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B-133096

REPORT ON REVIEW  
OF  
THE MILITARY ASSISTANCE PROGRAM  
FOR  
VIETNAM

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by: DOS &  
DOD

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BY  
THE COMPTROLLER GENERAL OF THE UNITED STATES

NOVEMBER 1958

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**BY  
THE COMPTROLLER GENERAL OF THE UNITED STATES**

**NOVEMBER 1958**

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

NOV 26 1958

B-133096

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Dear Mr. Secretary:

Enclosed is our report on our review of the Military Assistance Program for Vietnam as administered by the United States Military Assistance Advisory Group to Vietnam. This report is one of a group on the military assistance program. (UNCLASSIFIED)

The report presents our findings that (1) program requirements for Vietnam have been developed without valid tables of organization and equipment on which to base initial needs, without accurate country consumption rates, and without complete knowledge of equipment assets already possessed by Vietnam forces, (2) France has failed to carry out the agreement originally negotiated with the United States for the disposition of United States-financed military supplies held by the French at the end of the Indochina war, (3) satisfactory control had not been established over the use of local currency provided from United States aid programs for supporting the Vietnam military budget, and (4) the inability of Vietnam to support from its own resources the Vietnamese program objectives recommended by the United States Joint Chiefs of Staff requires an informed determination, based on the development of long-range program costs for Vietnam and the military assistance program world-wide, as to whether these costs are within the resources of the United States to be made available for such purposes. ~~(CONFIDENTIAL)~~

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Copies of this report are being transmitted to the Director, Bureau of the Budget, and to the Chairmen of the Senate Committees on Foreign Relations, Armed Services, Appropriations, and Government Operations and of the House Committees on Foreign Affairs, Armed Services, Appropriations, and Government Operations. (UNCLASSIFIED)

Sincerely yours,

Comptroller General  
of the United States

The Honorable  
The Secretary of Defense

Enclosure

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when detached from enclosure.

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REPORT ON REVIEW

OF

THE MILITARY ASSISTANCE PROGRAM

FOR

VIETNAM

The General Accounting Office has made a review of the Military Assistance Program (MAP) for Vietnam as administered by the Military Assistance Advisory Group (MAAG) to Vietnam. Our review was made 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). This review is one of a group on the military assistance program. The purpose of this program, its organization and management, and its method of financing were described in our report on the military assistance program transmitted to the Congress on August 29, 1957. (UNCLASSIFIED)

INTRODUCTION

The objectives of the Military Assistance Program for Vietnam are to assist, insofar as practicable, in organizing, training, and equipping the armed forces of Vietnam in order to insure the maintenance of internal security and to provide limited initial resistance to attack by the North Vietnam Communists. The Department of Defense has defined limited initial resistance as resistance to Communist aggression by defending or delaying in such manner as to preserve and maintain the integrity of the government and its armed forces for the period of time required to invoke the

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United Nations Charter and/or the Southeast Asia Collective Defense Treaty and to commit collective security forces to support or reinforce indigenous forces in defense of the country attacked.

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The cumulative dollar value programed for Vietnam under the military assistance program, as reported in the 1959 budget estimates, was \$311 million through June 30, 1957. An additional \$36.7 million was programed in fiscal year 1958, and \$24.4 million was estimated to be programed in 1959. ~~(SECRET)~~

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## SCOPE OF REVIEW

Our review of the Military Assistance Program for Vietnam was directed toward examining the effectiveness of management controls including procedures, records, reports, and internal reviews for developing and carrying out the MAP in accordance with established United States policies and objectives. (UNCLASSIFIED)

We reviewed at MAAG/Vietnam and at higher levels (1) the development of requirements for approved Vietnamese forces, particularly for the development of fiscal year 1959 programs, (2) the delivery of military end items, and (3) the standards of utilization achieved by the country forces equipped under the military assistance program. We made a limited number of field inspections to determine the techniques established by the MAAG to satisfy itself that the materiel furnished was being utilized for the purpose programmed. No attempt was made to evaluate technical or strategic matters. (UNCLASSIFIED)

We examined selected transactions and made such other tests as we deemed appropriate to enable us to consider the adequacy and effectiveness of the management controls. (UNCLASSIFIED)

SUMMARY OF FINDINGS

We obtained the comments of the MAAG, of the Commander in Chief, Pacific (CINCPAC), and of the Assistant Secretary of Defense for International Security Affairs (ISA) on our findings, and their statements have been included in this report where appropriate. (UNCLASSIFIED)

INADEQUATE BASIS FOR DEVELOPING PROGRAM REQUIREMENTS

The MAAG has developed program requirements to equip the Vietnamese Army and Air Force without valid tables of organization and equipment or stock levels on which to base needs, without reliable information as to country consumption rates, and without adequate knowledge of equipment already possessed by Vietnamese forces. There are indications that considerable excess equipment already exists in Vietnam and, in the absence of a sound basis for programming, additional materiel may be delivered in excess of country requirements. (UNCLASSIFIED)

We are recommending that action be expedited to improve Vietnamese inventory control and supply management practices, to obtain reliable asset and consumption data, and to recover excess equipment. (UNCLASSIFIED) (See p. 11.)

LACK OF CONTROL OVER UNITED STATES-FINANCED MATERIEL HELD BY THE FRENCH

France has failed to carry out the agreement originally negotiated with the United States for the disposition of United States-financed military supplies held by the French at the end of the Indochina war. France notified the United States in 1957 that it



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could no longer be committed to this agreement. Instead of a mutual inventory taking or determination of what United States-financed military equipment and supplies are available for return to United States control, French authorities, contrary to their original agreement, have taken unilateral action to offer for return such materiel as they wished, have shipped an unknown quantity of materiel to France or to other French possessions, and at the time of our review still held some of this materiel. As a result, the United States has programed equipment for Vietnam, and for other countries in the area, without knowing whether these countries had also received similar equipment from France or whether such equipment might be available to fill deficiencies in these countries. (~~CONFIDENTIAL~~) (See p. 18.)

LACK OF CONTROL OVER THE USE OF FUNDS  
PROVIDED FOR THE MILITARY BUDGET

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United States officials have not established satisfactory control over the use of local currency provided from the United States economic assistance program for supporting the Vietnamese military budget. We noted indications of deficiencies in Vietnam procedures for contracting, paying bills, and controlling obligations. Military budget support represents the largest single segment of United States assistance to Vietnam. (UNCLASSIFIED)

We are recommending that the Department of Defense and ICA assign definite responsibilities for supervising the use of military budget support funds released to the Vietnam defense establishment. We are recommending also that adequate procedures be

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developed, which are acceptable to both the United States and Vietnam, for carrying out this function in a systematic manner.

(UNCLASSIFIED) (See p. 22.)

### NEED FOR BETTER COORDINATION BETWEEN MILITARY AND ECONOMIC AID PROGRAMS

Projects programed under the military and economic assistance programs have not been sufficiently coordinated to provide for efficient application of United States resources made available to Vietnam. Differences of opinion between United States officials administering the separate programs in Vietnam as to the merit of certain projects apparently have not been promptly resolved to arrive at a firm United States position. (UNCLASSIFIED) (See p. 25.)

### NEED FOR LONG-RANGE PROGRAM PLANNING

The military assistance program is being administered without long-range program planning for the continued support of the military forces now being equipped at United States expense. Responsible United States officials have reported that the Vietnamese program objectives recommended for support by the United States Joint Chiefs of Staff (JCS) are far beyond the economic capabilities of Vietnam to support from its own resources. The Department of Defense has not developed long-range estimates of the program costs necessary to support approved country forces in Vietnam and worldwide for consideration of whether these costs are within the resources of the United States to be made available for such purposes. (UNCLASSIFIED)

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We are recommending that the Assistant Secretary of Defense for International Security Affairs develop estimates of the costs required to achieve approved program objectives in Vietnam and on a world-wide basis and that appropriation requests be supported by data which show long-range costs, the portion already funded, the portion requiring funds in the budget year, and the time-phased costs for carrying out the remainder of the program. (UNCLASSIFIED)  
(See p. 27.)

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BACKGROUND

The General Accounting Office has prepared a separate report on the economic assistance program in Vietnam (B-133001). This report was transmitted to the Director of ICA and to several congressional committees on May 22, 1958. In this report we pointed out that the official exchange rate of 35 Vietnamese piasters to 1 United States dollar, which is used for the purpose of converting dollar aid funds into local currency, overvalues the piaster, compared with current market rates of 70 to 1 or higher. The rate of 35 to 1 not only adds unduly to the demands for United States economic aid but also encourages speculation and leads to windfall profits for private importers. The report concluded that it was believed that ICA should use its best efforts to negotiate a more favorable exchange rate with the recipient country.

(UNCLASSIFIED)

In order that the findings and recommendations contained herein can be considered in conjunction with pertinent conditions that were not within the scope of our review but which were considered pertinent by responsible United States officials charged with the administration and technical evaluation of the program, certain views expressed by those officials are summarized below.

(UNCLASSIFIED)

Department of Defense officials have stated that the Vietnamese armed forces supported under the military assistance program were the key factor in establishing internal security and strengthening the central anti-Communist government, that the

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Vietnamese Army is reported to be capable of maintaining general internal security and of defending key areas for 30 to 40 days against a full-scale invasion from North Vietnam, that the Vietnamese Navy is improving in competence, and that the Vietnamese Air Force has a limited capability to carry out its mission. MAAG officials have stated that the Vietnamese logistical system is incapable of supporting Vietnamese armed forces in wartime operations because of a lack of trained personnel to operate the system and inadequate facilities for transport and supply distribution.

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We have been informed also by Defense officials that the operation of the Military Assistance Program for Vietnam has been adversely affected by several internal country problems and situations, including those which follow: ~~(SECRET)~~ UNCLASSIFIED

1. Vietnam has been an independent nation for less than 3 years and faces tremendous economic, social, and military problems. Educational facilities are reported to be substandard, and the population has a literacy rate of about 20 percent. There is a critical shortage of capable administrators, executives, supervisors, and technicians. While Vietnam was a part of the French empire the Vietnamese, with certain rare exceptions, were not permitted to occupy any important executive or administrative positions either in business or in government. After the French left Vietnam, there were few trained and experienced Vietnamese to fill the many positions vacated by the French. ~~(SECRET)~~ UNCLASSIFIED
2. The Geneva agreement entered into July 20, 1954, which brought about the cessation of hostilities in the French Indochina war, prohibited the introduction of additional military personnel and the movement of any major items of equipment into Vietnam, except on a replacement basis. Though not a party to the Geneva agreement, the United States determined that, for political reasons, a ceiling of 342 should be placed on the number of MAAG personnel in Vietnam. This figure represented the MAAG military strength at the time of the cease-fire in 1954. Supplementing this are personnel of the United States Temporary

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Equipment Recovery Mission (TERM) with an authorized strength of 350. The stated mission of the TERM is the recovery and outshipment of economically reparable MAP materiel excess to authorized Vietnam armed forces and MAP materiel requirements and the disposition of salvage and scrap returned to United States control. In the course of carrying out its mission, TERM has also given the participating elements of the Vietnam armed forces certain logistical training. ~~(SECRET)~~

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FINDINGS AND RECOMMENDATIONS

INADEQUATE BASIS FOR DEVELOPING  
PROGRAM REQUIREMENTS

Program requirements have been developed without adequate knowledge of the needs of the forces being supported and without accurate knowledge of the equipment and supplies already possessed by the Vietnamese forces. The United States has information that there are considerable excess quantities of equipment and supplies in Vietnam. In the absence of a sound basis for programming, additional unneeded materiel may be delivered. (UNCLASSIFIED)

Troop equipment

Although the United States has established as program objectives the size and make-up of the forces that would be supported in Vietnam, at the time of our review the MAAG did not have the data necessary for computing Vietnamese requirements as follows:

1. There were no valid tables of organization and equipment (TO&E's) for the Vietnamese Army units. That Army was organized and equipped according to French TO&E's, which a review indicates are not an acceptable basis for programming. One unit with authorized complement of 2,498 was equipped with weapons for 3,194 personnel. In September 1956 the MAAG initiated a project to develop TO&E's.
2. In June 1957 the MAAG assumed responsibility for training the Vietnamese Air Force which prior to that date had been trained by a French mission. As a first step toward organizing and equipping that Air Force, MAAG initiated a project to prepare suitable unit manning documents (UMD's) and unit authorization lists (UAL's).
3. Acceptable asset data had not been compiled nor had consumption factors been developed for the Vietnam military forces. We were advised by MAAG officials that available data as to equipment on hand were obtained from whatever sources possible, that it was not an accurate statement of country assets, and that an unknown amount of French-held

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materiel was turned over directly to Vietnam after the Indochina war. At one depot that we visited, personnel were compiling consumption data and other essential information on each line item. MAAG officials have indicated that it will require at least a year to inventory stocks, establish stock levels, and compute stock requirements.

The Department of Defense has informed us that the MAAG now has prepared TO&E's for the Vietnamese Army, that by September 30, 1958, the Army should be reorganized under these new TO&E's, and that the Vietnamese Air Force put into effect new UMD's and UAL's in March 1958. (~~SECRET~~) UNCLASSIFIED

### Construction

Construction funds programed for the Vietnamese armed forces are based on rough estimates of cost for projects planned on a piecemeal basis. The MAAG does not have a master plan for the country construction program and, at the date of our review, had not developed a comprehensive understanding of the country requirements or available assets. Those projects which have been programed are subject to change as additional data are developed.

(~~SECRET~~) UNCLASSIFIED

Through fiscal year 1957 over \$5 million had been funded for military construction projects, chiefly from the economic assistance program. Since the MAAG does not have engineering data to support cost estimates, it has little assurance that funds requested will be adequate for the work planned. It appears that in practice funds are requested and then work is planned within the limit of funds that are approved. (~~SECRET~~) UNCLASSIFIED

We have been informed by CINCPAC that more stringent controls have been established over construction projects and proposed construction must be fully supported in the annual program submissions. (~~SECRET~~) UNCLASSIFIED

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Excesses

Although at the time of our review the MAAG did not have complete knowledge either of Vietnam equipment requirements or of assets, MAAG officials believed that considerable quantities of materiel on hand were excess to current needs. From data presented in the fiscal year 1959 program submission, engineer stocks of structural steel, paint, cement, asphalt, hardware, iron and steel, nonferrous metal, electrical supplies, drafting and topography supplies, and hand tools were an estimated \$3.9 million over estimated reserve requirements. The excess represents from 1 to 2 years' requirements for most of the first 9 items mentioned and 17 years' requirements for hand tools. (~~SECRET~~) UNCLASSIFIED

We noted also that the Vietnamese Air Force had aviation gasoline and lubricating oil on hand or under contract for delivery from fiscal years 1956 and 1957 in sufficient quantity to maintain a 60-day reserve and to meet estimated consumption requirements for ensuing periods extending into or beyond fiscal year 1959. Estimated requirements for 80 octane gasoline could be supplied through March 1959 from stocks on hand, and there was sufficient quantity of 100/130 octane gasoline on hand or under contract for delivery to meet expected requirements through December 1958. At January 1, 1957, the Vietnamese Air Force was reported to have 80,000 gallons of lubricating oil on hand which, on the basis of estimated requirements presented in the fiscal year 1959 program submission, would last beyond the end of fiscal year 1959.

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The major amounts of end items reported excess through June 30, 1957, consisted of about 1 million pairs of boots and shoes and about 61,000 items of medical supplies. MAAG officials have informed us that since our review about 6,000 tons of ordnance spare parts excess to Vietnam needs have been returned to United States control. (~~SECRET~~) UNCLASSIFIED

At one Army depot that we visited, MAP requisitions amounting to \$500,000 had been determined to be excess to requirements and had been canceled and, based on the remaining requisitions to be screened, it was estimated that requisitions totaling \$2 million would be canceled. Since the depot is receiving materiel from reworked back-up stocks and from requisitions placed before stock control procedures were put into effect, equipment and supplies are being received at the depot which must be immediately shipped out as excess. The situation will necessitate a continuing review of stock balances and requisitions until the supply position has stabilized and more accurate stock levels are established which, it is estimated, will be in approximately a year's time. (~~SECRET~~) UNCLASSIFIED

During a visit to an Air Force depot, we were advised that the depot had stocks of parts for aircraft which were not in use in the Vietnamese Air Force and hence were excess to requirements. We observed that the depot stocks had not been inventoried and the depot did not have a workable system for inventory control. The MAAG has reported that since our reviews an inventory procedure had been written and transmitted to the depot commander with the intention of starting an inventory of depot stocks in January 1958.

(~~SECRET~~)

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In reviewing the naval supply position, the MAAG found that the Vietnamese have in their possession certain diesel engines which so far exceeded their requirements that it was considered desirable to return some portion to United States control without waiting for completion of the over-all evaluation of the stock position. Their first attempt to obtain release of these excess items was initiated about a year before our review, at which time the MAAG attempted to obtain control of 400 diesel engines, valued at \$6,500 each, for redistribution to Thailand and to the ICA mission. Although the Vietnamese would have retained, after the proposed redistribution, 150 diesel engines, the release of the engines was declined. According to United States Navy standards, only 30 engines are needed to meet replacement requirements of the Vietnamese naval vessels. At the date of our review, the MAAG was still unsuccessful in its attempt to recover the diesels. We have since been advised that the return of these excess items has been agreed to and that action has been initiated to recover other excess materiel. (~~SECRET~~) UNCLASSIFIED

In accordance with an agreement reached in an exchange of notes between the United States and Vietnam in March and April 1955, Vietnam agreed to report to the United States MAP equipment or materiel no longer required for the purposes for which they were made available. Further, by the agreement the United States could draw to the attention of the Vietnamese authorities equipment or materiel which it considered within the scope of the arrangements and the United States would determine the disposition of the materiel reported excess by Vietnam. (~~SECRET~~) UNCLASSIFIED

Notwithstanding the agreement and the fact that there are large quantities of materiel in Vietnam excess to present military requirements, the Vietnamese Government has been reluctant to declare or turn over to the United States control excess major end items. In the opinion of MAAG personnel, this reluctance stems largely from (1) a feeling of actual need within Vietnam for the equipment, (2) large quantities of Vietnamese military equipment out of operation because of maintenance and rebuild inadequacies, and (3) possible Vietnamese failure to understand that excess equipment will require additional maintenance and storage costs.

~~(SECRET)~~ UNCLASSIFIED

CINCPAC has informed us that, while it recognizes that Vietnam is reluctant to return to United States control items in excess of requirements, it is confident that the MAAG will be successful in obtaining release of excesses. ~~(SECRET)~~

Conclusion

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CINCPAC has agreed that there are inherent inaccuracies in the program data used and that the utility of programs prepared from such data is limited. CINCPAC has reported that it is giving this matter constant attention and in some cases has reduced program submissions to avoid overprogramming of major materiel. Both CINCPAC and MAAG/Vietnam are aware of the inadequacies in the Vietnamese logistical system and the difficulties in introducing and establishing supply management concepts in Vietnam. ~~(SECRET)~~ UNCLASSIFIED

We believe that MAAG personnel have made considerable progress in attacking these basic problems. However, until valid consumption factors are developed, until the available assets are

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ascertained and compared with the authorized allowance, and until depots stocks are inventoried and realistic stock levels are established, evaluation of shortages or excesses is not possible and program data prepared on the basis of existing organizational structures and requirements must be considered as tentative and subject to change. At the time of our review there did not exist, in our opinion, a sound basis for developing country requirements or for assuring, to a reasonable degree, that equipment being delivered under the military assistance program could be effectively used by the recipient. (UNCLASSIFIED)

### Recommendation

We recommend that action be expedited to improve Vietnamese inventory control and supply management practices, to obtain reliable asset and consumption data for major materiel and spare parts, and to recover equipment determined to be excess to valid requirements. (UNCLASSIFIED)

LACK OF CONTROL OVER UNITED STATES-FINANCED  
MATERIEL HELD BY THE FRENCH

France has failed to carry out the agreement originally negotiated with the United States for the disposition of United States-financed military supplies held by the French at the end of the Indochina war. France notified the United States in 1957 that it could no longer be committed to this agreement. Instead of a mutual inventory taking or determination of what United States-financed military equipment and supplies are available for return to United States control, French authorities, contrary to their original agreement, have taken unilateral action to offer for return such materiel as they wished, have shipped an unknown quantity of materiel to France or to other French possessions, and at the time of our review still held some of this materiel. As a result, the United States has programed equipment for Vietnam, and for other countries in the area, without knowing whether these countries had already received similar equipment from France or whether such equipment might be available to fill deficiencies in these countries. (~~CONFIDENTIAL~~) UNCLASSIFIED

At the cessation of hostilities in 1954, French and United States materiel of an undetermined amount was in the hands of the French forces and the forces of the Associated States (now Vietnam, Cambodia, and Laos). The Minute of Understanding signed December 1, 1954, by General Collins and General Ely, representatives of the United States and French Governments, respectively, provided for French and United States authorities in Indochina to establish procedures for the return to United States control of

United States-financed military equipment and materiel no longer required for the purposes for which they were originally made available. That portion which was determined by French and United States representatives to be no longer required for the purposes for which it was originally made available was to be offered for return to the United States Government or for such disposition as might be determined by the United States Government. (~~SECRET~~)

A conference was held early in 1955 for the purpose of having an inventory prepared by the French in accordance with an agreed format. Guidelines with respect to sharing of losses, title for property physically in the hands of the forces of Vietnam, Cambodia, and Laos, and other details were provided. It was indicated that the steps outlined would serve as a basis for future discussions to determine procedures and actions still to be taken in the distribution of Army materiel and equipment. We have been informed by MAAG officials that, during the period from February through April 1955, the French forwarded to the MAAG inventory lists for certain ordnance, engineer, and signal equipment and that United States and French authorities agreed at that time that these inventories represented only a portion of the total amount potentially available. (~~SECRET~~) UNCLASSIFIED

So far as we have been able to determine, the French authorities took unilateral action to offer for return such materiel as they have wished and at no time was there a mutual determination of the quantity of materiel or the condition of the materiel to be

returned to United States control. United States authorities did not conduct inventories of materiel in French hands ~~or otherwise~~ control the distribution of available equipment. ~~(SECRET)~~ UNCLASSIFIED

We have been informed by MAAG officials that TERM was established in May 1956 in recognition of the need to control the recovery of French excesses and that since June 1956 adequate controls have been in effect. However, a statement by French authorities in June 1957 that they could no longer be committed to the Ely-Collins Agreement of December 1, 1954, would appear to preclude the maintenance of satisfactory controls by the United States. ~~(SECRET)~~ UNCLASSIFIED

MAAG records indicate that the United States military supplies amounting to \$1.1 billion delivered during 1950-54 were expended or disposed of as follows: ~~(SECRET)~~ UNCLASSIFIED

(Millions of dollars)

Total amount of assistance			\$1,100.0
Stocks on hand or transferred to Indochina countries (as reported by the French):			
Vietnam	\$302.0		
Cambodia	51.0		
Laos	<u>27.6</u>	\$380.6	
Outshipped by MAAG:			
Army	109.6		
Air Force	30.0		
Navy	<u>50.5</u>		
	190.1		
Disposed of locally by MAAG	31.0		
Awaiting outshipment or disposition instructions	<u>11.2</u>	<u>232.3</u>	<u>612.9</u>
Balance unaccounted for			<u>\$ 487.1</u>



~~SECRET~~ UNCLASSIFIED

Presumably this balance of \$487.1 million either was expended during the Indochina war, was turned over to Vietnam, Cambodia, or Laos directly by France, was outshipped by France, or remains in French hands. ~~(SECRET)~~ UNCLASSIFIED

CINCPAC has informed us that, although it believes that French military authorities have reported supplies for redistribution as soon as excesses have been inventoried and processed, it does not believe that the French have exerted maximum effort to locate, inventory, or deliver all excesses. ~~(SECRET)~~ UNCLASSIFIED

In retrospect, it seems clear that despite the Ely-Collins Agreement the United States has not controlled the disposition of United States-financed military supplies delivered during the Indochina war and that France has been able to retain or to offer for return to United States control such equipment as it wished.

(UNCLASSIFIED)

In response to our recommendation that action be expedited to obtain the return of materiel still remaining in French hands, the Department of Defense has informed us that it is considered that the materiel remaining in the hands of the few French still in Vietnam is of no significance. We were informed also that, while it is undoubtedly true that some of the equipment removed by the French should have stayed in Vietnam or should have been returned to United States control, it is not considered practical now to trace such materiel to France or to the forces in North Africa to require its return to the United States or for redistribution elsewhere. ~~(SECRET)~~ UNCLASSIFIED

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LACK OF CONTROL OVER THE USE OF FUNDS  
PROVIDED FOR THE MILITARY BUDGET

United States officials have not established satisfactory control over the use of local currency provided from the United States economic assistance program for supporting the Vietnamese military budget. We noted indications of deficiencies in Vietnamese procedures for contracting, paying bills, and controlling obligations. (UNCLASSIFIED)

Military budget support represents the largest single segment of United States assistance to Vietnam. The Country Team has estimated that in fiscal year 1959 the United States contribution to the Vietnamese military budget at the official rate of exchange will be the local currency equivalent of about \$133 million and the Vietnamese contribution will be the equivalent of about \$37 million. Local currency funds for the military budget of the Vietnamese armed forces (chiefly pay and allowances, materiel, and construction) are derived entirely from the proceeds of United States dollar or commodity aid programed by the ICA mission. These funds are generated from the sale of commodity imports or, in the case of the Vietnamese contribution, from customs receipts derived from United States-financed commercial imports. (~~SECRET~~) UNCLASSIFIED

Effective control over military budget support assistance would require both a review of the military budget estimates prepared by Vietnam and a determination that funds are actually expended for the purposes intended. We believe that the screening process by which the MAAG refines Vietnamese budgetary requests is

adequate. However, neither the MAAG nor the ICA mission has adopted procedures to ascertain whether local currency funds are being used for the purposes provided. MAAG officials stated that some verifications had been made on an informal or individual case basis. (UNCLASSIFIED)

We were informed by MAAG officials that the Vietnamese Government has been reluctant to permit any systematic inspection of records or procedures. We were informed, during our review, of serious weaknesses in Vietnamese practices which could result in grave waste and mismanagement of funds provided through United States aid. We were informed that under Vietnam contracting procedures the Government deals through brokers and often pays several times the amount at which the supplies could have been obtained directly from the manufacturer; that Vietnam does not have a budgetary control system designed to control the obligation of budget authorizations; and that the government is delinquent in paying its bills and reportedly leaves transportation, utilities, and stevedoring bills unpaid for periods up to 2 years. (~~SECRET~~) UNCLASSIFIED

We have been informed by the Department of Defense that MAAG/Vietnam maintains a closer watch over the expenditures of the Vietnamese military establishment than is maintained in almost any other country receiving aid from the United States and that it is hard to see how a tighter control can be exercised. (~~SECRET~~) UNCLASSIFIED

We believe that an audit of the use of military budget support funds by Vietnam would be necessary to determine that they

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are being used in accordance with the budget estimates on which the United States bases the requirements and the release of funds. At the time of our review, no satisfactory audit of this sort was being performed and the Department of Defense and ICA had not reached an agreement as to the respective responsibilities of the MAAG and the ICA mission for undertaking such reviews.

(UNCLASSIFIED)

## Recommendations

We recommend that the Department of Defense and ICA assign definite responsibilities for supervising the use of military budget support funds released to the Vietnam defense establishment. We recommend also that adequate procedures be developed, which are acceptable to both the United States and Vietnam, for carrying out this function in a systematic manner. (UNCLASSIFIED)

NEED FOR BETTER COORDINATION BETWEEN  
MILITARY AND ECONOMIC AID PROGRAMS

Projects programed under the military and economic assistance programs have not been sufficiently coordinated to provide for efficient application of United States resources made available to Vietnam. Differences of opinion between United States officials administering the separate programs in Vietnam as to the merit of certain projects apparently have not been promptly resolved to arrive at a firm United States position. (UNCLASSIFIED)

Several of the economic and technical development projects programed by the ICA mission to Vietnam, such as telecommunications development and highway construction, are influenced in a large part by military considerations. Programing for these projects requires the closest coordination within the Country Team so that the projects can be accomplished most expeditiously and can make a maximum contribution to both economic development and military objectives. (UNCLASSIFIED)

Telecommunications

The ICA mission sponsored a project for telecommunications development which was designed to organize and equip Vietnam with a long-distance telephone, teletype, and telegraph system, based on recommendations of a comprehensive survey under a contract signed in February 1957. The purpose of the survey was to determine requirements for internal and external telecommunications in Vietnam, Thailand, and Laos. It was anticipated that the project would make available to Vietnam military forces reliable long-distance telecommunications service for administrative and

logistical purposes, thus freeing tactical types of equipment currently in use for the purposes for which they were intended.

(~~SECRET~~) UNCLASSIFIED

At about the same time, a survey of the requirements for a radio relay system along the coastal region of Vietnam for military use was initiated under the military assistance program without the knowledge of ICA mission officials. A contract for this survey was awarded on June 28, 1957, for \$42,732. At the time of our review, equipment requisitions amounting to more than \$900,000 had been submitted by the MAAG for this project and much of the equipment had been received. (~~SECRET~~) UNCLASSIFIED

We have been informed by the Country Team that there had been a failure to coordinate the telecommunications project at the Country Team level but that close cooperation between the MAAG and the ICA mission has been achieved after our review to prevent any overlap between the two projects. (~~SECRET~~) UNCLASSIFIED

#### Highway construction

The reconstruction of highways and bridges has been the largest single project programmed by the ICA mission. This project has been justified on the basis of the importance of transportation to national security and economic development of Vietnam. First priority in the long-range program conceived first in fiscal year 1955 was the rehabilitation of National Route 1, the main coastal road, the eventual cost of which was estimated at about \$30 million. Initial funds were provided to commence this project at that time, and a contract for a survey of Vietnam highway needs

was awarded under the economic assistance program in June 1955. However, more than 2 years after the initiation of this project the MAAG developed a new set of highway projects of high priority which did not include the rehabilitation of National Route 1. Some of the highways planned were entirely for military needs. At the time of our review no attempt had been made to determine the over-all cost of the new program but the first two priority projects were estimated to cost more than \$18 million plus the equivalent in plasters of more than \$4 million. It would appear that, through the facilities of the Country Team, agreement on the desired priorities of road requirements could have been reached at an earlier date. (~~SECRET~~) UNCLASSIFIED

We have been informed by the Department of State that the Vietnamese Government itself has made several shifts of priorities in its road program which can be at least partly explained by changes in political and military circumstances in the area. We were informed also by the Department of Defense that a close working relationship has been achieved between the military and economic aid programs, an example being the use of bulldozers provided under the economic aid program when needed temporarily for military work. (~~SECRET~~) UNCLASSIFIED

NEED FOR LONG-RANGE PROGRAM PLANNING

The military assistance program is being administered without long-range program planning for the continued support of the military forces now being equipped at United States expense. Responsible United States officials have reported that the Vietnamese

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military program objectives recommended for support by the United States Joint Chiefs of Staff (JCS) are far beyond the economic capabilities of Vietnam to support from its own resources. The Department of Defense has not developed long-range estimates of the program costs necessary to support approved country forces in Vietnam and world-wide for consideration of whether these costs are within the resources of the United States to be made available for such purposes. (UNCLASSIFIED)

The Country Team in Vietnam, which is composed of the United States Ambassador, the Chief of the MAAG, and the Director of the ICA mission, has reported that the support of the military establishment at the level recommended by JCS imposes a very great burden on the weak Vietnam economy and that this burden could not be sustained without massive assistance from the United States. In addition to supplying MAP-financed hard goods, consumables, and construction items, the United States is supporting the Vietnam military budget both directly through the economic aid program and indirectly since the Vietnamese contribution for military support is derived from customs receipts from United States-financed commercial imports. ~~(SECRET)~~ UNCLASSIFIED

CINCPAC has informed us that it concurs in the need for a long-range plan, although it considers the Vietnamese Government to be incapable at this time of participating in realistic combined planning. ISA has stated, in commenting on this matter, that data necessary for the production of long-range estimates are now being accumulated and that the estimate for Vietnam is expected to be prepared by the Department of Defense by mid-1959. ~~(SECRET)~~

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So far as we have been able to determine, however, the Department of Defense has not developed estimates of the aggregate long-range costs of assisting allied forces or otherwise achieving United States objectives in the countries being supported.

(UNCLASSIFIED)

As we pointed out in our report on the military assistance program transmitted to the Congress on August 29, 1957, we believe that such estimates should be developed and that a determination should be made that these costs are within the resources of the United States likely to be available for such purposes. Otherwise, forces equipped at United States expense may deteriorate because they will not be supported either by the country concerned or by the United States. (UNCLASSIFIED)

### Recommendation

We recommend that the Assistant Secretary of Defense for International Security Affairs develop estimates of the costs required to achieve approved program objectives in Vietnam and on a world-wide basis and that appropriation requests be supported by data which show long-range costs, the portion already funded, the portion requiring funds in the budget year, and the time-phased costs for carrying out the remainder of the program. (UNCLASSIFIED)