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REPORT TO THE CONGRESS

U.S. Assistance To The Khmer Republic (Cambodia)

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Department of State
Agency for International Development
Department of Defense

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
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CI To the President of the Senate and the
Speaker of the House of Representatives

This report presents our findings, conclusions, and recommendations on the administration and effectiveness of U.S. economic and military assistance to the Khmer Republic (Cambodia) The Agency for International Development and the Department of Defense administer the assistance programs under the overall supervision of the Secretary of State, pursuant to the Foreign Assistance Act of 1961, as amended.

We made our review as part of our continuing examination of foreign assistance programs, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

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

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
AG	Auditor General
ARVN	Army of the Republic of Vietnam
CINCPAC	Commander in Chief, Pacific
DOD	Department of Defense
ESF	Exchange Support Fund
FANK	Forces Armees Nationales Khmère (Cambodian Armed Forces)
GAO	General Accounting Office
GSA	General Services Administration
GKR	Government of the Khmer Republic
MAP	military assistance program
MEDT	Military Equipment Delivery Team
SONEXIM	Societe Nationale D'Exportation D'Importation

D I G E S T

WHY THE REVIEW WAS MADE

GAO made this review because of continuing congressional interest and concern regarding U S activities and involvement in Cambodia

After U S troops attacked communist military bases in Cambodia during April 1970, the Congress prohibited U S combat troops and advisors from entering that country and limited expenditures and the number of U S executive branch employees there

In July 1973 the Congress also terminated U S air combat operations over Cambodia as of August 15

Goals and objectives of U S economic and military assistance programs in Cambodia have been related to the military effort in Indochina. The United States provided \$516 million in military assistance and \$216 million in economic assistance to Cambodia during fiscal years 1970-73 (See pp 21 and 40). These figures do not include the cost of combat air operations

FINDINGS AND CONCLUSIONS

Problems existed concerning compliance with the congressional restrictions. Management deficiencies impaired the effectiveness and efficiency of U S assistance

Legislative restrictions

--Not all costs of U S activities in Cambodia were reported to the Congress, even though reports of U S expenditures were prepared in compliance with the legislation (See pp 13 to 17)

--Military Equipment Delivery Team members were not assigned as advisors to Cambodian combat units, but they were acting beyond their primary function of auditing equipment deliveries (See pp 10 to 12)

Economic assistance

--\$180 million requested for economic assistance in fiscal years 1971 and 1972 greatly exceeded the level the Cambodian economy absorbed effectively due to the slow arrival of the commodities financed (See pp 21 to 28)

--Cambodian tax policies delayed the movement into the economy of some commodities financed by the Agency for International Development (AID) (See pp 27 and 28)

--AID approved procurement of some commodities of questionable necessity to a war economy, then, as a result of congressional inquiry, it canceled them (See pp 29 and 30)

--AID financed commodities for public sector projects, such as floating bridges, without evaluating Cambodia's capability to use or maintain them effectively. AID provided some roadbuilding equipment that another country had also provided (See pp 30 to 32)

--The United States contributed its full share of the 1972 pledge to the Cambodian Exchange Support Fund, even though other countries failed to provide matching amounts as intended (See pp 34 and 35)

Military assistance

Procedures for receipt, transfer, and maintenance of equipment after turnover to Cambodia were inadequate during 1971 and 1972. Management of the ammunition program also was deficient. By 1973, considerable improvements had been made, or were planned, in each of these areas, even so, equipment accountability still needed attention (See pp 39 and 43 to 51)

Other problems were

--The Military Equipment Delivery Team did not cancel a \$1.4 million requisition for construction equipment after it knew AID had provided the same equipment to satisfy the requirement (See pp 51 and 53)

--Department of Defense auditors reported that Cambodian military personnel had improperly purchased a significant amount of U.S. military equipment from the Republic of Vietnam (See pp 53 and 54)

Phantom troops

United States and Cambodian Government officials acknowledge that

payments were made for as many as 100,000 Cambodian troops that did not exist. As of June 1973, the problem had not been fully eliminated, and its extent was unknown. GAO estimates that for January 1973 phantom troop pay was the equivalent of nearly \$1 million (See pp 55 and 56)

Purchase of Australian trucks

Six hundred Australian trucks, 100 trailers, and associated material valued at \$5.6 million were purchased for civilian purposes, but 350 of the trucks were assigned to the Cambodian military. This off-shore procurement created a complicated spare parts support problem (See pp 56 to 58)

RECOMMENDATIONS OR SUGGESTIONS

Because the Congress has been concerned about the extent of U.S. involvement, GAO is recommending that the Secretaries of State and Defense fully inform the Congress of the type and organizational level of advisory assistance provided to the Cambodian military (See p 19)

Although reported expenditures for fiscal year 1972 did not exceed the dollar limit, GAO believes the report should be accurate and is therefore recommending that the Secretary of State apply and report all costs against the dollar limit, including those funded outside the Foreign Assistance Act and Public Law 480 (See p 20)

The Administrator of AID should reassess the need for economic assistance in the amounts requested by considering Cambodia's ability to absorb and effectively use that assistance and the amount needed to maintain economic and political stability (See p 38)

The Secretary of Defense should have the Military Equipment Delivery Team continue to encourage the Cambodian military to further improve its management of equipment and material supported by the military assistance program (See p 58)

The United States should continue to press the Cambodian Government to correct the phantom troop problem (See p 58)

As to the improper sales of equipment by Vietnamese troops to Cambodian troops, the Secretary of Defense should have the Military Equipment Delivery Team

--Take action to identify all U S military equipment illicitly purchased and eliminate an equal number of end items from the military assistance program (See p 59)

--Include all illicitly purchased equipment in the tables of organization and equipment of Cambodian military units if the equipment satisfied valid requirements and then program to provide logistical support (See p 59)

As to the procurement of trucks from Australia the Secretary of Defense should

--Have the Military Equipment Delivery Team adjust the tables of organization and equipment to show those trucks being used for military purposes (See p 59)

--Require that follow-on spare parts be obtained from U.S sources to the extent possible (See p 59)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of State said that it does not believe that the Military Equipment Delivery Team is performing advisory functions which conflict with legislative restrictions. The Department agreed that a fuller report of costs to be counted against the congressional dollar limit should be provided, noting that some aspects, such as accurate valuation of excess material, were difficult. AID agreed that certain administrative costs were not being reported but believed that they should not be (See pp 18 and 19)

Conceding that the economic assistance program had a slow start, AID said the program has reached its operating momentum (See p 24)

Department of Defense comments on this report were received on September 7, 1973, after final processing of the report had begun. The Department's comments--contained in appendix IV--did not present any new information requiring substantive change in the report or modifications of GAO positions.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes this report will assist the Congress in monitoring assistance to Cambodia. It is recommending that the executive agencies more fully inform the Congress of the type and organizational level of advisory assistance provided to the Cambodian military and provide more complete reports on expenditures for all assistance-related activities



CHAPTER 1

INTRODUCTION

On January 28, 1971, the Chairman, Senate Committee on Foreign Relations, United States Senate, requested that GAO closely watch the military and economic aid programs in Cambodia. The Chairman stated that the Committee was concerned over the worsening situation in Cambodia and feared that the large military and economic aid programs being initiated would involve the United States more deeply. In response to the Chairman's request, GAO issued a report to the Committee, "Assistance to the Khmer Republic (Cambodia)" (B-169832, Nov 26, 1971), based on work done during the early stages of the Cambodia assistance programs.

We made this review because of continuing congressional interest in U S activities and involvement in Cambodia.

BACKGROUND

U S assistance to Cambodia during 1955-63 amounted to \$309.6 million in economic assistance and \$83.7 million in military assistance. This assistance was devoted to repairing physical damage resulting from hostilities in Indochina, reestablishing and supporting military forces to maintain internal security, stabilizing the economy, and expanding capital facilities needed to stimulate economic growth. The assistance programs were ended in 1963 at the request of the Cambodian Government. In May 1965 Cambodia broke diplomatic relations with the United States. Relations were restored on July 2, 1969, at which time the United States had no intention of resuming the previous types of assistance.

On March 18, 1970, the National Assembly and the Council of the Kingdom voted unanimously to dismiss Prince Sihanouk as Chief of State. (The monarchy was formally abolished and Cambodia was proclaimed the Khmer Republic on October 9, 1970.) Also during March, North Vietnamese and Viet Cong Forces began moving toward the interior of Cambodia, and in April 1970 the Cambodian Government appealed for aid to all countries with which it had diplomatic relations. The United States immediately provided the Cambodians with captured small arms, ammunition, and miscellaneous

personal equipment On May 21, 1970, a Presidential determination authorized military assistance for Cambodia, effective April 22, 1970, this began the current U S assistance programs to Cambodia

During fiscal years 1970-73, the United States provided \$516 million in military assistance and \$216 million in economic assistance to Cambodia In addition to these funds, other costs which we were unable to determine were incurred for activities in, or on behalf of, Cambodia This additional U S assistance is discussed in chapter 2

U S GOALS AND OBJECTIVES

In appearing before the House Committee on Foreign Affairs late in 1970, the Secretary of State set forth the basic U S objectives in Cambodia as assisting Vietnamization and protecting the withdrawal of U S troops from Vietnam An additional objective was to implement the Nixon doctrine principles that (1) each country has primary responsibility for its own defense, (2) threatened countries obtain assistance from regional friends, and (3) U S support takes the form of military and economic assistance.

Because of the Senate Committee on Foreign Relations' concern over large military and economic assistance programs for Cambodia, the Foreign Assistance Act of 1971 authorized such assistance but stated that this should not be construed as a U S commitment for Cambodia's defense.

STRATEGY USED TO ACHIEVE U S GOALS AND OBJECTIVES

U S policy for pursuing limited goals and objectives evolved as follows

- There would be no U S ground combat personnel in Cambodia and no U S advisors for Cambodian units
- Air missions would be flown against enemy supplies and personnel posing potential threats to South Vietnam
- Military and economic assistance would be provided to the Cambodian Government

- The United States would encourage other countries of the region to give diplomatic assistance
- The United States would encourage and support the efforts of third countries which wished to furnish troops or material

In implementing U S military assistance policy, an austere plan was developed to provide light infantry equipment, light artillery, unsophisticated aircraft, and a minimum of heavy equipment. Several management problems were impairing the efficiency and effectiveness of this effort (See ch 4). We were unable to fully evaluate the management of the program because of problems in obtaining access to official documents and records (See app I)

The economic assistance program was developed to help Cambodia maintain political stability by preventing abnormal economic dislocations and reductions in living standards caused by the war. In accordance with the limited U S objectives, the program had the short-term goal of providing financial assistance to temporarily support the Cambodian economy. Long-term programs, such as economic development assistance, were not planned at that time. It has since been proposed that the United States will include Cambodia in its Indochina reconstruction program (See ch 3)

SCOPE OF REVIEW

Our review covered U S involvement in Cambodia from April 1970--when the current assistance programs began--through mid-1973. We reviewed the economic and military assistance programs and compliance with congressional limits. Major emphasis was on whether the programs developed for achieving U S goals and objectives were appropriate and effective and whether the programs were being efficiently managed. We did not evaluate expenditures for U S air combat operations in Cambodia or costs to the United States for Vietnam Armed Forces operations in Cambodia because these costs had been specifically excluded from the personnel and dollar limits imposed by the Congress.

We did our initial work in Cambodia and Vietnam from February through May 1972, primarily at the American Embassy in Phnom Penh and at Military Equipment Delivery Team (MEDT)

locations in Cambodia and Vietnam In February and again in May 1973, we did some followup work in Cambodia In Washington we worked at the Departments of State and Defense and at the Agency for International Development (AID) We examined program documents, reports, and other pertinent records made available to us at U S agencies visited and discussed relevant matters with U S officials in Washington and Cambodia

CHAPTER 2

LEGISLATIVE LIMITATIONS IMPOSED ON

ASSISTANCE TO CAMBODIA

Since U S assistance to Cambodia was resumed in April 1970, the Congress has been deeply concerned that a Vietnam-type situation might develop. This concern was heightened by the authorization of \$108.9 million in assistance through a series of Presidential determinations before the Congress was given the opportunity to act on a request for assistance. The Congress therefore limited U S assistance and involvement.

The limits included (1) a prohibition against introducing combat troops, (2) a restriction against using advisors for the military in Cambodia, (3) a dollar ceiling of \$341 million for U S expenditures in, to, for, or on behalf of Cambodia for fiscal year 1972, and (4) a ceiling of 200 American and 85 third-country national executive branch employees in the country. On July 1, 1973, the Congress placed an additional restriction on U S activities in Cambodia when it terminated all air combat operations in Indochina, effective August 15. Air strikes were reported to have ceased on that date.

We found that

- Although MEDT advisors had not been assigned to Cambodian military units, MEDT engaged in activities beyond verifying and monitoring deliveries of supplies and equipment.
- Although reported expenditures indicate the dollar ceiling was not exceeded, an adequate system has not been established to insure all costs are reported. An adequate reporting system is important to comply with legislative requirements.
- A system has been established to account for the number of employees against the personnel ceiling.

RESTRICTIONS AGAINST MILITARY ADVISORS

In December 1970 the Secretary of State testified before the Senate Committee on Foreign Relations that

"We have attempted in every way possible to keep our presence small in Cambodia * * * We do not intend to have a MAAG [Military Assistance Advisory Group] or an aid mission We will have to have, obviously because the statute requires it, some personnel to monitor and supervise the delivery of goods We do not intend to use military advisers We do not intend to move in that direction "

On January 20, 1971, the Secretary of Defense stated that the newly formed MEDT's functions would be to audit and supervise deliveries of equipment and ammunition under the military assistance program (MAP) He commented that

"I think you will probably find that the General Accounting Office will have more people checking it than we do because we are making an all-out effort to keep the military presence, as far as the military delivery teams are concerned, to the absolute minimum "

On January 29, 1971, the Secretary of State again commented that

"* * * because we have to make military deliveries under the supplemental aid program--we will have to have military equipment delivery teams. But they will be essentially auditors that will keep track of the material, make the deliveries, keep track of the inventories, etc "

The in-country team, quite clearly, was to be small and limited to auditing and monitoring equipment deliveries In December 1970 the Senate Committee on Foreign Relations was told that, to keep American presence to a minimum, certain assistance-related work would be done from Saigon

The authorized staffing of MEDT in Cambodia increased from 16 in January 1971 to 74 in May 1972 to 76 as of

December 31, 1972 As of May 26, 1973, the authorized staffing was 73

<u>Month</u>	<u>Authorized for Phnom Penh</u>	<u>Authorized for Saigon</u>	<u>Total authorized</u>
Jan 1971	16	44	60
Apr 1971	23	90	113
July 1971	50	63	113
Dec 1971	62	51	113
May 1972	74	10	84

As the Cambodia staff increased, it assumed additional duties and became more involved with the Cambodian military Except for not assigning advisors to specific field units, MEDT operated much the same as a Military Assistance Advisory Group does in any other country Besides monitoring equipment deliveries, it was

- Recommending changes in force structure
- Advising and assisting on contingency plans and improvements in the military organizational structure
- Providing technical assistance on all logistical aspects of MAP
- Providing technical military assistance and information concerning MAP-furnished material.

We also identified 61 special teams which operated temporarily in Cambodia during fiscal year 1972 These teams examined many aspects of the Cambodian military, and, in some instances, the objective was almost totally unrelated to equipment delivery For example, the teams made studies to develop a prisoner-of-war program

DOLLAR LIMIT

The Foreign Assistance Act of 1971 added a new section 655 to the Foreign Assistance Act of 1961 and limited expenditures for Cambodia during fiscal year 1972 to \$341 million, the amount the executive branch proposed. Section 655 of the act, as amended, stated

"(a) Notwithstanding any other provision of law, no funds authorized to be appropriated by this or any other law may be obligated in any amount in excess of \$341,000,000 for the purpose of carrying out directly or indirectly any economic or military assistance, or any operation, project, or program of any kind, or for providing any goods, supplies, materials, equipment, services, personnel, or advisers in, to, for, or on behalf of Cambodia during the fiscal year ending June 30, 1972

"(b) In computing the \$341,000,000 limitation on obligation authority under subsection (a) of this section in fiscal year 1972 (1) there shall be included in the computation the value of any goods, supplies, materials, or equipment provided to, for, or on behalf of Cambodia in such fiscal year by gift, donation, loan, lease, or otherwise, and (2) there shall not be included in the computation the value of any goods, supplies, materials, or equipment attributable to the operations of the Armed Forces of the Republic of Vietnam in Cambodia. For the purpose of this subsection, 'value' means the fair market value of any goods, supplies, materials, or equipment provided to, for, or on behalf of Cambodia but in no case less than 33 1/3 per centum of the amount the United States paid at the time such goods, supplies, materials, or equipment were acquired by the United States."

According to the Senate Committee on Foreign Relations, section 655 was intended to establish a dollar ceiling on overall U S expenditures for Cambodia, excluding combat air operations. The dollar limit would apply to the MAP, supporting assistance, excess defense articles, assistance under the

Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), Central Intelligence Agency operations, and the administrative costs of the various U S Government departments and agencies. The Committee intended to prevent unauthorized and unknown escalation of costs and to return to the Congress some control over expenditures.

To monitor this limit, the President was to report quarterly that total amount of funds obligated for Cambodia. The executive branch reported that it obligated \$234.6 million, excluding excess defense material, subject to the dollar limit. Details of these obligations and excess defense material at one-third of acquisition value follow.

<u>Program</u>	<u>Amount</u>
	(millions)
MAP	\$181 0
Security supporting assistance	37 1
Public Law 480, title I	<u>16 5</u>
Total	234 6
Excess and redistributable material	<u>4 8</u>
Total applied against limit	<u>\$239 4</u>

Our review did not include verification of the accuracy of the amounts, but we identified problems with accumulating and reporting obligations or expenditures. The annual report showed obligations for programs under the Foreign Assistance Act and Public Law 480 and an estimated amount for MEDT military personnel costs, although this amount was significantly understated. Certain administrative costs of the assistance programs and other costs associated with U S. activities funded outside normal foreign assistance channels were not included. The value of excess defense material given to Cambodia had not been included in the quarterly reports until after we began investigating this matter. It was then included at one-third of acquisition cost and not at fair market value.

The Department of Defense (DOD) advised us that its policy was to report and apply against the limit only those

costs financed by the MAP and assignable to the Cambodian program. A system did not exist to record all inputs, but we did identify the following activities, financed outside MAP, whose costs were not applied against the limit:

--The U S Military Assistance Command, Vietnam, provided about 250 to 300 U S. military instructors during fiscal year 1972 to train Cambodian troops in Vietnam.

--MEDT used over 170 individuals on temporary duty for varying periods during fiscal year 1972.

Military personnel costs are not financed by MAP, but an estimated \$600,000 for these costs was reported against the limit. The estimate was understated, however, because MEDT's administrative budget, dated July 20, 1972, showed an estimated military personnel cost of \$1.5 million for fiscal year 1972.

AID did apply some administrative costs against the limit but excluded (1) personnel-related costs for the Mission Director (Embassy Economic Counselor) and the Deputy Director Controller and (2) AID/Washington direct and overhead costs, such as those for the Cambodia Affairs Office and commodity procurement activities related to assistance. AID has not estimated these direct and indirect overhead costs.

Costs associated with the administration of the Public Law 480 program by the Department of Agriculture and AID were not applied against the limit or included in the quarterly reports.

Another problem was that DOD and AID did not apply a fair market value to the excess material provided to Cambodia. The Foreign Assistance Act provided that excess material transferred to Cambodia be applied against the limit at fair market value but at not less than one-third of acquisition cost. DOD used one-third of acquisition cost regardless of fair market value, while AID did not apply any value to the excess equipment it provided.

DOD reported that it transferred \$4.8 million of excess defense material to Cambodia during fiscal year 1972. DOD advised us that the one-third of acquisition cost criterion

was used for all countries and excess programs. The Senate Committee on Foreign Relations stated this valuation did not comply with the statutory requirement since it did not consider the items' condition. We learned during our previous review that excess items requested by MEDT were generally in serviceable condition or needed only minor repair.

The reports for the first three quarters of fiscal year 1972 did not contain the amount of excess material transferred to Cambodia. We were informed that the value of excess material transferred to Cambodia would be, and subsequently was, included in the report for the fourth quarter of fiscal year 1972.

AID obtained three tugboats, four cranes, and three forklifts from the excess program during fiscal year 1972 to meet economic assistance requirements. AID informed us that its policy had been to not apply any value for such equipment against the limit, since fair value could not be calculated and since the original cost was unrealistic. AID's policy was to apply only rehabilitation and transportation costs against the limit. According to AID, no such disbursements were made during fiscal year 1972.

Costs for supply support of MAP are neither identified nor accumulated by individual recipient country, but the reports for fiscal year 1972 did include a \$9.7 million estimate for these costs. We agree that costs for supply operations properly apply against the limit and should be included in the reports.

Following are estimated costs of a variety of other U.S. activities in Cambodia which were not reported.

Fiscal Year 1972 Estimated Costs

	<u>Amount</u>	
Administrative and operating costs		
Department of State	\$869,389	
Defense Attache Office	681,484	
United States Information Service	228,971	
Voice of America	167,025	
U S Navy, Officer in Charge of Construction	34,206	
DOD Contingent Communication Facility	<u>42,831</u>	
Total		\$2,023,906
Other costs		
Department of State	2,254	
Tactical Air Control Air Net	226,147	
DOD troposcatter communications facility	<u>374,500</u>	
Total		<u>602,901</u>
Total		<u>\$2,626,807</u>

PERSONNEL LIMIT

Section 656 of the Foreign Assistance Act of 1961 as added by the 1971 act provides in part that

"The total number of civilian officers and employees of executive agencies of the United States Government who are citizens of the United States and of members of the Armed Forces of the United States (excluding such members while actually engaged in air operations in or over Cambodia which originate outside Cambodia) present in Cambodia at any one time shall not exceed two hundred. The United States shall not, at any time, pay in whole or in part, directly or indirectly, the compensation or allowances of more than eighty-five individuals in Cambodia who are citizens of countries other than Cambodia or the United States "

To control the number of executive branch employees in Cambodia so that the limit was not exceeded, a daily report was prepared showing the number of American and third-country national personnel--both permanent and temporary duty--for each section of the U S Diplomatic Mission, including military and American and third-country national executive branch contract personnel

The Ambassador has been delegated overall responsibility for insuring compliance. Each executive branch employee wishing to enter Cambodia must first receive country clearance from the Ambassador. As of June 30, 1972, a total of 170 American and 83 third-country national executive branch employees, including contractor employees, were reported as being in Cambodia, and on May 26, 1973, the numbers were 174 and 83, respectively.

AGENCY COMMENTS

The Department of State said it does not believe that MEDT is performing advisory functions that conflict with legislative restrictions applicable to the Cambodia MAP. It said that the in-country administrative and technical service personnel are necessary to establish liaison and coordination with responsible officials of the receiving nation to insure orderly and effective management of the program.

The Department agreed that a more complete report of costs applicable to the dollar limit should be submitted to the Congress and stated that it would coordinate with DOD and AID in determining includable costs

The Department said that the one-third valuation on excess material had been used because of the difficulty in determining actual value and that, in any case, DOD surveys of excess material supplied under MAPs indicated that the average actual value was less than one-third. AID stated that it would attempt to determine one-third of acquisition costs plus related costs for its excess property and would include this in its future reporting

AID agreed that it was not reporting Washington administrative costs against the limit. Although the Senate Committee on Foreign Relations stated that the limit would include administrative costs, AID did not include them because its appropriation requests for the Cambodia program did not. AID also stated that it is not reporting the costs of the Embassy's Economic Counselor, his deputy, and his secretary--although these personnel spend considerable time administering the economic assistance program--because these costs would be incurred, in any case, to operate the Economic Section of the Embassy

CONCLUSIONS

Although MEDT personnel were not assigned to Cambodian military units, MEDT activities expanded considerably from verifying requirements and monitoring deliveries, as initially described by the Secretaries of State and Defense

Reported expenditures indicate that the fiscal year 1972 dollar limit was not exceeded but that certain costs for Cambodian assistance were neither accumulated nor applied against the limit. These costs include those funded outside normal foreign assistance channels and certain administrative costs of the assistance programs

RECOMMENDATIONS

Because the Congress is concerned about the extent of U S involvement in Cambodia, we recommend that the Secretaries of State and Defense fully inform the Congress of the

type and organizational level of advisory assistance provided to the Cambodian military

We recommend that the Secretary of State insure that all costs, or reasonable estimates of them, related to Cambodian assistance, including those not funded through normal foreign assistance channels, be accumulated and applied against the limit. The fair market value, but not less than one-third of acquisition cost, should be used to apply excess material costs against the limit. Administrative costs funded by AID/Washington but related directly to assistance for Cambodia should also be reported against the limit.

CHAPTER 3

ASSISTANCE TO THE CAMBODIAN ECONOMY

The basic objective of U S economic assistance to Cambodia is to contribute to its political stability by helping it withstand abnormal economic dislocations caused by the war. An additional objective is to complement U S support of the Cambodian military by providing local currency for military budget support. U S economic assistance totaled \$130.6 million for fiscal years 1971 and 1972 and \$86 million for fiscal year 1973.

U S economic assistance to Cambodia includes various program components, as follows:

	<u>Fiscal years</u>			<u>Total</u>
	<u>1971</u>	<u>1972</u>	<u>1973</u>	
	_____ (millions) _____			
Program components				
Commodity reimbursable grant	\$19.8	\$ -	\$ -	\$ 19.8
Commodity import program	50.0	16.5	45.0	111.5
Program technical support	0.2	0.6	0.6	1.4
Cash grant	-	20.0	-	20.0
Exchange support fund	-	-	20.5	20.5
Refugee aid	-	-	1.2	1.2
Public Law 480, title I	7.4	15.9	18.4	41.7
Excess property	-	0.2	0.3	0.5
Total	<u>\$77.4</u>	<u>\$53.2</u>	<u>\$86.0</u>	<u>\$216.6</u>

PROBLEMS IN CALCULATING PROGRAM LEVELS

AID's requests to the Congress for Cambodia economic supporting assistance funds during fiscal years 1971 and 1972 were based primarily on estimated commodity import requirements. These requests, particularly for fiscal year 1972, were higher than the actual program levels.

AID requested \$70 million and \$110 million in economic supporting assistance funds for fiscal years 1971 and 1972, respectively. The actual supporting assistance program for fiscal year 1972, however, was only \$37 million because some

funds approved for 1971 were unused. As of March 31, 1972, only \$39.3 million, or 56 percent of the 1971 funds, had been committed for procurement, and as of April only about \$12.5 million, or 18 percent, in commodities had arrived.

The fiscal year 1971 supporting assistance program was based on import levels for 1967-69. These levels had been adjusted to eliminate commodities AID could not legally, or would not as a matter of policy, finance and to include imports necessitated by the war. Another adjustment was made for the higher cost of U.S.-source procurement over worldwide-source procurement. Additional factors which could not be quantified, such as the shifting of goods and resources to military consumption and the increased demand from a larger military payroll, were also considered.

Because the American Embassy in Phnom Penh lacked the necessary staff, an interagency committee developed the program. Some assumptions, such as security conditions, the condition of domestic production facilities and transportation, and the levels of importers' stockpiles, used in developing commodity requirements were later found to be invalid. In many cases, according to AID, it was necessary to rely on incorrect or misleading Government of the Khmer Republic (GKR) statistics.

The increase to a \$110 million proposed program in fiscal year 1972 was based on an anticipated increase in U.S.-source procurement with more delivery time and higher prices and an expected increase in commodity demand. We were informed that, because AID had limited experience with its 1971 program at that time, it submitted its 1972 program request on the same basis and assumptions.

The fiscal year 1972 program was reduced to a \$20 million cash grant, a \$16.5 million commodity grant, and \$600,000 in program technical support because of the invalid assumptions and slow use of the 1971 program. Security conditions had limited the import market to the Phnom Penh area, many importers had gone out of business while others had reduced their stocks, and the initial high exchange rate had made some goods too costly.

AID said that, even though much of the fiscal year 1971 program was actually used in fiscal year 1972, the basic assumption of an import requirement of roughly \$70 million per year was not invalid. Rather, it represented the

stretching out of the fiscal year 1971 program and a
consequent downward adjustment of the fiscal year 1972
requirement

PROBLEMS AFFECTING THE PROMPT USE
OF U S ASSISTANCE

At the time of our review in 1972, AID's commodity import program had been less than satisfactory in accomplishing its basic objective, primarily due to the slow arrival of commodities. As of April 1972 about \$12.5 million worth, or 18 percent, of the fiscal year 1971 program commodities had arrived. The following table shows, as of May 1, 1973, that while the commitment of funds to purchase imports was high, only \$58.5 million, or 44.6 percent, of the commodity grant totals had arrived.

<u>Grant number</u>	<u>Date</u>	<u>Grant amount</u>	<u>Committed</u>	<u>Percent committed</u>	<u>Value arrived</u>	<u>Percent arrived</u>
		(millions)			(millions)	
442-K-601	Mar 2, 1971	\$ 19.8	\$ 19.8	100.0	\$19.7	99.5
442-K-602	May 31, 1971	50.0	47.8	95.6	28.2	56.4
442-K-604	June 23, 1972	16.5	15.0	90.9	2.0	12.1
442-K-606	Oct 14, 1972	<u>45.0</u>	<u>18.7</u>	41.6	<u>8.6</u>	19.1
Total		<u>\$131.3</u>	<u>\$101.3</u>	77.2	<u>\$58.5</u>	44.6

The slow use of commodity grants and inflation during the first 10 months of 1971--Phnom Penh price indexes increased over 100 percent--necessitated adjustments to the economic assistance program. The United States agreed in October to provide a \$20 million cash grant to GKR to finance imports and bolster its foreign exchange reserves. According to AID, the grant was made in tandem with a GKR decision to accept the recommendations of the International Monetary Fund to set up a comprehensive program of economic reforms which included higher tariffs and a flexible exchange rate. The funds were released in November 1971 and February 1972 in two \$10 million installments.

AID agreed that Cambodia was initially slow to use U S aid but said that the startup problems had been overcome. AID stated that commodity import licensing had averaged \$1 million a week for the past year and that, without foreign assistance and GKR's new economic policies, the rate of inflation would have been intolerable and the economy would have ceased to be viable.

The above table demonstrates, as AID maintains, that the funds are being committed. As of May 1, 1973, about 77 percent of the commodity grant funds were committed. However, a delivery pipeline existed in that only about 45 percent of the commodity grant totals had arrived in Cambodia.

Restrictions on procurement sources, use of the General Services Administration (GSA) to procure commodities for the private sector, and various internal problems inhibited the flow of commodity assistance.

Restriction on procurement sources

Originally the \$50 million commodity grant dated May 31, 1971, was restricted to U S procurement sources. Several factors which slowed the use of the grant funds were (1) additional delivery time--4 to 9 months compared with 2 months for closer sources--(2) higher cost of U S commodities, and (3) Cambodian importers' unfamiliarity with U S suppliers and products and with AID procurement regulations and procedures since the United States was not a traditional supplier to the Cambodian market. Before 1971 Cambodia imported from such countries as Japan and France and received less than 3 percent of its imports from the United States.

The first provisional import license under this grant was not issued until August 23, 1971. To accelerate the movement of commodities, AID waived the U S -source requirement for \$25 million of the grant in October 1971 and authorized this amount for procurement from specified lesser developed countries. To make U S sources more competitive, a preferential exchange rate of 25 percent for U S commodities was established in January 1972 and was increased to 30 percent on February 28, 1972.

By June 1972, \$33.7 million, or 67.4 percent of the grant, had been earmarked for procurement. As of May 1, 1973, or nearly 2 years after the grant agreement was signed, the amount had increased to \$47.8 million. However, as the previous table shows, only 56 percent of the agreement value had arrived in Cambodia as of May 1, 1973.

Use of GSA

The \$50 million commodity grant provided that GSA would effect most procurement for the public and private economic sectors. AID's commodity import programs are normally designed to foster importer-exporter relationships by using private businesses in both the United States and the recipient countries.

AID believed that, given the unusual pressures created by wartime needs, using a central U.S. procurement agency would help compensate for unfamiliarity with U.S. suppliers and AID procedures. AID also felt that, by breaking the normal commercial relationship between importer and seller, collusion could be minimized.

It encountered problems, however, with GSA procurement for the private sector. Cambodian importers objected to intrusion by a government agency which separated importers from suppliers. It was necessary to permit use of sole-agency and proprietary procurement waivers, which negated the effectiveness of GSA competitive procurement. Problems were also encountered in dealing with many small transactions for the private sector.

GSA apparently procured goods well whenever the import order was suitable for procurement by a government agency, but many procurement actions were delayed pending clarification of importers' requirements to enable GSA to solicit competitive bids. For example, a GSA procurement of electrolytic tinplate for \$880,000 was delayed several months because information necessary for competitive procurement was lacking. As a result, AID authorized a GKR purchase of tinplate valued at over \$300,000 from Japan to meet emergency requirements.

GSA's role in procuring commodities for Cambodia was reduced, and in April 1972 GSA procurement for Cambodia's private sector was ended. AID's regular commodity program procedures were then used for private sector procurement.

Cambodian problems

To meet the emergency situation in Cambodia, the commodity import program was initiated through a \$20 million reimbursable grant. The grant agreement, signed in March 1971, provided reimbursement from AID for GKR's foreign exchange purchases of essential commodities. GKR was authorized to procure commodities from lesser developed countries.

GKR was cautious in approving procurement licenses since it did not want ineligible imports for which reimbursement would not be made. Cambodian importers were not familiar with AID regulations covering procurement from lesser developed countries. As a result, GKR did not initiate reimbursement requests until August 1971, or 5 months after the agreement.

During the fourth quarter of 1971, GKR reinforced its revenue measures by introducing an economic stabilization program. Under this program, a 50-percent surtax was imposed on all customs duty rates of 35 percent and higher and a special war effort support tax was levied on all imports. The general rate of the tax was 3 percent, but much higher rates were applied to luxury goods, including household appliances, motorcycles, and automobiles.

The AID Auditor General (AG) reviewed the Cambodian commodity import program and reported in November 1972 that the movement of needed commodities into the economy was being restricted because of excessive GKR import duties and taxes.

The AG found that, of 64,400 tires costing \$806,245 and received between September 1, 1971, and July 31, 1972, approximately 34,000 (53 percent) costing \$427,310 were still in stock, despite a pressing demand for tires in Cambodia. The large inventory could not be sold because of high GKR import duties, taxes, and fees which were assessed during 1971 on the cost-insurance-freight value. These consisted of a 50-percent war tax, a 60-percent customs duty, an 18-percent sales tax, a 25-percent Societe Nationale D'Exportation D'Importation (SONEXIM) importer fee, and a 6-percent stamp tax. In addition, the GKR tire agency earned a 16-percent profit on retail sales and an 8-percent profit on sales to tire distributors.

The AG also found that 4,552 (66 percent of the total imported) automobile batteries had been in a warehouse for about 1 year. Although the economy needed batteries, there was little market for them from importers and retailers because of the high selling price caused by a 130-percent war-effort tax and a 25-percent customs duty.

In both instances the AG recommended that the Embassy request GKR to reduce the taxes and duties to enable the commodities to move into the economy.

AID agreed that taxes on imports are high but believes GKR is correct in setting taxes high enough to secure revenues for its budget and to discourage hoarding, speculation, and unduly high turnover. We believe, however, that excessive duties and taxes restricting movement of needed commodities into the economy are not entirely consistent with AID's program objectives.

OBSERVATIONS ON PROGRAM MANAGEMENT

The stated U S policy was to implement the objectives in Cambodia with a minimum of direct U S involvement. AID's management concept was to keep its American staff to a minimum, rely heavily on existing Cambodian institutions, and encourage GKR's use of multilateral advice and assistance. The AID program in Cambodia differs significantly from other AID programs, it has adopted a policy of not becoming involved in capital projects or undertaking technical assistance. In May 1972 the Embassy's Economic Counselor had a staff of 13 American and 8 Cambodian employees to administer economic assistance.

We noted several technical or procedural problems in arrival accounting documentation, end-use surveillance, commodity use, use of marine insurance proceeds, and marine insurance cost. We discussed these problems with U S Embassy officials in Phnom Penh, and they generally agreed with our observations and stated that they were beginning corrective actions.

In reporting in November 1972 on its review of the commodity import program, the AID AG stated that the Embassy staff's end-use reviews were satisfactory but that they should be increased to cover a greater percentage of commodities received, including adequate sampling of the various commodity categories. The AG also found that, although the Embassy was working with SONEXIM to improve the timeliness of arrival accounting information, SONEXIM still had delays in the input of arrival data.

Financing of luxury-type commodities

AID testified before various congressional committees that, in implementing its commodity assistance program for Cambodia, it would finance only those items essential to keep the economy functioning. However, that essentiality is apparently subject to a broad interpretation. A master list of categories incorporated into the grant agreement showed the commodities which AID would finance, some were of questionable necessity.

During hearings held by a subcommittee of the House Committee on Government Operations on February 24, 1972,

subcommittee members expressed interest in the purchase of luxury commodities for Cambodia, specifically the authorized purchases of televisions, room air conditioners, and magnetic tape. AID officials in Washington suspended procurement action and requested additional justification. The Embassy in Phnom Penh subsequently informed Washington officials that requirements for these items were canceled.

In November 1971 AID added to its list several commodity categories not normally eligible for AID financing. By April 1972 it had begun procurements for soft drink concentrates costing \$280,723 and 4 million ball point pen refills costing about \$84,000.

AID apparently does not consider these commodities of questionable necessity to a war economy. AID stated that it finances eligible commodities necessary to prevent a marked deterioration in living standards and excludes all luxury items from its financing and that it did not want to choke industrial development by cutting off supplies of industrial raw materials. Therefore, these items remain eligible for AID financing.

Management of public sector assistance

Although not specifically included in AID's congressional presentation, about \$12 million of fiscal year 1971 grant funds were set aside to finance commodities for public sector projects. AID informed us that its assistance to public sector activities was not directed at development but at providing commodities which would enable the economy to function with a minimum of dislocation.

The type of project assistance AID undertook required a greater degree of technical administration and management than it was able to provide under its management concept for Cambodia. We found that AID had not considered assistance provided by other donors or reviewed GKR's capability to effectively use and maintain the commodities. For example:

1. AID financed \$1.8 million of road construction equipment which included 14 tractors, 20 graders, and 15 front-end loaders, plus spare parts. This equipment had been considered for MAP funding.

before AID's procurement, and AID informed us that it had acted on the basis of DOD conclusions on equipment needed by the Ministry of Public Works. U S officials in Cambodia said that AID was apparently unaware that Denmark was also providing 29 front-end loaders to the Ministry. These may have been sufficient to satisfy the requirement. AID subsequently said it knew about this equipment but could not give us documentation that this had been adequately considered when the procurement was made.

We found that MEDT also provided the construction equipment and thereby duplicated AID's procurement. Therefore, when all equipment is delivered, GKR will have received 3 different makes of front-end loaders, totaling 59 units. Duplicate equipment ordering is discussed further in Chapter 4.

We were unable to determine that valid requirements exist for all these loaders. AID informed us that, given the magnitude of the problem of keeping roads open for better security, all the road-building equipment was needed. AID was unable to provide any documentation to support this conclusion or to show GKR could effectively use the equipment.

- 2 In November 1971 GKR requested U S assistance to provide power-generating equipment for Electricite de Cambodge. Temporary duty personnel from Saigon and Washington reviewed the request and made recommendations.

In June 1972 AID received a financing request from GKR for power-generating equipment. GSA was designated as the authorized procurement agent, and on February 15, 1973, it awarded a contract for \$1.8 million. Equipment is scheduled to arrive in Phnom Penh in early November 1973.

In a January 30, 1973, report, the AID AG stated that the files clearly indicated the need for a better feasibility study and that temporary duty visits could replace resident technical staff. According to the report, the absence of such staff to a great

extent accounts for the fact that the generators will unlikely be operating before the end of 1973, at the earliest. In addition, this transaction apparently goes beyond the original AID objective of providing assistance for immediate economic impact.

AID said that the lack of technical staff in Phnom Penh was not the reason for the delay in delivering the generators. According to AID the problem of offloading the heavy generators (60 tons each) in Phnom Penh delayed the procurement bid opening until the matter was resolved in January 1973.

The AG who prepared the report agreed with AID that it was necessary to resolve this problem before contract award. He believed, however, that the matter could have been resolved quicker had there been a resident technical staff in Phnom Penh.

- 3 AID has been unable to adequately monitor the use of some commodities provided to the public sector. Through August 1972 AID had provided 10 bailey bridges and 3 floating bridges costing \$879,000 to be used by GKR exclusively as temporary repair structures.

On November 24, 1972, the AG reported that most of the bailey bridges were being used improperly as permanent structures, even though they were desperately needed in other locations. The AG found that, although security at certain times had been a factor in the repair of some bridges, GKR had not attempted to repair any of them, because it considered them permanent structures. The AG also reported that the floating bridges had not been used at all and that some components had been used in constructing bunkers.

- 4 In reporting on the operations of AID's program in Cambodia, the AG stated in January 1973 that, with no in-house technical resources, the personnel in Phnom Penh found it extremely difficult to manage the purchases for the public sector.

Prior U S claims

At the time of our review, the U S Government had claims exceeding \$2 million against GKR. These claims resulted from various irregularities under the assistance program terminated in 1963. Department of State officials discussed settlement of these claims with GKR officials in 1971 during negotiations for resuming economic assistance. However, the U S position has been to not press these claims because of (1) the state of GKR finances and its need for economic assistance to bolster reserves and (2) potential legitimate claims by GKR against the U S Government for prior war damages. The Department of State informed us that it was considering the GKR war damage claim but that it was not in a position to comment on its merits.

EXCHANGE SUPPORT FUND

In implementing its economic assistance program, the United States has tried to minimize its direct involvement by encouraging Cambodia's use of multilateral advice and assistance. The United States supported the establishment on March 1, 1972, of a multilateral Exchange Support Fund (ESF) whereby other countries could provide assistance.

Participating donors agreed that ESF's resources should be limited to financing commodities unsuitable for bilateral commodity programs and services and commodities required for capital projects and technical assistance programs of contributing countries. ESF resources are not to be used to repay debts, capital transfers, military expenditures, and other items reserved for financing with GKR's own foreign exchange.

ESF's contributions totaled \$34.5 million for 1972. In 1973 its expected contributions were \$31.9 million plus a \$1.1 million carryover of unexpended 1972 funds. Information on actual and prospective contributions follows:

<u>Contributors</u>	<u>Calendar year</u> <u>1972</u>	<u>Expected</u> <u>contribution</u> <u>calendar year</u> <u>1973</u>
United States	\$12,500,000	\$16,000,000
Japan	5,000,000	7,000,000
Australia	1,000,000	1,000,000
United Kingdom	522,375	520,000
Thailand	250,000	250,000
New Zealand	119,520	120,000
Malaysia	<u>100,000</u>	<u>10,000</u>
Total	<u>19,491,895</u>	<u>24,900,000</u>
Khmer Republic	15,000,000	7,000,000
International Monetary Fund	(6,763,454)	
drawing reserves (note a)	<u>(8,236,546)</u>	<u>-</u>
Total	<u>\$34,491,895</u>	<u>\$31,900,000</u>

^aU.S. funds provided through a reimbursable grant and a cash grant provided 73 percent of GKR's foreign exchange receipts between November 1971 and March 1972.

The United States originally proposed contributing up to \$12.5 million in 1972 on a matching basis (50-50) with other contributing countries, exclusive of Cambodia. It was planned that the other countries, including the United States, would contribute \$25 million. The United States, however, contributed its entire pledge of \$12.5 million, or 64 percent of the external foreign exchange resources, even though contributions of other donor nations approximated only \$7 million. The overall U.S. share was 36.2 percent.

AID intends to provide 50 percent of all contributions in 1973. Contributions were estimated to be \$32 million as of July 10, 1973, and AID planned to contribute \$16 million. According to AID, if Cambodia and other nations can raise their contributions during 1973, it intends to match the additional amounts on a 50-50 basis up to a total of \$17.5 million.

GAO access to ESF records

In January 1973 we attempted to gain access to ESF records through the Embassy in Phnom Penh. The Embassy informed us that it would not formally request access to the records because it believed that our direct examination of them would appear to be an audit of ESF and, as such, would contradict the GKR decree incorporated in the pertinent bilateral agreements. According to an Embassy official, the ESF manager said that access to ESF records would have to be approved by all ESF contributors. This would necessitate a meeting of ESF's Working Group, and it was doubtful that the matter could be resolved without further discussions with the respective governments.

The Embassy position, endorsed by the Secretary of State, was that we could not have direct access to ESF records. We were able to obtain some information from monthly reports prepared by the ESF manager and available at the Embassy.

Source of commodities

ESF contributions are not tied to any source and are therefore used to finance imports from any country. Data provided by the Embassy showed that in 1972 the United States was the source of only 18.8 percent of the commodities purchased, while about 49 percent came from Japan, France, and

Mainland China However, one major item of U S source financed by ESF was freight for Public Law 480 commodities The amount exceeded \$5 million, or about 80 percent of the U S -source total The following table lists the leading countries from which commodities were imported and, for comparison, shows the 1972 contributions

<u>Exporting nation</u>	<u>Dollar value</u> (millions)	<u>Percent</u>	<u>1972 contribution</u> (millions)
Japan	\$ 7 9	23 6	\$ 5 0
United States	6 3	18 8	12 5
France	5 5	16.5	-
Mainland China	3 1	9 3	-
Taiwan	1 9	5 7	-
Western Germany	1 6	4 8	-
United Kingdom	1 0	3 0	0 5
Australia	1 0	3 0	1 0
Italy	0 9	2 7	-
Hong Kong	0 9	2 7	-
Singapore	0 6	1.8	-
Thailand	0 5	1 5	0 2
31 other countries	<u>2 2</u>	<u>6 6</u>	<u>0 2</u>
	<u>\$33 4</u>	<u>100 0</u>	<u>\$19 4</u>

As shown in the table, the balance-of-payments effect was positive for all but the United States

Type of commodities imported

ESF informs the contributors of the type of commodity imports which it finances The data on imports received by the Embassy and made available to us was in such broad commodity categories that we could not determine how essential the imports were to economic stabilization Nor were we able to assess the ESF contribution to effective implementation of GKR's overall economic program

Examination and verification of import arrivals

Until February 1973 no mechanism existed to verify that importers were importing the items shown on their declarations supporting their purchases of FSF foreign exchange

In late 1972 the ESF Working Group agreed that verification procedures were necessary to determine whether ESF funds were being used to finance imports according to importer declarations. Accordingly, the Working Group agreed to employ the Societe Generale de Surveillance, a Swiss company experienced in examining and verifying import arrivals, to validate imports on a sample basis.

By the end of May 1973 the Societe had completed six reports on ESF commodities. The imports reviewed are selected by the ESF manager and transmitted to the Societe. The manager uses his own judgment in selecting imports for review, although he accepts any Working Group member's proposal. Only items which are close to arrival in Cambodia are selected for review. Apparently no plan exists to extend the reviews to goods which arrived in Cambodia before February 1973.

Report on ESF operations

The ESF agreement called for the Working Group to review, during the third quarter of 1972, ESF operations and assess its contributions to the overall GKR economic program. This report was not prepared, and, according to the Embassy in Phnom Penh, no reason now exists to press for a report covering operations from May to September 1972.

The Embassy stated that the report was originally planned as a progress report to assist contributing governments in their deliberations and decisions on extending ESF. These decisions were made at ESF meetings in October and November 1972, and notes extending ESF in 1973 were exchanged in January 1973.

CONCLUSIONS

The assistance levels requested for fiscal years 1971 and 1972 significantly exceeded assistance levels which were effectively absorbed due to the slow arrival of U S - financed commodities.

The following factors contributed to the slow use of U S economic assistance:

- The United States' not being a traditional source of Cambodian imports

- The use of GSA to procure for Cambodia's private economic sector
- Additional leadtime and increased costs for U S commodities
- Cambodian lack of experience with AID and GSA procurement requirements and procedures
- Cambodian tax policies These resulted in apparent exorbitant selling prices and thereby delayed the movement of urgently needed commodities into the Cambodian economy

Our observation on AID's management of the Cambodian economic assistance program was that its management concept apparently hindered it from adequately managing some assistance provided for the public sector

AID contributed the full amount of its 1972 pledge for ESF, even though third countries did not contribute the planned matching amounts We were unable to ascertain, from available information, ESF's effectiveness in contributing to economic stability.

RECOMMENDATIONS

We recommend that the Administrator of AID reassess the need for assistance in amounts requested by considering (1) Cambodia's ability to absorb and effectively use the assistance and (2) the level needed to maintain economic and political stability We further recommend that the Administrator

- Insure that Cambodia's capability to use and maintain equipment provided to the public sector be more adequately evaluated and that similar commodities provided by other donors be considered
- Encourage the proper and prompt use of commodities provided for the public and private sectors

CHAPTER 4

MILITARY ASSISTANCE TO CAMBODIA

The principal objectives of MAP are to enable the Cambodian Armed Forces (Forces Armees Nationale Khmère, or FANK) to maintain national independence and neutrality and facilitate Vietnamization. Because of continuing hostilities in Cambodia, determining whether these objectives will be fully accomplished is difficult. However, we did find several management deficiencies which were impairing the effectiveness and efficiency of the military assistance.

The primary functions of MEDT are to determine requirements, insure that material and equipment are turned over to MAP-supported units, and check on subsequent use. We found that

- Equipment receipt and transfer procedures were inadequate.
- The system used to account for equipment deliveries by MAP element and by individual recipient unit were inadequate or not properly implemented
- Management of the ammunition program was deficient for determining the quantities to be resupplied and the quantities to be included in the overall program
- MEDT did not cancel a \$1.4 million requisition for road construction equipment after it knew AID had provided the same items.

In addition, we noted that Cambodian military personnel had improperly purchased military equipment from South Vietnamese Army personnel and that corrupt payroll practices persisted in the Cambodian military despite efforts to correct this problem.

The DOD Directorate for Military Assistance and Overseas Audits also found significant problems in the Cambodia program during its review in January through March 1972. The DOD report stated that, although the United States had invested more than \$300 million, the MAP-supported force structure had not achieved a degree of combat effectiveness expected

from a more fully developed country with a cadre of experienced and trained military personnel.

In January 1973 MEDT officials informed us that organizational and procedural changes had improved equipment receipt and transfer procedures and management of the ammunition program. These changes included centralizing MAP administration in Cambodia and shipping most MAP-furnished equipment and supplies directly to Cambodia. According to MEDT, the changes had eliminated or reduced many of the problems we had found in 1972. In May 1973 we found that equipment receipt and transfer procedures had improved, equipment and supplies were no longer shipped through Vietnam. However, we found that inadequate property accounting records made it difficult, if not impossible, to determine the source of diverted MAP-provided items.

FORMULATION OF MAP FOR CAMBODIA

The amount of military assistance provided from April 1970 through June 1973 is shown in the following table. DOD excess assets with an acquisition value of about \$42.5 million were also programmed for release to Cambodia during fiscal years 1971 and 1972. The MAP amounts per year were

<u>Fiscal year</u>	<u>Amount</u>
	(millions)
1970	\$ 8.5
1971	179.4
1972	180.0
1973	<u>148.6</u>
Total	<u>\$516.5</u>

In 1970 the United States agreed to provide emergency support for a 65,000-man force. The force structure was expanded to 155,000 in fiscal year 1971 to 220,000 in 1972 and 1973.

In formulating the 1970 MAP, the Secretary of Defense issued the following guidelines for developing a crash program within authorized dollar limits.

- The program would be keyed to the existing military structure and equipment
- Partial support would be provided for a 65,000-man force. The support would not include such high-cost, sophisticated items as tanks and aircraft
- Ground forces would be developed as lightly armed infantry, supported by 60-mm and 81-mm mortars and 105-mm. howitzers with mobility provided by equipment already in the Cambodian Armed Forces inventory
- For the Cambodian Air Force, only T-28 aircraft would be supported and naval support would be limited to small patrol craft.

Because of the emergency nature of Cambodia's requirements, the fiscal year 1970 MAP was not developed in the normal manner. For example, the formal force structure to be supported was not established, the amount of serviceable equipment on hand was not determined, and total requirements to support the established force structure were not developed. Rather, urgently needed light weaponry was provided for existing forces.

The fiscal year 1971 MAP was designed to provide follow-on support of the 1970 program and to support a specified force structure. Initial planning guidance remained the same for force level, avoidance of expensive add-on equipment, and emphasis on building on existing Cambodian assets. However, subsequent guidance increased the supported force level to 155,000.

U S officials attempted to develop the fiscal year 1971 program along conventional force structure lines and to establish tables of organization and equipment for identifying specific requirements. However, only limited information was available on the number and condition of Cambodian assets, and the organizational structure was not compatible with developing a functional maintenance and logistical support system. Further, combat conditions existed when the program was formulated.

Tables of organization and equipment were developed for each MAP-supported unit within the authorized force structure.

We were advised that they were somewhat invalid but useful tools for programing and requisitioning

In developing the fiscal year 1972 program, GKR envisioned a force structure much larger and more sophisticated than the United States would agree to support. During negotiations, a compromise force level of 220,000 was agreed upon. MEDT advised us, however, that funds were not available to sustain both current operations and the desired force level. The actual MAP-supported force level approximated 176,000 in fiscal year 1972. Initial dollar guidance used in developing the fiscal year 1972 program was \$200 million, however, as of June 30, 1972, \$180 million was authorized for expenditures.

On the basis of the agreed force level of 220,000, FANK and MEDT jointly prepared tables of organization and equipment. The tables were based on a U S Military Assistance Command, Vietnam, study which considered such factors as enemy threat and FANK mobilization capabilities. The Army of the Republic of Vietnam (ARVN) tables of organization and equipment were used as guides but were reduced in size and complexity consistent with limited funding guidance and U S objectives. We were advised that programmed support for FANK forces remained austere, focusing on light infantry equipment, light artillery, unsophisticated aircraft, minimal heavy equipment, and no tanks.

The guidelines and objectives used in formulating the earlier MAPs were used to develop the fiscal year 1973 program, and the agreed force level remained at 220,000.

EQUIPMENT RECEIPT AND TRANSFER PROCEDURES

A primary function of MEDT is to audit and monitor equipment deliveries. To do so, adequate receipt and transfer procedures are necessary.

Nearly all MAP material and equipment initially destined for Cambodia was shipped to Vietnam. MEDT reported that as of April 30, 1972, about \$186 million worth of equipment had been delivered under this system.

The procedures for transshipping from Vietnam were inadequate to insure proper control and accountability. We found that (1) shipping and turnover documentation was inadequate, (2) coordination between MEDT elements in Phnom Penh and Saigon was lacking, and (3) procedures had not been established to reconcile the quantities shipped from Vietnam with the quantities actually received.

In March 1971 we noted similar problems which adversely affected control and accountability of material. We were informed that a new system was being put into effect to provide a detailed inventory under U S supervision before transfer to FANK. The quantities received in Cambodia were to be reconciled with quantities issued and shipped. In March 1972 we found that the promised corrective actions had not been implemented and the same problems existed.

In 1972 we found the problem of inadequate documentation and accountability particularly acute for aircargo shipments. The aircargo manifest was practically meaningless to both the MEDT official monitoring arrival of material and equipment and the Cambodian official signing for its receipt. It was not possible to readily determine what was in a particular shipment. The MEDT officials in Cambodia were unaware of specific items arriving by air until Cambodian personnel had inventoried the cargo.

We tested 10 aircargo shipments and found that documentation was lacking for numerous items and that those shipments with available documentation had numerous discrepancies--both overages and shortages. (See table below) MEDT officials were unable to explain the discrepancies, other than as pilferage or errors in the delivery and transfer documentation

<u>Item</u>	<u>Recorded as shipped from Saigon</u>	<u>Recorded as received in Phnom Penh</u>	<u>Difference over or short (-)</u>
Artillery plotting set	28	7	-21
Battery	15,000	9,936	-5,064
Reeling machine	11	-	-11
Small-arms case	5,000	5,280	280
M-16 magazine	10,000	10,064	64
Paint (gallons)	100	-	-100

MEDT officials generally agreed that the procedures for shipping and transferring material and equipment from Vietnam to Cambodia were inadequate and stated that additional procedures would be initiated. They added that, after September 1972, almost all MAP-provided material and equipment was to be shipped directly to Cambodia from U S supply sources and proper accountability would be easier to maintain

During our followup in 1973, we found that organizational and procedural changes were made which MEDT said resulted in improvements. The significant changes included

- Direct shipment of nearly all equipment and material, except ammunition, to Cambodia from the United States

- Reorganization of MEDT to centralize MAP administration in Cambodia by moving all logistical personnel from Vietnam to Cambodia.
- Use of a single U S seaport and airport for cargoes bound for Cambodia and improved intransit security over the cargoes through cargo segregation
- Receipt of cargo manifest information before receipt of ocean cargo in Cambodia.
- Use of MEDT personnel to verify shipping documentation with cargo received at the time of cargo discharge and the forwarding of discrepancy reports to the United States.

MEDT personnel told us that they were no longer experiencing the large discrepancies we found in 1972 between quantities shipped and received. They attributed this improvement to shipment consolidation and cargo segregation and to direct shipment to Cambodia.

INADEQUATE PROPERTY ACCOUNTING SYSTEM

MEDT reported that as of February 25, 1972, major end items of equipment valued at about \$52 million had been delivered to the Cambodian Armed Forces. MEDT often did not know which units received the equipment when it was initially delivered to Cambodia or what equipment the units had on hand. FANK had transferred MAP equipment to different units--in some cases non-MAP-supported units--without notifying MEDT. In addition, equipment lost in combat was not reported or the reports were inaccurate.

An adequate property accounting system is necessary for MEDT to observe and report on the use of MAP equipment. MEDT maintained a record called the A-B-C Report which was supposed to identify the quantity and value of equipment delivered to each MAP element. MEDT told us that the report was not an official accounting document but that it was the only such record available. We found that the A-B-C Report did not accurately show the total amount of MAP material and equipment delivered to Cambodia or the quantities delivered to individual units. Some of the problems resulting from not having an adequate system follow.

According to the A-B-C Report, 360 2-1/2-ton cargo trucks were delivered to the FANK First Transportation Brigade but the brigade's inventory record showed only 151 trucks on hand. MEDT officials said the difference of 209 trucks resulted from combat losses and transfers to other FANK units. However, they did not know how many trucks had been destroyed, how many had been transferred, or to which units the trucks had been transferred.

When the first 89 trucks arrived in Cambodia, MEDT prepared a suggested distribution plan for FANK units. FANK apparently did not agree with the plan and, without informing MEDT, distributed the trucks as follows.

<u>Unit or activity</u>	<u>MEDT-planned distribution</u>	<u>FANK actual distribution</u>
1st Transportation Brigade	80	50
Artillery Brigade	6	6
Armored Cavalry	3	3
Infantry Battalion	-	7
Heavy Infantry Brigade	-	19
13th Brigade (note a)	-	2
Kompong Som Military Region (note a)	-	2
Total	<u>89</u>	<u>89</u>

^a Non-MAP-supported activities

It took 4 days and several trips to FANK headquarters and the Ordnance Technical Service for an MEDT official to determine actual distribution. MEDT did not verify actual distribution of the other trucks

During September 1971 an MEDT inspector could not account for the following equipment, which had been issued to a MAP-supported unit in May 1971

<u>Item</u>	<u>Issued in May 1971</u>	<u>On hand September 1971</u>	<u>Differ- ence</u>	<u>Value of difference</u>
Rifle, M-16	367	216	151	\$16,006
Grenade launcher, M-79	71	29	42	9,324
Pistol, 45 caliber	14	8	6	276
Machine gun, 30 caliber	27	17	10	500
Mortar, 60 mm	3	2	1	278
Mortar, 81 mm	3	2	1	491
Radio, PRC/25	16	8	8	5,856
				<u>\$32,731</u>

Equipment appeared to have been taken from the MAP-supported unit to equip a newly formed, non-MAP-supported activity commanded by the brother of the GKR President. MEDT officials disclaimed knowledge of the non-MAP-supported activity.

MEDT would be able to more readily identify unauthorized transfers of equipment if adequate property accounting records existed. Lack of an adequate system could also cause problems in programming future requirements. MEDT, on the premise that the total requirements remain the same, does not adjust the programming when equipment earmarked for one MAP-supported unit is diverted to another one. We believe that not making these adjustments lessens the meaning of the concept of developing the program by MAP element or unit for a specified force structure. In addition, MEDT's rationale does not consider equipment diverted to non-MAP-supported units.

We brought our observations to the attention of MEDT, which advised us that it had spent considerable effort to increase the accuracy of the A-B-C Report and to systematize procedures. MEDT agreed that accounting for deliveries by MAP element did not identify a delivery to a specific unit but stated that the MAP management system did not provide for more detailed identification.

MEDT commented that further accounting for equipment delivered to a specific unit was needed but that FANK should do this. MEDT stated that a system, although still imperfect, had been established and the data was at various elements of FANK. However, systematizing, organizing, centralizing, and updating the data in an accounting and reporting system of this size presented a considerable degree of complexity for FANK.

We followed up on this matter in January 1973 and again in May and were informed that some corrective efforts were taken or were being planned. The FANK technical service maintained records of when and to what units certain major equipment items had been issued.

Individual FANK units were not yet maintaining unit records to show on-hand balances, although forms were being developed to show authorizations, issues, and on-hand balances. After the records are established, the information will be verified during unit inspections.

We were informed that FANK was increasing and upgrading its logistics capability without advisory effort, although third-country nationals monitored the technical services' depot activities. Supply operations had been extended by

upgrading the logistics organizational structure in the military regions. According to MEDT this action should improve unit equipment accountability. Also, FANK logisticians were establishing supply priorities and centralizing control over communications lines to improve the supply distribution system.

In addition, MEDT was receiving periodic status reports on major equipment items from various FANK elements. MEDT was also receiving monthly combat-loss reports from FANK and was using the information to adjust its A-B-C Report.

In May 1973 we found that MEDT and FANK control and knowledge of the actual distribution and locations of equipment still needed improvement. MEDT lacked information on what equipment had been issued to a specific unit, in our opinion, this reduced the effectiveness of MEDT's end-item inspections, since the inspectors could not verify the presence of the equipment.

The lack of specific equipment distribution information could result in large-scale diversion without ready detection by MEDT inspectors and without identifying the source of diversion. For example, in May 1973 we were informed that an Embassy inquiry showed that at least 107 MAP-provided jeeps and many additional jeeps obtained from other sources were diverted to private use. At MEDT's suggestion, FANK tried to confiscate diverted MAP-provided jeeps and to offer the equivalent of about \$250 to recover the other military jeeps. MEDT advised us that FANK had confiscated about 40 jeeps but that it was doubtful any disciplinary actions would be taken because FANK could not identify the source of the diversion.

MANAGEMENT OF AMMUNITION PROGRAM

Ammunition has been the largest single MAP item for Cambodia, representing about \$158.4 million, or 43 percent of the \$367.9 million program for fiscal years 1970-72

Management of the ammunition program was deficient in determining the quantities to be periodically resupplied and those to be included in the overall program. The information used as the basis for programming ammunition was inaccurate, and the quantity to be resupplied was based on issues from the main ammunition depot rather than on actual or projected consumption. Some units had stockpiled excessive amounts of ammunition while others were reporting shortages of the same type of ammunition. These problems were caused by

- Inaccurate information on weapon quantities.
- A lack of information on the amounts of ammunition on hand at the units.
- A lack of reliable ammunition consumption data
- FANK's failure to take forceful action to control unit stockage levels and to redistribute excesses.

DOD auditors reviewed ammunition management during January 1972 and found that issues of ammunition to FANK could be reduced about \$7 million on a one-time basis by replacing the then-current French unit-of-fire stockage system with the U.S. basic-load system. Stocking ammunition at the unit level under the U.S. basic-load system requires considerably less ammunition. MEDT would have better visibility over the ammunition program if end-item use inspectors were required to observe and report on the adequacy of storage facilities, compatibility of ammunition stored together, effectiveness and timeliness of resupply, and the quantity of ammunition on hand by type.

During our followup in January 1973 and again in May, MEDT informed us that FANK had taken or planned the following actions in response to its recommendations

- A general order outlining specific responsibilities under a new ammunition system was implemented in February 1973 to transfer control of ammunition issue to the Director of Material, the official responsible for storing and maintaining official stock records.
- The general order also initiated a daily stock status reporting system and a requirement for validation of using units' ammunition requests.
- A complete inventory was taken at all ammunition depots and storage points.
- Most FANK units converted from the French unit-of-fire system to the United States basic-load stockage system and reduced ammunition to levels more compatible with their transport capabilities.
- FANK planned to establish a team to inspect ammunition stores to determine excesses and to evaluate maintenance of ammunition stocks at the unit level

MEDT informed us that it believed considerable progress had been made in ammunition management, despite problems FANK faced in developing an effective logistics system while fighting a war. According to MEDT, the most serious problem now is the severe shortage of trained logistics personnel to implement and maintain an effective management system.

In May 1973 we found that the ammunition depots were preparing the daily stock status reports. MEDT used this information and required stockage levels to determine the amount of ammunition to be requisitioned. However, the required stockage levels were based on weapon densities which were not adjusted for losses

DUPLICATE ORDER OF
ROAD CONSTRUCTION EQUIPMENT

During 1971 MEDT and AID placed duplicate orders for heavy roadbuilding equipment for the GKR Ministry of Public

Works This equipment consisted of 14 bulldozer tractors, 20 roadgraders, and 15 scoop loaders at an estimated value of \$1 4 million MEDT placed its order after it agreed that AID would purchase the equipment under the commodity import program The agreement partially implemented the decision to use AID funds to procure common-use-type items, including some items already programed under MAP. This was to free MAP funds for procurement of items having direct military application

We found that shortly after the meeting in the summer of 1971, when it had been decided that AID would provide the equipment, an MEDT officer ordered the equipment through the military supply system In accordance with the agreement, AID initiated purchase action on October 1, 1971, not knowing that MEDT had already requisitioned the equipment

On December 21, 1971, at another meeting attended by MEDT, AID, and Embassy officials, it was discovered that both agencies had ordered the equipment. AID attempted to cancel its order but was unable to do so. The Chief, MEDT, said that the Country Team--principal U.S. officials in Cambodia, headed by the Ambassador--had decided that, rather than cancel the requisition, the equipment requisitioned by MEDT would be diverted to FANK units. MEDT stated that by redistributing the equipment, both programed and unprogramed MAP requirements for these items for fiscal years 1971-73 would be satisfied.

The DOD Military Assistance Manual states that MAP element descriptions should contain specific justifications for all requirements submitted. Properly prepared descriptions should leave no doubt about the need and about the manner and degree to which the assistance will accomplish planned objectives We reviewed the MAP element descriptions for the seven FANK units to which the equipment was diverted and found that the description for only one unit mentioned bulldozer tractors, roadgraders, or scoop loaders

Because it was agreed during the summer of 1971 that AID would purchase the road construction equipment, it appears that MEDT could have used \$1.4 million for higher priority military items Accordingly, we believe that MEDT should

have canceled its requisition rather than divert the equipment to FANK units to satisfy lower priority requirements.

IMPROPER SALES OF U S MILITARY EQUIPMENT

Various U S personnel said that Cambodian Armed Forces personnel had clandestinely purchased military equipment from ARVN personnel. The United States had provided this equipment to ARVN under the Military Assistance Service-Funded program, and the transactions were illegal on the part of both the Vietnamese seller and the Cambodian purchaser.

From January through March 1972, DOD auditors examined this illegal activity. The auditors told us that their audit coverage was extensive, therefore, we limited our review to a followup of U S actions to stop these activities.

The DOD auditors were unable to determine the full extent of these equipment sales, but they concluded the practice was widespread with significant cost to the U S. Government. They found that the equipment was sold at a fraction of original cost. For example, a list of equipment purchased from ARVN by one FANK commander indicated that \$465,052 worth of equipment was sold for the equivalent of \$257,558. The auditors believed that ARVN had probably reported the equipment as combat or maintenance losses, after which it could requisition replacement items through the U S supply system.

The practice of purchasing U S. military equipment from ARVN apparently began about May 1970, when Vietnamese Armed Forces started operating in Cambodia. The trade developed to the extent that FANK brigade commanders sent representatives to the Vietnam-Cambodia border with a list of items they wished to purchase. We were informed that Cambodian personnel in the Saigon area were also purchasing U S military items, including new uncrated items.

Funds used by FANK commanders to purchase the equipment were probably obtained through payroll padding, but MEDT officials stated that some FANK commanders also used their personal funds.

The DOD auditors recommended that the highest appropriate U S officials request their Vietnamese and Cambodian counterparts to intervene to stop this practice. They further recom-

recommended an investigation to determine the specific sources of purchases

The Chief, MEDT, discussed the audit findings with the Deputy Chief of the FANK General Staff and followed up the discussion with a letter on March 21, 1972, requesting that the practice be stopped. The Commander, U S. Military Assistance Command, Vietnam, also informed the Chief of the Joint General Staff of the Republic of Vietnam Armed Forces that the allegations were quite serious and warranted his personal attention

The Chief, MEDT, informed us in May 1973 that the only corrective actions taken were his discussion with the FANK Deputy Chief of Staff and his followup letter. The Chief, MEDT, advised us, however, that end-item inspection teams were alert to the problem and that he had no evidence suggesting the practice was continuing. He said that FANK/ARVN border contact had stopped in January 1973, and this physically obstructed these illegal activities. According to him, MEDT did not attempt to identify the equipment purchased from ARVN, reduce the MAP-provided equipment by an appropriate amount, or insure that this equipment was included in the FANK inventory

We did not verify that FANK had included the equipment in its inventory, however, we noted that the owners of at least 150 jeeps acquired from other sources--probably from ARVN--considered them as private property. FANK seemed to recognize this since it was offering to purchase the jeeps.

PAYMENT OF PHANTOM TROOPS

Following the ouster of the Sihanouk government in March 1970, FANK expanded from a largely ceremonial force of 28,000 to 35,000 to over 200,000. The armed forces central headquarters was not equipped to adequately monitor and control strength increases, nor was the decentralized pay system suitable for or able to cope with the paid force expansion.

In December 1972 the Cambodian Government Information Minister reported that, at times, the Cambodian Government had paid salaries for as many as 100,000 nonexistent troops. The Chief, MEDT, estimated in February 1973 that reported troop strength was padded by 10 to 15 percent. Using these percentages, we estimated that FANK commanders may have drawn the local currency (riels) equivalent of \$750,000 to \$1.1 million in January 1973 for phantom troop pay. During 1971 and 1972 the United States provided the equivalent of about \$56 million as partial support for FANK pay and allowances, and on May 29, 1973, it provided an additional \$8.53 million in riels for this purpose.

A GAO report issued to Congressman Michael J. Harrington, "Report on the Payment of Phantom Troops in the Cambodian Military Forces" (B-169832, July 3, 1973), presented the phantom troop payment situation through early 1973. We followed up on this matter in June 1973 and noted that, although the problem had not been eliminated, some improvements had been made or were planned for personnel accounting and pay systems. For April 1973 the payroll was reduced to 245,652 troops, and by June 1 over 300 ineffective battalions had been dissolved. According to U.S. officials in Cambodia, these actions substantially reduced payroll padding.

The new Finance Service installed a centralized pay system on a pilot basis in military regions II and III. Installation of the new system in military region I was planned for July, by the end of July about 64,000 troops were to have been paid using the new centralized system. Embassy officials informed us that the system would be fully operational by the end of 1973.

U S and GKR officials acknowledged that unit commanders in the military regions greatly resisted implementation of the new system but that top-level FANK officials fully supported it. The FANK Chief of Finance Service advised us that the primary deterrent to full implementation of a centralized pay system was the lack of trained personnel.

USE OF AUSTRALIAN TRUCKS

In 1971 the United States purchased from Australian manufacturers 600 trucks, 100 trailers, and associated material and services costing about \$5.6 million for Cambodia. The trucks were initially purchased for the civilian economy, but 350 were assigned to the Cambodian military. MEDT did not include the 350 Australian trucks in the inventories for the FANK units or in the table of organization and equipment of the unit to which the trucks were assigned. The trucks had been assigned to FANK units since at least September 1971. In our opinion, assigned trucks should be treated the same as any other MAP-furnished equipment with regard to (1) property accounting, (2) programing, and (3) end-use inspection.

MEDT officials agreed that accountability for the Australian trucks needed improvement and stated the trucks would be included in revised tables of organization and equipment. MEDT stated that making such revisions is a continuing process but that it is of lower priority than its other planning and programing activities.

In 1972 a problem of continued logistical support for the vehicles developed, primarily as a result of the initial decision to purchase the vehicles from offshore sources. A 1-year supply of spare parts for the 600 trucks and 100 trailers was initially provided, and it was anticipated that responsibility for future spare parts support would be assumed by GKR, with assistance from United States or Australian economic aid programs.

Follow-on spare parts support became a problem because (1) the initial offshore procurement necessitated purchasing follow-on spare parts from Australia and thus inhibited continued U S support, (2) the Australian Government had not offered future assistance for the vehicles, and (3) GKR

was not capable of funding the cost of the parts--estimated at \$1 million for the second year's supply

The distribution of the vehicles between civilian and military agencies further complicated the spare parts support problem. The Office of the Secretary of Defense initially determined that MAP funds would not be used for follow-on spare parts support of the Australian vehicles and that AID could not use its funds to support vehicles assigned to the military.

The Australian technical team chief advised us in April 1972 that vehicles would soon be inoperable if additional spare parts were not provided. Stocks of some parts were completely exhausted, and others were in critical short supply. We were advised that 18 of the 350 trucks assigned to the military were inoperable as of May 11, 1972.

According to MEDT, FANK logistical personnel were made aware that MAP funds would not likely be available and that they should explore the possibility of GKR financing or request further support from the Australian Government. However, this position was changed in late 1972 when the problem of spare parts support grew more critical.

After MEDT said in August 1972 that 31 trucks were inoperable due to lack of spare parts, the Department of the Army was requested to determine the availability of the parts. The Department advised MEDT on August 25 that initial contacts with International Harvester, Inc., and Dodge indicated that the parts were not available from U.S. sources and recommended that they be purchased from Australia.

In October 1972 the Defense Security Assistance Agency authorized \$220,000 (subsequently increased to \$254,368) to be used to purchase spare parts from the Australian manufacturers. The authorization stated the parts were urgently required to enable FANK to continue operating and maintaining the trucks which were vital to its logistics system. Despite this urgent need, a contract was not issued until May 1973. Because the parts would not arrive in Cambodia before June 30 using priority surface transportation, authorization was given to airlift some parts from Australia to Cambodia at U.S. expense.

AID also needed spare parts for trucks assigned to the GKR public sector, however, it planned to procure spare parts from U.S. sources.

CONCLUSIONS

During our review in 1972 several management problems were impairing the efficiency and effectiveness of military assistance. MEDT was using inadequate procedures for receiving and transferring material and equipment and for managing the ammunition program. Accounting for major equipment items was also inadequate for proper surveillance

In 1973 several organizational and procedural changes were made to improve program management. Transferring the MEDT element in Vietnam to Cambodia and shipping U.S. material directly to Cambodia improved receipt and transfer procedures. According to MEDT, additional changes were made, or are planned, to improve equipment and ammunition management.

The elimination of illegal activities, such as ARVN's sale of equipment to FANK, is difficult, particularly when transactions are made on an individual-to-individual basis. The recommendations of the DOD Directorate for Military Assistance and Overseas Audits are sound, but additional action is necessary to properly manage the assistance programs in both Vietnam and Cambodia.

Although U.S. officials in Phnom Penh have stated that payroll padding has been substantially reduced, we believe the United States should continue to encourage GKR to implement and develop the new-pay system.

Trucks purchased from Australia were provided to the Cambodian military but were never included in the tables of organization and equipment for the military units. DOD purchased spare parts from Australia, but AID found that some parts were available from U.S. sources.

RECOMMENDATIONS

We recommend that the Secretary of Defense have the Chief, MEDT, continue to encourage FANK to implement an effective property accounting system designed to further identify equipment delivered to individual units.

To avoid the illicit sales of equipment, we recommend that the Secretary of Defense have the Chief, MEDT

- Take action to identify all U S military equipment illicitly purchased by FANK personnel from ARVN and eliminate an equal number of end items from MAP
- Have all illicitly purchased equipment included in the tables of organization and equipment for FANK units if the equipment satisfied valid requirements and then take programing action to provide the necessary logistical support

We recommend also that the Secretary of Defense (1) have the Chief, MEDT, determine whether the Australian trucks assigned to FANK are being used to satisfy valid military requirements and, if so, insure that appropriate programing adjustments are made to include the trucks in tables of organization and equipment and (2) require that, to the extent possible, future spare parts financed with MAP funds be purchased from U S. sources

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ACCESS-TO-RECORDS DIFFICULTIES

Our review of U S assistance to Cambodia dealing specifically with military assistance was seriously hampered by the reluctance of DOD officials to give us access to documents and records we considered necessary and pertinent. They gave us access to only those documents which we were able to identify and request. Even this required time-consuming screening at various DOD levels. In certain instances, knowledgeable DOD field officials were reluctant to answer questions about matters in their areas of responsibility.

Members of our staff were required to wait up to 3 months to look at documents they requested. For example, on February 25, 1972, as part of our review of the management system for the MAP to Cambodia, we requested permission to review MEDT's monthly activity reports. These reports are considered a vital and integral part of MAP's internal management control system. We considered access to the reports necessary to adequately evaluate the effectiveness and efficiency of the management of MAP.

We discussed with U S officials in Cambodia, including the Ambassador, the problems we encountered in obtaining access to the reports. By March 7, 1972, agreement had been reached with the Chief, MEDT, in Cambodia that we would be provided with the reports--minus any information related to future MAP plans. However, the Chief, MEDT, stated that before we could examine the reports, he had to obtain permission from the Commander-in-Chief, Pacific (CINCPAC).

On March 11, 1972, CINCPAC vetoed the agreement reached in Cambodia, primarily on the basis that the reports in question were personal management documents and as such could not be released to us. This CINCPAC decision resulted in additional correspondence and discussions between DOD officials and us. Finally, on April 27, 1972, the Secretary of Defense authorized the release of "sanitized" monthly activity reports. However, CINCPAC failed to communicate this decision to the Chief, MEDT. Consequently, we were not permitted to examine all the reports until May 23, 1972, 3 months after we first requested the reports.

The above example is but one of the numerous problems encountered. In some cases, we were permitted to examine

APPENDIX I

"sanitized" copies of documents, and in other cases we were permitted to examine the documents only after time-consuming delays. We were told that the information "sanitized" from the documents concerned future MAP plans, however, we have no way of knowing that this was the only type of information deleted from the documents we were permitted to examine. In some instances--such as the duplicate ordering of engineering equipment for the GKR Ministry of Public Works--the reluctance to provide information appeared to stem more from a desire to avoid embarrassment than from a desire not to disclose future planning information.

As could be expected, these problems seriously disrupted our review. Although we obtained sufficient information to report on several deficiencies in the management of MAP, we cannot be certain that we have the full story on other management areas.



DEPARTMENT OF STATE

Washington D C 20520

July 11, 1973

Mr. J. Kenneth Fasick
Director, International Division
United States General Accounting Office
Washington, D C.

Dear Mr. Fasick.

As requested in Mr. Stovall's June 5 letter to the Secretary of State, the Department has reviewed the draft of the General Accounting Office's proposed report to Congress entitled "United States Assistance to the Khmer Republic (Cambodia) "

With some few explanations, updating and modifications, we think that the GAO report presents a fair appraisal of the problems and successes of United States assistance to the Khmer Republic. The report responds frankly and satisfactorily to congressional concerns that U.S military and security assistance remain clearly limited in scope yet avoid waste or mismanagement of U.S. supporting assistance. We found the GAO recommendations helpful and are now carrying out or planning to implement many of the actions recommended in the report

Regarding the specific recommendations on pages four and five of the report, the State Department has the following comments

- Department agrees that the Secretary of State should provide a fuller report of costs to be counted against the congressional limitation on U.S expenditures related to Cambodia. Determination of includable costs will be made by DOD and AID and coordinated with the Department of State. DOD and AID are responding separately to the GAO report

[See GAO note, p. 69]

[See GAO note, p. 69.]

The Department has considered carefully the recommendation that more clearly defined criteria guidelines be provided the Military Equipment Defense Team. After consultation with Department of Defense officials, the Department decided that current guidelines are adequate and clearly understood. In this regard, Department noted the GAO finding that the personnel ceiling has been scrupulously respected. Furthermore, if any obscurity existed before the GAO team's arrival, its review has clarified this issue and identified areas in which MEDT should take care to avoid assuming an advisory role. Finally, the report clearly illustrated the need for close and continuing relations between MEDT and GKR military officers in order to respond to proper congressional interests in U.S. programs in Cambodia.

The Department of State understands that AID and DOD are responding separately to other GAO recommendations and suggestions. The Department is prepared to declassify the bulk of the report and discusses in

attachment number one the few items that in its opinion should remain classified Department comments on phantom troops and reporting of U S. expenditures are attached as enclosures two and three

The Department concludes that the GAO monitoring and reporting along with the remarks from the field and involved agencies in Washington document the carefully controlled and limited nature of the United States assistance to the Khmer Republic in keeping with the terms set forth by the Congress and agreed to by the Executive Branch

If I can be of further assistance in this matter, please do not hesitate to let me know.

Sincerely,



Richard W Murray
Deputy Assistant Secretary
for Budget and Finance

3 Enclosures

- 1 Declassification GAO Report
- 2 Comments on phantom troops
3. U S expenditures

APPENDIX II

Enclosure One

Classification of Draft GAO Report Entitled "United States Assistance to the Khmer Republic (Cambodia)"

[See GAO note, p. 69]

We understand that DOD is reviewing the report to determine what other classifications should be retained because of military security

Enclosure Two

GAO Draft Report on US Assistance Cambodia

[See GAO note, p 69.]

Enclosure Three

GAO Draft Report on US Assistance Cambodia

Chapter 2 recommends:

- a) "That the Secretaries of State and Defense
[See GAO note, p 69]
and fully inform the Congress
of the type and organizational level of advisory
assistance provided to the Cambodian military.
- b) "That the Secretary of State insure that all costs,
or reasonable estimates thereof, related to Cam-
bodian assistance, including those not funded
through normal foreign assistance channels, be
accumulated and applied against the limitation
In this connection the fair market value but not
less than 1/3 of acquisition cost should be used
to apply a cost of excess material against the
limitation. Administrative costs funded by AID/
Washington but directly related to assistance
for Cambodia should also be reported against the
limitation."

[See GAO note, p 69]

To comply with the statutory requirements of adminis-
trating a Military Assistance Program, the Secretary of De-
fense requires the in-country element (in this case the MEDT)
to establish liaison and coordination with responsible offi-
cials of the receiving nation to insure orderly and effec-
tive management of the program. These in-country adminis-
trative and technical service personnel are not considered
advisors.

In Cambodia where the U.S is the major supplier of
military equipment and assistance, the personnel charged
with responsibility for the program must, per force, have
a close and continuing relationship with their Cambodian
counterparts.

We do not believe that the MEDT is performing advisory
functions that conflict with legislative restrictions ap-
plicable to Cambodia MAP MEDT personnel are not assigned
as advisors to the Cambodian military.

We agree that all costs or reasonable estimates thereof, related to Cambodian assistance and called for by Section 655(b) of the Foreign Assistance Act, should be counted against the limitation. This has been our intention in all the reports submitted to Congress and, as a result of the GAO report, we are requesting that DOD and AID review their submissions for the quarterly reports to Congress to insure that all includable costs are reported. These agencies will be commenting separately and in more detail on this subject

The one-third valuation on excess material is used in the reports to Congress in part because of the difficulty of determining the actual value on an item-by-item basis for every article provided. In practice, the one-third valuation has been generous. The Department of Defense has made periodic surveys of the actual value of excess material supplied under our military assistance programs which indicate that its average value is considerably less than one-third.

GAO note Deleted comments relate to matters discussed in the draft report which were omitted from or modified in the final report.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

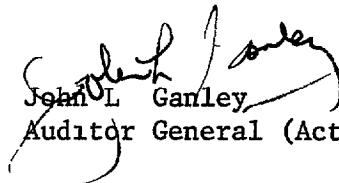
July 12, 1973

Mr J K Fasick, Director
International Division
U S General Accounting Office
Washington, D C 20548

Dear Mr Fasick

I am forwarding herewith a memorandum dated July 10, 1973 from Robert H Nooter, Assistant Administrator of the Bureau for Supporting Assistance, which presents the comments of the Agency for International Development on the U. S General Accounting Office's draft report entitled, "U S Assistance to the Khmer Republic (Cambodia) "

Sincerely yours,


John L. Ganley
Auditor General (Acting)

Enclosure As Stated

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
BUREAU FOR SUPPORTING ASSISTANCE
WASHINGTON D C 20523

JUL 10 1973

TO Mr John L Ganley, Acting AG
FROM Robert H Nooter, AA/SA *RHNooter*
Subject AID Comments on GAO Draft Report Titled "United States
Assistance to the Khmer Republic (Cambodia)"

Mr McFarland's June 5, 1973 memorandum to me asked for our comments on the subject GAO report. I am attaching for your consideration and for transmission to the GAO a paper addressing itself only to those recommendations and observations which we feel need to be modified or expanded.

Attachment a/s

Clearances

GC/SA HMorris (draft) *HM*
SER/COM RLooper (draft) *RL*
PPC/RC MJHeyl (draft) *MJ*
State EA/LC JMurphy (draft) *JM*
State PM TCoony (draft) *TC*

AID COMMENTS ON GAO DRAFT REPORT TITLED
"UNITED STATES ASSISTANCE TO THE KHMFR REPUBLIC (CAMBODIA)"

[20] 1 With respect to the dollar ceiling on U S assistance to Cambodia established by Section 655(b) of the FAA (the Symington Amendment), the report recommends on page 21 that "the Secretary of State insure that all costs, or reasonable estimates thereof, related to Cambodian assistance, including those not funded through normal foreign assistance channels, be accumulated and applied against the limitation In this connection, the fair market value but not less than 1/3 of acquisition costs should be used to apply a cost of excess material against the limitation Administrative costs funded by AID/Washington but directly related to assistance for Cambodia should also be reported against the limitation "

a Excess Property AID has not previously been including excess property in its reporting on the Symington Amendment We will now attempt to ascertain one-third of original acquisition costs for excess property in Cambodia, plus the costs of packing, crating, handling, and transportation, and include these figures in future reporting, including the final FY 1973 report to the Congress due July 30, 1973 In adopting the one-third valuation, it is our understanding that we are following the procedure used by the Department of Defense in reporting under the Symington provision and by the Department of State under Section Eight of P L 91-672 (the Foreign Military Sales Act Amendments of 1971)

b Administrative Costs Our reporting of Cambodia economic aid obligations under Section 655(b) of the FAA has heretofore excluded Washington administrative costs on the grounds that the program figures presented to the Congress and used by the Congress as its basis for setting the dollar ceiling did not include these Washington costs We have previously stated this position to the GAO and have also cited the infeasibility of obtaining meaningful AID/W cost estimates We have also excluded from our aid obligations reports to Congress costs of the three administratively funded positions in Phnom Penh (the Economic Counselor, his Deputy, and the Counselor's secretary) on the grounds that the costs of these positions approximate the costs which would have been incurred in operating an Economic Section of the Embassy even in the absence of an economic aid program and are therefore not properly attributable to the cost of administering U S economic assistance to Cambodia

In both of the above instances, we have followed the same pattern as used in reporting on economic assistance to Laos We have, however, been inadvertently reporting Mission administrative allotments for supplies (some \$35,000 per year) Since this category of costs was not

included in the program presentation to Congress, and since the Laos program does not report such administrative allotments for supplies for that reason, we intend henceforth to exclude these costs from our Section 655(b) reporting, possibly showing these costs as a non-add footnote item

This approach is fully consistent with a legal opinion rendered by the General Counsel of A I D on May 22, 1972, a copy of which has been furnished to the GAO in connection with its inquiry on similar questions in the Laos program. The conclusion reached in that opinion, while resting on several grounds, placed substantial reliance on the fact that Congress approved the ceiling amount based on a presentation which, for A I D at least, included only program costs

- [22] ¹² The report states on page 24 that "The subsequent reduced level of the fiscal year 1972 program was in recognition of the invalid assumptions and slow use of the 1971 program." This is an overstatement. The program was slow in getting off the ground due in part to conditions
- [24] ¹ mentioned in the report on page 28, such as Cambodian importers' unfamiliarity with the U S market and our initial use of the General Services Administration. It should also be mentioned that the FY 1971 CIP grant of \$50 million was made late in the fiscal year (May 31), and that the programmed amount for FY 1971 had been based on a full year's import requirements. We also assumed that the CIP would finance retroactively some goods previously purchased by the Cambodian government and en route to the country. Such goods did not prove to be significant.

As much of the FY 1971 program was actually utilized in FY 1972, it was logical to reduce the amount needed during FY 1972. This does not mean that the basic assumption of an import requirement of roughly \$70 million per year was invalid, rather, it represents the stretching out of the FY 1971 program over a full year's import requirements and a consequent downward adjustment of the FY 1972 requirement. Another reason for the lower FY 1972 amount was that Cambodian importers' stockpiles of commodities were somewhat higher than we had initially assumed. Lastly, although the CIP was, and continues to be, the main financing source of Cambodia's imports, we and the Cambodians concluded in FY 1972 that it could not feasibly meet all import needs. Accordingly, a multilateral Exchange Support Fund was created to help fund a portion of these import requirements. The ESF has been a very useful mechanism for broadening international support for Cambodia.

This slow startup has now been fully overcome, as detailed fully later in this paper.

[See GAO note, p 69]

[27] ¹⁵ The report states on page 29 that the AID Auditor General reviewed the Cambodian import program, and reported that he found the "movement of needed commodities into the economy was being restricted because of excessive GKR import duties and taxes " It is true that the taxes on imports are high. Movement of commodities through the economy is not the only criteria of the effectiveness of the AID program, however. We are interested in supplying commodities, but we are also interested, although to a lesser degree, in the government's maximizing revenues and reducing its overall budget deficit, which taxes help accomplish. We believe that the GKR is correct in setting taxes (particularly on relatively less essential goods) high enough to secure revenues for its budget and to discourage hoarding, speculation, and unduly high turnover.

[See GAO note, p 69]

[30] ⁸ With reference to the purchase of 15 front-end loaders under AID's public sector procurement, the report states on page 33 that "AID was apparently unaware that Denmark was also providing 29 front-end loaders to the Ministry and that these may have been sufficient to satisfy the requirement " Both AID and the Ministry were aware that the Ministry had front-end loaders, rollers, and other equipment provided under the Danish loan. The front-end loaders which we supplied were additional to these requirements, as indicated by the Ministry of Public Works. We will ask the Ministry to document how and where it used all of the front-end loaders it received.

[31] ¹⁹ The draft report states on page 34, citing an AID Auditor General report, that the absence of a resident technical staff in Phnom Penh accounts for the fact that the power plant generators will not be on-stream any earlier than the end of 1973. The absence of technical staff in Phnom Penh is not the reason for the delay in the delivery of the generators. The problem of offloading the heavy generators (60 tons each) in Phnom Penh delayed the

procurement bid opening until the matter was resolved in January, 1973. Furthermore, such large generators are not stock items and require at least six months' production time to manufacture. Also, switch gear, connections, etc., must be manufactured and the complete system is to be tested in the U S prior to shipment to Phnom Penh for reassembly and installation.

[35] ¹⁰ There is a statement on page 37 that the U S contributed 64 percent of the external foreign resources in the Exchange Support Fund and that the contributions of others fell short. When the U S Government learned in the fall of 1971 that the Cambodians were seeking to establish a multi-lateral foreign exchange fund, with initial capital of \$35 million, we announced that we would pledge up to \$12.5 million to the Fund on a fifty-fifty matching basis, subject to Congressional approval. We understood at the time that the Cambodians were planning to supply \$10 million from their own resources to this Fund, and we hoped that the remaining \$25 million would be contributed by other nations including ourselves. As events transpired, the United States contributed \$12.5 million, the Cambodian government contributed \$8.2 million of its own resources, as well as an IMF compensatory drawing of \$6.8 million, while other-donor nations put up approximately \$7 million. Thus, total contributions for CY 1972 were \$34.5 million, of which the U S share was 36.2 percent. In CY 1973, we intend to give 50 percent of all contributions. Current estimates of total contributions are \$32 million, thus we would contribute \$16 million. If Cambodia and other nations can raise their contributions during this calendar year, we intend to match these additional amounts on a fifty-fifty basis up to a total of \$17.5 million for CY 1973.

[34] ¹¹ ESF imports by country mentioned on page 38. We do not have available here data on the composition of Mainland China's exports to Cambodia (\$3.1 million) in CY 1972, but believe they were primarily agricultural goods (bamboo and foodstuffs), pharmaceuticals, and possibly light industrial goods.

Also, according to our records, New Zealand exported to Cambodia an amount less than the amount of its contribution to the ESF.

Conclusions, Chapter 3

[See GAO note, p 69]

While Cambodia was slow to utilize our aid initially due to unfamiliarity with the American market and our initial choice of GSA as the procurement agent, there is no question but that this start-up problem has been overcome. CIP licensing has been running at an average rate of \$1 million a week for over the past year, and demand for imports via the Nouveau Marche is also brisk - about \$600,000 a week since January. To date, all of the FY 1971 and 1972 funds have been utilized, as has over \$50 million of the \$68 million FY 1973 program. There is no question that without foreign assistance and the Government's new economic policies, the rate of inflation would have been intolerable and the economy would have ceased to be viable. Over each of the last three years, as imports have increasingly been arriving, the money supply expansion has declined from 73 percent to 52 percent to 39 percent, respectively. Furthermore, the program has provided millions of dollars of commodities in the marketplace which would not otherwise have been available, including gasoline, electricity, rice, and bread, which would have been unavailable at any price without our aid. In summary, initial absorption problems have been overcome, and U.S. economic assistance is being absorbed at the full rate of the FY 1974 request (See GAO note 2, p. 78).

[38] ¹Recommendations, Chapter 3, page 42

[See GAO note, p. 69]

Under the CIP we finance eligible commodities necessary to prevent a marked deterioration in living standards, and exclude all luxury items from CIP financing. At the same time we do not want to choke industrial development by cutting off supplies of industrial raw materials. Our policy has been to finance such commodities as soft drink concentrate for the soft drink industry. We have also financed ball point pen refills for the pen factory, thus helping supply a component for a locally produced useful item and allowing a local industry to survive. The production and distribution of soft drinks throughout the country provides livelihood for about 60,000 people. Moreover, the sugar content in soft drinks often represents the main caloric input in the diet of the average Cambodian. The local production of ball point pens, besides representing employment, results in a low-cost product required by the school-age populace, thus saving a greater amount of foreign exchange which would be required to import the finished writing implement. These items are still eligible for AID financing.

APPENDIX III

2 The third recommendation is "That the Administrator encourage the proper and prompt use of commodities provided for the public and private sectors "

We could not agree more, We believe that now the program has reached its operating momentum, CIP licensing has been running at about \$1 million per week The private sector is functioning Each importer makes his own judgment of saleability and need before he deposits his local currency

GAO notes

- 1 The numbers in brackets refer to pages in this final report
- 2 The amount which AID cites for the fiscal year 1973 program includes \$20 million contributed to ESF

SA/C 7/9/73



DEFENSE SECURITY ASSISTANCE AGENCY
AND
DEPUTY ASSISTANT SECRETARY (SECURITY ASSISTANCE) OASD/ISA

WASHINGTON DC 20301

31 AUG 1973

In reply refer to
I-10499/73

Mr Oye V Stovall
Director
International Division
U S General Accounting Office
Washington, D C 20548

Dear Mr Stovall

The sections of the GAO draft report, dated 5 June 1973, "United States Assistance to the Khmer Republic (Cambodia)", (OSD Case #3630), that relate to Department of Defense activities have been reviewed

Comment on all the suggestions and recommendations and on each of the major findings and conclusions that pertain to Department of Defense activities is contained in the attachment to this letter

Comment on security classification will be furnished separately

In accordance with DoD Directive 5200 1, you are authorized to release classified portions of this report to the Congress

It is requested that this reply be published as an appendix to the final report

Sincerely,

A handwritten signature in black ink, appearing to read "Ray Peet", is written over a large, stylized flourish.

RAY PEET
Vice Admiral, USN

Attachment
a/s

COMMENT BY THE DEPARTMENT OF DEFENSE
ON THE GAO DRAFT REPORT, DATED 5 June 1973,
"U S ASSISTANCE TO THE KHMER REPUBLIC (CAMBODIA)"
(OSD CASE #3630)

GAO Finding The MEDT-C was engaged in activities beyond its primary function. It operated much the same as a Military Assistance Advisory Group in any other country, performing the following activities:

- Recommending changes in force structure
- Advising and assisting on contingency plans and improvements in the military organizational structure
- Providing technical assistance on all logistical aspects of the Military Assistance Program
- Providing technical Military Assistance and information concerning MAP furnished material.

Also, special TDY teams looked into many aspects of the Cambodian Military, unrelated to equipment delivery, e.g. the office of the Adjutant General, the Chief of Finance and Audit and a study to develop a prisoner of war program (p 2, 12, 14 and 20) [1, 10 to 12 and 19]¹

GAO Recommendation We recommend that the Secretaries of State and Defense (See GAO note, p. 88)
- - fully inform the Congress of the type and organizational level of advisory assistance provided to the Cambodian military (p 4 and 20) [2 and 19]¹

DoD Comment Nowhere in the report is there any suggestion that there has been any violation of the Cooper-Church amendment. It is our view that the guidelines are sufficient, and attempts to precisely define duties will only serve to increase the already burdensome administrative workload on the MEDT.

The GAO, by placing an inordinately narrow interpretation on the remarks of the Secretary of Defense, infers that the MEDT has no responsibility except to keep track of the deliveries of equipment. This is inconsistent with other findings of the GAO and with MEDT responsibilities under the FAA. The MEDT must coordinate closely with FANK on force structure and similar subjects to insure properly organized and trained units capable of using military assistance supplies and equipment requested by the GKR. MEDT personnel must remain in daily contact with FANK personnel in the logistics field to insure a workable interface between U S and FANK systems and in other areas, such as reviewing the MAP program, determining FANK capability to utilize and maintain equipment, coordinating and item inspections monitoring training, and monitoring supply requirements particularly ammunition. Studies conducted by the special teams operating in Cambodia, e.g. Adjutant General and Chief of Finance and Audit, are essential to identify the scope, dimension and cause of the problems which the report elsewhere recommends that the MEDT bring under control.

GAO Finding Although reported expenditures indicate the dollar ceiling was not exceeded, an adequate system has not been established to ensure all costs are reported. All costs associated with U S activities in Cambodia were not reported e g

- About 250 to 300 U S military instructors were provided by MACV during FY 1972 to train Cambodian troops in Vietnam
- MEDT used over 170 individuals on TDY for varying periods of time during FY 1972
- Military personnel costs estimated at \$600,000 were reported against the limitation. These were underestimated. The MEDT's administrative budget estimated military personnel cost in FY 72 at \$1.5 million
- DoD valued excess defense articles (EDA) at 1/3 acquisition value. The EDA, estimated at \$4.8 million, was generally in serviceable condition or needed only minor repair
- Other costs not reported under the limitation were

-- Defense Attache Office	\$681,000
-- U S Navy O-C-I-C	34,000
-- DoD Contingent Communication Facility	43,000
-- Tactical Air Control Air Net	226,000
-- DoD Troposcatter Communications facility (p 2, 12 and 16 through 20) [1, 10 and 13 to 17] ¹	375,000

GAO Recommendation The Secretary of State should apply and report all costs against the dollar limitation, including those funded outside the Foreign Assistance Appropriations and Public Law 480 (p 4) [2 and 20]¹

DoD Comment Department of Defense input to the report relating to the Cambodian ceiling is provided Department of State in accordance with guidance promulgated by State. We have been advised that the guidance is being revised to include certain of the costs identified by the GAO, i e

Military personnel costs, including,

- Military instructors for Cambodian troops training outside Cambodia
- TDY personnel in Cambodia
- MEDT personnel costs
- Defense Attache Office

These costs will hereafter be included in Defense totals

APPENDIX IV

Reporting of Excess Defense Articles (EDA) at 1/3 acquisition value is consistent with the legislative provisions relating to grant of EDA and Defense practice in the valuation of EDA worldwide

The following costs, cited by the GAO, were not reported against the legislative ceiling pursuant to Section 655(d) of the FAA of 1961 as amended

DoD Contingent Communication Facility
Tactical Air Control Air Net
DoD Troposcatter Communication facility

GAO Findings Equipment receipt and transfer procedures were inadequate (p 3, 44, 48 to 51 and 60) [2 39 and 43 to 45]¹

Management of the ammunition program was deficient in determining needed quantities (p 3, 44, 55 to 58) [2, 39 and 50 and 51]¹

GAO Recommendations The Secretary of Defense should improve MEDT's property accounting system to maintain accurate identification of assets provided (p 60) [58]¹

MEDT should continue to encourage the FANK to implement its plans to achieve more effective management of ammunition (p 60) [50]¹

DoD Comment The conditions cited relate to the time period prior to mid-1972 and, as noted in the report, were caused in large part by shipping to Cambodia through Vietnam and by the separation of the MEDT into forward and rear elements Changes based on specific recommendations of the GAO have been implemented by the MEDT Fact sheets detailing specific corrective actions taken were provided to the GAO by the MEDT in February and June 1973 Extracts appear on page 50 of the report

GAO Finding MEDT did not cancel a \$1.4 million requisition for construction equipment after it knew AID had provided the same equipment to satisfy the requirement (p 3, 33, 34 and 58 to 60) [2 39 and 51 to 53]¹

DoD Comment The normal coordination of USAID and MEDTC in the area of AID-MAP interface revealed the duplicate requisition of construction equipment The Country Team reviewed the alternatives and concluded that a vital requirement existed in both the civil and military sectors The MAP assets were then allocated to FANK for issue to engineer companies and battalions, ammunition depots, naval support bases and a tactical airbase wing FANK TO&E authorizations did exist for these equipments The additional construction equipment was needed on an urgent basis for construction of security bases along Route 4, defensive positions at various locations, upgrading of airfields, construction of military training centers and military dependent housing Full details were provided by MEDT memorandum of 10 June 1972

GAO Finding The systems used to account for equipment deliveries to individual units were inadequate or not properly implemented (p 3, 44, 51 to 54 and 60) [2 39 and 43 to 49]¹

GAO Recommendation MEDT should continue to encourage the FANK to implement an effective property accounting system designed to further identify equipment delivered to individual units

DoD Comment As a result of MEDT-C encouragement, the FANK G-4 is now implementing a regulation to require unit reporting on a quarterly cycle of TOE equipment This report will assist FANK to manage assets to the unit level FANK inspection teams - and the FANK/MEDT joint End Item Utilization Inspection effort - will be better able to check equipment status The MEDT will continue to work with the FANK Assistant Chief of Staff for Logistics in improving verification and accountability of equipment destined for individual units

GAO Finding U S and Cambodian government officials acknowledge that payments have been made for non-existent troops and that as of March 1973 the practice had not been eliminated The full extent of the problem is unknown but GAO estimates that for January 1973, phantom troop pay was the equivalent of nearly \$1 0 million (p 3) [2]¹

GAO Conclusion Neither the U S Government nor the GKR know the extent of the phantom troop problem (See GAO note, p 88)

the United States should continue
to urge the GKR to implement corrective actions (p 68 & 69) [55 and 56]¹

DoD Comment The report describes the situation relating to payroll practices, the actions taken by the U S and the corrective measures instituted by the FANK The Defense role is limited to providing assistance to the Ambassador in monitoring release of local currencies in accordance with provisions of the Country Project Agreement and recommending management practices which will ensure effective use of assistance provided by the United States

(See GAO note, p. 88)

The rapid expansion of FANK payroll strength resulted from the authorization for territorial unit recruiting in response to the military situation

GAO Finding DoD auditors reported that Cambodian military personnel had made unauthorized purchases of a significant amount of U S military equipment (p 3) 121

GAO Recommendations The Chief MEDT-C should take action to identify all U S military equipment illicitly purchased by FANK personnel from the ARVN and eliminate an equal number of end items from the Military Assistance Program

The Chief MEDT-C should have all illicitly purchased equipment included in the tables of organization and equipment for FANK units if the equipment satisfied valid requirements and then take programming actions to provide the necessary logistical support

(See GAO note, p. 88)

DoD Comments The findings of the Defense audit are acknowledged However, since that time, the GKR has published a decree forbidding this practice There is no longer contact between the FANK and ARVN along the border, therefore the practice is geographically impossible There is no evidence to indicate that this practice is continuing

End item utilization inspections indicate that units have in large part incorporated this equipment in their property records Since spare parts are programmed based on equipment densities and usage factors, and ammunition is reprogrammed based on weapons density and combat consumption, these items are provided the necessary logistical support

(See GAO note, p. 88.)

(See GAO note, p. 88)

GAO Finding Australian vehicles valued at \$5.6 million were purchased

(See GAO note, p. 88)

- the offshore procurement complicated follow up spare parts support (p. 4 and 80 through 83) [2 and 56 to 58]

(See GAO note, p. 88)

APPENDIX IV

(See GAO note, p. 88)

GAO Finding The offshore procurement complicated follow-up spare parts support (p 4 and 80 to 83) [2 and 56 to 58]¹

GAO Recommendation The Secretary of Defense and the Administrator of AID take action to insure continued spare parts support to protect the \$5.6 million invested, and that potential U.S. sources be adequately considered and used (p 15 and 87) [3 and 58]¹

DoD Comment Defense concurs in the recommendation. Action is underway to insure spares support under the MAP program. The Department of Army is investigating the availability of spares from U.S. sources alleged by the GAO. Off-shore procurement will be dependent on the results of this investigation.

GAO Finding MEDT had not included 350 Australian trucks in the inventories maintained for the FANK units or in the table of organization and equipment of the unit to which the trucks are assigned (p 4 and 85 to 87) [2 and 56]¹

GAO Recommendation Chief, MEDT should determine whether the trucks assigned to FANK satisfy valid military requirements, and if so, that appropriate programming adjustments be made to include the trucks in T&E's (p 87) [3 and 58]¹

DoD Comment Defense concurs in the recommendation. The trucks have not been included in the Table of Organization and Equipment (T&E) as noted by the GAO. The assets are shown in MAP Element 7 FCA (Civil-Military Related Items) and two supporting Formats X exist for 600 trucks. T&E revision is a continuing process of lower priority than other programming/planning actions. The trucks will be included in T&E changes now being formulated. It should be noted that these assets have been recognized in revising downward the truck requirements of the former Armed Forces.

BEST DOCUMENT AVAILABLE

GAO Comment As could be expected, the problems we encountered in obtaining access to pertinent official records had a serious disruptive effect on the conduct of an orderly review

DoD Comment It is not Department of Defense policy to delay or impede the General Accounting Office in the proper performance of its function. That delays in securing access to records occurred during the course of this review which the GAO considered time consuming or unnecessary is regrettable. In order to reduce delays of this type in the MAP/MASF area, it is now our practice to require Unified Command or DoD review only to determine material which should be specifically denied the GAO, rather than that which should be provided. This will not provide access to material previously denied, but will facilitate access at the MAAG level to material appropriate to the GAO review.

Certain categories of information will continue to be denied to GAO or be provided subject to specific approvals or in an extract or summary form

- Budget/program data for fiscal years not yet presented to the Congress will not be released
- Documents related to tactical operational planning, conduct of military operations, war plans, force deployments, force goals, intelligence collection and analysis will not be released
- Specific authority of the Assistant Secretary of Defense (International Security Affairs) for release of
 - Confidential correspondence exchanged between heads of State
 - Presidential Memoranda
 - Performance evaluation reports
 - Internal Executive Branch working papers and Memoranda
 - Documents revealing sensitive information about the conduct of United States negotiations with foreign countries
 - Other material which the Ambassador or major Military Component Commanders consider may be sensitive and could, if revealed, have a serious adverse effect on the conduct of United States foreign relations or otherwise prejudice the national interests of the United States

APPENDIX IV

- Whenever access is denied to specific documents, efforts will be made to extract or summarize the information in order to facilitate the GAO review

GAO note Deleted comments relate to findings, conclusions or recommendations in the draft report which were modified or omitted from the final report prior to receipt of DOD comments on September 7, 1973

GAO REMARKS ON DOD COMMENTS

DATED AUGUST 31, 1973

DOD commented that our report does not suggest a violation of the Cooper-Church amendment and that GAO has narrowly interpreted the remarks of the Secretaries of State and Defense when MEDT was established. It was not our purpose to ascertain whether or not MEDT, in providing advice to the Cambodian military at the headquarters level, violated the Cooper-Church amendment. We recognize that MEDT must coordinate with FANK to properly discharge its responsibilities. Nevertheless, we believe that the Congress should be kept fully informed of the type and organizational level of advisory assistance provided to the Cambodian military (See pp 10 to 12 and 19.)

DOD commented that new guidance is being developed for reporting costs under the dollar ceiling and that certain types of costs identified by GAO would be reported in the future. The Department indicated that certain other costs, such as the contingent communications facility, the tactical air control air net, and the troposcatter communication facility, may not be reported under the ceiling. DOD did not provide any rationale for excluding these costs. We believe that to be consistent with the legislative provisions, all costs applicable to U S programs in Cambodia should be reported under the ceiling.

PRINCIPAL OFFICIALS RESPONSIBLE FOR ADMINISTERING
THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF STATE</u>		
SECRETARY OF STATE		
Henry A Kissinger	Sept. 1973	Present
William P. Rogers	Jan 1969	Sept 1973
ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS		
Arthur W Hummel, Jr (acting)	May 1973	Present
Marshall Green	Apr. 1969	May 1973
<u>AGENCY FOR INTERNATIONAL DEVELOPMENT</u>		
ADMINISTRATOR		
John A. Hannah	Mar 1969	Sept 1973
ASSISTANT ADMINISTRATOR FOR SUPPORTING ASSISTANCE (note a)		
Robert H Nooter	Sept 1972	Present
Roderic L. O'Connor	Aug 1971	Sept 1972
ASSISTANT ADMINISTRATOR FOR EAST ASIA (note a)		
Roderic L O'Connor	July 1969	July 1971
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE		
James R. Schlesinger	June 1973	Present
William P Clements (acting)	Apr 1973	June 1973
Elliot Richardson	Jan 1973	May 1973
Melvin Laird	Jan. 1969	Jan. 1973

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF DEFENSE (continued)
 ASSISTANT SECRETARY OF DEFENSE
 (INTERNATIONAL SECURITY
 AFFAIRS)

Robert C Hill	May 1973	Present
Lawrence Eagleburger (acting)	Jan 1973	May 1973
G Warren Nutter	Mar 1969	Jan 1973

 DIRECTOR, DEFENSE SECURITY ASSIST-
 ANCE AGENCY/DEPUTY ASSISTANT
 SECRETARY OF DEFENSE (SECURITY
 ASSISTANCE) (note b)

Vice Admiral Ray Peet	June 1972	Present
Lt Gen George M. Seignious	Sept 1971	June 1972
Lt Gen Robert H Warren	July 1968	Aug 1971

COMMANDER IN CHIEF, PACIFIC

Admiral Noel A Gayler	Sept 1972	Present
Admiral John S McCain, Jr	July 1968	Sept 1972

U S MISSION TO CAMBODIA
 UNITED STATES AMBASSADOR TO THE
 KHMER REPUBLIC

Thomas O Enders (Charge d'Affaires)	Sept 1973	Present
Emory C. Swank	Sept 1970	Sept 1973
Lloyd M Rives (Charge d'Affaires)	Aug 1969	Aug 1970

 COUNSELOR OF EMBASSY FOR ECONOMIC
 AFFAIRS (note c)

Thomas Olmsted	Aug 1973	Present
Miles G. Wedeman	Mar 1971	July 1973

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

U.S. MISSION TO CAMBODIA (continued)

CHIEF, MILITARY EQUIPMENT DELIVERY
TEAM, CAMBODIA

Brig Gen. John R. D Cleland, USA	Feb 1972	Present
Brig Gen. Theodore C Mataxis, USA	Jan 1971	Feb 1972

^aIn August 1971 AID revised its organizational structure regarding East Asian programs. The changes in titles are reflected accordingly

^bBefore September 1971 this was Deputy Assistant Secretary of Defense (Military Assistance and Sales)

^cSenior AID representative in Cambodia

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