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

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INTERNATIONAL DIVISION

MAY 10 1974

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The Honorable Daniel Parker, Administrator
Agency for International Development

Dear Mr. Parker:

GAO has reviewed U.S. military construction equipment, materials, supplies, and facilities channeled through the Agency for International Development Mission in Vietnam to the Vietnam Engineering and Construction Company (VECCO), a corporation owned by the Government of Vietnam (GVN). Our review covered the property, valued at approximately $43.7 million, provided to VECCO from December 1971 through June 1972. This report concerns excess property placed in VECCO rental pools for use by construction contractors on various highway and bridge projects in Vietnam, primarily military construction equipment valued at approximately $19.6 million.

We believe immediate attention should be given to recovering and redistributing the unused equipment, valued at approximately $11 million, as soon as possible because the United States loses its right to repossess this equipment as of July 1974.

BACKGROUND

In October 1970, Mission representatives and the U.S. Military Assistance Command in Vietnam formed a planning group to determine requirements and to develop plans for transferring excess U.S. construction equipment and facilities to selected GVN agencies.

GVN and the United States agreed on plans to turn over excess construction facilities, equipment, materials, and supplies to VECCO to support future construction programs in Vietnam. Approximately $43.7 million worth of U.S. construction equipment, materials, and supplies were transferred to VECCO without being subjected to the normal screening process

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required for disposal of U.S. Government property. About $19.6 million worth of the equipment was assigned to various VECCO rental pools; other property valued at about $24 million was assigned for use in rock quarry operations.

PROPERTY ASSIGNED TO RENTAL POOLS NOT USED

Equipment transferred to VECCO and assigned to its rental pools has remained idle as much as 90 to 96 percent of the time. In June 1973 we advised Mission officials that our analysis of the use of construction equipment assigned to these pools from January through April 1973 showed that 1,372 pieces of equipment valued at about $19.6 million was used only 3.7 percent of the time it was available.

In a memorandum dated July 27, 1973, Mission officials agreed that our usage rates were approximately correct but added that the rates of use for major items had risen to 10.4 percent for May and June. We believe that the use of this equipment does not meet the criteria of effective use as spelled out in the Mission/GVN agreement of June 15, 1971; section 607 of the Foreign Assistance Act of 1961, as amended; or the Mission's own regulations.

The Agency's area auditor general, in a July 1973 report, stated that VECCO had been overburdened with excess property and unable to fulfill its commitment of effective use as prescribed in the Mission/GVN agreement. The report concluded that the quantity of rental equipment turned over to VECCO exceeded Mission/GVN postwar highway and other public works programs needs.

In response to the audit report, Mission officials stated that equipment excess to current or projected needs was being reassigned.

GVN officials also have recognized that demand for the equipment has been slow to develop and that units have remained idle longer than anticipated. They proposed to the Mission in July 1973 that VECCO be granted permission to sell or lease rental pool equipment to foreign interests for use outside Vietnam.

By letter dated July 27, 1973, the Mission rejected the GVN proposal and stated that the only practical recourse for nonuse of VECCO assets was to have the excess returned and redistributed through normal disposal procedures to meet more immediate needs elsewhere.

UNITED STATES TO LOSE TITLE TO EXCESS PROPERTY

Although the United States transfers excess property physically to the recipients, it retains legal title for a period of time after the physical transfer. This is done so that, if the equipment is not properly used or maintained, the United States can recover it for redistribution to other users.

For the excess equipment transferred to VECCO in June 1971, the Mission and GVN entered into a written agreement setting forth the terms and conditions under which the Mission would furnish it to GVN. The agreement provided that GVN could dispose of an item of excess property without Mission approval any time after 2 years from the date of its physical receipt.

The Mission transferred the excess equipment to VECCO from December 1971 to June 1972. The United States loses its right to repossess the equipment 2 years after the items have been furnished--July 1974.

MISSION ACTIONS TO RECLAIM AND REDISTRIBUTE EXCESS PROPERTY

The Mission has taken action to repossess and redistribute a number of items considered to be excess to VECCO's needs. In January 1973, subsequent to the start of our review, Mission officials requested Vinnell Corporation advisers to identify major items of construction equipment considered excess to VECCO's needs. In April 1973 Vinnell provided a list of 64 major items having an original cost of about $1.4 million, and 60 of these items were subsequently transferred. This redistribution was termed phase I by the Mission.

In June 1973 the Mission began phase II of the recovery and redistribution of VECCO rental pool equipment through a letter to VECCO proposing to initiate action immediately to reclaim and redistribute 190 items, originally costing about $3.4 million, that had been idle for many months. The letter stated that:

> "* * * the time has come when we must face the fact that significant quantities of certain types of equipment which were transferred to VECCO have no

> reasonable prospects for use by the Vietnamese contracting community on the types of construction which can be foreseen. The equipment already had been idle for many months."

VECCO agreed to release 179 pieces of equipment, but most of the items were not the same as those listed by the Mission.

Mission records showed that, as of December 1973, it had redistributed 157 pieces of equipment identified under phase II. In total, subsequent to the start of our review, it has redistributed over $4.3 million of the nonused VECCO rental pool equipment.

ADDITIONAL EFFORTS NEEDED

While these were significant and meaningful actions, we believe the Mission should act to recover additional unused VECCO equipment. As shown by the following schedule, only 170 pieces, 12 percent, of the rental pool equipment were used more than 10 percent of the available time, and 217 pieces, 16 percent, have been recovered and redistributed by the Mission. However, at least 72 percent, originally valued at $11.2 million, has been neither adequately used nor recovered. We believe immediate consideration should be given to recovering and redistributing the remaining equipment before the United States loses its title to this equipment.

Disposition of VECCO Rental Pool Equipment

Disposition	Items		Dollar value	
	Number	Percent	Amount	Percent
			(millions)	
More than 10 percent use	170	12	$ 4.1	21
Phase I and II recovery efforts	217	16	4.3	22
Balance	985	72	11.2	57
Total	1,372	100	$19.6	100

At the end of February 1974 the Agency's area auditor general reported on the Mission highway assistance program in Vietnam. In that report the auditors said that much VECCO rental equipment was becoming nonoperational due to a shortage of funds for purchasing spare and replacement parts.

We believe this further demonstrates the need for action to achieve better use of major items of equipment provided by the United States.

OTHER USES FOR EQUIPMENT

At a meeting with Mission officials on June 29, 1973, and in a memorandum dated September 21, 1973, we suggested that the Mission consider exercising its right to withdraw idle equipment from VECCO's rental pools and offer such equipment to private contractors as Government-furnished equipment on future highway, bridge, and other construction projects in Vietnam.

We noted that the U.S. military had used this method in awarding three contracts for highway construction--commonly referred to as Lump Sum I, II, and III. The Vietnamese contractors valued the excess equipment at about $3.2 million, or about 52 percent of original acquisition cost. The cost of the three contracts totaled about $7.8 million, and U.S. military officials estimated that they would have been priced at about $11 million without the Government-furnished equipment. Thus, new procurement was reduced by $3.2 million.

The Mission did not concur in our suggested use of the excess VECCO equipment as Government-furnished equipment; however, we feel that this warrants its continued consideration.

In addition, subsequent to completing our fieldwork, we found some evidence that the Mission was considering invoking a clause of the Mission/GVN agreement to sell the excess property to individuals in Vietnam. We did not examine this alternative, but we believe this action also warrants serious Mission study and consideration should they still not concur with the Government-furnished equipment alternative.

CONCLUSIONS AND SUGGESTIONS

The Mission agrees that the VECCO rental pool equipment has been sitting idle most of the time since its receipt and it has taken what we consider to be meaningful actions to recover and redistribute $4.3 million worth of this equipment. However, the Mission should take additional recovery and redistribution actions.

In the very near future, the United States will lose all claim to the excess property in question. Therefore, it is in the interest of prudent management for the Agency to find an alternative which will bring about the recovery and redistribution of the $11 million worth of nonused VECCO equipment so that it can be put to beneficial use.

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We are sending copies of this report to the House and Senate Committees on Appropriations and on Government Operations; the House Committee on Foreign Affairs; the Senate Committee on Foreign Relations; the Director, Office of Management and Budget; the Secretary of State; and interested Members of Congress.

We would appreciate being advised of actions taken in this matter, including any further recovery or redistribution efforts.

Sincerely yours,

J. K. Fasick

J. Kenneth Fasick
Director