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*REPORT TO THE ARMED SERVICES
INVESTIGATING SUBCOMMITTEE
COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES*

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Department Of Defense
Property Disposal Operations
In Vietnam B-159451

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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APRIL 1, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable F. Edward Hebert, Chairman
Armed Services Investigating Subcommittee H.C. 511
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

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/ This is our report on Department of Defense property disposal operations in Vietnam. Our work was done pursuant to your request of January 15, 1973, to review disposal operations at various locations in the Far East. As agreed to during subsequent meetings with your counsel, we limited our review to disposal operations in Vietnam. 5

As pointed out in this report, the Defense Supply Agency assumed responsibility for all disposal operations in Vietnam as of January 1974. Accordingly, you may wish to have its officials describe their plans for assuming this responsibility to the Subcommittee. Special attention should be given to the controls the Defense Supply Agency intends to establish over the accounting for and sale of property and over the use of Transportation Control and Movement Documents for shipment of materiel.

Since we were unable to validate reported proceeds from the Property Disposal Branch sales of surplus property, you may wish to ask the Department of the Army to review and validate such proceeds.

In accordance with instructions from your office, we did not obtain official comments on our findings and conclusions from the Departments of Defense and State. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States

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Letter dated January 15, 1973, from Chairman, Armed Services Investigating Subcommittee

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ABBREVIATIONS

ARVN	Army of the Republic of Vietnam
DOD	Department of Defense
DPDS	Defense Property Disposal Service
GAO	General Accounting Office
GOS	Government of Singapore
GVN	Government of Vietnam
MAP	military assistance program
RVNAF	Republic of Vietnam Armed Forces
CORDS	Civil Operations for Rural Development
CINCPAC	Commander in Chief, Pacific

D I G E S T

WHY THE REVIEW WAS MADE

The Subcommittee asked GAO to review Department of Defense disposal operations in Vietnam. The review was to include:

- Criteria and procedures for determining items declared surplus.
- Present and projected dollar volume of the program.
- Value of equipment to be recovered in the future.
- Nature of agreements and understandings with the Vietnamese government affecting the disposal program.
- Numbers and kinds of weapons in the program.
- Evaluation of the effectiveness of the demilitarization of these weapons.
- Effectiveness of controls and security measures to prevent loss of items in transit or in storage before sale.
- Alleged unlawful or irregular activities in connection with disposal of guns, ammunition, tanks, trucks, and tires.

In accordance with Subcommittee instructions, GAO did not obtain comments from the Departments of Defense and State.

FINDINGS AND CONCLUSIONS

Procedures followed for redistributing excess U.S. property generated in Vietnam provide reasonable assurance that the property was redistributed only to entitled organizations or countries. Procedures used in determining surplus items appeared adequate. (See p. 5.)

During fiscal years 1971, 1972, and 11 months of fiscal year 1973, the Army

- redistributed property originally costing \$122 million and
- received \$27 million in proceeds from the sale of property.

As of May 20, 1973, the Army's Property Disposal Branch had an inventory of \$46 million of usable property in Vietnam and about 70,600 short tons of scrap.

GAO's tests of the Property Disposal Branch's financial data disclosed errors casting doubt on the accuracy of the above values.

No practical means exist to determine a reliable dollar estimate of future disposal operations or the value of equipment to be recovered in Vietnam. (See p. 12.)

No single agreement covers fully the disposal of surplus U.S. military equipment and the residue of such items generated in Vietnam. Of

eight agreements dealing, in whole or in part, with disposal of property, seven were with the Government of Vietnam and one was with the Government of Singapore. (See p. 13.)

A significant provision of one of these agreements transfers title to all U.S. military scrap to the Government of Vietnam as U.S. Government supplemental military assistance. (See p. 16.)

Large quantities of a variety of weapons and weapon systems were being disposed of in Vietnam. For example:

--From January 1, 1972, through March 28, 1973, four U.S. operated property disposal holding activities in Vietnam reported that they had demilitarized over 25,000 items, such as small arms, howitzers, armored vehicles, communication and electronics equipment, and helicopters. (See p. 20.)

Before March 1973, appropriate demilitarization certifications were not being prepared; therefore, GAO could not determine if items had, in fact, been demilitarized. (See p. 23.)

The property disposal holding activities apparently have been preparing proper certifications since March 1973. (See p. 23.)

Physical security appeared adequate, but the accounting controls designed to prevent the loss of items in transit or in storage before sale were inadequate. For example:

--In testing the accountable records of items in transit and at two property disposal holding activities, GAO found many discrepancies which could not be reconciled, leading to the conclusion that the

records were unreliable. Furthermore, the discrepancies noted in the records of items sent to Singapore for sale were so numerous that they cast serious doubt on the reliability of reports prepared regarding Singapore sales. (See p. 29.)

On March 9, 1973, an American employee of the Property Disposal Branch was incarcerated for fraud involved in the shipments of scrap brass and copper from Vietnam. While this case was under investigation, Vietnamese officials had identified 10 fraudulent transportation documents used to export 25,600 short tons of such scrap valued at \$12.3 million.

It appeared that this scrap originally belonged to the United States. However, on December 14, 1972, the United States transferred title to all scrap in Vietnam to the Government of Vietnam. The scrap in question may be Vietnamese property.

Effective January 1974, the Department of Defense assigned responsibility for the disposal of U.S. property in Vietnam to the Defense Supply Agency. Responsibility for all other Defense disposal activities worldwide previously had been consolidated under the Defense Supply Agency.

MATTERS FOR CONSIDERATION BY THE SUBCOMMITTEE

The Subcommittee may wish to have officials of the Defense Supply Agency describe their plans for assuming responsibility for disposal operations in Vietnam and the controls they intend to establish over the accounting and sale of property and over the use of Transportation Control and Movement Documents for shipment of material.

CHAPTER 1

INTRODUCTION

The Chairman, Armed Services Investigating Subcommittee, House Committee on Armed Services, in a letter dated January 15, 1973, requested that we review the property disposal operations in the Far East. During subsequent discussions the Subcommittee counsel stated that the Subcommittee was interested chiefly in the manner in which these operations were being carried out in Vietnam. The Chairman expressed concern over the extent, if any, of alleged unlawful or irregular activities that related to the disposal of arms or trucks and tires. He asked specifically for information on:

- Criteria and procedures used for determining items declared surplus.
- Present and projected dollar volume of the program.
- Value of equipment anticipated to be recovered.
- Nature of all agreements and understandings with the Vietnamese Government affecting the disposal program.
- Numbers and kinds of weapons and weapon systems in the program and the effectiveness of demilitarizing such items.
- Effectiveness of controls and security measures to prevent loss of items in transit or in storage before sale.
- Alleged unlawful or irregular activities in connection with disposal, especially those relating to guns, ammunition, tanks, trucks, and tires.

SCOPE OF REVIEW

We reviewed activities at the Defense Attache Office, Tan Son Nhut Air Base; the Property Disposal Branch office in Saigon; the property disposal holding activities at Ho Nai and Saigon Island; the U.S. collection, classification, and salvage unit at Long Binh Post; and the Army of the

Republic of Vietnam (ARVN) collection and classification center in Saigon. In February 1972 the Army awarded a contract to the Vinnel Corporation to operate the facility at Long Binh during the accelerated phasedown of the U.S. military presence in Vietnam and by May 1972 the corporation had assumed control of all aspects of its collection, classification, and salvage operation.

We examined each organization's files, records, and documents, including inventory records, issue and receipt documents, sales documents, transportation documents, correspondence, and pertinent directives and regulations. We also interviewed military and civilian personnel responsible for the programs at the various locations.

CHAPTER 2

PROCEDURES FOR REDISTRIBUTION OF EXCESS AND DISPOSAL

OF SURPLUS PROPERTY GENERATED IN VIETNAM

The phasedown of the American presence in Vietnam has necessitated turning vast quantities of military property in to the supply system for disposition. Strategically located collection, classification, and salvage units and property disposal holding activities processed this property. The procedures for redistributing excess U.S. property generated in Vietnam provided reasonable assurance that such property was redistributed only to those organizations or countries entitled to receive it. The Commander in Chief, Pacific (CINCPAC), approved all property releases to insure that redistributions were made only to those organizations or countries which had a valid need. The procedures used in determining surplus items appeared adequate.

Department of Defense (DOD) regulations classify excess or surplus property as follows:

- Excess assets are those which DOD does not need for discharge of its responsibilities.
- Surplus assets are those which have been determined to exceed the requirements of all Federal agencies.

DISPOSITION BY COLLECTION, CLASSIFICATION, AND SALVAGE UNITS

Five collection, classification, and salvage units screened U.S. military excess property generated by departing U.S. units in Vietnam. Excess property was first coded using the special criteria for retrograde of Army materiel. This coding was to provide for the rapid classification of materiel and to prevent retrograding equipment uneconomical to repair by eliminating it from the system.

After coding, the collection, classification, and salvage units disposed of most materiel in accordance with instructions from CINCPAC. The Long Binh Collection, Classification, and Salvage unit shipping documents indicated the items had been shipped to the destination directed by CINCPAC.

Army Materiel Command representatives inspected the equipment coded for disposal. If they agreed that the items were coded properly, recoverable parts were removed and the remainder was reinspected and turned in to a property disposal holding activity as excess property.

DISPOSITION BY
PROPERTY DISPOSAL HOLDING ACTIVITIES

Items received at the property disposal holding activities were made available for physical screening by U.S. military organizations and by certain recipients of U.S. military aid.

Only U.S. Forces, Republic of Vietnam Armed Forces (RVNAF), and teams from certain U.S. Military Assistance Program (MAP) or Military Assistance Service Fund countries could nominate excess property for their respective organizations during the first 6 days of screening. Other authorized U.S. agencies could screen and nominate items from the 7th to the 10th and final day of screening. If more than one organization nominated the property, it was distributed according to the Secretary of Defense's priority list. CINCPAC's approval to transfer property had to be obtained.

Certain items transferred to property disposal holding activities had to be reported to the Defense Property Disposal Service (DPDS) for a 75-day worldwide screening period. Local screening was done concurrently. Organizations with higher distribution priorities than those on DPDS could nominate and withdraw these items from property disposal holding activities during local screening. Those organizations with lower priorities had to wait until the 75-day DPDS screening was completed.

Property unclaimed by eligible recipients after appropriate screening was reported to the Property Disposal Branch sales office. The sales office prepared an invitation for bid and attempted to sell the items to the highest bidder. Items that could not be sold were then disposed of as scrap.

INCORRECT PRIORITY LISTS USED

In February 1973, the Property Disposal Branch was redistributing property on the basis of a June 1972 priority list, although the Secretary of Defense had published a revised list dated August 1972. A comparison of these lists follows.

Current priorities based on Secretary of Defense Message 300209Z, August 1972

1. U.S. Military Pacific Command
2. Cambodia MAP
3. Laos Military Assistance Service Fund
4. RVN Military Assistance Service Fund
5. Other DOD supported aid (disaster relief)
6. Trust Territories Pacific Islands
7. Korea MAP
8. DOD DPDS wholesale
9. U.S. military worldwide
10. General Services Administration "Homerun"
11. MAP and DOD supported aid:
 - a. Thailand
 - b. Indonesia
 - c. China
 - d. Philippines
12. Non-Pacific Command MAP
13. U.S. Agency for International Development non-DOD supported
14. Other Federal agencies in Pacific Command
15. Other Federal agencies

Superseded priorities based on CINCPAC Message 30034Z, June 1972

1. U.S. Military Pacific Command
2. Cambodia Unfunded MAP
3. Laos Current Year Military Assistance Service Fund
4. RVN Current Year Military Assistance Service Fund
5. Thailand MAP
6. Trust Territories Pacific Islands
7. Korea MAP
8. DOD DPDS wholesale
9. DOD DPDS retail
10. China/Philippines, Indonesia MAP
11. Non-Pacific Command unfunded MAP
12. U.S. Agency for International Development/RVN non-DOD funded
13. Other Federal agencies, Pacific Command
14. Other Federal agencies

We could not determine if equipment was appropriately distributed because (1) the Property Disposal Branch did not list interested organizations that were unable to obtain property and (2) representatives of organizations whose priorities were misplaced were not available for interview. However, since CINCPAC has to approve all property releases, we believe this insured that the redistributions were made only to entitled organizations or countries.

DISPOSITION BY RVNAF

RVNAF criteria used to categorize materiel as excess is as follows:

1. Serviceable: Equipment, including obsolete equipment, which operates.
2. Unserviceable: Equipment damaged beyond economical repair and obsolete equipment for which repair parts are not available.

Serviceable materiel was determined excess when the quantity on hand exceeded a unit's requirements. When this occurred, procedures called for RVNAF to contact CINCPAC or the Pacific Utilization and Redistribution Agency for disposition instructions and to dispose of the materiel in accordance with those instructions.

RVNAF adopted the criteria set forth in U.S. technical bulletins for use in declaring an item unserviceable. Generally, the criteria established a percent of line-item value, which had to be documented in detail, as the maximum to be spent for repair.

Unserviceable items were shipped to the nearest U.S. property disposal holding activity. As of May 1973, RVNAF did not have a property disposal function similar to that of the U.S. property disposal holding activities.

CHAPTER 3

ADMINISTRATION OF U.S. PROPERTY DISPOSAL OPERATIONS

IN VIETNAM

The Property Disposal Branch of the Defense Attache Office administered U.S. property disposal activities in Vietnam. Available Property Disposal Branch records showed that, during fiscal years 1971, 1972, and the first 11 months of fiscal year 1973, the Property Disposal Branch redistributed property having an original acquisition cost of \$122 million and received \$27 million in proceeds from the sale of property. It also had on hand at May 20, 1973, an inventory of usable items with an original acquisition cost of about \$46 million and 70,611 short tons of scrap.

Our tests of the reliability of the Property Disposal Branch's financial reports disclosed significant errors which cast some doubt on the accuracy of the reported values. However, it was not practicable to reconstruct these reports.

The Property Disposal Branch, previously known as the U.S. Army Property Disposal Agency, Vietnam:

- Receives, stores, identifies, secures, and disposes of all excess DOD property.
- Demilitarizes all property in its custody having a potential military application.
- Effects maximum reuse of excess property by redistributing it to authorized recipients.
- Sells any excess property not redistributed to authorized recipients.

During 1973, these functions were carried out by five property disposal holding activities strategically located throughout Vietnam at Saigon Island, Ho Nai near Long Binh Post, Nha Trang, Qui Nhon, and Da Nang. Property disposal holding activities at Can Tho and Cam Ranh Bay were closed during 1972.

Effective March 4, 1973, the Property Disposal Branch became a branch of the Army Division within the American

Embassy's Defense Attache Office. Until then, the Property Disposal Branch had been responsible to the Deputy Chief of Staff for Logistics of the U.S. Army, Vietnam.

MAGNITUDE OF
PROPERTY DISPOSAL BRANCH OPERATIONS

Property Disposal Branch data indicated the volume of business for the last 3 fiscal years, as follows:

Dollar Value of
Property Disposal Branch Operations

	<u>1971</u>	<u>1972</u>	1973 (note a)	<u>Total</u>
	----- (millions) -----			
Redistributions (valued at original acquisition cost):				
U.S. Forces	\$20.8	\$12.9	\$ 5.7	
Military assistance programs	10.2	7.4	6.3	
Military Assistance Service Fund	15.9	3.9	3.0	
Agency for International Development	.6	8.1	19.5	
Other	<u>4.3</u>	<u>1.9</u>	<u>1.2</u>	
Total	<u>\$51.8</u>	<u>\$34.2</u>	<u>\$35.7</u>	<u>\$121.7</u>
Sales (gross proceeds):				
In-country:				
Usable items	\$ 2.3	\$ 2.6	\$ 2.3	
Scrap	4.6	2.9	1.6	
Garbage and trash	<u>1.8</u>	<u>1.8</u>	<u>.2</u>	
	<u>8.7</u>	<u>7.3</u>	<u>4.1</u>	
Offshore:				
Singapore	-	0.2	2.6	
Subic Bay	-	2.3	1.5	
Okinawa	<u>0.3</u>	<u>-</u>	<u>-</u>	
	<u>0.3</u>	<u>2.5</u>	<u>4.1</u>	
Total	<u>\$ 9.0</u>	<u>\$ 9.8</u>	<u>\$ 8.2</u>	<u>\$ 27.0</u>

^a To May 20.

Property Disposal Branch records indicated that, as of May 20, 1973, usable items with an original acquisition cost of \$46,255,424 and 70,611 short tons of scrap were on hand at the property disposal holding activities. Data for the 30-day period ended May 20 indicated that usable items worth \$5,672,901 and about 3,593 short tons of scrap were

generated. However, the Chief, Property Disposal Branch, did not believe that such generations were necessarily typical of future operations because RVNAF had turned in a relatively small amount of materiel after the Vietnam peace agreement was signed in January 1973. A Defense Attache Office official indicated that he expected RVNAF to generate massive excesses. However, we believe no practicable means exists to determine a reliable estimate of the dollar value of future excesses.

ACCURACY OF PROPERTY DISPOSAL BRANCH
REPORTED SALES DATA

We tested the Ho Nai reported sales data for July and October 1972 and found significant differences as summarized below.

	July 1972			October 1972		
	<u>Ho Nai</u>	<u>GAO</u>	<u>Difference</u>	<u>Ho Nai</u>	<u>GAO</u>	<u>Difference</u>
Original acquisition cost--usable items	<u>\$6,023,655</u>	<u>\$5,909,078</u>	<u>\$114,577</u>	<u>\$842,710</u>	<u>\$1,497,674</u>	<u>-\$654,964</u>
Proceeds--sale of usable items	\$ 128,690	\$ 159,803	\$-31,113	\$ 54,873	\$ 68,448	\$-13,574
Proceeds--sale of scrap	<u>6,020</u>	<u>73,546</u>	<u>-67,526</u>	<u>40,118</u>	<u>18,169</u>	<u>21,949</u>
Total	<u>\$ 134,710</u>	<u>\$ 233,349</u>	<u>\$-98,639</u>	<u>\$ 94,991</u>	<u>\$ 86,617</u>	<u>\$ 8,375</u>

We were unable to reconcile these differences, because the procedures used to summarize the data precluded identification of the documents included in the summarization of reported sales. At our request, Property Disposal Branch officials attempted but were unable to reconcile them.

To determine the adequacy of the controls over sales proceeds, we attempted to determine whether the proceeds for July and December 1972 had been deposited into the appropriate U.S. Government account. We were not able to do this because the detailed records were not available in Vietnam. To test the current controls for accounting and depositing sales proceeds and bid deposits, we traced cash collection vouchers, totaling \$18,728.01, from the Property Disposal Branch files to the Navy Finance Office, Saigon. We also

traced five checks on two vouchers to supporting documents in contract files. We noted no discrepancies in these transactions.

Our tests of data accumulated by the Property Disposal Branch indicated that reported sales data was inaccurate. We were unable to determine whether the apparent errors resulted from incorrect or incomplete documentation, inaccurate recording, or misappropriation of cash collections. However, the recorded cash collections appear to have been properly controlled and deposited with the appropriate agency.

FUTURE OF THE PROPERTY DISPOSAL BRANCH IN VIETNAM

As of December 1973, the holding activity at Saigon Island was the only one being operated by the Property Disposal Branch. The four other holding activities had been turned over to ARVN. (See p. 9.)

On July 1, 1973, the Defense Supply Agency (DSA) assumed management responsibility for all DOD property disposal operations except those in Vietnam. Subsequently, the Assistant Secretary of Defense (Installations and Logistics) directed DSA to assume responsibility for the disposal program in Vietnam as of January 1974. This assigns to DSA worldwide responsibility for all DOD disposal operations. As a part of this takeover, DSA will, to the extent practicable, implement the same policies, systems, and controls over these disposal operations that it has established at other locations where it has already assumed this responsibility.

CHAPTER 4

AGREEMENTS AFFECTING THE DISPOSITION OF

U.S. MILITARY PROPERTY IN VIETNAM

No single agreement fully covers the disposition of U.S. military equipment and/or residue of such items generated in Vietnam. We identified eight agreements on disposing of U.S. materials and/or the residue of such items generated in Vietnam; six were with the Government of Vietnam (GVN), one was with GVN and other countries, and one was with the Government of Singapore (GOS). The major provisions of these agreements are detailed below. A significant provision of one of these agreements transfers title to all U.S. military scrap to GVN as U.S. Government supplemental military assistance.

PENTALATERAL AGREEMENT ON MUTUAL ASSISTANCE IN INDOCHINA

This agreement, effective December 23, 1950, set forth the considerations governing Government military assistance to Cambodia, France, Laos, and Vietnam for use in Indochina. Specifically:

- All equipment, material, and services provided by the U.S. Government will be subject to Public Law 329,¹ 81 Congress.
- Each government receiving aid shall (1) retain possession and title to all equipment, materiel, or services transferred and (2) take appropriate action to prevent its illegal transportation into, out of, and within Indochina.
- Each government agrees to grant duty- and tax-free treatment for importation, exportation, or movement within Indochina of products, materiel, or equipment furnished by the U.S. Government under this agreement.

¹Mutual Defense Act of 1949. It was passed to help strengthen and develop the free world.

VIETNAM MUTUAL SECURITY AGREEMENT

This agreement became effective on January 3, 1952, and continues U.S. military aid to Vietnam under Public Law 165,¹ 82d Congress. This agreement provides that all U.S. Government-furnished equipment and materiel no longer required by Vietnam be offered for return to the United States for appropriate disposition.

AGREEMENT ON DUTY- AND TAX-FREE STATUS OF RELIEF SUPPLIES AND EQUIPMENT

This agreement became effective on August 26, 1954. GVN was to accord duty- and tax-free status for goods provided free of charge to Vietnam by U.S. voluntary, nonprofit relief and rehabilitation agencies. The agreement also provides the same duty- and tax-free status for supplies and equipment not distributed in Vietnam, which the agency elects to export elsewhere.

MUTUAL DEFENSE ASSISTANCE: DISPOSITION OF EQUIPMENT AND MATERIEL

This agreement became effective May 10, 1955, and relates to the disposition of all military equipment and materiel provided to GVN by the U.S. Government after December 23, 1950. Military equipment and materiel or their residue that are no longer required by GVN for their original purpose will be reported to the U.S. Government. The U.S. Government may

- accept title for transfer to a third country or for other disposition or
- elect not to accept title, in which case GVN is to dispose of the equipment, as mutually agreed by both governments.

¹Mutual Security Act of 1951. It was passed to promote U.S. foreign policy and the defense of the free world.

AGREEMENT PROVIDING FOR THE WAIVER OF
ALL CLAIMS RESULTING FROM OFFICIAL DUTIES

This agreement was effected on February 9, 1965. The U.S. Government and GVN waive all present and future claims against the other for (1) damage to, or loss of, their property and (2) injury or death suffered by a member of their armed forces while such member was performing official duties.

DISPOSING OF SURPLUS MILITARY PROPERTY
IN VIETNAM

This agreement became effective on November 9, 1968. GVN consented for the U.S. Government to sell, donate, or abandon all of its surplus property in Vietnam. The agreement provides that:

- GVN has a 30-day right of priority of purchase of all or part of the property at terms to be agreed on.
- Property sold for import into Vietnam will be released only after the buyer pays all applicable GVN duties and taxes.
- Surplus property sold for export shall not be subject to customs duties, taxes, or other restrictions by GVN.
- GVN may restrict the sale of certain surplus property for import into its economy.
- Purchases of property by GVN citizens or residents will be made in Vietnamese currency which can be freely used for all U.S. Government expenditures in Vietnam. Purchases of property by nonresidents must be made in foreign currencies subject to GVN foreign exchange regulations. Such foreign currency may be freely exported from Vietnam at the discretion of the U.S. Government.
- The U.S. Government may dispose of surplus property by donating it or abandoning it to an agency or social organization designated by GVN.
- All property deemed to be harmful to the user for any reason must be destroyed.

DISPOSING OF MILITARY SCRAP

The two governments made an agreement, effective December 14, 1972, governing the disposition of U.S. military scrap within Vietnam. The agreement provides that:

- All U.S. military scrap in Vietnam and any scrap generated in Vietnam henceforth, on designation by the U.S. Government, shall be transferred to the GVN as U.S. Government Supplemental Military Assistance Service Funded.
- All sales of transferred scrap by the GVN shall be made by open competitive bidding, unless otherwise agreed in writing by the U.S. Government, and awards shall be made only to buyers who have passed a U.S. Government integrity and reliability check.
- The net proceeds of scrap sales shall be credited to the GVN Ministry of Defense for military purposes.
- The U.S. Government retains title to all precious metals and any precious metals transferred shall be returned to it.
- No scrap transferred by this agreement shall be exported to the United States.
- Transferred scrap should not normally contain non-demilitarized materiel. If such materiel is included, GVN will either return it to U.S. Government custody or demilitarize it before moving it. Demilitarization shall be approved by a duly appointed U.S. Government representative who must then issue a certificate of compliance in accordance with DOD Manual 4160.21M.
- Sale of transferred scrap shall be subject to U.S. Government security trade control regulations.

SINGAPORE OFFSHORE SALES AGREEMENT

On May 5, 1972, the United States entered into a 1-year agreement with GOS for the sale of surplus equipment and materiel from Vietnam. This agreement has since been renewed for 1 year. It provides that:

- GOS shall permit free importation into Singapore for sale by the U.S. Government of any surplus equipment from Vietnam. The U.S. Government does not guarantee the quantity or quality of items to be imported.
- GOS shall have first right of purchase of any or all such equipment at terms mutually agreed on. If an agreement has not been reached after 30 days, the U.S. Government may sell the property to other interested parties.
- When GOS exercises its first right of purchase, it will certify that the item is intended only for its use and that U.S. Government permission will be obtained before any item worth more than \$1,000 is resold.
- The U.S. Government may sell equipment into the domestic economy provided that the purchaser paid GOS duties and taxes.
- Equipment sold for export will not be subject to GOS taxes or duties.
- Singapore currency derived from sales shall be freely usable for all U.S. Government expenditures in Singapore. Other currencies derived from the sales may be freely exported from Singapore at the discretion of the U.S. Government. Currency may be converted to U.S. dollars at prevailing market rates in Singapore.
- The U.S. Government shall have the right to exercise security trade controls prescribed by DOD.
- GOS will provide 50 acres of land to the U.S. Government for a nominal fee of \$5 a year.
- GOS will provide the following services at terms to be agreed on: stevedoring, security, management and clerical, labor, equipment handling, and property improvements.

--GOS will permit U.S. Government personnel and equipment, considered necessary by the United States to support its operations, to enter Singapore.

CHAPTER 5

DEMILITARIZATION OF MILITARY EQUIPMENT

Appropriate demilitarization certifications were not being prepared before March 26, 1973; therefore we could not determine if items requiring demilitarization had, in fact, been demilitarized. Since March 26 the Property Disposal Branch has apparently been preparing proper certifications, and it appears that demilitarization is being carried out in accordance with DOD guidance.

The Department of State publishes the munitions list which identifies those articles designated as arms, ammunition, and implements of war that are subject to control under the Mutual Security Act of 1954. DOD policy and procedures provide instruction for demilitarization of certain military-type items appearing on this list which have been damaged or declared surplus. This is to preclude unauthorized use, to destroy military application, and to render dangerous equipment harmless.

We reviewed the program to demilitarize designated military property processed by the Ho Nai Property Disposal Holding Activity and the Long Binh Collection, Classification, and Salvage unit. We were particularly interested in the system for identifying and accounting for these items and for complying with instructions to render them unusable.

RESPONSIBILITY FOR DEMILITARIZATION

The collection, classification, and salvage units processed all U.S. Army excess property and were supposed to demilitarize munitions list items, except for large items, such as gun tubes and armored vehicles. Vinnel Corporation officials at the Long Binh Collection, Classification, and Salvage unit informed us that they had not been able to demilitarize equipment since the corporation assumed responsibility for collection, classification, and salvage duties in May 1972. One official stated that shortly after the corporation assumed these operations, the U.S. Army Commander, Long Binh Post, instructed him not to demilitarize weapons even though Vinnel's contract specified demilitarization. He added that the U.S. military never really enforced or required demilitarization, so it was not done.

Before January 27, 1973, scrap items were sent to in-country property disposal holding activities to be demilitarized and sold. All other items were either retrograded or redistributed to RVNAF or U.S. organizations. Since January 27 all usable and scrap munitions list items processed through a collection, classification, and salvage unit had been retrograded to offshore locations for disposition and/or demilitarization.

SCOPE OF DEMILITARIZATION

Four U.S.-operated property disposal holding activities in Vietnam were demilitarizing munitions list items which were on hand before January 27, 1973. From January 1, 1972, through March 28, 1973, the Property Disposal Branch reported its property disposal holding activities had demilitarized the following items.

<u>Description</u>	<u>Number</u>
Small arms	10,350
Gun tubes	1,698
Guns over 50mm (howitzers)	677
Armored vehicles	109
M-151 jeeps	1,724
Communication and electronic items	128
Helicopters	10
Other (note a)	11,048

^aIncludes such items as armor vests, gas masks, steel helmets, and life rafts.

The Property Disposal Branch reported that about 176 short tons of small arms parts and 6 short tons of communication and electronic equipment were also demilitarized during this period.

OBSERVATION OF DEMILITARIZATION AT
HO NAI PROPERTY DISPOSAL HOLDING ACTIVITY

The Ho Nai Property Disposal Holding Activity had a fenced and guarded demilitarization area of about an acre in the southeast corner of its 465-acre facility. Under the direction of a third-country national supervisor, local

national employees did most demilitarization in this area. A U.S. Government employee made final inspections and prepared certifications.

After munitions' list items were identified, they were moved to the demilitarization areas. This was done either when the items were received at the property disposal holding activity and accompanying paperwork identified them as munitions' list items or when munitions' list items were discovered in various scrap areas throughout the facility. In the latter case, the item was usually identified when a contractor was loading a scrap lot he had purchased at a Property Disposal Holding Activity sale. The Ho Nai Property Disposal Holding Activity personnel were to observe the loading and to remove the munitions list items to be demilitarized, but there was no guarantee that this was always done.

The Ho Nai Property Disposal Holding Activity contained an estimated 26,000 short tons of scrap as of May 15, 1973. The Chief, Property Disposal Branch, advised us that many of the scrap lots had been received 4 or 5 years earlier and that nobody really knew what was in each lot. According to an official of the Ho Nai Property Disposal Holding Activity, the activity still received items requiring demilitarization as turn-ins from RVNAF; however, the largest source of these items was the scrap piles.

We toured the Ho Nai Property Disposal Holding Activity and observed one armored personnel carrier and one tank being demilitarized. We also inspected 25 armored and amphibious vehicles and a number of small arms that had been demilitarized. The demilitarization conformed to the requirements of the Defense Demilitarization Manual, nevertheless, we noted areas needing improvement, as discussed below.

Demilitarization certifications lacking

DOD policy required that final inspection of demilitarized items and certification be made by two technically qualified Americans.

The Ho Nai Property Disposal Holding Activity did not have demilitarization certifications to support its actions. After our March 1973 request, the holding activity

prepared certifications for items which had been demilitarized from December 3, 1972, through March 28, 1973. All these certifications were dated after our request. As of March 31, 1973, the following certifications had been prepared for items reported as having been demilitarized.

<u>Item</u>	Number demilitarized 12-1-72 to <u>3-28-73</u>	Related demilitarization certifications dated 3-26-73 to <u>3-31-73</u>
Gun tubes	532	36
Guns over 50mm	54	-
Armored vehicles	18	5
M-151 jeeps	717	-
Small arms parts	^a 297	284
Communication and electronic equipment	^a 64	91
Miscellaneous	1,105	959

^aShort tons.

A Property Disposal Branch official said the items reported as having been demilitarized generally were items received at the property disposal holding activity as scrap, removed from scrap piles then demilitarized and returned to scrap for sale. Property disposal holding activity personnel then certified each truck load removed from the property disposal holding activity as being demilitarized in accordance with DOD requirements. Although this may have been true, the documents did not indicate how many or what type of items the certification covered. The Property Disposal Branch official stated that individual certifications had not been prepared because of the amount of paperwork required to upgrade these items to accountable items and then downgrade them to scrap again after they had been demilitarized. He agreed that future certifications, as required by DOD instructions, would be prepared for such items.

We subsequently requested demilitarization certifications for four items Ho Nai reported as having been demilitarized from April 29 to May 12, 1973, and found a certification on file for each item.

Demilitarization capability lacking

During our tour of the demilitarization area, officials of the property disposal holding activity advised us that there were about 50 recoil mechanisms for howitzers and other gun tubes that had not been demilitarized because employees lacked the expertise to release the compressed nitrogen in the recoil mechanism. The nitrogen was compressed to a pressure of about 3,250 pounds per square inch, and, if it was not released properly, it could seriously injure the workers.

We discussed this problem with the Property Disposal Branch officials. A Ho Nai Property Disposal Holding Activity official later advised us that on May 4, 1973, demilitarization personnel had received instructions in releasing the compressed nitrogen from the recoil mechanism but such items were not being demilitarized because armored vehicles were given priority. We observed that some weapons, including the recoil mechanism, had been partially demilitarized.

Our review did not cover the demilitarization of items after June 1973.

CHAPTER 6

EVALUATION OF ACCOUNTING AND SECURITY CONTROLS

FOR EXCESS AND SURPLUS U.S. PROPERTY

Our evaluation of the controls provided excess and surplus U.S. property indicated a need for improved accounting for this property, although the physical security being provided appeared reasonably good. We also found a need to better account for property shipped to Singapore for sale.

To test the adequacy of the accounting and physical security controls of the various organizations involved in the excess and surplus property programs in Vietnam, we visited the Ho Nai and Saigon Island Property Disposal Holding Activities; the Long Binh Collection, Classification and Salvage unit; and the ARVN Collection and Classification Center. The results of our tests follow.

INADEQUATE PROPERTY ACCOUNTING CONTROLS

In testing the records at the Ho Nai and Saigon Island property disposal holding activities, we found many discrepancies which we could not reconcile, leading us to conclude that the Property Disposal Branch records were unreliable. For example, we selected 30 documents transferring usable property from the Long Binh Collection, Classification, and Salvage unit to the Ho Nai Property Disposal Holding Activity and compared the entries on the Long Binh documents with the Ho Nai records.

In 15 instances, property disposal holding activity personnel rejected the documents prepared by the collection, classification, and salvage unit and substituted a new document consolidating a number of previously accountable items as scrap on one document. For example, property disposal holding activity document 3081-D076 consolidated 11 of the items we selected for review and other items into a receipt of 16,000 pounds of scrap. It appeared that Ho Nai made itself accountable for larger items but generally downgraded smaller items received in quantity to scrap. It also appeared that the items which were downgraded were the types of items which would be susceptible to pilferage.

The Property Disposal Branch reported sales were inaccurate (see p. 11), and munitions list items requiring demilitarization were not properly accounted for (see p. 19).

We also found the Long Binh Collection, Classification, and Salvage unit's accounting and inventory records unreliable and in some cases unauditable.

Before February 1972 the U.S. military organizations operated the collection, classification, and salvage units. In February 1972 a contract was awarded to the Vinnell Corporation to operate the facility at Long Binh during the accelerated phasedown of the U.S. military presence in Vietnam. By May 1972, Vinnell personnel had assumed control of all aspects of the collection, classification, and salvage operation at Long Binh.

On April 10, 1973, we selected eight stock-record cards to compare recorded balances with actual physical inventories on hand. The items selected and the results of our comparison follow.

	Balance per stock record <u>cards</u>	GAO physical inventory <u>(note a)</u>
Grenade launchers, M-203	84	17
Carbines, M-2	25	46
Shotguns, Mod 97	15	0
Machineguns, 50 caliber	31	3
Recoilless rifles, M-67	8	0
Machineguns, M-60D	6	3
Pistol revolvers, 38 caliber	9	6
Mortars, 81mm	14	1

^aA Vinnell Corporation representative accompanied the GAO auditor making the inventory.

In an attempt to reconcile the variances, we requested the collection, classification, and salvage unit personnel to provide supporting documentation for each stock-card entry for the items shown above. When we returned for this documentation, we noted that several stock-card entries and balances had been changed and that five cards had been replaced. When we asked for the original stock record cards,

the officials stated that the new cards superseded the originals which had been destroyed because they contained errors. Supporting documentation was not provided and, according to the officials, was not available in all cases.

The officials explained that stock record cards were not correct because (1) no physical inventory had been taken at the time or since Vinnell Corporation took over, (2) items classified as found on post had been received without documentation, and these receipts had not been verified by the accounting section, and (3) errors had been made in posting the cards.

The found-on-post or free turn-in program was instituted in mid-1971 on a selected item basis and later was extended to include all items. Its purpose was to reduce the probability that items would be abandoned by allowing commanders, supply officers, and others to turn in weapons and items to collection, classification, and salvage units with no questions asked. Appropriate documentation was to accompany major items turned in. Ammunition and its components, explosives, and other dangerous material were not to be turned in to these units.

The Long Binh unit had received thousands of munitions list items, including live ammunition, without accompanying documentation. There was no accounting for either the receipt or disposal of live munitions. According to collection officials, munitions were turned over to either an ARVN or a U.S. explosive ordnance disposal unit without any accounting control.

Until the collection, classification, and salvage unit inventories the items it received and accounts for them in its records, there is no way of knowing how many and what kinds of items it has or should have. Internal control over weapons was especially weak because (1) there was no supporting documentation accompanying the items received to allow the unit to determine if it had received all the weapons shipped, (2) shipments of weapons found on post were not inventoried and appropriate documentation was not prepared upon receipt, and (3) there was no way for the unit to determine that weapons had not been diverted between the time of receipt and recording on the accountable records.

For example, we found one case where five containers of weapons classified as found on post were received on March 8, 1973, with no documentation. The contents of the containers were not inventoried until May 21, 1973--more than 2 months after they were received and stored in unsecure areas. We verified that there were over 2,100 weapons in the containers at the time of the inventory, including 980 new or rebuilt U.S. machineguns and submachineguns. However, we could not tell if the unit had received all the weapons shipped or if any weapons had been diverted between the time of receipt and the inventory.

In contrast to the situation we found at the U.S. units, our tests of the accounting records at the ARVN Collection and Classification Center showed them to be generally accurate.

PHYSICAL SECURITY OF
EXCESS AND SURPLUS PROPERTY
APPEARED REASONABLE

Our observation of the security procedures in effect at two property disposal holding activities; one collection, classification, and salvage unit; and the ARVN Collection and Classification Center indicated that U.S. excess and surplus property was reasonably secure.

Each property disposal holding activity had a security plan covering procedures for personnel access and identification, escort control, surveillance of scrapping and demilitarization, vehicle control, weighing vehicles, etc.

The Long Binh Collection, Classification, and Salvage unit was located within ARVN's Long Binh Post. The perimeter had three watch towers manned by unarmed guards around the clock. At night the compound was lighted and patrolled by two third-country nationals on foot, one local national in a jeep, and one American in a jeep. Vehicles could enter the collection, classification, and salvage yard only during the day, and all vehicles were logged in and out at the gate.

We toured the Ho Nai and Saigon Island property disposal holding activities and observed that:

--Most of the perimeter of each was protected by double barbed-wire fences.

- Guard towers, located about 1,000 feet apart, were manned at all times.
- Perimeter lighting appeared to be adequate.
- The security division had a 24-hour vehicle patrol of the yards.
- Radio communications were operational 24 hours a day.
- An American was on duty at all times.

The entire perimeter of the ARVN Collection and Classification Center was enclosed by double barbed-wire fencing 5 to 8 feet high. Armed ARVN personnel whose principal function was to deter enemy attack and to prevent theft were strategically placed along the perimeter. To provide access only to authorized personnel, the Center had implemented a picture-badge identification system, and, to guard against unauthorized removal of equipment, employees were searched when they left.

We made an unannounced visit to the Ho Nai Property Disposal Holding Activity on April 5, 1973. The security division was not aware of our visit until after we had observed 18 vehicles entering the yard. The results of our test follow:

- All 18 vehicles were logged in by guards.
- The guards checked the shipping documentation to verify what was loaded on the vehicle.
- Seven vehicles loaded with scrap were tested to verify the weight tickets, and the information was traced to the sales documentation. No discrepancies were noted.
- Security escorts were randomly assigned to each contractor.

Local national employees assigned to the security division on a rotating basis operated the scales. The scales were certified every 6 months and were checked and sealed in December 1972.

We also found that escorts were provided for shipments from the collection, classification, and salvage unit and the ARVN Collection and Classification Center to the property disposal holding activities. Escorts were also provided for shipments between the property disposal holding activities and from the property disposal holding activities to a port.

LACK OF ACCOUNTABILITY FOR PROPERTY
SHIPPED TO SINGAPORE FOR SALE

The Singapore offshore surplus sales program was significant in terms of volume of items sold--\$2.7 million in gross proceeds in fiscal year 1973 through May 20, 1973--and presented peculiar problems in terms of in-transit and in-storage accountability.

Our review of this program disclosed several weaknesses. First, there had never been a physical inventory of assets in Singapore; therefore, on-hand assets could not be reconciled to the property disposal holding activity records. Second, there was inadequate surveillance of items at the Saigon Island dock to insure that all items listed for shipment were loaded and that unlisted items were not loaded. Third, although discrepancy reporting was practically nonexistent, the errors we noted were so numerous that such a system would appear to be an absolute necessity. And fourth, the description of many items shipped was so vague, e.g., "one conex," that it would be almost impossible to determine if something had been lost en route. The project officer for the Property Disposal Branch's redistribution section identified the following problems in the Singapore sales operation.

--Manifests were not checked for accuracy.

--Shipment receipts were not verified.

--Discrepancy reports were not sent to Saigon from Singapore.

- Transportation Control and Movement Documents¹ contained errors.
- Messages sometimes had incorrect totals and differed from the information in the Transportation Control and Movement Documents.
- Documents and the property contained incorrect identification numbers. Messages were frequently delayed, arriving after shipments.
- Sales writeups were occasionally incomplete making it difficult for the Property Disposal Branch to monitor the sales.

Each property disposal holding activity maintains a perpetual inventory based on original acquisition cost of the items shipped offshore for sale. As items were shipped to Singapore, the value of the inventory increased. As items were sold, the property disposal holding activity reduced the inventory balance by an amount reported as sold on documentation received from Singapore. To determine the total value of shipments and sales in a selected period, we prepared a summary of items shipped from Saigon Island and the Ho Nai Property Disposal Holding Activities for the first 10 months of fiscal year 1973. We found that Saigon Island had shipped equipment with an original acquisition cost of about \$5.886 million and that \$4.056 million worth of this equipment had been sold for \$1.17 million.

The supporting documents reviewed at Saigon Island had several obvious discrepancies. For example:

¹A multipurpose document designed to (1) provide advance notice of shipments, (2) accomplish functions of air bills, highway bills, dock receipts, and other cargo documents, (3) control cargo moving in the Defense Transportation System, (4) provide input for mechanically prepared air or ocean manifests, and (5) provide such other logistic management data as may be required.

- 1
- A winch, indicated as being sold on a negotiated contract to GOS, was actually sold under another contract. A typing error had been made in the GOS contract and the winch actually sold to GOS had not been closed out.
 - An air compressor sold for \$3,000 was listed as having an original acquisition cost of \$1,800. Actual original acquisition cost was \$12,569.75.
 - The second page of one contract for the sale of six items for \$3,422 was not forwarded to the property disposal holding activity. Thus, the item, although sold, had not been closed out.
 - Three items shown as being sold to one individual were closed out under one number. Two of the items were later shown as sold under other contracts. We could not determine which items should have been closed out under the original sale.

Also, the property disposal holding activity senior clerk made a downward adjustment of \$85,552 to correct the Saigon Island account for Singapore shortly after he had assumed responsibility for the property accounts in August 1972. Since this adjustment was not based on a physical inventory to determine the value of the property on hand in Singapore, we could not determine whether it represented a physical loss of surplus property or merely an accumulation of clerical errors and inaccurate recordings.

We also attempted to summarize data for shipments from the Ho Nai Property Disposal Holding Activity to Singapore. However, we could not reconcile Ho Nai's records relating to its shipment and sales activity because of discrepancies in the documentation used to show the upgrading of material from scrap as well as the shipment and the recording of sales for 59 various sized lots of pipe and fittings.

For example, we could find no inventory adjustment record showing a description of the various lots or their individual values. The Transportation Control and Movement Documents for moving these lots from Ho Nai to Saigon Island showed a total value of \$1.108 million. Although Saigon Island officials advised us that all the pipe and fittings

had been shipped, barge shipment records at the Property Disposal Branch showed a value of only \$1.047 million for pipe and fittings shipped to Singapore.

Also, in trying to account for the sale of these 59 lots, the Ho Nai Accounting Section was accumulating in a suspense file the various sales documents which were referenced to the voucher number used to upgrade these lots from scrap. On reviewing the files we found 7 sales that were incorrectly attributed to these lots and paperwork for an additional 10 sales that should have been included but were not.

The discrepancies we noted at Saigon Island and Ho Nai were, in our opinion, so numerous that they cast serious doubt on the reliability of reports prepared for Singapore sales.

CHAPTER 7

UNLAWFUL OR IRREGULAR ACTIVITIES

CONCERNING PROPERTY DISPOSAL

With respect to alleged unlawful or irregular activities concerning the disposal program, we noted scattered instances of thefts and hijackings. However, the most significant activity we found was a case where fraudulent Transportation Control Movement Documents were apparently being used to illegally export significant quantities of scrap brass from Vietnam.

We reviewed the Property Disposal Branch reports which showed that U.S. property with an original acquisition cost of \$28,073 was reported stolen during the first 3 months of 1973. These reports also showed that \$10,841 worth of this property was recovered.

We also reviewed the U.S. Army Criminal Investigations Division files. They disclosed scattered instances of armed thefts and hijackings.

For example, it is alleged that unidentified ARVN soldiers forced the operator of a tractor-trailer to stop about 1,000 meters west of the Ho Nai Train Station on November 30, 1972. The tractor-trailer, loaded with five containers of sundry spare parts valued at \$307,145, was en route from Ho Nai to Saigon Island. The trailer and spare parts were not taken; however, the tractor valued at \$16,000 was taken. It had not yet been recovered.

Another example concerned an armed intrusion at the Long Binh Collection, Classification, and Salvage unit. It was alleged that on January 21, 1973, six or seven armed ARVN soldiers entered the yard, tied up the guard, and took four 5-ton vehicles. Collection, classification, and salvage personnel told us that the vehicles were never recovered; however, the unit was relieved of accountability by transferring the vehicles to ARVN.

The most significant instance we noted related to the following case which was under active investigation by GVN.

The case was considered extremely sensitive by local officials; however, it has received considerable newspaper coverage.

MATERIEL EXPORTED FROM VIETNAM
ON FRAUDULENT TRANSPORTATION CONTROL
AND MOVEMENT DOCUMENTS

On March 7, 1973, an informant provided the Property Disposal Branch with two purportedly fraudulent Transportation Control and Movement Documents for exporting scrap brass and copper. The Property Disposal Branch determined that the documents were fraudulent and forwarded them to the U.S. Agency for International Development Customs Advisory Group for investigation. The Customs personnel found that an American who had worked for the Ho Nai Property Disposal Holding Activity until February 28, 1973, had presented the documents to the Saigon Harbor Customs Office. On March 9, 1973, the American was incarcerated by the GVN Bureau of Customs and Excises, Fraud Repression Unit, and charged as follows:

"Violated articles in customs regulations on export prohibitions and fraudulent acts made or attempted to make at customs stations (Considered as export w/o declaration)."

The American reportedly admitted to GVN Customs that he knowingly gave it a number of fraudulent Transportation Control and Movement Documents for exporting scrap brass and copper. Subsequently, others, including a Japanese citizen who was the assistant manager of the Saigon Branch of the Chase Manhattan Bank, were jailed in connection with this case.

The Property Disposal Branch and GVN Customs personnel were able to identify one fraudulent sales document. The document indicated that 60,000 short tons of scrap brass were purchased for \$32,400,000 from the Ho Nai Property Disposal Holding Activity. They also identified seven fraudulent Transportation Control and Movement Documents. During April 1973 we requested that GVN Customs allow the Property Disposal Branch to compare all Transportation Control and Movement Documents processed through the Saigon port with Property Disposal Branch records for 1972 to

determine if there were additional fraudulent documents. GVN Customs agreed to do this, and, as of June 13, 1973, the Property Disposal Branch had identified three additional fraudulent documents. Specifics on the 10 fraudulent Transportation Control and Movement Documents are shown below.

<u>Referenced contract number</u>	<u>Consignor and consignee</u>	<u>Vessel and date processed at port</u>	<u>Item</u>
92-112-3031-8	^a Interworld Agencies Co. Singapore	S.S. Bonway #3 10-9-72	20-ton forklift - 1 ea.
92-112-3028-15	Curtis Jenkins c/o Harold Fairbanks Singapore	Raphael Semmes #703-11-2-73	Generator - 2 ea.
92-112-3035-0573(9)	Curtis Jenkins c/o Harold Fairbanks Singapore	Beauregard #635 11-2-72	Generator - 2 ea.
92-112-2083-1	Massey Tire Company Agana, Guam	Kimsan #172 12-21-72	Lubrication unit - 1 ea. 5KW trailer mounted floodlight - 2 ea. 18-ton trailer tilt deck - 1 ea.
92-112-3004-1	UNICO - Singapore	Thompson Lykes #58 - 1-19-73	Scrap brass 4,000 S/T
92-112-3004-1	UNICO - Singapore	Tanagra #39 1-19-73	Scrap brass 4,000 S/T
92-112-3004-1	UNICO - Singapore	Tobacco #30 1-19-73	Scrap brass 4,000 S/T
92-112-3053-052(12)	Kong Tai Trading Co. Kowloon, Hong Kong	Chicago #35 2-26-73	Scrap brass 5,600 S/T
92-112-3053-0341(3)	Intraco, Ltd. Singapore	Beauregard #668 3-7-73	Scrap brass 4,000 S/T
92-112-3053-0573(9)	Union Trading Company Taipei, Taiwan	Beauregard #667 3-7-73	Scrap brass 4,000 S/T

^aConsignee is Asia Corporation, Manila.

We estimate that the 25,600 short tons of scrap brass and copper were worth about \$12.26 million. We did not estimate the value of the equipment because we could not determine its condition.

Each fraudulent Transportation Control and Movement Document refers to a valid Property Disposal Branch sales contract. However, the contracts were awarded to individuals or companies other than the consignor and/or consignee

shown on the Transportation Control and Movement Document. GVN Customs advised us that the data on the Transportation Control and Movement Documents--materiel shipped, vessel on which it was to be shipped, and name of the consignor and consignee--might be inaccurate as GVN Customs did not monitor or inspect materiel exported on these documents. We were unable to determine whether the firms identified as the consignor and/or consignee were involved legally or illegally in these transactions.

A U.S. Agency for International Development customs advisor informed us that it was not known who actually shipped the brass and copper, and the source of supply and actual quantity had not been identified. The advisor believed that over a period of years this scrap had been collected from battlefields and stored throughout Vietnam.

On June 13, 1973, a Property Disposal Branch official advised us that branch employees had not yet determined if the equipment shipped on the fraudulent documents originated from the Property Disposal Holding Activities, but they were reviewing the activities' files to make this determination. He said that, as soon as work was completed on the documents processed at the Saigon port, he would, at the request of GVN Customs, begin work to determine the validity of those processed at the other GVN ports.

The Property Disposal Branch received a letter dated March 29, 1973, from the A-Abbey and Howard Scrap Metal Company of Los Angeles requesting it to verify a certificate of ownership for 22,000 tons of scrap brass and copper the company was interested in purchasing. The certificate, dated March 24, 1971, indicated that a Sagitor Corporation had purchased 22,000 tons of scrap copper and brass in accordance with existing U.S. Government and GVN regulations. The certificate bore the signature of a Blain A. Revis, Civil Operations of Rural Development (CORDS) Excess Property Office, and showed that the shipment had been designated for Singapore and Japanese ports. On April 10, 1973, the Property Disposal Branch replied that:

"The letter you forwarded, signed by a Blaine A. Revis, CORDS Excess Property Office, is a forgery. The mission of property disposal has been the responsibility of the U.S. Army for all services

throughout Vietnam. There has never been a sale of 22,000 tons brass or copper in the history of disposal operations in this country."

The above matters indicate that large quantities of scrap brass and copper were available in Vietnam and that individuals could have been tempted to export scrap brass and copper under fraudulent Transportation Control and Movement Documents. The Property Disposal Branch employees merely accompanied a Transportation Control and Movement Document shipment to a port and gave the document to GVN Customs to be recorded. Neither the Property Disposal Branch nor the GVN Customs provided additional surveillance.

When we discussed this situation with the Defense Attache, he advised us that he considered necessary corrective action had been taken because:

- Stringent supervision over Transportation Control and Movement Documents and related documents was being exercised several months before the American was arrested in March 1973 for violation of customs regulations in connection with exporting of scrap brass and copper.
- At the Property Disposal Branch's request, Criminal Investigation Detachment personnel had placed the American under surveillance for several months but could not find sufficient evidence to justify any adverse action.
- In the present environment, U.S. employees had uncovered several forged documents.
- Revised Transportation Control and Movement Document procedures were at the office of the GVN Prime Minister awaiting approval.

We believe these actions were not adequate because:

- The supervision of Transportation Control and Movement Document shipments has proven ineffective.
- The American was placed under surveillance by the Criminal Investigation Detachment because of matters

related to his association with contractors and not because of fraudulent Transportation Control and Movement Documents.

--The fraudulent Transportation Control and Movement Documents were revealed by an informant rather than as a result of internal controls of the Property Disposal Branch.

CHAPTER 8

CONCLUSIONS AND

MATTERS FOR CONSIDERATION BY THE SUBCOMMITTEE

CONCLUSIONS

The Ho Nai and Saigon Island Property Disposal Holding Activities and the Long Binh Collection, Classification, and Salvage unit used accounting controls that did not reasonably insure that excess and surplus U.S. property was properly accounted for. Insufficient training or motivation on the part of local national employees that comprised most of the clerical staff attributed to many of the discrepancies. Also, it was improper to arbitrarily downgrade accountable items to scrap.

Large quantities of property found on post were received without documentation. Accountability was not established until the property was inventoried, often many days after its receipt, leaving the property vulnerable to pilferage which probably would never be detected.

In addition, the discrepancies noted at Saigon Island and Ho Nai regarding Singapore sales were, in our opinion, so numerous that they cast serious doubt on the reliability of the sales reports.

Furthermore, the actions taken by the Defense Attache with regard to control over Transportation Control and Movement Documents did not appear to be adequate.

Also, it appeared questionable that GVN Customs could detect fraudulent Transportation Control and Movement Document without reviewing Property Disposal Branch records. In fact, we doubt if Property Disposal Branch employees could detect the fraudulent documents without comparing each Transportation Control and Movement Document with supporting Property Disposal Branch records.

MATTERS FOR CONSIDERATION
BY THE SUBCOMMITTEE

As noted in chapter 3, DSA has been given worldwide responsibility for all DOD disposal operations. DSA is presently implementing revised policies, procedures, and controls in conjunction with its assumption of this management responsibility. As a part of our future work, we plan to review those activities after DSA has had an opportunity to more fully implement its management of disposal operations.

In view of the findings in this report which indicate a need for improvements in the controls and recordkeeping over the receipt and sale of property, the Subcommittee may want to make this report available to DSA. In addition, the Subcommittee may wish to have officials of DSA brief it on the manner in which DSA plans to take over the disposal operations in the Republic of Vietnam and on the controls it intends to initiate over the accounting and sale of property as well as the use of Transportation Control and Movement Documents.

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January 15, 1973

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C.

Dear Mr. Staats:

As you know, the Armed Services Committee has had a continuing interest in the Vietnamization Program and the sale and disposal of our military assets in Vietnam. In this connection there have been discussions at staff level between members of your office and my Investigating Subcommittee. Your pending report on the Vietnamization Program has been given our particular attention.

With respect to the disposal and sale of our surplus military property, I believe matters have now progressed to the point where it is advisable to formally request the General Accounting Office to make an in-depth review of the program for us. We are interested not only in the sale and disposal of such material in Vietnam, but also in Okinawa, Singapore and Japan.

Among other things we would like to know are (1) the nature of all agreements and understandings with the Vietnamese government affecting the disposal program; (2) the present and projected dollar volume of the program; (3) the anticipated dollar recovery; (4) the numbers and kinds of weapons and weapon systems involved in the program, together with an evaluation of the effectiveness of the demilitarization of such items; (5) an evaluation of the effectiveness of established controls and security measures designed to prevent the loss of items in transit or in storage prior to sale; and (6) the criteria and procedures used in determining which items are declared surplus.

We would also like to be fully apprised of all information which comes to your attention with respect to any alleged unlawful or irregular activities in connection with the disposal program. Such information which relates to guns, ammunition, tanks, trucks and tires is of a special interest.

APPENDIX I

As your inquiry progresses I believe it would be most helpful if the Investigating Subcommittee would be kept currently informed of developments. This, of course, could be done on an informal basis at staff level. And, upon completion of a preliminary survey, I would appreciate your estimate as to the earliest possible date on which we might expect a final report so that hearings may be scheduled should that course appear to be appropriate.

Sincerely,

A handwritten signature in cursive script that reads "F. Edw. Hebert".

~~F. Edw. Hebert~~
Chairman

FEH/jrr