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

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INTERNATIONAL DIVISION

B-158381

OCT 22 1970

Dear Dr. Hannah:

The General Accounting Office has reviewed various aspects of the commodity accounting system used by the United States Agency for International Development's Mission to Vietnam (USAID/VN). We inquired into efforts made to install an automated arrival accounting system and current problems in the operation of the system in use.

This report is similar to our "Report on Various Aspects of the Commodity Accounting System Used by the AID Mission in India" (B-158381, dated March 3, 1970). In that report, we commented on problems in the arrival accounting system in India and suggested improvements which we felt might have more universal application.

The enclosed report on our review in Vietnam also may have application in other missions and you may wish to transmit copies of this report to them.

This report was discussed with USAID/VN officials during our review.

We would appreciate receiving your views on these matters, as well as advice of any additional action taken or contemplated by AID.

Copies of this report are being sent today to the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations.

Sincerely yours,

Dye V. Stovall
Dye V. Stovall
Director

Enclosure

The Honorable Dr. John A. Hannah
Administrator, Agency for
International Development
Department of State

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REVIEW OF THE ARRIVAL ACCOUNTING SYSTEM
IN USE BY THE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, VIETNAM

BACKGROUND

To account for the commodities received by a cooperating country, the Agency for International Development (AID) has made commodity accounting a requirement for all AID-financed commodities. In general, AID requires the systematic compilation and recording, either manually or through automation, of data confirming (1) authorization by the borrower/grantee, (2) arrival in the cooperating country, and (3) release of commodities into the economy of the cooperating country in the quantity and condition for which payment was made by AID.

Under AID policy, the recipient country is responsible for maintaining detailed records adequate for commodity accounting purposes. Where the recipient country does not or cannot maintain adequate records, the Mission is responsible for the establishment and maintenance of the necessary records.

In Vietnam, the USAID/VN maintains the commodity accounting records since the Government of Vietnam (GVN) is not deemed to have an acceptable system.

Prior to mid-1966 USAID/VN maintained a manual arrival accounting system. In 1966 USAID/VN installed an electric accounting machine system and in 1968 they introduced an electronic data accounting system.

In general, we found that USAID/VN has been virtually uninformed, on a consistent overall basis, about commodity import program (CIP) commodities in-transit, arrivals, releases and distressed cargo. USAID/VN has maintained no formal overall manual system in this area since mid-1966. From inception of the automated system introduced in 1966 until June 1968 there were only unreliable reports available. Even now the reports must be used with some caution in order to minimize errors. Since, during this period from 1966 to 1970, over \$1 billion in CIP commodities were programmed through the system, the inaccuracies in accounting controls becomes particularly significant.

EFFORTS TO INSTALL AN
AUTOMATED ARRIVAL ACCOUNTING SYSTEM

In August 1966 a reconnaissance team began a study of Automatic Data Processing applications appropriate for USAID/VN. They subsequently recommended installation of the original mechanized system. This was an Electronic Accounting Machine (EAM) operation known as the Burn-Preston EAM system. In their study they urged extreme caution in implementation, noting that many problems, mainly of accurate source data and controls, throughout the system must be resolved and placed under tight control to permit the advantages of the EAM system.

The original automated system and its implementation, as applicable to arrival accounting, was completed in the early part of calendar year 1967. We found no evidence of a feasibility study or cost/benefit evaluation either prior to or during the installation of the automated system. We noted a series of draft studies, draft reports, and other documents relating to automated data processing applications - none of which was represented by anyone as being a formal feasibility study and none of which treated to any extent the cost/benefit evaluation aspect. Nevertheless, USAID/VN embarked on a major program of implementation of the automated system for arrival accounting.

After about one and one-half years of implementation and operation the Arrival Accounting Branch, USAID/VN suspended all reporting of arrival accounting data as of June 30, 1968. The system was suspended as it was recognized that several features, among which were accuracy of input data and effectiveness of controls, were grossly deficient and prohibited worthwhile results being achieved. At the time of suspension USAID/VN began work on a revised automated system for arrival accounting.

There was some indication that at the time of suspending the reports it was intended to re-activate a manually maintained general ledger but in actuality there was no general ledger in effect, although required by regulations, from mid-1966 until April 1970. Later, during the period February 1970 to April 1970, USAID/VN did reconstruct the general ledger, beginning with June 1968.

USAID/VN officials told us that manpower was not available to operate a dual system, i.e. re-establish the manual system and at the same time continue development and collection of input data for a revised system in order to facilitate its implementation at the earliest possible date. Given this choice, USAID/VN decided to continue with the data collection for the revised system.

Documentation, procedures and plans for development of the new system were compiled and continuing attempts made to refine both existing and new data.

In late February 1969 a portion of the revised system for arrival accounting had been completed and underwent tests and evaluation. It was planned that when this portion proved acceptable other segments being developed would be integrated with it. In May 1969, according to USAID/VN officials, tests were still being made and although results were not fully acceptable they felt progress was encouraging.

Work has continued on refinements to the system to the present time. In early 1970 the AID was under the impression that the system was operational but when they requested copies of arrival accounting reports, USAID/VN said the system was again under revision. In April 1970 AID transferred a computer expert to Vietnam in an effort to solve the problems and initiate a satisfactory system.

At this time, the contractor employed to install the system has begun to phase out and the in-house talent has been revising and updating data in the licensing area of the system. It is expected that this segment will be completed about mid-September 1970. Thereafter, it is expected that the balance of the CIP automated system will be revised in an effort to place the system in an overall operational status.

PROBLEM AREAS IN THE CIP AUTOMATED SYSTEM

USAID/VN has not been unaware of the many deficiencies of the arrival accounting system or that many of the current problems stem from the difficulties of obtaining valid source data. Recent USAID/VN audits in the area highlight numerous problems. For example, as of February 28, 1970, about 72 percent of the commodities shown as "in-customs", including distressed cargo, were incorrectly reported and were not, in fact, in-customs but had been released to the various importers. About 69 percent of the commodities shown as "in-transit" were overstated. There was no provision made in the system to account for CIP commodities arriving in ports other than Saigon, for example, Danang, Qui Nhon and Nha Trang. A test by USAID/VN auditors showed that over a four-year period at least 33 shipments valued at \$1.6 million had arrived through these ports with no USAID/VN accounting.

Additionally, as of March 21, 1970, the Commodity Activity Journal, a detailed report of all transactions pertaining to the shipment, payment for, arrival, and release from customs of AID-financed CIP commodities, showed AID payment for CIP commodities totaling about \$18 million for which there were no corresponding entries to indicate either shipment by the suppliers or arrival of the commodities in Vietnam. The USAID/VN Area Auditor General made a test check of about \$855,000 of those items and found either the payment was charged to the wrong import license or there was no shipment and arrival information available.

We found that the License Log, used primarily by the Office of Small Business, USAID/VN, to reconcile all CIP licenses issued, showed over 500 license numbers unidentified not only as to commodity, amount, importer etc, in calendar year 1969 but USAID/VN was uncertain as to whether the licenses had actually been issued. We found no evidence that USAID/VN has ever reconciled the total payment information from AID with the total licenses issued.

Thus, the continuing large percentage of errors, omissions, and inaccuracies in USAID/VN arrival accounting reports combined with the absence of a complete reconciliation of payments made to licenses issued creates yet another potential problem area in that USAID/VN cannot be certain of the overall accuracy and legitimacy of either all commodity receipts or of all payments. From 1966 to 1970, while USAID/VN has been attempting to implement an operational system of automated arrival accounting, over \$1 billion worth of CIP commodities have been programmed for Vietnam.

We examined the Commodity Accounting Register for the 23 month period ending May 31, 1970. This record was designed as the equivalent of subsidiary records for support of the various general ledger accounts; specifically, commodities in-transit, in-customs, releases, losses and payment variances. There were about 862 instances of commodities captioned "short landed" which were valued at a total of about \$2.8 million. This was a net figure and included both short and overlanded items. USAID/VN officials said these items could be either legitimate shortages and overages in shipments or could denote a balancing figure introduced by the machine when incorrect payment or arrival information was coded. USAID/VN auditors generally verify short landings if they are in the scope of regularly scheduled audits and determine whether the importer has filed claims or recovered the shortage from the supplier. Since some of these items date from 1967 licenses it appears that the follow-up is neither timely nor complete although this area appears to provide all the necessary elements for a form of kick-back between the supplier and the importers if, in fact, they are actual shortages.

Payment differences for the 23 month period were netted at about \$2.5 million and represented about 1,264 instances of overpayments and short payments. The value of the total shipments shown on the report failed to balance with its components by about \$235,000. A substantial number of licenses for the years 1967, 1968 and 1969 have not been individually cleared, apparently because of a lack of detailed information.

Although arrival records are not conclusive as to the CIP financed commodities in the port we found no evidence that USAID/VN has performed a complete physical inventory of these commodities. We found that the USAID/VN auditors had made an inspection and survey of CIP commodities as of April 1970 but it was on a test basis and in no way could be

considered a complete physical inventory. USAID/VN officials said they checked their reports of distressed cargo each month to customs records but, again, this can hardly be considered a physical inventory.

CONCLUSION

In our opinion, although much progress has been made toward developing an acceptable and accurate automated arrival accounting system, USAID/VN thus far, has not achieved complete success nor can any dependable estimate be made of the date on which such success may be achieved. The existing system is not now fully operational nor has it been since inception.

We do not believe that, to this time, the automated arrival accounting system has fulfilled the basic accounting requirements as provided in Manual Order 754.6.

It appears that USAID/VN attempted to implement an automated arrival accounting system without successfully solving basic problems of precise input data and adequate controls although survey teams had repeatedly urged caution in this area.

Additionally, it appears that USAID/VN's attempt to implement the automated system without benefit of a formal feasibility study and cost/benefit evaluation contributed directly to the less than satisfactory performance which resulted in the suspension of reports in June 1968.

We believe that the revised automated arrival accounting system under implementation at this time, when and if fully operational with all existing errors and inaccuracies purged therefrom and when used with all pertinent manual verifications, i.e. a periodic physical inventory of CIP commodities in port, may provide the necessary vehicle for reasonable accountability of CIP financed commodities arriving in Vietnam. However, constant surveillance must be exercised by competent and knowledgeable personnel to assure a continuing level of satisfactory accountability.