Public Law 480; commodities imported for USAID-supported projects in Laos; and commodities used in voluntary agency programs in Laos.

Trucks owned by the Express Transportation Organization or its subcontractors carry cargo from Bangkok to northern Thailand. These commodities then move across the Mekong River to Laos on a public barge (owned by a Laotian Government-controlled firm).

The cargo is unloaded at an in-transit customs warehouse, where it is picked up by the Societe de Transport, Laos, and delivered to appropriate warehouses in Laos.

The Express Transportation Organization also makes direct deliveries of cargo from the Port of Bangkok to warehouses in Pakse, Thakhek, Ban Houei Sai, and Savannakhet, Laos.

AID buys some commodities in Thailand for delivery to Laos. These commodities are first delivered to a USAID warehouse in Bangkok and are then transshipped by a commercial contractor known as Ear Peng Chiang. The contract for this service was negotiated by USAID in 1965 and has been renewed annually since.

Rice also is bought in Thailand under terms which provide for delivery directly to Laos by the Chiang Company. This company is owned by a Thai-Chinese businessman, who is said to have influence both in Thailand and Laos; consequently, it is permitted to deliver directly into Laos without transferring to another carrier.

Chiang also has the following direct and indirect business relationships with USAID.

1. A contract to deliver commodities from Vientiane to Pakse, Savannakhet, and Ban Houei Sai, Laos, by way of Thailand (roads to these points within Laos are interdicted by enemy forces);
2. A contract for rebagging rice into smaller quantities (triple-bagged for airdrop) and for transporting the rebagged rice to a U.S. contractor facility at Wattay Airport in Vientiane;
3. A subcontract with the Public Warehouse Organization of Thailand to deliver all Thai-procured rice to USAID warehouses in Laos;
4. A subcontract arrangement with the Express Transportation Organization; and

5. By virtue of part ownership in Societe de Transport, Laos, an arrangement to make some deliveries of international cargo from Thanaleng, Laos, to Vientiane.

Procuring, receiving, and shipping activities in Thailand are carried out by the Bangkok Operations Branch of USAID/Laos. This Branch has representatives stationed at the Port of Bangkok and the military Port of Sattahip, Thailand.

TRANSPORTATION COSTS

USAID pays about \$56 more per 10-ton truckload for cargo moved from Bangkok to Vientiane by the Express Transportation Organization than for cargo transported by Ear Peng Chiang. As pointed out earlier, USAID is required to use the Express Transportation Organization for shipments of international cargo off-loaded in Thailand for consignment to Laos.

USAID paid the Express Transportation Organization a total of \$186,371 in fiscal year 1970 for transporting cargo from the Port of Bangkok to border points in Laos. Additional billings of \$17,087, under a military contract, were submitted to USAID by the Express Transportation Organization for moving USAID cargo from the Port of Sattahip to Bangkok. Port charges on the above cargo amounted to \$52,335 at the Port of Bangkok and \$9,085 at the Port of Sattahip.

USAID incurred some additional expenses for transportation under a military contract with the Express Transportation Organization; but we were unable, in the time available, to determine the amount of these expenses.

Additional transportation and cargo handling expenses incurred by USAID in fiscal year 1970 follow:

Truck transportation from the USAID warehouse in Bangkok to Laos (Ear Peng Chiang)	\$130,283 ^a
Truck transportation from the Express Transportation Organization terminus at Thanaleng to Vientiane (Societe de Transport, Laos)	Not available ^b
Truck transportation from Vientiane to three towns in Laos by way of Thailand (Ear Peng Chiang)	\$ 53,665 ^c
Distribution in Laos (Thao Bo Trucking Company)	Not available ^b
Distribution in Laos (two barge contractors)	\$ 7,053 ^c
Rebagging of rice and delivery to U.S. contractor facility at Wattay Airport (Ear Peng Chiang)	Not available ^b

^aActual payments.

^bUSAID/Laos was in the process of compiling this information for us at the time we departed Vientiane, Laos, but was unable to do so because of the illness of employees so assigned.

^cBased on billings only.

The transportation costs discussed above include refugee and other USAID cargo transported to and within Laos. Reliable estimates of transportation costs for refugee commodities alone were not readily available and could not be compiled because of time constraints on our review.

CHAPTER 2

NEED FOR IMPROVEMENT IN CONTROLS

OVER DELIVERIES OF REFUGEE COMMODITIES

SHIPMENTS TO LAOS

The Bangkok Operations Branch of USAID/Laos approved for payment Express Transportation Organization billings for transportation without documentation that the cargo was received in Laos. On each shipment, the Branch transmitted pertinent data to consignees in Laos and relied on them to monitor the shipments to ensure against nondelivery or losses. We found that, for refugee commodities, no one was performing the monitoring function in Laos.

We were unable, in the time available, to examine all shipments handled by the Express Transportation Organization. However, limited tests of shipments disclosed the following three instances of unexplained discrepancies:

1. Records at USAID/Laos showed that, of 39,250 bags of Public Law 480, title II cornmeal shipped from Bangkok during the period January through June 1970, only 37,515 were received, a shortage of 1,735 bags.¹
2. Records at the medical warehouse showed that, of 74,985 pounds of milk products shipped to Vientiane in May, 1970, only 56,760 were received, a shortage of 18,225 pounds.
3. Records at UASID/Laos showed that, of 8,993 cases of Singapore canned beef shipped from Bangkok to Laos during the period March through June 1970, only 6,085 cases were received, a shortage of 2,908 cases.¹

¹After completion of GAO field work, USAID advised that it had located documents accounting for all but 10 bags of cornmeal and 29 cases of Singapore canned beef.

We estimate the total value of shortages cited above to be around \$45,000.

We were not able to determine if any of these unaccounted-for commodities had been diverted to private use.

Unlike shipments with the Express Transportation Organization, the Bangkok Operations Branch normally approves transportation billings submitted by Ear Peng Chiang for payment only after receiving signed shipping and receiving documents from Laos.

With respect to refugee commodities transported by Ear Peng Chiang, we observed that they often were delivered directly to warehouses operated by an AID contractor or by the Royal Laotian Government. At one USAID warehouse, two inexperienced Laotian summer-hire students were responsible for receiving and issuing commodities.

At the warehouses operated by the contractor and the Laotian Government, commodities are received and issued without passing under the surveillance of USAID. Laotian and third-country nationals sign for receipt of commodities at these facilities without any system of signature authorizations.

Although we were not able, in the time available, to trace more than a small sample of shipments from Bangkok, we did examine into shipments of 2,174,400 cans of buffalo beef sent to Laos over a 6-month period in fiscal year 1970.

We found that USAID could not account for receipt of 312,960¹ cans, valued at about \$63,600. We observed that most of the shipments of the canned beef were made to the contractor-controlled warehouse.

We were not able to determine if any shipments of beef carried by Ear Peng Chiang were diverted to private use. But we became aware of a situation which raises questions along this line.

¹After completion of GAO fieldwork, USAID advised that it had located documents accounting for all but 176 cans of Thai buffalo beef.

We learned that one truck hauling canned beef was involved in an accident in Thailand and the cargo was destroyed. Other drivers in the Ear Peng Chiang convoy took the shipping documents covering contents of the wrecked truck and, by some means, obtained the signature of American contractor personnel acknowledging receipt of the undelivered cargo. Had the Bangkok Operations Branch not received news of the truck accident, this deception would have gone undetected.

Ear Peng Chiang presented the signed receiving document for payment and insisted that the cargo had reached Vientiane. The Bangkok Operations Branch confronted the carrier with evidence that the truck and cargo had been demolished and only then did Chiang agree to replace the beef.

In another instance, we found that shipments of steel bars and axes could not be accounted for as having been received in Laos, although Ear Peng Chiang had been paid for shipping them.

We were told by a USAID official that the local employee previously responsible for receiving cargo at the USAID refugee relief warehouse had been discharged for incompetence and that the receiving function had been turned over to the two young Laotian students mentioned on page 9.

SHIPMENTS WITHIN LAOS

Some commodities delivered directly by trucking contractors to the American contractor-operated warehouse subsequently are air-dropped within Laos. These commodities are accounted for on daily reports prepared by the contractor, which show quantities air-dropped at various zones throughout Laos.

Other commodities are transported by the contractor to locations where airplanes or helicopters can land. Issues to these sites are documented on Lao Form 147 (Request for Cargo/Passenger Transportation), which requires acknowledgement of receipt by the consignee.

We were advised by a USAID official in the Refugee Relief Branch that these forms sometimes got wet or became lost and that few of them were returned to his office. Thus, USAID has few records it can rely on for assurance that the commodities are delivered to intended recipients.

PURCHASE AND DISTRIBUTION OF RICE

A USAID/Laos internal audit report, issued in August 1969, commented that controls over receipts of bulk commodities at the KM-4 warehouse in Laos (used to store refugee relief commodities) and at Wattay Airport were weak and that rice inspection services by a contractor did not meet the requirements of the contracts.

The report concluded:

"This failure to check and inspect commodities at destination coupled with the absence of inventory and shipping records at the KM-4 warehouse reflects a serious lack of internal control over bulk commodities. Under present procedures, there is no assurance that we get what we pay for or that all the rice repacked at KM-4 arrives at the airport."

We do not know what improvements, if any, were made after issuance of this report. We can only conclude, on the basis of our own review, that weaknesses in the control over receipts of refugee supplies still exist and that there is a need for USAID to restudy its operation and make improvements.

We were advised that the quantity and quality of rice bought in Thailand still is not verified at Laotian destination points.

CHAPTER 3

NEED FOR IMPROVEMENTS IN PROCESSING CLAIMS

FOR SHORTAGES OR DAMAGES

LOSSES ON SHIPMENTS FROM THAILAND

While examining receiving documents and delivery orders, we observed many instances involving commodities for refugee relief programs where documents contained notations of shortages or damages incurred in transit. We found, however, that, during the period July 1, 1969 through July 31, 1970, USAID initiated only one claim for a project commodity loss against carriers hauling cargo from Thailand to Laos.

This one claim, for \$239, was initiated against Societe de Transport, Laos, in September, 1969, for loss of medical equipment. It had not been collected as of July 31, 1970.

LOSSES ON DISTRIBUTIONS WITHIN LAOS

We observed on Ear Peng Chiang deliveries from Vientiane to Pakse, Savannakhet, and Ban Houei Sai, Laos, (by way of Thailand) that waivers were generally granted for losses incurred.

We examined 48 billings totalling \$53,665 submitted to USAID during fiscal year 1970 for these deliveries. On 20 of the 48 billings, shortages and/or damages were noted, but they were accepted by USAID as unavoidable handling losses.

We examined 57 billings submitted by Thao Bo Trucking Company which delivers some USAID commodities within Laos. We found no notations of shortages or damages on the documents supporting these billings. We found, however, that, on almost one half of the billings, the only documentation of completed delivery was submitted by the trucking company. USAID receiving documents were not being returned to the Transportation Section by the consignees. Thus, without evidence of receipt from the consignees, USAID had no safeguards against losses or damage.

CHAPTER 4

CONCLUSIONS AND AGENCY ACTIONS

In view of the weaknesses in USAID accountability for refugee commodities shipped to Laos, the possibility does exist that some commodities destined for refugee relief purposes are being lost or diverted from their intended use.

We provided draft segments of this report to the Acting Mission Director in Laos and discussed our observations with him in August 1970. The Acting Mission Director, by memorandum dated August 5, 1970, advised our representatives that a working group of officers from Supply Management, Transportation, Refugee Relief and Resettlement, and Finance Units within the Mission would be established to pull together all pertinent facts as to how shipments were being received and handled, both trans-Thailand and within Laos, and to develop procedures for bringing all such shipments under a single system of control under the Supply Management Branch. In addition, he advised that the records would be searched to identify all instances of shortages, damages, or other bases for claims against carriers, to determine what action was taken in each case. (See app. I.)

On August 18, 1970, USAID advised GAO that they had strengthened the procedures for receiving and accounting for refugee commodities at all receiving points in Vientiane, Laos, and had placed all responsibility in the Supply Management Branch. That Branch was assigned responsibility for all discrepancy reports and for claims against carriers or suppliers. USAID advised further that it planned to implement the new procedures before the end of August on a temporary basis, pending assignment of three qualified third-country-national receiving clerks. USAID's Action Memo dated August 13, 1970, is attached as Appendix II.

CHAPTER 5

SCOPE OF REVIEW

Our review was directed toward an evaluation of the controls exercised by USAID to ensure that shipments of supplies and materials from and through Thailand arrived in Laos and were distributed to intended recipients.

The review included an examination of selected files, reports, and documents pertaining to certain shipments of refugee commodities from and through Thailand and to and within Laos, as well as discussions with appropriate United States and foreign government officials and contractors in both countries. We visited certain locations where refugee commodities were stored and observed operational procedures and practices.

Our review in Laos was completed within a period of 2 weeks; hence, our observations are based on less detailed tests than we normally would perform.

APPENDIXES

C O P Y

UNITED STATES AID MISSION TO LAOS

MEMORANDUM

TO: Mr. Clarence L. Jenney, GAO Audit Team DATE: August 5, 1970

FROM: James B. Chandler, A/DIR

SUBJECT: Draft Segment Regarding Weaknesses, etc., etc.

I appreciate the opportunity to review and discuss the draft segment relating to transportation.

The draft provides evidence that implementation of the Mission's policy of centralizing control under the Supply Management Branch of all import shipments, signing of receiving documents, reconciling receipts with shipping documents, and handling of claims against carriers has not been properly carried out with respect to some of our larger refugee relief consignments.

I am today establishing a working group of officers from Supply Management, Transportation, Refugee Relief and Resettlement, and Finance to pull together all the pertinent facts as to how shipments are being received and handled, both trans-Thailand and within Laos, and to develop procedures for bringing all such shipments under a single system of control under Supply Management Branch. Allowing two or three days for fact-finding and drafting of proposals, I am directing Harry Carr, Assistant Director for Management, to meet with this group and with other Division representatives that may be involved Monday August 10, at which time differences will be resolved and decisions will be made on policy and procedure for effecting such control. Recommendations will be submitted to the Director and I hope that by August 11 we will have in the mail for you an outline of the steps taken and to be taken to correct the shortcomings cited in your draft.

While establishing full control is the first step, we will, of course, also investigate carefully all the transactions which your people turned up in the spot check. It may be that we have better records than were revealed in the short period of your study. We will also search our records carefully to identify all instances in which there might have been a shortage, damage, or other basis of claim against carriers and determine what action was taken or should be taken in each case. For this purpose, I am directing the Acting Assistant Director for Finance to assign a Financial Analyst. This Analyst will also be the Finance member of the working group.

C O P Y

Form Laos 268


UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
TO LAOS

ACTION MEMO

No. 71-02

August 13, 1970

TO : All Vientiane and Field Offices

FROM : Harry L. Carr, Acting Deputy Director 

SUBJECT : Receipt of Refugee Relief Commodities (Subject Index 1500)

The following procedures will be implemented immediately upon SMB's notification to organizations concerned that required personnel are in place:

1. Supply Warehouse Section (SMB/SWS) will receive bulk commodities (rice, cornmeal and salt) at KM-4 and Wattay warehouses and prepare Receiving and Inspection Report. All copies of the Receiving and Inspection Report will be forwarded to Refugee Relief to acknowledge receipt thereon. After receipt is acknowledged all copies will be returned to SMB/SWS for normal distribution.
2. All canned meats, foodstuffs and other commodities not listed above will be received by SMB/SWS at Thong Thoum Warehouse and stored in Warehouse #10. Receiving and Inspection Report will be prepared by SMB/SWS. One copy will be retained by SMB/SWS, one copy will be forwarded to SMB/Stock Control Section to establish the stock record control, and as many copies as are required by Refugee Relief will be forwarded to them. Withdrawals will be handled the same as all other project commodities managed by SMB -- i. e., Lao Form 203 to Stock Control Section for preposting, then to SMB/SWS for issue. All in-country shipments outside of Vientiane for these commodities will be handled on Lao Form 147 prepared by SMB/SWS based on information on Lao Form 203 submitted by Refugee Relief.

DISTRIBUTION: D, F

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3. To accomplish receiving in 1 and 2 above, SMB will furnish SMB/SWS and Supply Control Section copies of all necessary Refugee Relief back up documents such as Requisitions, Purchase Orders, PIO/C's, etc.

4. Discrepancy Reports, (Over, Short and Damage) as required for receipts in 1 and 2 above, will be prepared from properly annotated documents by SMB/SWS.

Personnel Branch will establish three contract TCN positions and begin immediate recruitment upon SMB's submission of Lao Form 117 requesting positions.

Motor Transport Branch will supply SMB/SWS daily one additional flat bed truck and two motorbikes upon notification of date to commence.

Additional Kip funds for hourly hire personnel as required to warehouse commodities and load trucks for shipment will be needed. It is estimated this will be minimal and can be determined after a month or two of operation using present funds.

This memorandum will remain in effect until superseded or incorporated into other procedural instructions.