



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

INTERNATIONAL DIVISION

APR 13 1972

Dear General Seignious:

We have reviewed selected aspects of the United States assistance program to the North Atlantic Treaty Organization Maintenance and Supply Agency (NAMSA). Our review was directed toward examining into whether the United States was realizing maximum benefit from its investment in NAMSA and the effectiveness of management of U.S. interests by the Department of Defense and the Department of State.

Our review was generally limited to an examination of financial reports and other NAMSA documents available in U.S. Government offices. Information on NAMSA's activities consisted mostly of published reports and official documents distributed to the participating members. All member countries are restricted from direct access to the organization's records, therefore, we were unable to independently verify the account balances and summaries of transactions shown in NAMSA's reports.

The United States made available to NAMSA about \$56 million of material, supplies and equipment for use in three of its major programs. The results of our review into this area are described below.

Recovery of U.S. Investments in NAMSA

The United States has recovered from NAMSA, in the form of credit and supplies, about \$46 million of its total assistance of \$56 million. Most of the recovered assistance value was used to fill other U.S. military assistance requirements in Greece and Turkey. In this sense, the assistance to NAMSA differed from most military assistance programs where benefits to the United States have been measured largely in terms of U.S. contributions to security and defense of the countries involved. In March 1971, NAMSA indicated that additional credit returns of about \$400,000 may be expected, however, we were advised by Department of Defense officials in March 1972 that the United States had received no further recoveries.

Our review showed that Department of Defense use of \$46 million returned by NAMSA in credit and supplies for military assistance to Greece and Turkey was not specifically reported to Congress. No report to Congress was made because of the Department of Defense view that such returns represent commodities as explained in section 605(b) of the Foreign Assistance Act of 1961, as amended. We believe, however, that

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the availability and use of such resources for military assistance should be reported to the Congress in the annual budget presentations to the extent they reduce the need to obtain additional funds for the programs in which used.

Although substantial recoveries have been realized by the United States, NAMSA's financial position did not ensure return of all investments to contributors. In this regard, since the United States has about \$10 million of its total investment yet to be recovered, we believe that the Department of Defense and the U.S. Mission to the North Atlantic Treaty Organization (NATO), which is responsible directly to the Secretary of State, should make an increased effort to discover areas where additional amounts of return may be realized.

#### Error in United States Recoveries

During the course of our review, we found that NAMSA had incorrectly distributed to the Federal Republic of Germany investment recoveries (credits) of almost \$700,000, which properly belonged to the United States. After we discussed our findings regarding the incorrect U.S. share of credits with U.S. officials, the officials obtained a correction of the error from NAMSA and proper recoveries were promptly restored to the United States by NAMSA.

#### United States Exceeded its Credit Account

Our review also showed that the Department of Defense approved and made purchases substantially in excess of total amounts of U.S. credit available with NAMSA. The Department did not request additional appropriations to cover overdrawn credit, however, a realignment of Military Assistance Program funds was required to pay for the committed U.S. orders. When we brought this matter to the attention of appropriate officials, they subsequently made \$5 million of FY 1970 Military Assistance Program funds available to cover the liability for exceeding NAMSA credit.

In our opinion, the Department of Defense exceeded the U.S. credit available with NAMSA because of a lack of adequate centralized management direction and coordination in this military assistance activity. We believe the U.S. participation in and benefits derived from this international program would have been adversely affected by continuing to exceed the credit in the manner described above.

After our discussions with U.S. Mission to NATO and Department of Defense officials about these matters, actions were taken (1) to stop further purchases in excess of available credit, (2) to waive restrictions on U.S. offshore procurement thereby authorizing about \$5 million of appropriation funds covering the U.S. liability to NAMSA for exceeded credit and (3) to improve the management control and coordination of this military assistance activity.

#### Conclusions

The subsequent recovery of the value of most U.S. military assistance invested in NAMSA has pointed out that an investment concept may be worthy

of further consideration and study for application to other foreign assistance programs. Also, to be of maximum benefit to the United States, we believe that investments of U.S. foreign assistance resources must be efficiently monitored by a well-coordinated management system.

In a draft report provided to the Department of Defense and the Department of State, we proposed that the Departments in coordination with each other

--continue to explore the feasibility of further applying the concept of investment-type foreign assistance programs.

--require at the earliest opportunity internal audits of the management of U.S. investments in NAMSA and the recoveries from those investments.

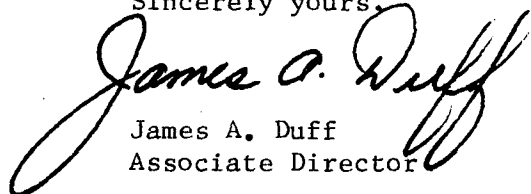
In your letter of September 10, 1971, you responded to our proposals for the Department of Defense, and advised us that (1) the Department was studying the subject of regional cooperation with the Department of State, (2) the Departments' actions will include the exploration of the feasibility of applying the concept of an investment-type foreign assistance program to other international organizations, and (3) the Department of Defense audit agency will give consideration to scheduling an audit of U.S. participation in NAMSA when formulating future annual workloads.

The response to our draft report, however, did not directly address our belief that the availability and use of resources, such as the NAMSA credit recoveries, be reported to Congress in the Department of Defense annual budget presentations. In this regard, we suggest that the Department of Defense, in its annual budget presentations, advise the Congress of the value and type of resources which have become available from investment-type assistance programs and the manner in which such resources have been or are planned to be used.

The Department of State concurred with your response.

In view of your response to our proposals and because of the attention directed by the Department of Defense and the Department of State to the benefits to be derived from close scrutiny of the U.S. investments in NAMSA, we are not reporting further on these matters. A similar letter, however, is being sent to Mr. Richard W. Murray, Deputy Assistant Secretary for Budget and Finance, Department of State.

Sincerely yours,

  
James A. Duff  
Associate Director

Lieutenant General George M. Seignious, II  
Deputy Assistant Secretary  
Military Assistance and Sales  
Department of Defense