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



DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

B-159835

MAR 1976

The Honorable  
The Secretary of Defense

Dear Mr. Secretary:

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The Chairman of the House Appropriations Committee has asked that we determine whether foreign countries are being charged the full cost of training and technical assistance services rendered within the foreign countries by the Department of Defense. <sup>use</sup> 00300

The major purchaser of these services is the Government of Iran. Contracts with Iran for the sale of these services during fiscal year 1976 totaled \$93.4 million. As a result of a recent review of the costs associated with providing U.S. technical assistance and training to the Iranian Armed Forces, auditors assigned to the Office of the Deputy Assistant Secretary of Defense (Audit) reported that roughly \$28.5 million in costs which will be incurred by the U.S. Government in fiscal year 1976 will not be recovered. In their "Report on Review of Security Assistance Program in Iran" dated February 26, 1976, the Defense auditors concluded that much of the \$28.5 million should be charged to Iran and recommended that (1) a study be made to insure that all costs of providing services to the Iranian Armed Forces are identified and (2) reimbursement for such costs be obtained. Although Defense officials concurred, they have not taken action to carry out the recommendations nor could we find any indication that they planned to do so.

The Office of the Chairman has requested that we report this matter to you to insure that prompt action is taken to initiate the recommended study so that

- reimbursable costs incurred in providing technical assistance and training in Iran during fiscal year 1976, which were not included in the fiscal year 1976 sales contracts with Iran, are identified and recovered and

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--all estimated costs of providing technical assistance and training are identified and included in the fiscal year 1977 sales contracts currently under negotiation with Iran.

SCOPE OF REVIEW

We reviewed pertinent legislation and Defense regulations; interviewed responsible officials; reviewed billing and collection procedures; and reviewed the audit objectives, scope of work, and work performed by the Defense auditors in Iran. We did our work primarily at Headquarters, Department of Defense.

BACKGROUND

A foreign country purchasing military equipment from the United States may also purchase the services of U.S. military and civilian technicians, who provide technical assistance services and train members of that country's armed forces to operate, maintain, and support the equipment purchased.

Defense provides technical assistance and training to foreign governments on the basis of authority granted in the Foreign Military Sales Act of 1968 (22 U.S.C. 2751). The Act provides that the President may sell services of the Department of Defense to any friendly country or international organization if it agrees to pay not less than the value thereof in U.S. dollars.

Fiscal year 1976 sales involving technical assistance and training to the Iranian Armed Forces involved 13 cases totaling \$93.4 million. The sales contracts covered a 15-month period ending September 30, 1976.

Department of Defense Form 1513 is used as the formal contract between the United States and foreign governments for sales of Defense services. All sales are subject to the following contractual conditions.

--Prices shall be at the total cost to the U.S. Government.

--The U.S. Government will attempt to notify the foreign government of price increases which will affect the total estimated contract price by more than 10 percent; but failure to so advise does not alter the foreign government's obligation to reimburse the U.S. Government for the total cost incurred.

--The foreign government agreed to reimburse the U.S. Government if the final cost exceeds the amount estimated in the sales agreement.

DEFENSE HAS NOT TAKEN ACTION TO INSURE THAT ALL COSTS INCURRED IN PROVIDING TECHNICAL ASSISTANCE AND TRAINING ARE RECOVERED

Defense officials have not initiated the study, recommended by Defense auditors, to insure that all costs incurred by the U.S. Government in providing technical assistance and training to the Iranian Armed Forces are identified and that they are being recovered.

We reviewed the work of the Defense auditors and believe that there is sufficient basis to warrant implementation of their recommendation.

The auditors identified roughly \$23.5 million in costs which will be incurred as a result of providing technical assistance and training in Iran during fiscal year 1976 but which had not been included in sales contracts with Iran.

The auditors told us that their review was not directed at determining the precise amount of costs omitted from the sales contracts and that the \$23.5 million was a rough estimate. They therefore recommended to (1) the Chief, U.S. Military Mission with the Iranian Army and U.S. Military Assistance Advisory Group to Iran and (2) the Defense Security Assistance Agency that Defense missions and organizations in Iran be studied, to insure that Defense was fully identifying, and requesting reimbursement for, all costs associated with providing technical assistance and training services to the Iranian Armed Forces.

The report the Defense auditors issued indicated that the Chief of the U.S. Military Mission with the Iranian Army and U.S. Military Advisory Group to Iran agreed with their recommendations and that the Defense Security Assistance Agency concurred in principle. Defense Security Assistance Agency officials, however, said that, although the Agency was responsible for insuring that all costs incurred in providing technical assistance and training in Iran are recovered, they had not initiated the study the Defense auditors had recommended. Further, we did not find any evidence that they intended to make the study. Since the study has not been initiated, no action has been taken to seek reimbursement for any of the fiscal year 1976 costs the auditors had identified or to include such costs in fiscal year 1977 agreements.

Defense auditors reported that the total authorized strength of the 28 U.S. units and organizations permanently assigned in Iran was 2,370 personnel, of which 2,055 personnel were assigned to organizations engaged in providing either technical assistance and training to

the Iranian Armed Forces or support to U.S. training personnel and advisors. The auditors reviewed organizations having 1,922 of these personnel. Of the 1,922 personnel, they identified 207 personnel whose pay and allowances of \$7.3 million had not been included in sales contracts as costs to be reimbursed by Iran to the U.S. Government. Defense auditors said that pay and allowances for the remaining 1,713 personnel had been included in contracts with Iran for reimbursement. The personnel omitted were identified as being assigned primarily to the U.S. Support Activity, U.S. Army Medical Department Activity, Army Communications Command-Europe, Military Airlift Command, and U.S. American Forces Radio and Television Service and as providing either direct or indirect support to the foreign military sales program.

Similarly, the auditors estimated that Defense would not recover about \$20.7 million in other costs incurred in fiscal year 1976 to support the technical assistance and training program in Iran. For example, the auditors reported that Defense had not included about \$19.5 million in operating costs the Military Airlift Command had incurred to support the Iranian Government in computing reimbursable costs. According to Defense auditors, these operating costs consisted of the cost of maintaining the command's facility in Iran and the cost of transporting to Iran personnel-support items, such as commissary and medical items.

#### CONCLUSION

The auditors raised valid questions about the recovery of costs the U.S. Government incurred in Iran, and the recommended study to identify unrecovered costs is warranted. The study should also identify any pertinent controls and procedures that need improvement.

The fiscal year 1976 contracts with Iran expire on September 30, 1976, and the fiscal year 1977 contracts with Iran are being considered. Therefore Defense should promptly initiate the study to identify all costs associated with providing technical assistance and training to the Iranian government and, consistent with the provisions of the Foreign Military Sales Act and the Department of Defense Form 1513, seek reimbursement for such costs.

We noted, with respect to the recovery of costs up to and including final billing, that the Department of Defense Form 1513 provides that adjustments may be made to estimated costs when they are not commensurate with actual costs incurred. Therefore any costs that are not recovered can and should be subsequently billed. The longer the delay in completing the study and billing Iran for unrecovered costs, the more difficult it will be to recover these costs.

RECOMMENDATIONS

We recommend that you direct the Director, Defense Security Assistance Agency, to:

- Initiate and complete the study the Defense auditors recommended before the fiscal year 1976 contracts expire, to identify the costs which had not been included in contracts with Iran or billed and which should be reimbursed to the U.S. Government.
- Attempt to recover from the Government of Iran the amount determined to be reimbursable.
- Include in future foreign military sales contracts any additional estimated costs identified during the study as being associated with providing technical assistance and training services to Iran.

We also recommend that the procedures and criteria used for identifying costs that should be reimbursed by Iran be reevaluated, to insure that all costs the U.S. Government incurred in providing technical assistance and training in Iran are recovered.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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We would appreciate being informed of actions taken or planned with regard to our recommendations and of amounts of recoveries of costs not now included in contracts with Iran. We will be glad to discuss these matters with you or with your representatives.

We are sending copies of this report today to the Director, Office of Management and Budget; the Chairmen of the House and Senate Committees on Government Operations, Appropriations, and Armed Services; and the Director, Defense Security Assistance Agency.

HSP 00500

Sincerely yours,

*D. L. Scantlebury*

D. L. Scantlebury  
Director