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**REPORT TO THE COMMITTEE  
ON FOREIGN RELATIONS  
UNITED STATES SENATE**



LM096428

**Use Of Excess Defense Articles And  
Other Resources To Supplement The  
Military Assistance Program**

B-163742

Department of Defense  
Department of State

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

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096428

MARCH 21, 1973



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

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Dear Mr. Chairman:

This report is an unclassified version of our March 2, 1973, report entitled "Use of Excess Defense Articles and Other Resources to Supplement the Military Assistance Program." It was prepared in accordance with your request of March 5, 1973. We believe that the deletion of the classified material in this version has not affected the message of the original report. The report contains information requested by your office on military assistance other than that authorized and funded under the usual foreign assistance programs.

Historical data and background information in this report cover various aspects of the use of excess defense articles between fiscal year 1950 and the present. However, our study concentrated on the expanded programs for the use of excess defense articles in the Military Assistance Program since fiscal year 1968.

We also reviewed:

- Loans and leases of defense articles, principally ships.
- Circumstances surrounding the decision to provide F-104 fighter aircraft to the Republic of China.
- The transfer of U.S. assets to Korea under the Special Foreign Assistance Act of 1971.

We did our fieldwork at various logistical activities of the Department of Defense in the United States and overseas and in Turkey, Greece, Korea, and the Republic of China, which since 1965 were the four largest recipients of excess defense articles and ship loans and leases. At the Committee's request, we also reviewed military assistance to Indonesia and inquired into excess and surplus property in Vietnam.

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We obtained advance agency comments on the contents of this report and included them as appendixes V and VI.

We believe that this report would be of interest to the agencies concerned and to other committees and Members of Congress; however, we will release it only if you agree.

Sincerely yours,

A handwritten signature in black ink, reading "James B. Stewart". The signature is written in a cursive style with a large, prominent initial "J".

Comptroller General  
of the United States

Senator J. W. Fulbright, Chairman  
Committee on Foreign Relations  
United States Senate

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
ICP	inventory control point
MAAG	Military Assistance Advisory Group
MAP	Military Assistance Program

COMPTROLLER GENERAL'S  
REPORT TO THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE

USE OF EXCESS DEFENSE ARTICLES AND  
OTHER RESOURCES TO SUPPLEMENT  
THE MILITARY ASSISTANCE PROGRAM  
Department of Defense  
Department of State B-163742

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman, Senate Committee on Foreign Relations, asked the General Accounting Office (GAO) to review certain aspects of the use of excess or surplus property in the Military Assistance Program (MAP). He also asked GAO to look into other means by which the United States provides countries with assistance outside of that authorized and funded under MAP.

FINDINGS AND CONCLUSIONS

The magnitude of U.S. military assistance to foreign countries is not readily apparent because some assistance flows through pipelines outside the regular, funded programs approved by the Congress. The use of excess defense articles is one such pipeline. (See p. 8.)

Program level

Foreign military assistance for fiscal years 1965 through 1972--including the support of allied forces in Vietnam from military service appropriations--totaled about \$38.3 billion. Of this amount, excess defense articles, ship loans and leases, and equipment transferred to Korea under special legislation amounted to \$2.8 billion. (See p. 8 and app. II.)

Congressional presentation documents did not always disclose the magni-

tude of military assistance programs. For example, the acquisition cost of excess defense articles actually provided in fiscal years 1964 through 1969 was \$690 million greater than the amount initially shown in presentation documents.

In some instances, these increases apparently were used to compensate certain countries because funds had been diverted to help finance other country programs at levels higher than those shown in the presentation documents. (See pp. 20, 22, and 24.)

Leasing of Navy vessels

Nonexcess defense articles, mainly Navy vessels, are leased at no cost to foreign countries, without the approval of the Congress, under a law not related to foreign assistance--section 2667, title 10, United States Code. Enacted in 1947, its primary purpose was to authorize the leasing of defense plants to private commercial interests to aid industrial programs of the military services. GAO believes that the leasing of defense articles to other countries should be made under the Foreign Assistance Act and be subject to the restraints of that act. (See p. 67.)

Use of excesses for funded requirements

During fiscal years 1969 to 1971, \$55 million in MAP funds may have been expended unnecessarily to meet

requirements which could have been filled with excess defense articles at no cost to MAP. (See pp. 46 and 47.)

Classification of excess defense articles

Between 1950 and 1972, \$5.1 billion in excess defense articles was programmed for delivery to a total of 65 countries. (See p. 20.) Under the Foreign Assistance Act of 1961, as amended, the articles may be transferred to other countries without specific funding authority from the Congress. (See p. 9.) Most of the assets which the Department of Defense (DOD) classifies as excess defense articles (1) are not excess by definition but are being held in the inventory for future needs or (2) have not yet been determined to be in excess of DOD requirements. (See p. 13.)

Availability of excess defense articles

At the end of fiscal year 1971, the acquisition cost of excess defense articles in the supply system and in property disposal activities was about \$18 billion. This did not include articles which had or would become excess in Vietnam but which had not yet been transferred to the supply system or to property disposal accounts. (See pp. 28 and 31.)

Expanded use of excess defense articles since 1968

DOD expanded the use of excess defense articles in MAP to compensate for reductions in MAP appropriations. GAO believes that this expansion led to the delivery of excess articles to other countries

on the basis of their availability rather than the countries' needs because separate and questionable criteria for programming the articles were established. (See pp. 27, 28, 38, and 52.)

GAO found that:

- Some articles which had been allocated to MAP as excess may not have been truly excess. (See p. 34.)
- Excess articles which had been programmed exceeded equipment authorizations. (See pp. 41 and 43.)
- Large quantities of reparable vehicles had been cannibalized for parts to repair other excess vehicles while the necessary repair parts were available through normal supply channels. (See pp. 49 and 50.)
- Howitzers, which had an acquisition cost of \$17.4 million, were not combat ready 16 months after they were allocated because of inadequate supply action. (See pp. 49.)
- Excess aircraft had been delivered without advance certification of the recipients' capability to effectively use the aircraft, contrary to the Foreign Assistance Act. (See p. 51.)

Reconditioning of excess defense articles

Many of the excess articles supplied since 1968 were provided in unserviceable condition without repairs; the recipient countries repaired the articles. DOD records indicated that reparable excess articles could be reconditioned and provided to MAP



at about one-fourth of their acquisition cost. (See pp. 55 and 56.)

Alternative uses of excess defense articles in the future

GAO believes that the DOD policy of providing excess articles to supplement the regular, funded programs is not conducive to the most economical and effective use of such articles in MAP. Excess defense articles could become a primary source of military assistance if they were applied (1) to unfunded program requirements only when no funded MAP requirements exist for the same types of articles, (2) in serviceable condition or with the assurance that the recipient countries could repair them, and (3) with full coordination with other programs and full disclosure to the Congress. (See pp. 15 and 56.)

Loans and leases

GAO found numerous discrepancies between in-country records of ships on loan and lease and similar records in DOD in Washington, which DOD had not reconciled. GAO believes that the inaccuracies may detract from the U.S. advisory groups' abilities to effectively monitor the use of ships on loan and lease. (See p. 67.)

Other matters considered in this report

- Procedures used in declaring weapons and equipment as excess. (See p. 32.)
- Difference between surplus and excess materiel. (See p. 10.)
- Valuation. (See p. 53.)

--Vietnam surpluses. (See p. 58.)

--Transfer of F-104 aircraft to the Republic of China. (See p. 78.)

RECOMMENDATIONS OR SUGGESTIONS

With regard to the transfer of excess defense articles to MAP recipients, GAO recommends that the Secretary of Defense:

- Authorize the use of excess and surplus articles only when they are programmed in advance or cannot be used to fill any funded, worldwide MAP requirements and deliver only those which are in serviceable condition or which are certified as being within the recipients' capabilities to restore. (See pp. 17 and 18.)
- Direct that all funded, undelivered program requirements be reviewed to determine the extent to which they could be satisfied by excess articles with or without repair. (See p. 17.)
- Provide program data to the Congress on materiel objectives for MAP-supported countries and the application of excess defense articles and other forms of military assistance to meet these objectives. (See p. 17.)

With regard to the transfer of ships to foreign recipients, GAO recommends that the Secretary of Defense direct that:

- Existing records of ships on loan and lease be reconciled by physical inspection and that the recipient countries' continued need for the ships be reviewed on a case-by-case basis. (See p. 73.)

--Such ships be inspected to insure that they are being adequately maintained and used and that, when ships have been returned or otherwise disposed of, appropriate reimbursement be made for loss or cost of repair and rehabilitation. (See p. 73.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD stated that it is adopting the GAO recommendation for applying excess defense articles against funded requirements when possible and has taken several steps to constrain the use of excess articles, to forecast their availability, and to include them in programs presented to the Congress. (See p. 15 and app. V.) DOD stated that in fiscal year 1972 it had given the military assistance programs a new direction in planning, organization, and administration. The position of Coordinator for Security Assistance at the Under Secretary level was established in the Department of State to coordinate fully the planning of U.S. economic and military assistance programs.

DOD also established the Defense Security Assistance Agency to centralize authority and responsibility for implementing approved military assistance programs. Concurrently, it initiated new planning procedures to involve both U.S. and recipient country planners in developing assistance programs structured on total domestic and foreign resources available to satisfy high-priority requirements.

The planned programs are examined in detail at the Washington level. To insure that all interested executive branch agencies--such as State,

DOD, Office of Management and Budget, and Treasury--are apprised of program requirements and justifications, the planned programs are also reviewed at Security Assistance Program Review Committee meetings.

With regard to the GAO recommendation that DOD provide the Congress with information on the application of all forms of military assistance to materiel objectives, DOD stated that the level of information which would be required is beyond the administrative resources of the elements which administer the military assistance and sales programs. DOD stated that the new planning procedures would insure that executive branch requests for military assistance programs were based on hard requirements and were fully justified to the Congress. (See pp. 27 and 29.)

DOD concurs in GAO's recommendations for verifying records of ships on loan and lease and insuring their proper maintenance and use by the recipients. DOD advised GAO that it had initiated a program, in cooperation with the Department of State, for the sale of ships whenever possible, including those now on loan and lease. (See p. 74.)

DOD believes that most of GAO's recommendations for the control of the use of excess defense articles in MAP are already provided for in legislation.

DOD believes that the report does not support GAO's conclusion that the lease of defense articles to foreign countries under section 2667 circumvents the Foreign Assistance Act. It stated that section 2667 was a complementary law which permitted program flexibility to best

meet U.S. interests. (See p. 75 and app. V.)

GAO finds DOD's responses to the report favorable except for those regarding (1) program disclosure to the Congress, (2) control of the use of excess defense articles in MAP, and (3) transfer of defense articles under section 2667. GAO believes that the recommended level of program data to be provided to the Congress is essential to the decision-making process of both the executive branch and the Congress. Full use of executive branch and recipient country resources should permit the level of data to be provided as GAO recommended. (See pp. 17 and 27.)

Although DOD has recently taken steps to constrain the use of excess defense articles in MAP, GAO believes that such articles could become a primary source of military assistance in the future

if its recommendations are followed. (See p. 15.)

GAO believes that section 2667 is not needed to transfer defense articles to other countries and that such transfers should be made under the Foreign Assistance Act for effective congressional oversight. (See p. 72.)

MATTERS FOR CONSIDERATION  
BY THE COMMITTEE

To preclude providing defense articles to other countries under section 2667, GAO recommends that the Committee consider legislation to authorize military assistance by grant, lease, loan, or other transfer only under the Foreign Assistance Act or successor legislation, except when another law expressly authorizes the transfer. (See p. 73.)

## CHAPTER 1

### INTRODUCTION

At the request of the Chairman, Senate Committee on Foreign Relations, the General Accounting Office (GAO) reviewed the means by which the United States provides foreign countries with military assistance outside of that authorized and funded under the Military Assistance Program (MAP). (See app. I.)

This report contains the results of our work in Greece, Turkey, Indonesia, Vietnam, and the Republics of China and Korea; at the Department of Defense (DOD) and the Department of State in Washington; and at selected DOD logistical activities in the United States and overseas. Indonesia is treated separately in chapter 8 because of the Committee's specific interest in this country.

We primarily reviewed the expanded programs for the use of excess defense articles in MAP since 1968. To establish a perspective for these programs, we used various DOD program data beginning in fiscal year 1950. We also reviewed loans of ships and other military equipment to foreign countries and inquired into (1) the circumstances surrounding the decision to provide F-104 fighter aircraft to the Republic of China and (2) the plans to turn over equipment of U.S. withdrawing forces to the Republic of Korea.

The Chairman asked us to review the following specific areas.

- Procedures used in declaring weapons or equipment as excess. (See ch. 4.)
- History of the decision to provide jets to Taiwan. (See ch. 11.)
- Definitions of "surplus" and "excess" articles. (See ch. 1.)
- Valuation and reconditioning of excess articles. (See ch. 6.)
- Scope of the excess program. (See chs. 4 and 6.)

- Quantities of excess articles available now and outlook for the future. (See ch. 3.)
- Decisionmaking process in providing excess articles. (See ch. 5.)
- Historical data on the use of excess articles in MAP. (See ch. 3.)
- Alternative uses for excess articles in the future. (See ch. 2.)
- Vietnam surpluses. (See ch. 7.)

In addition, we included the following areas of interest to the Chairman.

- Loans of ships and other articles. (See ch. 9.)
- Captured enemy equipment. (See ch. 7.)
- Transfer of articles to foreign countries by withdrawing U.S. forces. (See ch. 10.)

The acquisition cost of military assistance programs, excluding supporting assistance, during fiscal years 1965 through 1972 was approximately \$38.3 billion. (See app. II.) The magnitude of this assistance was not readily apparent to anyone, including the appropriate committees of the Congress, because some assistance flows through pipelines outside the regular, funded programs. The use of excess defense articles is one such pipeline.

#### LEGISLATIVE LIMITATION

Public Law 91-672, enacted in January 1971, specifies that the value of excess defense articles granted a country under the Foreign Assistance Act shall be considered an expenditure made from funds appropriated for military assistance under the act when the aggregate value of the articles ordered during any fiscal year exceeds \$100 million.

For this purpose, "value" is defined as not less than one-third of the amount the United States paid at the time the articles were acquired (acquisition cost).

In February 1972 Public Law 92-226 increased the aggregate value under the limitation for fiscal year 1972 to \$185 million at not less than one-third of acquisition cost. In the fiscal year 1973 congressional presentation of MAP, DOD requested that the aggregate value under the limitation be increased to \$245 million at not less than one-third of acquisition cost. DOD has implemented the law by placing a value on excess articles at precisely one-third of their acquisition cost. In so doing, DOD has interpreted "value" to mean that all excess defense articles, regardless of condition or whether the articles are major or secondary items, are to be valued at no more than one-third of their acquisition cost.

MEANING OF EXCESS DEFENSE ARTICLES

BEST DOCUMENT AVAILABLE

The Secretary of Defense has broad, discretionary authority under the law to declare portions of the DOD inventory as excess defense articles and to provide them to MAP without congressional funding authority. Under DOD implementing regulations, the terms "excess defense articles" and "DOD excesses" are not synonymous. Therefore, most of the assets, in terms of dollar value, which are classified under these regulations as excess defense articles are not, in fact, in excess of DOD inventory retention requirements.

Pursuant to the Foreign Assistance Act of 1961, as amended, excess defense articles may be transferred to foreign countries without specific funding authority under MAP appropriations. The act defines:

- "Excess defense articles" as those defense articles owned by the U.S. Government which are in excess of the mobilization reserve and which are not procured in anticipation of military assistance or sales requirements.
- "Mobilization reserve" as those defense articles determined to be required under regulations prescribed by the President to support the mobilization of the U.S. Armed Forces in the event of war or national emergency.

The President's authority to prescribe such regulations has been delegated to the Secretary of Defense by executive

order; therefore, the decision rests entirely with DOD as to what portion of the DOD inventory will constitute the mobilization reserve and what assets may be transferred as excess defense articles under the act.

DOD regulations classify excess defense articles according to the following categories.

--Long-supply assets are those assets in the supply system which exceed the mobilization reserve. Long-supply assets are classified as:

1. Retention stocks--stocks exceeding the mobilization reserve which are authorized to be retained in the inventory for economic and contingency purposes.
2. Potential DOD excesses--supply system stocks owned by one DOD component which exceed the authorized retention level of that component but which have not yet been determined to be in excess of all other DOD requirements.

--DOD excesses are those assets which have been determined to be unnecessary for the discharge of DOD's responsibilities. When assets are determined to be excess, they are transferred to property disposal activities for screening among all eligible Federal agencies.

--Surplus assets are assets in the property disposal activities that have been determined to exceed the requirements of all Federal agencies, including DOD.

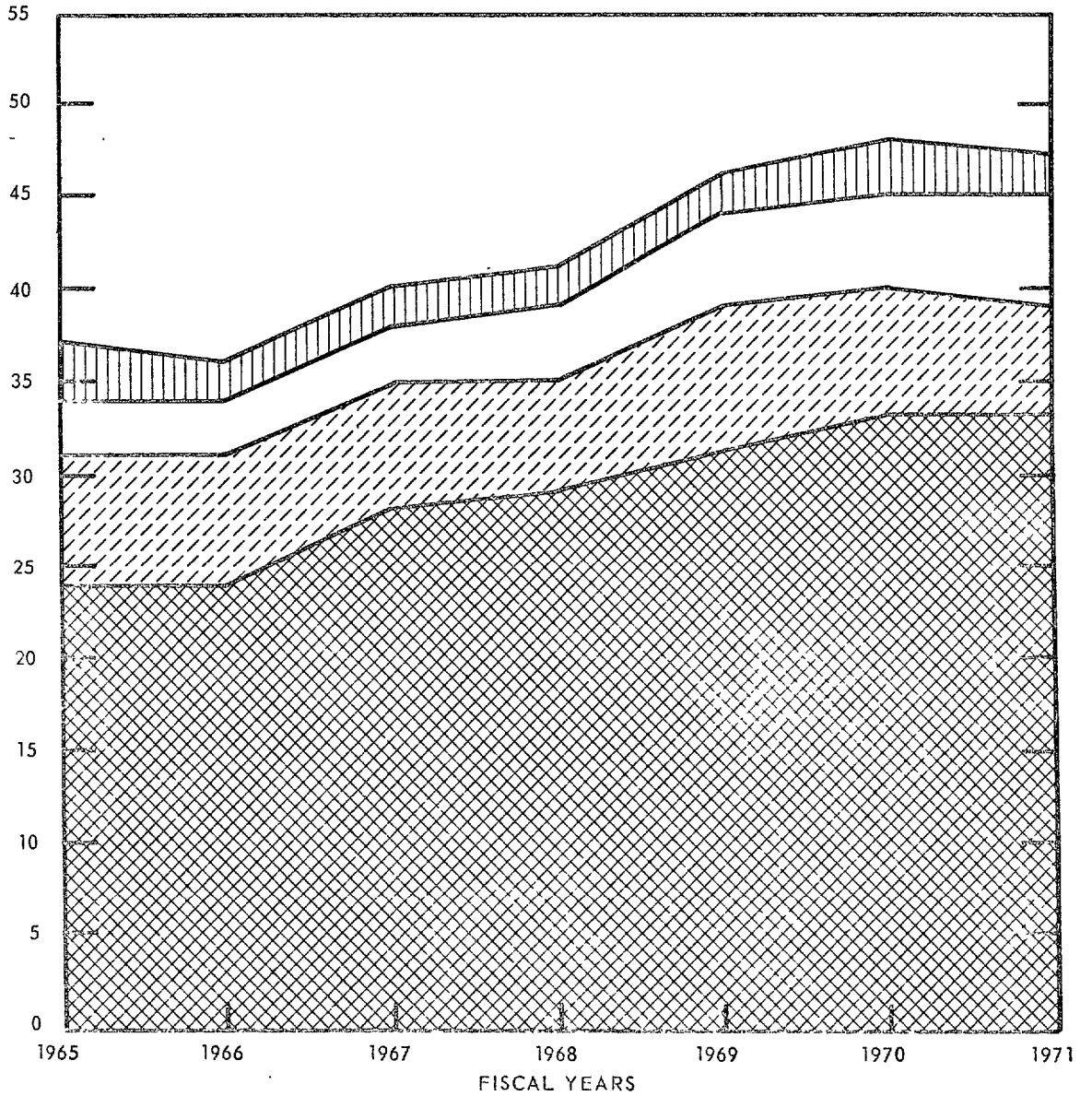
By DOD definition, assets belonging to each of the categories listed above fall within the category of excess defense articles. The relationship of these categories to the mobilization reserve for fiscal years 1965 through 1971 is shown in figure 1.





The data in figure 1 for other than excess and surplus is for supply system stocks which are those articles held in storage for issue to using organizations. Ships and aircraft are not held for issue and thus are not included. For consistency, they have also been excluded from excess and surplus data shown in the figure.

FIGURE 1

RELATIONSHIP OF EXCESS DEFENSE ARTICLES  
TO MOBILIZATION RESERVE  
(EXCLUDES SHIPS AND AIRCRAFT)

BILLIONS OF DOLLARS



-  EXCESS AND SURPLUS
  -  POTENTIAL DOD EXCESS
  -  RETENTION STOCKS
  -  MOBILIZATION RESERVE
- } EXCESS DEFENSE ARTICLES



Generally, ships and naval craft are classified as either mobilization reserve or excess. The mobilization reserve includes all ships and craft, both active and inactive, listed on the Naval Vessel Register and those on loan or lease to foreign countries. We were told that loaning or leasing ships and craft to foreign countries is frequently preferable to storing them because it is less expensive. As a part of the mobilization reserve, however, ships on loan are maintained on the register and are considered to be available to the United States if they are needed. Ships which are no longer required for mobilization are stricken from the register and become excess. These ships may be offered to MAP, sold under the Foreign Military Sales Act, or otherwise disposed of in accordance with DOD disposal procedures. Ship loans and leases are covered in detail in chapter 9.

Aircraft are similarly retained to meet operational requirements or are stored for future needs. Aircraft which exceed operational and storage requirements are declared excess and, as in the case of ships and craft, may be offered to MAP, sold under the Foreign Military Sales Act, or otherwise disposed of. Aircraft are generally declared excess after semiannual reviews of storage aircraft that consider future needs, replacement requirements, and the condition of the aircraft.

The combined value<sup>1</sup> of excess and surplus ships and aircraft on hand at the end of fiscal years 1965 through 1971 was as follows:

Fiscal year						
<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
(billions)						
\$ 1.4	\$ 1.1	\$ 0.8	\$ 0.7	\$ 2.3	\$ 2.4	\$ 3.6

<sup>1</sup>In this report dollar values for excess defense articles are acquisition costs unless otherwise indicated.

The breakdown of excess defense articles, using the average value by asset categories as shown in figure 1, for fiscal years 1965 through 1971 is shown in the table below.

<u>Asset category</u>	<u>Average value (billions)</u>	<u>Percent of total</u>
Retention stocks	\$ 7.0	53
Potential DOD excess	4.2	32
Excess and surplus	<u>2.0</u>	15
	<u>\$13.3<sup>a</sup></u>	

<sup>a</sup>Does not add due to rounding.

Although DOD stated that it does not consider all excess defense articles available to satisfy MAP requirements at no cost to MAP, suitable articles in all these categories may be used to satisfy the requirements. The preceding table shows that (1) only 15 percent of the total assets are excess or surplus and (2) 85 percent of the assets so classified by DOD either were being retained for possible future needs or had not yet been determined to be in excess of DOD requirements.

We believe that the Congress should be aware of the ambiguity between the definition of excess defense articles in the Foreign Assistance Act and DOD's use of the definition of excess. DOD stated that the definition of excess defense articles was not ambiguous and was clearly and consistently applied in all DOD issuances. We agree that DOD applies the term as it is defined in the act; however, we believe that the term is ambiguous with respect to the DOD definition of excess. As a result, retention stocks which are not excess to DOD needs qualify as excess defense articles.

## CHAPTER 2

### ALTERNATIVE USES OF EXCESS DEFENSE ARTICLES

#### IN MAP IN THE FUTURE

##### SUMMARY OF OBSERVATIONS

This report shows that DOD derives wide latitude from the Foreign Assistance Act in determining what articles qualify for nonreimbursable transfers as excess defense articles and that most of the articles thus classified by DOD are, in fact, not excess by definition. Congressional presentation documents have provided an incomplete accounting of the use of excess defense articles and other forms of military assistance. The magnitude of U.S. military assistance to foreign countries is not readily apparent to anyone, including the appropriate committees of the Congress, because military assistance can flow to foreign recipients through several pipelines, not all of which require appropriated funds from the Congress. The use of excess defense articles is one such pipeline.

Our report shows that excess articles are continuously available in vast quantities and have been used in military assistance programs since the inception of foreign aid. Since 1968 DOD has taken advantage of the increased availability of excess articles resulting from the Vietnam conflict to supplement reduced MAP appropriations by providing military assistance in addition to that funded under the regular MAP, not by reducing the annual cost of MAP.

This additional military assistance was provided mainly to fill unfunded future requirements and requirements which would not normally be MAP supported. In our opinion, the validity of many of the requirements against which excess defense articles were applied was questionable at best and recipient countries could not, or did not, fully use the articles in all cases.

Although DOD records indicated that economically repairable excess defense articles could be restored to serviceability at a fraction of their acquisition cost, DOD did not use such articles to reduce the funded cost of MAP. This was evident from an analysis in which we found that

substantial quantities of excess articles had been provided to MAP at no cost at the same time similar articles had been included in the funded program. Many of the funded articles had not yet been delivered, which indicated that significant savings might still be possible by applying excess articles against undelivered, funded requirements.

### CONCLUSIONS

We believe that providing excess defense articles to supplement the regular, funded programs is not the most economical and effective use of such articles in MAP. Excess defense articles could become a primary source of military assistance in the future. To achieve this possibility and greater economy and effectiveness in the use of the articles in MAP, they should be (1) more fully integrated with other forms of military assistance and with funded programs, (2) applied against unfunded requirements only when no funded, worldwide MAP requirements exist for the articles, and (3) provided to MAP recipients in serviceable condition. In our opinion, these measures would have a regulating effect on the use of the articles in MAP when applied with greater congressional visibility of military assistance programs.

### DISCUSSIONS WITH AGENCY OFFICIALS

DOD stated that it had recently taken several steps to constrain the use of excess articles, to forecast their availability, and to include them in programs presented to the Congress. These include the establishment of a refined MAP requirements base for allocating and issuing excess defense articles to meet the following objectives.

1. Completing unit equipping of forces in existence or scheduled for activation during the 2-year period following the current year.
2. Replacing equipment on hand that is obsolete, obsolescent, or approaching the point of being uneconomically repairable by the foreign countries' standards.

In implementing the new steps, DOD would include requirements programed as outlined above in budget-year

programs submitted to the Congress. Following program approval, DOD would issue MAP orders for filling these requirements as excess articles became available. The constraints on the use of excess articles, according to DOD, were intended to insure that the articles were used judiciously and, where possible, were used as a substitute for the funded MAP.

In comparison with the revised requirements base described above, present policy authorizes the application of excess defense articles against requirements of the budget year and a maximum of 3 future program years. Moreover, it does not require that the articles be programed before they are made available to MAP. Under the new DOD steps, excess defense articles would continue to be made available for requirements not programed in advance, as approved by DOD on a case-by-case basis similar to that under existing procedures. DOD stated that all categories of excess articles would be limited to the refined requirements base and that, as the base and forecasts of availability improve, it would be better able to portray the use of excesses to the Congress.

Our suggestion that unserviceable articles be delivered only after DOD certifies the recipients' capability to rehabilitate them and place them in service was considered unnecessary by DOD. This position was based on the contention that such certification is implicit in program submissions by the Military Assistance Advisory Groups (MAAGs) and the unified commands. However, our review (see ch. 5) showed that the recipients did not always promptly repair and effectively use excess articles. Moreover, the fact that excess articles are delivered against previously unprogramed requirements emphasizes the need to carefully weigh the introduction of unserviceable excess articles against the recipients' budgetary limitations, manning levels, and supply and maintenance support capabilities.

DOD officials generally agreed with us on the need for establishing materiel objectives and for showing in congressional program presentations all forms of military assistance used to meet these objectives. However, they believed that establishing objectives would be difficult, if not impossible, because of the disparity between U.S. strategic objectives and the levels of assistance which could

realistically be expected to be funded under MAP. We believe that, although difficulties are involved, the lack of quantitative objectives against which MAP can be measured not only creates serious management problems but also may be inimical to the valid purposes of MAP.

In our opinion, materiel objectives are necessary to improve the management of MAP and to provide the Congress with both a finite means of assessing annual MAP appropriations requests and a reference point for evaluating future changes. The objectives should be realistic and should consider the recipient countries' current and forecasted capabilities in terms of economic indicators and self-sufficiency. This is also consistent with MAP as presented to the Congress, which historically has emphasized the goal of having recipient countries attain greater self-sufficiency and assume an increasing share of the cost of MAP.

#### RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Direct that DOD and the MAAGs review all funded, undelivered program requirements to determine the extent to which they could be satisfied by excess defense articles. Unserviceable articles which are economically reparable by the United States or the MAP recipient should be fully considered. MAP funds recouped through these procedures should be identified in subsequent congressional presentations.
- Provide data in annual congressional presentations on materiel objectives for MAP-supported countries and the way in which excess defense articles and other types of military assistance are being applied to meet these objectives.
- Authorize the use of excess defense articles only when such articles are programmed in advance or cannot be used to fill any funded, worldwide MAP requirement.
- Restrict the delivery of excess defense articles to those which are in serviceable condition.

Reimbursement for the cost of repair, rehabilitation, and modification incurred in meeting serviceability standards would continue to be provided with MAP funds.

We also suggest that, to take advantage of in-country repair capabilities, the delivery of unserviceable articles which are economically repairable by the MAP recipient country should be authorized, provided that prior to delivery DOD certifies that the recipient is capable of rehabilitating and using such articles within a reasonable period of time (e.g., 6 to 12 months) and can do so without adversely affecting the maintenance of MAP-provided articles already on hand or programmed.

### CHAPTER 3

#### HISTORICAL DATA, CURRENT AVAILABILITY, AND OUTLOOK FOR THE FUTURE

In reviewing the historical use of excess defense articles in MAP, we found that:

- They had been used extensively to supplement the funded MAP.
- Their use had been greatly expanded after 1967 to offset sharp reductions in MAP appropriations.
- Congressional presentation documents in support of executive branch requests for military assistance funds had not always disclosed the magnitude of excess defense articles and other military assistance provided to foreign countries.
- Congressional presentation documents had not shown the integration of excess defense articles and other forms of military assistance with MAP funds.

#### HISTORICAL DATA ON THE USE OF EXCESS DEFENSE ARTICLES IN MAP

Since the inception of foreign aid, DOD has recognized excess defense articles as a source of nonreimbursable military assistance. In a 1968 memorandum to the Secretaries of the military departments and the Chairman of the Joint Chiefs of Staff, the Deputy Secretary of Defense stated, in part, that:

"Direct application of materiel available to the Military Assistance Program without reimbursement, which was first authorized 19 years ago by the Congress in the initial foreign aid legislation, can be in many respects as effective as expenditures of MAP funds. In implementation of such statutory authority, it has long been established Department of Defense policy that assets in DOD inventories above



the \*\*\* [mobilization reserve] be offered to MAP on a non-reimbursable basis."

As explained in chapter 1, assets above the mobilization reserve are excess defense articles. The magnitude of excess inventories from which military assistance has been provided is illustrated in figure 2, which shows the acquisition cost of such inventories in the DOD supply system and at DOD property disposal activities for fiscal years 1965 through 1971.

DOD stated that most of the articles in excess inventories are not usable for MAP because they are not furnished as grant aid or they do not match preestablished requirements. Articles not eligible to be furnished as grant aid were, in fact, provided under excess programs. From fiscal year 1964 through fiscal year 1969, \$3.9 million in excess commercial consumables was provided to a MAP recipient although such items were not authorized to be programed for that country. Moreover, as discussed in chapter 5, we found that excess defense articles had been provided that did not have valid pre-established requirements.

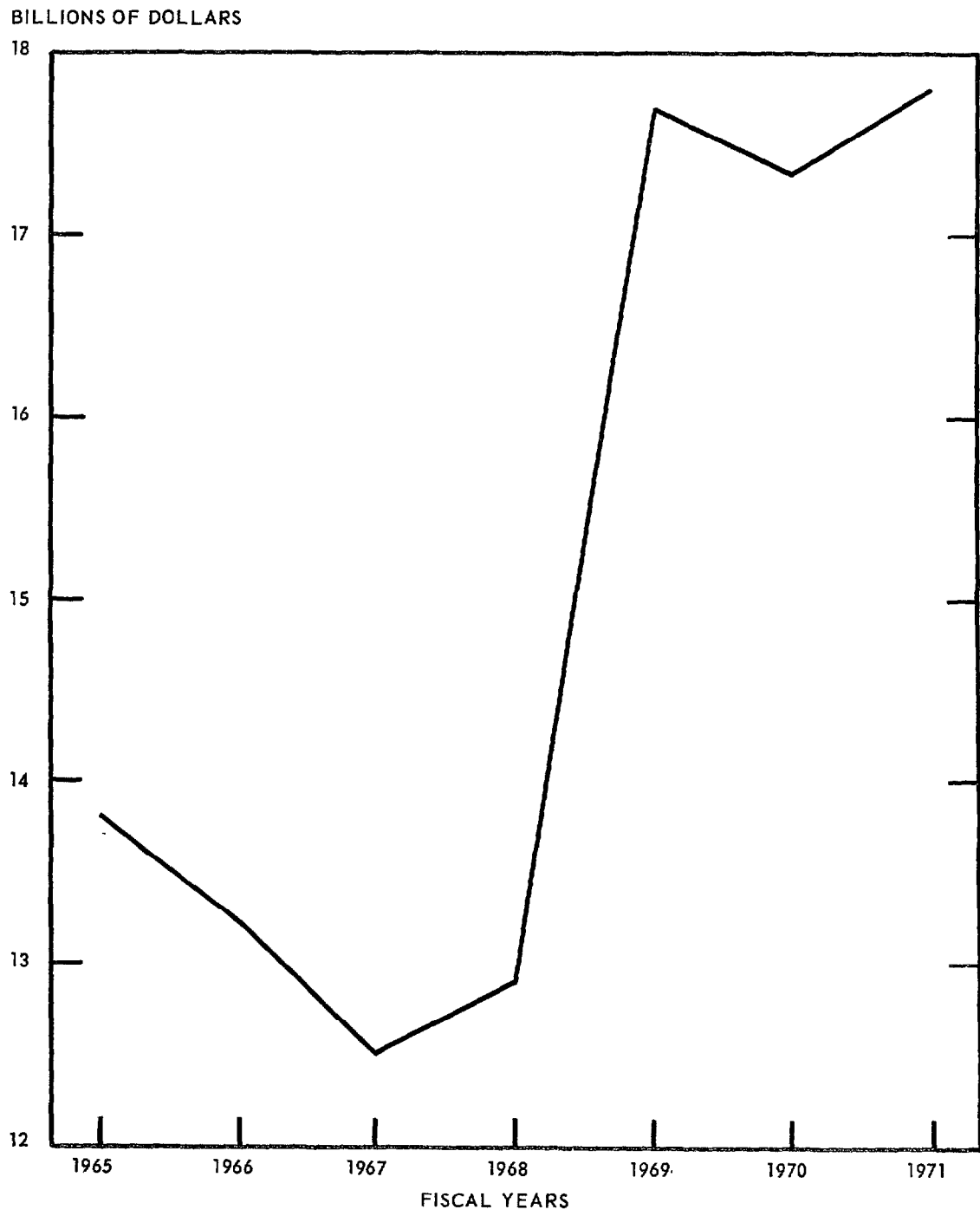
Between 1950 and 1972, \$5.1 billion in excess defense articles was programed for a total of 65 foreign countries. Before 1970, however, the extent to which the articles were utilized in MAP was not apparent from data in the presentation documents. For example, the actual value of the articles programed in MAP for fiscal years 1964 through 1969 was about \$690 million greater than the value presented to the Congress.

DOD advised us that the country pages of the presentation documents had always contained data on excess defense articles, including program estimates for the budget and current years, actual programs for the prior year, undelivered balances, and deliveries scheduled during the budget year. DOD also stated that congressional presentation backup data contained all this information by country.

Notwithstanding DOD's comment, we found that presentation documents did not always include all this information. Moreover, even when such information was included, it did not fully reflect the magnitude of the excess programs or

FIGURE 2

EXCESS DEFENSE ARTICLE INVENTORIES  
(INCLUDES SHIPS AND AIRCRAFT)



subsequent changes. For example, of the \$690 million increase in excess programs described above, only \$154 million was specifically identified in subsequent presentation backup data as increases to excess programs initially submitted to the Congress. An additional \$355 million was later reflected in presentation backup data but was not identified as changes to the initial submissions. These increases would have been apparent to the Congress only by comparing the later presentation data with the programs submitted 2 years earlier. The remaining \$180 million was not included in any subsequent presentations.

Moreover, the presentation documents contained neither justifications for the additional excess articles programed nor indications of how they had been used in conjunction with appropriated funds to meet MAP objectives.

Figure 3 shows the contrast between excess programs initially submitted to the Congress and actual programs. The actual program shown in the figure for fiscal year 1971 reflects the limitation imposed by Public Law 91-672 which restricted the delivery of excess defense articles without charge to MAP appropriations.

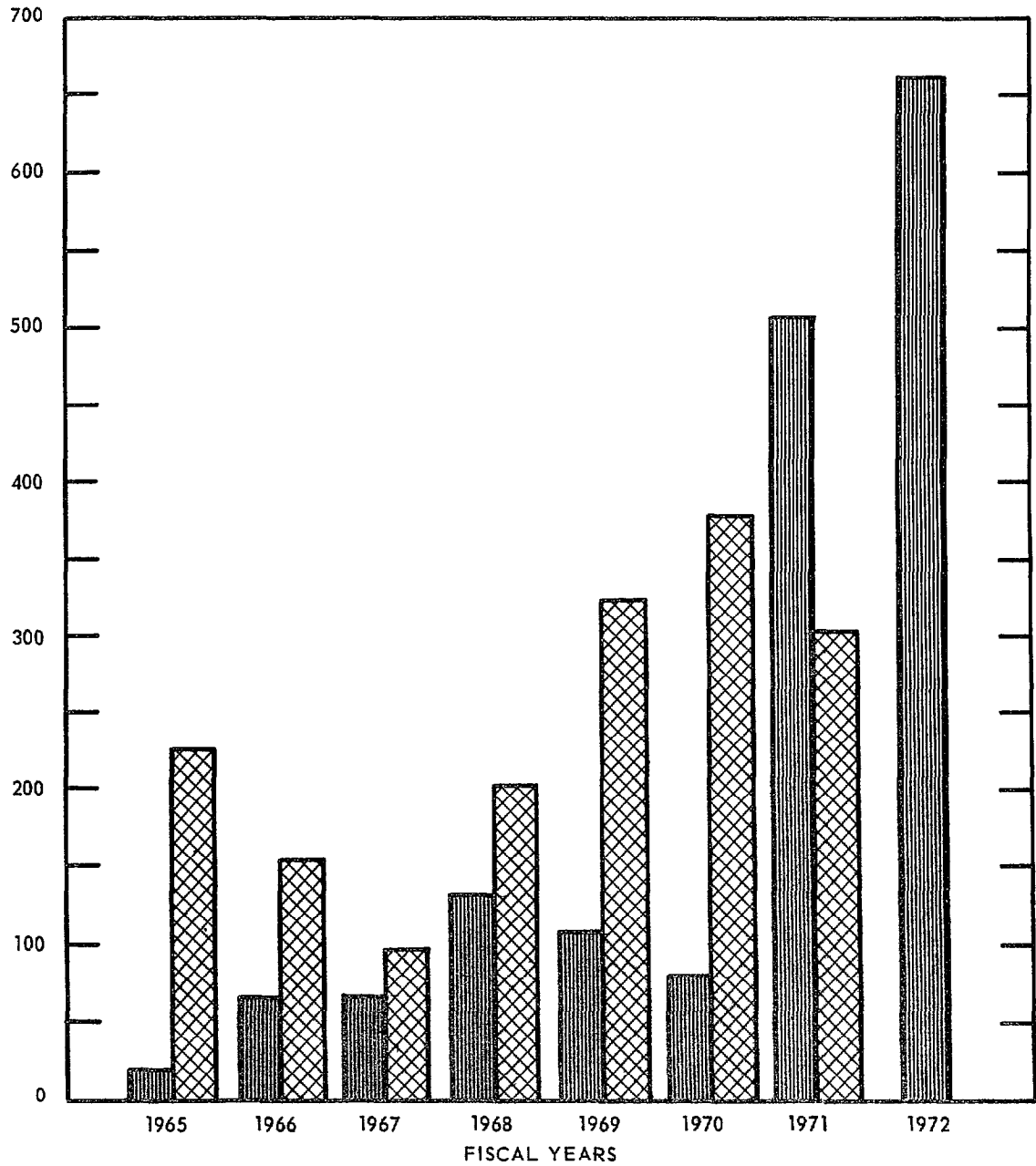
The difference between initial and adjusted excess programs is further illustrated by the fiscal year 1965 MAP which initially reflected an excess program of approximately \$20 million for 25 countries. Data we obtained from DOD in 1971 showed the fiscal year 1965 excess program had increased to \$225 million for 38 countries--more than 10 times larger than the program initially submitted to the Congress. A large part of this increase was due to providing additional assistance from U.S. excess stocks to those MAP recipients whose funded programs had been sharply reduced, as discussed below.



In analyzing these changes, we found that the Congress had authorized MAP funds exactly as requested by the executive branch. After the program was presented to the Congress, however, the funded programs of Vietnam and Laos were increased by almost \$66 million and military assistance was provided to an additional eight countries at a further cost of about \$2.3 million. The excess programs for Vietnam and

FIGURE 3

EXCESS DEFENSE ARTICLE PROGRAMS IN MAP

MILLIONS OF DOLLARS



 ACTUAL PROGRAM  
 PROGRAM AS INITIALLY SUBMITTED TO THE CONGRESS

Laos were also increased from about \$5 million to \$95 million. Apparently to meet the increased funding requirements of the adjusted programs and still remain within the approved obligational authority, the funded programs of 29 countries were reduced; more than half of the total reduction was made in the programs of Korea, the Republic of China, Greece, and Turkey.

In the initial program presentations, the combined excess programs of the above four countries totaled about \$1.4 million; however, while decreasing their funded programs, DOD increased the value of the combined excess programs by more than 65 times, or about \$92 million, by furnishing equipment and supplies from excess stocks. The relationship of these adjustments in the four country programs is shown in the following table.

Country	Funded programs			Excess programs		
	Initial presentation	Actual	Decrease	Initial presentation	Actual	Increase
(000 omitted)						
Korea	\$131,999	\$111,645	\$20,354	\$ 362	\$11,541	\$11,179
Republic of China	88,987	61,519	27,468	269	7,700	7,431
Greece	71,044	56,490	14,554	597	22,793	22,196
Turkey	123,119	96,659	26,460	171	51,128	50,957
Total	<u>\$415,149</u>	<u>\$326,313</u>	<u>\$88,836</u>	<u>\$1,399</u>	<u>\$93,162</u>	<u>\$91,763</u>

This analysis shows how excess defense articles can be used as a substitute for MAP funds; it suggests that such articles could be used not only to increase military assistance but also to reduce the annual funded costs of MAP.

Our analysis also indicates the failure of congressional presentation documents to show how nonreimbursable military assistance is integrated with MAP funds to achieve the overall objectives of MAP.

DOD believes that our analysis incorrectly suggests a direct substitution of excess for funded programs without an

examination of the composition of the two programs. We have not stated that excess was directly substituted for funded programs; we believe our analysis shows that a substitution was made which was apparently acceptable to DOD.

IMPROVEMENTS NEEDED IN CONGRESSIONAL  
PRESENTATION DOCUMENTS

In presenting annual appropriation requests to the Congress, DOD submits supporting data on the country force objectives and MAP-supported forces, the values of budget- and prior-year programs, and the quantity of selected major items programmed in the budget year for which funds are being requested. Presentations do not state MAP objectives in terms of materiel needs and omit certain types of data which we believe are essential for the Congress to make reasonable judgments concerning the proposed budget. For example:

1. Data does not show the total remaining materiel requirements of the approved forces of MAP-supported countries. We believe this data should be provided to indicate all known requirements recognized by the United States regardless of priority or method of assistance planned to meet such requirements.

This information would enable the Congress to view proposed programs in relation to the total residual needs of a country and to compare the programs with the total needs stated for preceding years. In this way, gross changes in requirements which may require specific justification could be identified. It would also indicate how effectively prior-year programs had met stated materiel objectives. Equally important, the establishment of materiel objectives for MAP-supported countries would quantify the limits of military assistance which DOD plans for each of those countries.

2. Information is not provided on how the various types of military assistance will be coordinated to meet the specific requirements of the MAP-supported forces. We believe that presentations should show how excess defense articles and other assistance--such as loans, military sales, and third country assistance--will be applied against the residual materiel requirements of the MAP-supported forces. This would provide a basis for evaluating appropriations requests and would indicate the effectiveness of the overall MAP in meeting quantified MAP objectives.

Appendix III shows the spectrum of data for each MAP-supported country which we believe is needed by the Congress to properly evaluate annual MAP appropriations requests in relation to all types of military assistance.

DOD stated that the data suggested in appendix III concerns areas outside DOD's cognizance at a level of detail beyond the administrative resources of the elements which administer the military assistance and sales programs. DOD advised us, however, that it had recently initiated planning procedures to involve recipient country planners in developing assistance programs. We believe these procedures and the full use of executive branch resources should permit our suggested level of program detail.

EXPANSION OF THE USE OF  
EXCESS DEFENSE ARTICLES IN MAP

Between fiscal years 1950 and 1966, annual MAP appropriations were never less than \$1 billion. After 1966 MAP appropriations declined so sharply that DOD became concerned about its continued capability to achieve its MAP objectives and viewed the increased availability of excess defense articles resulting from the Vietnam conflict as a means of furnishing military assistance additional to that funded under the regular MAP.

DOD initiated a program in February 1968 to expand the use of excess defense articles in MAP beyond current- and prior-year approved programs to fill defined, unfunded MAP requirements<sup>1</sup> programed for 4 subsequent years plus shortfall requirements. The relationship of the expanded programs to previous programs was explained in the DOD and Department of State guidance to the field in March 1969, as follows:

\*\*\*\* [Excess defense articles] should \*\*\* be planned for use in support of the defined, unfunded requirements of MAP for the current year, 'budget year' and maximum of three subsequent program years, i.e.,

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<sup>1</sup>Those requirements approved by the unified commands but excluded from funding consideration by DOD.



1969-1973, as well as the defined shortfall requirements approved by the Unified Command. This greatly expanded availability of \*\*\* [excess defense articles] to MAP covering a five year span plus shortfall, should be compared with the prior system which combined \*\*\* [excess defense article stocks] only to meet the needs of prior and current fiscal year approved programs."

Later DOD further expanded the programs to authorize the articles' use for any conceivable requirements in MAP, even though such requirements had not previously been listed in any program.

The increase in the use of excess defense articles in MAP in relation to the sharp decline in MAP appropriations after 1967 is shown in figure 4. The figure shows a marked increase in excess programs beginning in fiscal year 1968, which continued until fiscal year 1971 when the Congress imposed a limitation of \$100 million, at one-third of acquisition cost, on excess defense articles that could be transferred in any fiscal year without charge to MAP. In 1972 the Congress increased the limitation to \$185 million at not less than one-third of acquisition cost.

DOD stated that the decline in MAP appropriations after 1966 and the increased availability of excess defense articles resulting from the Vietnam conflict were coincidental. It pointed out that the proper disposition of these articles would have been a monumental problem regardless of the availability of MAP appropriations. As we have stated, however, DOD viewed the increased availability of the articles as a means of offsetting reductions in MAP appropriations.

#### QUANTITIES OF EXCESS DEFENSE ARTICLES AVAILABLE NOW AND OUTLOOK FOR THE FUTURE

The acquisition cost of excess defense articles available in the supply system and in property disposal activities at the end of fiscal year 1971 was about \$17.8 billion, as shown in figure 5.

Not included in the figure are those articles which have or will become excess due to the phaseout of military operations in Vietnam but which have not yet been returned to the supply system or transferred to property disposal activity accounts. Also not

included are non-supply-system articles which may become excess to owning military organizations as a result of changes in equipment authorizations or equipment modernization programs.

## CONCLUSIONS

Our analysis indicated that excess defense articles were used to replace MAP funds which were deviated to meet higher priority requirements. This suggests to us that, with the increased availability of excess defense articles as a result of Vietnam troop withdrawals and other sources, such articles could be used to meet many future MAP requirements. In addition, congressional presentation documents do not provide the Congress with sufficient data to properly evaluate annual funding requests for MAP. Our specific recommendations on these matters are in chapter 2.

DOD believes that the peak of availability of Vietnam excesses has passed and that, because of the increased intensity of operations and consumption of materiel, the availability of usable articles for MAP requirements will be limited. Contrary to DOD's statement, excess defense articles continue to be available in large quantities. This is exemplified by the recent announcement to reduce the U.S. Army vehicle fleet by 25 percent. These vehicles could be used to satisfy valid MAP requirements and reduce funded programs.

DOD also stated that congressional presentations are continuously tailored to meet the needs and desires of the Congress; they do not stand alone as a means of meeting congressional information needs and are often supplemented by specific requests for information or clarification. DOD also stated that new planning procedures recently initiated would insure that executive branch requests for military assistance were based on hard requirements and were fully justified to the Congress.

**FIGURE 4**

**RELATIONSHIP OF THE USE OF EXCESS DEFENSE ARTICLES  
TO MAP APPROPRIATIONS**

BILLIONS OF DOLLARS

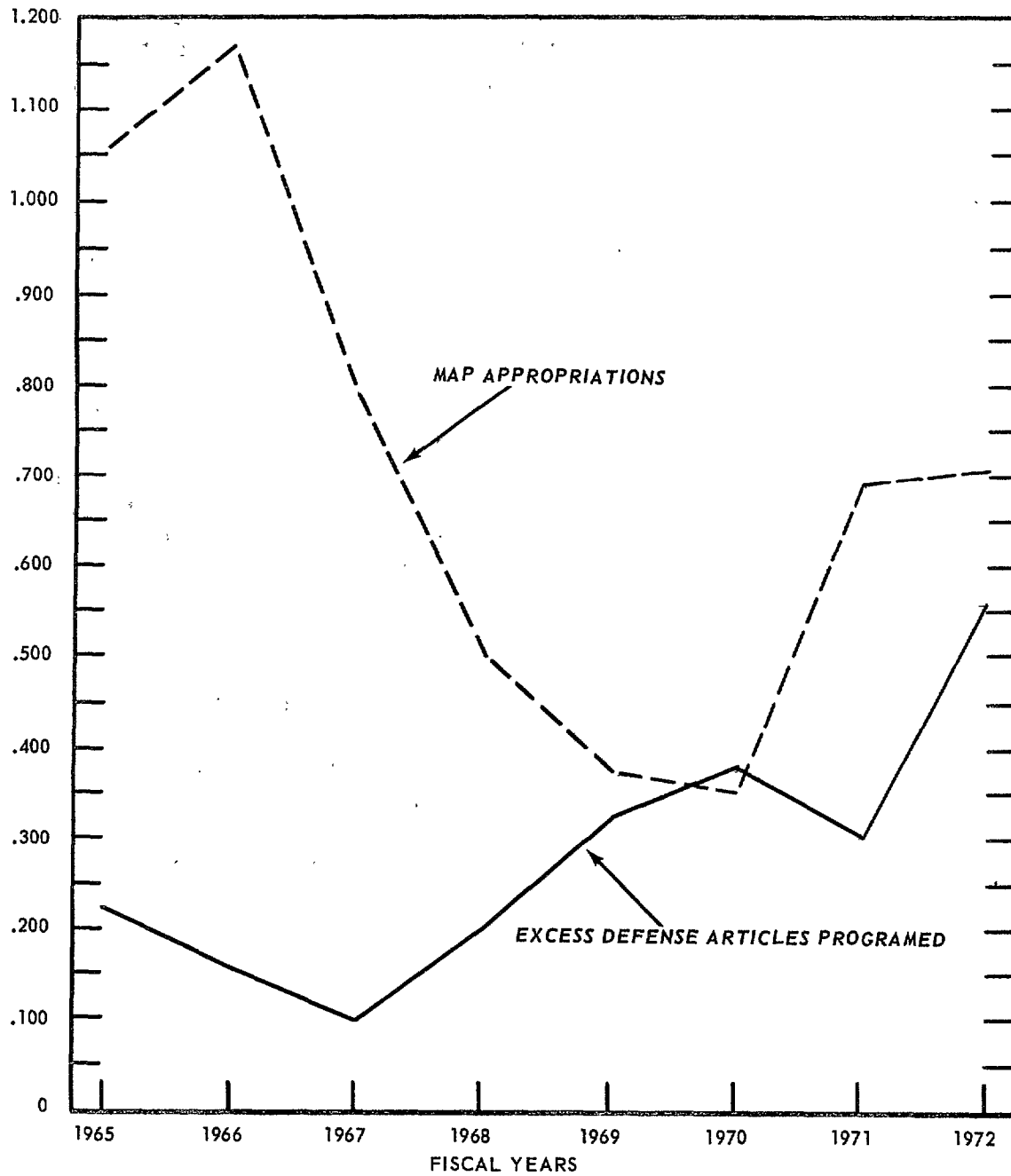
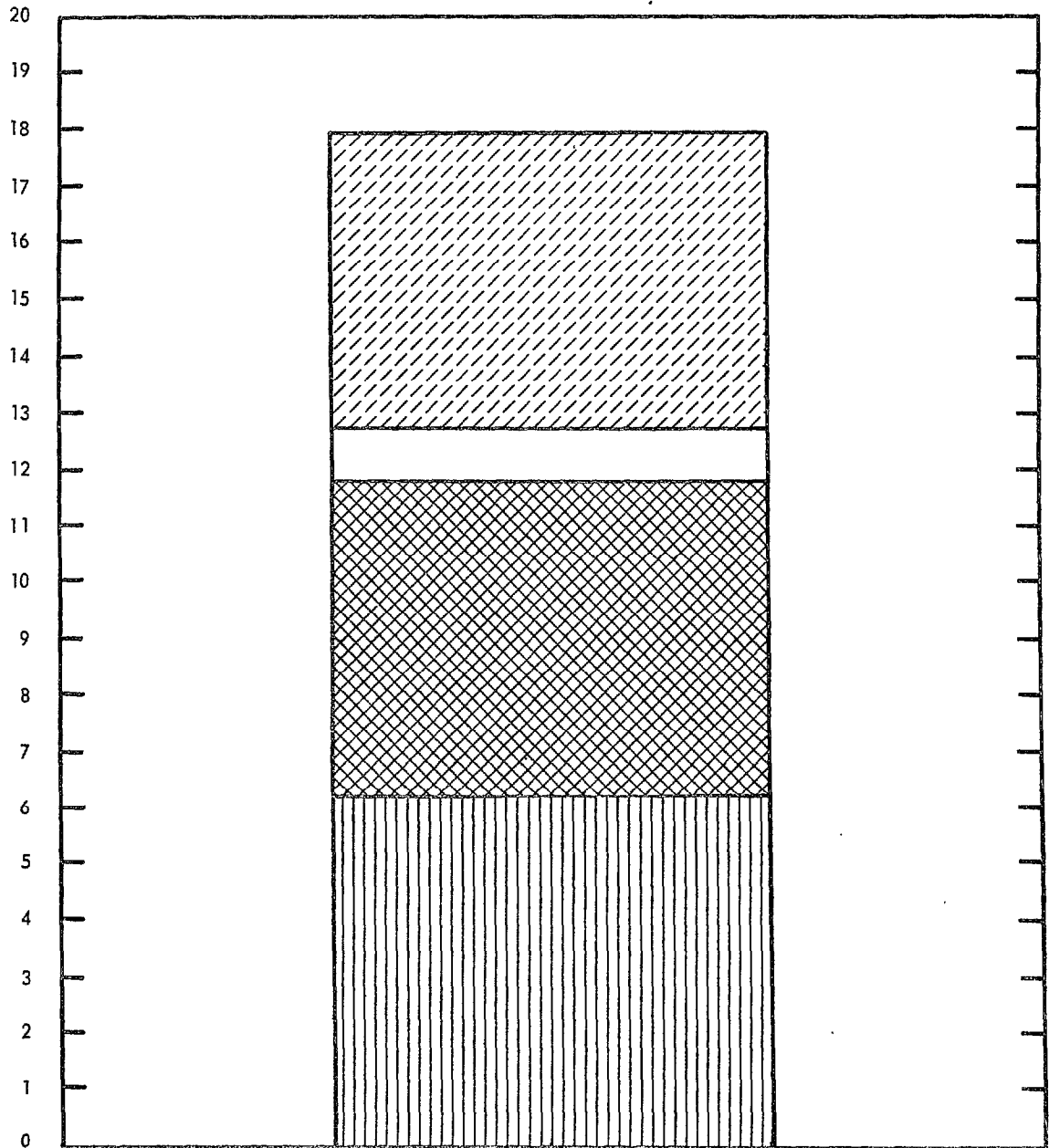






FIGURE 5

EXCESS DEFENSE ARTICLES AVAILABLE  
AT THE END OF FISCAL YEAR 1971

BILLIONS OF DOLLARS



-  SURPLUS
-  EXCESS
-  POTENTIAL DOD EXCESS
-  RETENTION STOCKS IN EXCESS OF MOBILIZATION RESERVE

Liaison Group and the volume of requisitions prepared by the Indonesians. As a result of inadequate requisitioning procedures, unneeded items were delivered to Indonesia. Examples are 200 pairs of snowshoes, 263 pairs of size 15 combat boots, and 1,000 cases of sunburn preventative.

The Indonesian Navy received over 75 percent of the excess secondary items supplied to Indonesia in fiscal year 1970 but did not issue any of the items to using units. Identified requirements did not exist for possibly as many as one-half of the items delivered. Since requisitions for excess items were filled on a first-come, first-served basis, the delivery of unneeded or marginally needed items to Indonesia may have deprived other MAP countries which had valid requirements for the items.

#### OTHER MILITARY-RELATED ASSISTANCE PROVIDED TO INDONESIA

In addition to providing excess articles and equipment to Indonesia, the United States provided military-related assistance to the Indonesian Armed Forces at no cost to MAP during fiscal years 1967-71. Included in this assistance were two landing craft and six minesweeper craft provided to the Indonesian Navy on a no-cost lease basis. These craft were provided in response to an Indonesian Government request for U.S. support of a "small boat" navy.

The U.S. Navy ship-leasing program generally does not require that recipient countries pay any direct lease cost, but several associated expenses for crew and fuel costs are normally the responsibility of the recipient countries. In Indonesia these associated costs totaled about \$245,000, but it could afford to pay only about \$100,000; the remainder was paid from MAP funds.

We noted that the minesweepers were not being provided to Indonesia on an "as is, where is" basis, contrary to the U.S. Navy ship-leasing program. Rather, the ships were to be overhauled in the United States prior to turnover and the cost of overhaul was to be paid from MAP funds. The Defense Liaison Group estimated that overhaul and turnover costs would amount to about \$1.2 million for the four minesweepers

Act of 1949. Under the act DOD is responsible for supervising the disposal of its foreign excess materiel, i.e., excess materiel located outside the United States, Puerto Rico, and the Virgin Islands. The General Services Administration has delegated to DOD the responsibility for the disposal of excess and surplus materiel generated by DOD.

The Defense Logistics Services Center is a field activity of the Defense Supply Agency responsible for managing the centralized operations of the DOD system for redistributing long-supply and excess assets among the military services, defense agencies, and qualified friendly governments.

Inventory control points (ICPs) are organizations in the DOD supply system having primary responsibility for the materiel management of a group of items for a particular service or for DOD as a whole.

DOD property disposal officers are accountable for the receipt, care, handling, and disposal of disposable materiel, which includes scrap and materiel which has been declared as excess, surplus, or foreign excess. Approximately 5,500 persons are directly engaged in DOD property disposal activities.

Each of these activities functions in utilization and disposal programs established by DOD to achieve maximum use of existing assets. The essential elements of these programs in the context of this report are identifying, screening, and disposing of long-supply, excess, and surplus assets.

#### DETERMINATION OF EXCESS

Materiel is determined as excess as follows:

- ICP-controlled materiel is materiel under the centralized control of an ICP for net requirements determination, redistribution, and declaration as excess, including, as appropriate, stocks in depots and bases and stocks in use which are subject to item transaction reporting to an ICP for item control. The ICP identifies those articles in excess of the mobilization reserve having a line item value of \$50 or more

on the basis of past, current, and future demands and reports them to the Defense Logistics Services Center for utilization screening among all DOD agencies. Those articles identified by the ICP as potential DOD excess which survive this screening become excess and are transferred to the property disposal officer for further processing and disposal. Articles having a line item of less than \$50 which the ICP determines to be no longer required are transferred to the property disposal officer without prior screening by the Defense Logistics Service Center.

- Non-ICP-controlled materiel which is no longer needed by the using organization or activity is transferred as "declared service/agency excess" to the property disposal officer without being reported to the Defense Logistics Services Center for utilization screening among DOD activities.

#### DETERMINATION OF SURPLUS

In general, materiel which has been transferred to the property disposal officer, including materiel which received prior screening as potential DOD excess, is again screened by the Defense Logistics Services Center for use by DOD activities, by eligible foreign governments under the Foreign Military Sales Act, and by the General Services Administration for eligible Federal agencies. Materiel which survives this screening becomes surplus and is disposed of by sale, donation, or other authorized means.

#### IMPLEMENTATION OF PROCEDURES

The supplying agencies were generally effective in implementing procedures for identifying excess defense articles, so most articles offered to MAP as excess appeared to be, in fact, excess. However, in some instances DOD guidance on implementing the expanded excess programs did not insure complete compliance with the provisions of the Foreign Assistance Act. Consequently, DOD may have provided articles to MAP recipients even though such articles did not qualify as excess.

DOD implementing procedures for providing secondary items (e.g., repair parts) to MAP on a nonreimbursable basis did not exclude items which became excess after being procured on the basis of MAP demands, even though such items do not qualify as excess defense articles as defined in the Foreign Assistance Act. At the Army Tank-Automotive Command, secondary items procured on the basis of MAP demands were included among items which could have been provided to MAP on a nonreimbursable basis. In recognition of this problem, in August 1970 the Army Materiel Command directed all its supply activities to hold MAP requisitions for excess secondary items which had been procured on the basis of MAP demands, pending clarification of policy. An official of the Tank-Automotive Command told us that the command could not implement these instructions because it was unable to identify those items which had been procured on the basis of MAP demands.

In April 1971 the Army Materiel Command notified its supply activities that, until it received guidance from the Office of the Secretary of Defense, Army policy was to process and fill all requisitions for excess articles but to continue to suspend requisitions for articles which are in long supply but not excess.

Since the Tank-Automotive Command could not identify those items which had been procured on the basis of MAP demands, regardless of whether they were later declared to be in long supply or in excess, it appears that the April 1971 guidance did not preclude the possibility of providing such assets at no cost to MAP.

Our review showed that articles had not always been screened for possible use by other DOD users before being offered to MAP and that some articles had been allocated to MAP as excess when they were not in excess of DOD requirements or when they did not appear to meet the criteria for excess under the Foreign Assistance Act. Following are some examples of the problems we observed.

--Because the Army Mobility Command received unclear instructions, it did not report excess articles to the Defense Logistics Services Center for screening until



after it had determined that they were not required in MAP. As a result, we found no command record that the Center had screened excess articles offered to MAP prior to April 1971 for use by other DOD agencies.

- Between October 1970 and March 1971, the Army Mobility Command submitted 440 offers of excess articles to MAP. According to the Center's records, the command reported only four of these offers for screening among all DOD users. In one instance the command allocated seven excess watercraft of various types, valued at about \$2.8 million, to MAP countries in December 1970, 2 months before it offered them to other DOD users.
- In January 1971 DOD allocated 28 excess observation aircraft in Vietnam, valued at more than \$1 million, to the Cambodia MAP at the request of the Commander in Chief, Pacific. The Army Aviation Systems Command did not participate in making this offer and was advised only that the aircraft were to be transferred to Cambodia as excess defense articles. We could find no record at the command to indicate that DOD had screened these aircraft before it allocated them.
- In 1969 the Army Weapons Command provided 8,000 M-14 rifles, with an acquisition cost of about \$1 million, to the Republic of China as excess that were not in excess of DOD requirements at the time of offer or at the time of shipment. Similarly, the command transferred 300,000 M-1 rifles, with an acquisition cost of about \$28 million, to Korea in 1969 as excess that were not in excess of DOD requirements at the time of offer or at the time of shipment. In both instances the command shipped the rifles to the MAP recipients on specific instructions from the Department of the Army after the command had stated that the rifles were not excess. Although both types of rifles are being phased out of the inventory, command records showed that a requirement will exist for them until they are entirely replaced by the newer M-16 rifle.

DOD stated that current procedures provide for positive DOD-wide screening before release of excess articles to fill unfunded MAP requirements. Army excess articles which are offered under these procedures are reported to the Center and the other military services and are withdrawn if required for U.S. Forces, foreign military sales, or funded MAP requirements.

### CONCLUSIONS

The problems in managing excess articles, in our opinion, were largely the result of shortcomings in the expanded MAP excess programs rather than the fault of the basic system for managing excess articles. We believe that our recommendations in chapter 2 on alternatives for the future use of excess articles in MAP would eliminate such problems.

## CHAPTER 5

### THE DECISIONMAKING PROCESS

#### IN PROVIDING EXCESS ARTICLES

In reviewing the decisionmaking process, we found that the validity of planning and programing procedures for excess defense articles was questionable because requirements were sometimes based on the availability of the articles rather than on actual need. As a result, excess articles were provided which could not be adequately maintained or used by the recipient countries. Also, because DOD had provided excess articles and other articles available at no cost for transfer against unfunded requirements rather than against requirements funded under MAP, DOD did not take advantage of opportunities for substantial MAP savings.

In chapter 3 we explained that legislation had authorized the nonreimbursable transfer of excess defense articles to MAP since the inception of foreign aid and that prior to 1968 DOD policy had authorized the use of such articles against the needs of prior- and current-year approved programs. From 1968 to 1971 excess defense articles could be used to fill the defined, unfunded MAP requirements of the current year and 4 subsequent program years. In 1969 DOD policy was further liberalized to authorize the transfer of potential DOD excess and excess articles to meet MAP requirements described as being beyond normal U.S.-supported levels of equipping and stockage.

DOD's intent to use excess articles as a means of providing military assistance in addition to that approved under the regular, funded MAP was evident from an implementing message to the field in 1968, in which the Secretary of Defense stated that the expanded excess programs would not be used to reduce unfunded country program levels.

"An offset to the reduced dollars available for Grant Aid requirements is the expanded utilization of excess materiel \*\*\*. In application of this policy \*\*\* decreases in the unfunded program years resulting from programming of excess assets will be compensated by equal increases within the same country program for approved

requirements which cannot be satisfied by excess materiel. This provision is specifically designed to motivate the use of excess stocks by eliminating the possibility that the unfunded country program level would be reduced by early application of the excess assets."

Department of State concurrence in the DOD expanded excess programs was indicated in a message to the ambassadors, in which the expanded availability of excess defense articles was described as a:

"\*\*\* major program with significant implications, domestic, and foreign, for overseas operations in the attainment of U.S. foreign policy objectives, including more effective support of military assistance programs."

On June 30, 1971, DOD issued a revised regulation which limited the nonreimbursable transfer of retention stocks in excess of the mobilization reserve to fill only "current deficiencies in formal U.S.-supported levels of equipping and stockage." Although this change ostensibly narrows the authorized limits of transfer, it appears to be relatively unimportant because future requirements can become current deficiencies by a simple reprogramming. Moreover, the new regulation continues to authorize use of potential DOD excess and excess articles, as constrained by congressional limitations, without reimbursement from MAP funds.

#### IMPLEMENTATION OF EXPANDED EXCESS PROGRAMS

Expanded excess programs were primarily intended to provide excess articles to MAP recipients on an "as is, where is" basis, without cost to MAP except for packing, crating, handling, and transporting costs.

In implementing the programs, the supplying activities list major excess articles, and DOD circulates the lists to the MAAGs which request allocation of excess articles on the basis of program requirements. DOD gives final approval and allocates the articles, and then DOD adds the articles to the

appropriate country programs and issues MAP orders to the supplying activities for the articles' release.

Control of excess programs for secondary items and repair parts is more decentralized than for major items. DOD distributes excess listings of secondary items to the MAAGs which submit requisitions for needed items to the supplying agency without prior DOD approval. The supplying agencies either fill or kill requisitions, depending on whether the items requisitioned are still in long supply. The cost of packing, crating, handling, and transporting both major and secondary items is chargeable to MAP or is paid for by the recipient country.

In addition to those described above, special procedures have been established for the transfer to MAP of major and secondary items in property disposal activities in the Pacific Command area--mainly in Vietnam and Okinawa. Under these procedures the MAAGs are responsible for screening the items to identify those which can be used by the military forces of their respective host countries. This screening is usually done by teams of MAAG and host country personnel which visit the disposal yards and physically examine and select the items. Items are sometimes selected from lists disseminated by the disposal activities without physical inspection by MAAG personnel. The Commander in Chief, Pacific, approves and authorizes release of items, except that DOD must approve release of items which have no defined MAP requirements.

#### PLANNING AND PROGRAMING

The MAAGs, in coordination with the recipient countries and subject to the approval of the unified commands and DOD, determine the equipment requirements for the military force structure which is to be supported with U.S. assistance.

The quantity of major equipment items that can be properly provided to a MAP country at a given time is calculated by subtracting the number of assets on hand from the number authorized. The indicated shortage is then increased by the number of assets expected to be lost through attrition and decreased by the number of assets already on order and due

in. This net requirement is generally referred to as the shortfall of the equipment item.

The quantity of secondary items, including repair parts, to be provided to a MAP country is computed differently because the number and variety of such items preclude the type of control exercised over major equipment items. However, DOD has prescribed procedures to insure that only needed secondary items are provided.

We selectively reviewed the validity of requirements for major equipment items and secondary items for which excess articles were programmed. In our opinion, the problems we observed raise doubt as to the effectiveness of procedures for planning and programming the articles and the extent to which use of the articles has contributed to the overall objectives of MAP.

In many instances, particularly in Turkey and Greece, we were unable to verify the validity of requirements for programming excess defense articles. One reason for this was that we were frequently not given access to basic authorization documents. In other cases, excess articles exceeding authorizations were provided and were being used for purposes different from those for which the articles were initially programmed. In still other cases, authorization data was completely lacking or was apparently inaccurate. Our difficulties in verifying the validity of requirements are illustrated by the following examples.

--In fiscal year 1971 four TF-102 aircraft with a total acquisition cost of \$5.8 million were provided to Turkey over the authorized quantity. Although these aircraft were programmed and delivered on the basis that they would be used to improve pilot training, a MAAG official told us that they were actually designated for future attrition because the MAAG believed that no more of these aircraft would become available.

--In 1970 DOD asked Headquarters, U.S. European Command, and the MAAG in Greece to establish a requirement for an excess HU-16C aircraft having a value of about half a million dollars. MAAG officials told us that the

aircraft was needed for (1) attrition for a squadron of HU-16B aircraft, (2) surface surveillance, (3) search and rescue, (4) squadron logistics, and (5) replacement pilot familiarization. They later told us that the aircraft was improperly configured for performing the squadron mission and could not be used for attrition. Finally the European Command advised us that the aircraft was actually being cannibalized for parts which were not available from Greek supply sources. The European Command stated that this practice is an accepted maintenance procedure and that replacements for parts removed by cannibalization are requisitioned from the supply system.

In our opinion, since this aircraft was incapable of performing the squadron mission, the validity of the requirement for which the aircraft was provided is questionable. We know of no procedures which would allow requisitioning aircraft for cannibalization.

--Allocation of excess trucks to Turkey and Greece did not appear to be made in accordance with relative needs. During fiscal year 1971, Greece and Turkey were allocated 5-ton and 2-1/2-ton cargo trucks as follows:

Item	Greece			Turkey		
	Shortage	Allocation	Shortage after allocation	Shortage	Allocation	Shortage after allocation
2-1/2-ton truck	-119 <sup>a</sup>	293	-412 <sup>a</sup>	24,535	291	24,244
5-ton truck	<u>226</u>	<u>100</u>	<u>126</u>	<u>3,331</u>	<u>102</u>	<u>3,229</u>
Total (net)	<u>107</u>	<u>393</u>	<u>-286<sup>a</sup></u>	<u>27,866</u>	<u>393</u>	<u>27,473</u>

<sup>a</sup>Indicates an overage rather than a shortage.

From the table it can be seen that, although Turkey had a vastly greater shortage of 2-1/2-ton and 5-ton trucks, Turkey and Greece received equal allocations.

Moreover, Greece was allocated 293 2-1/2-ton trucks although it had an overage of 119. After we completed our fieldwork in Turkey and Greece, DOD advised us that it corrected these allocations.

- The MAAG in Turkey used U.S. Army unit authorization data to justify requirements for Turkish Army units. Because of significant differences between United States and Turkish authorizations, we believe that the units were not sufficiently comparable to validate the Turkish requirements.
- Since fiscal year 1968 more than \$800,000 in excess vehicles and weapons were requested for the Greek Navy before the specific requirements were fully determined.
- Military equipment authorizations for the Republic of China in fiscal year 1971 included 3,853 cargo trailers for units which were not authorized to tow them.

We believe that the above examples indicate that requirements were being developed on the basis of the availability of excess defense articles rather than on the basis of valid needs. The basis for planning and programing such articles appears, therefore, to be questionable.

Our review also disclosed that unauthorized equipment had been provided because of overstated requirements. For example:

- 1,000 M-1 rifles were allocated to the National Guard Battalions in Greece, which were not normally supported with MAP materiel, before the need for the rifles in MAP-supported units had been determined. After we questioned the basis for this allocation, Greek Navy requirements were changed to reflect a requirement for the rifles and they were reallocated to fill the navy shortages.
- Shortfall requirements for seven divisions in the Republic of China in fiscal year 1971 were overstated by 3,180 vehicles having a total acquisition cost of



about \$14 million. This overstatement was the result of computing requirements on the basis of standard authorization quantities rather than actual needs.

- In the Republic of China, requirements for vehicles and weapons were overstated by approximately \$15 million because of the failure to consider assets produced in-country since December 1969.
  
- On the basis of an asset listing dated May 1971, the MAAG in Greece overstated requirements for 2-1/2-ton trucks and 5-ton tractors by 85 because it did not consider obsolete assets. European Command directives require the MAAGs to consider obsolete assets in requirements computations and to increase the supported authorizations for modern assets only as the obsolete assets are reduced by attrition. By failing to consider obsolete assets, the MAAG's control over modernization programs was weakened so that obsolete assets could continue in service, at unwarranted additional cost, after the total authorized quantity of the modern assets had been received.
  
- Procedures had not been established to provide for centralized review of secondary items being obtained by Korea from disposal activities in the Pacific area. As a result, selection teams were obtaining secondary items from property disposal operations when no valid requirement existed. For example, during our review the Korean Army received about \$3.4 million in excess engineering equipment from disposal operations. In reviewing 29 of the 1,122 line items received, we found that three line items totaling about \$80,000 had no requirement.
  
- In the Republic of China, we examined 15 secondary items for fiscal year 1971 for which excess requisitions amounting to about \$573,000 had been submitted. Excesses valued at about \$2.1 million had already accumulated because of failure to consider items generated by the cannibalization of major equipment items obtained under the excess program. Also in fiscal year 1971, the Republic of China Armed Forces spent

about \$3 million in the foreign military sales program for vehicle spare parts that were in excess of Republic of China Army requirements. In addition, we found instances where excess assets obtained from one source had not been considered in computing excess requirements to be obtained from another source.

DOD advised us that inadequate requirements calculations are neither unique to MAP nor a fault of the excess program per se. DOD stated that it is constantly working to tighten up such calculations and to take corrective actions whenever specific errors are found.

	<u>Quantity</u>	<u>Cost</u>
Funded items	3,690	\$28,254,330
Less excess and other nonfunded items	<u>-2,333</u>	-
Remaining funded requirement	<u>1,357</u>	<u>10,390,549</u>
Indicated saving		<u>\$17,863,781</u>

A detailed comparison of all items included in our analysis is shown in appendix IV. Only about \$16 million worth of the funded items reviewed had been delivered at the time of our review. It is thus possible that items programed at no cost to MAP could still be applied against undelivered, funded quantities of similar items for substantial savings in MAP funds.

We informed DOD of the possible savings. DOD stated that none of the items used in our analysis could be substituted for funded items because of differences in models and because some of them were, in reality, nonexcess items transferred to Korea under Public Law 91-652.

An Army Materiel Command official told us that the excess vehicles, which comprised many of the items in our analysis, actually had performance characteristics equal or superior to those of the same type in the funded program and were interchangeable in terms of their ability to perform the same missions. Notwithstanding DOD's position, we believe that, if the excess items we reviewed were economically repairable or serviceable, they should have been applied against the funded requirements. If they were neither serviceable nor economically repairable, we question the basis for programing them.

Some funded programs contained items which, according to DOD program records, were identical to those provided from excess stocks at no cost to MAP. An example of these were medium tractors programed in fiscal year 1971 at a cost of about \$1 million. Had excess items which were programed in the same fiscal year been applied against these requirements, a savings of \$571,000 might have been possible, as indicated below.

Tractor, Medium  
(Federal Stock Number 2410-5424432)

	<u>Republic of China</u>	<u>Greece</u>	<u>Turkey</u>	<u>Total</u>	<u>Funded cost</u>
Funded quantity	-	6	20	26	\$1,061,606
Excess quantity	12	1	1	<u>14</u>	
Indicated funded requirement (funded quantity less excess quantity)				<u>12</u>	
Indicated savings					\$ 571,634

We believe that all assets which are available at no cost to MAP, including those transferred to Korea under Public Law 91-652, should be applied against funded requirements whenever possible. Even excluding those transferred under Public Law 91-652, the indicated savings would have been approximately \$50 million.

DOD stated that it had previously examined all specific examples during our review and had found no support for our finding. As described above, previous discussion of our analysis with DOD provided no basis for revising our conclusions. Furthermore, DOD agreed, in principle, that excess defense articles should be provided against funded requirements when possible.

USE OF EXCESS DEFENSE ARTICLES  
BY RECIPIENT COUNTRIES

Although all four of the major MAP recipients of excess defense articles had repair and rebuild capabilities, they were not effectively using the articles in a number of instances due to repair parts supply and maintenance problems. Many of the problems resulted from delivering excess articles for future-year requirements before the recipient countries were physically prepared to receive them. We believe that most of these problems could have been avoided or minimized if the MAAG had provided more effective assistance to the host country.

We found that:

- The ability of the Republic of China to rebuild badly damaged excess equipment was noteworthy; however, there were instances of long delays in issuing equipment after it had been repaired. A total of 1,544 vehicles and weapons had been repaired and were available for issue but had not been issued as of March 5, 1971. More than 80 percent of this equipment had been ready for issue for periods ranging from 2 to 6 months.
- In 1970 the excess program provided 117 self-propelled howitzers with an acquisition cost of \$17.4 million to the Republic of China. At the time of our review--16 months after allocation of the howitzers and 13 months after receipt of the first shipment--none of the howitzers were combat ready because of missing repair parts. The MAAG and the Republic of China accepted these howitzers with the understanding that the Republic of China would pay for the necessary repair parts which were in short supply and that procurement leadtimes for critical parts would be about 18 months.

The Republic of China did not take timely supply action, nor did it provide sufficient funds to obtain the needed parts. Also the MAAG later authorized the cannibalization of three of these howitzers for repair parts. We believe that the MAAG did not take sufficient actions before and after the howitzers were accepted to insure that the Republic of China would provide adequate funds for their timely repair and that, as a result, three reparable howitzers were unnecessarily authorized for cannibalization.

- Late in 1969 Korea was allocated 1,867 reparable, excess 1/4-ton trucks. Apparently under the impression that repair parts were not available, the MAAG authorized the cannibalization of 300 of these trucks, having a total acquisition cost of \$600,000, to provide repair parts for the remaining trucks. This cannibalization was unnecessary because repair parts were available through normal supply channels. Similarly, the Korean Army planned to cannibalize 77 excess 2-1/2-ton trucks, which had a total acquisition cost

of about \$500,000, to obtain repair parts that were available through the cannibalization of older trucks being phased out of the Korean Army inventory. We believe that both of these situations resulted from the MAAG's not identifying alternative available sources of repair parts.

--Almost half of the \$2.4 million in excess engineering equipment received by the Korean Army in 1969 and 1970 from Pacific disposal activities was scrapped or salvaged after receipt because it was not reparable. Considering the size and weight of this equipment--which included tractors, 20-ton cranes, and compressors--we question whether the \$113,000 of cannibalized parts justified the transportation and other costs associated with the equipment.

(Classified material deleted.)

DOD stated that, although cannibalization is a legitimate purpose for the use of excess articles, it is a matter of judgment on a case-by-case basis that cannot be generalized or judged solely by U.S. standards.

### CONCLUSIONS

Because DOD policies have, in effect, created separate criteria for programing excess defense articles, the articles have been provided under MAP without sufficient planning and coordination with the recipient countries. Our recommendations for alternative uses of excess defense articles in MAP in the future, which are contained in chapter 2, should eliminate the conditions contributing to the problems.

Although DOD did not agree that our conclusion was supported by the facts presented in the chapter, we believe DOD provided insufficient information to justify a change in our position.

## CHAPTER 6

### VALUATION AND RECONDITIONING

#### OF EXCESS DEFENSE ARTICLES

The value of excess defense articles under the Foreign Assistance Act relates to the cost of reconditioning such articles rather than to their real worth to MAP. Most excess articles are provided to MAP recipients without repair or rehabilitation and thus have no value by definition under the law. Economically reparable excess articles can be restored to serviceable condition at a fraction of their acquisition cost, so use of such articles, as opposed to articles from new procurement, should be considered.

#### VALUATION

The Foreign Assistance Act defines the "value" of excess defense articles as the "gross cost incurred by the U.S. Government in repairing, rehabilitating, or modifying such articles." The act specifies that any U.S. Government agency which provides military assistance under the act shall be reimbursed for such assistance from MAP funds in the amount equal to the value of the assistance as defined in the act. Thus, excess defense articles for which the United States has incurred no repair, rehabilitation, or modification costs may be provided without reimbursement from MAP funds except for the costs of packing, crating, handling, and transportation.

Public Law 91-672, enacted in January 1971, defines the value of excess defense articles differently. Section 3 of this law provides that such value be considered an expenditure made from military assistance funds when the aggregate value of the articles ordered during any fiscal year exceeds \$100 million. "Value" in this sense is defined as not less than one-third of the acquisition cost of the articles.

Notwithstanding this definition, DOD has implemented the act by placing a value on excess articles at precisely one-third of their acquisition cost. In so doing, DOD has, in effect, interpreted "value" under the act to mean that all excess defense articles, regardless of their condition



or whether they are major or secondary items, are to be valued at no more than one-third of their acquisition cost.

In its MAP presentations to the Congress, DOD has variously expressed the value of the articles programed in MAP as the original cost or acquisition value; as utility value (a function of condition, service life, and intended use); and as legal value in the sense of Public Law 91-672.

For any defense article to have value to MAP, two conditions must be met: (1) a valid MAP requirement must exist for the article and (2) the article must be suitable, with or without repair, to fill a valid MAP requirement. We believe that there cannot be varying degrees of MAP requirements, in terms of MAP objectives. Although requirements may be filled in the order of their relative priorities depending on the availability of resources, a requirement exists or does not exist, according to its own quantifiable, military justification.

The cost of defense articles to MAP, as opposed to their value, is the amount actually charged to MAP appropriations. Thus, for nonexcess defense articles provided to MAP, monetary value and cost are the same; for excess defense articles and other nonreimbursable assets provided to MAP, original acquisition cost is not always a reflection of value. However, to establish a point of reference for identifying the magnitude of excess programs in congressional presentation documents, we believe value should be expressed in terms of acquisition cost.

DOD stated that the law is clear on evaluation of excess which is equated with cost to MAP and that this value is less than acquisition cost but is greater than average utility value or disposal value. It also pointed out that excess defense articles are a cost to MAP within the limits of Public Law 91-672. We believe that values used to establish MAP cost do not necessarily indicate the real worth of excess defense articles provided to MAP. For example, a serviceable excess article provided to MAP could avoid the cost of providing a similar article from new procurement. In this instance, the value of the excess article as interpreted by DOD under Public Law 91-672 would be only one-third

of its acquisition cost, even though the program value to MAP, in terms of procurement costs saved, would be the acquisition cost of the new article. Although we know of no way to define the true worth of excess articles to MAP, we believe that confusion arising from the various definitions of value might be avoided by distinguishing in program presentations between cost to MAP and the magnitude of the programs. In our opinion, this could be achieved by establishing magnitude in terms of acquisition cost.

### RECONDITIONING

Most of the excess articles supplied to MAP under the expanded excess programs were provided "as is," i.e., without repair, rebuild, or modification. In these cases, the recipient countries assumed responsibility for reconditioning. Some MAP countries, such as the Republic of China and Turkey, have extensive capabilities for this work. Pacific Command officials told us that one of the subsidiary objectives of the MAP excess programs in the Pacific area was to insure the maximum use of rebuild facilities, primarily in Taiwan, Korea, and the Philippines. As noted elsewhere in this report, however, problems in use of excess articles have occurred in some instances because of problems in repairing the articles. A recent DOD audit report stated that, as of April 30, 1971, the Korean Army automotive rebuild shop had accumulated a backlog of rebuild work which was more than it could complete within the next 12 months.

In some instances, the military service responsible for supplying the articles reconditions them, either at private contractor or government-owned facilities, prior to their delivery to a MAP recipient. When practicable, the recipient country assumes repair and rehabilitation costs. When this is not practicable, MAP reimburses the military service providing the reconditioning for the actual cost of repair and rehabilitation.

### RECONDITIONING COSTS VERSUS ACQUISITION COSTS

Another aspect of the reconditioning of excess articles is the possibility of savings by using economically reparable excess articles in MAP as opposed to providing the articles

from new procurement. This is illustrated by the fact that, prior to fiscal year 1968, DOD excess programs shown in congressional presentations of MAP included the funds needed to restore the excess articles to serviceable condition. The acquisition cost of the combined excess programs shown in presentation documents for fiscal years 1965, 1966, and 1967 was \$151 million, while the associated repair and rehabilitation cost programmed for these items was only \$34 million. Thus, for this period, the programmed cost of reconditioning articles for MAP was only about 23 percent of the acquisition cost of the articles. This comparison indicates, therefore, that four serviceable excess articles could be provided for the cost of one new article.

As explained in chapter 3, DOD expanded the use of excess articles to supplement the regular, funded programs. We believe that this policy is not conducive to reducing the cost of military assistance. In our opinion, a more effective and economical use of the articles could be achieved if they were applied to unfunded program requirements only when no funded, worldwide MAP requirements existed for the articles and if they were provided in serviceable condition. This would preclude the use of the articles until all funded requirements for similar articles had been satisfied.

Since economically reparable articles can be reconditioned at a fraction of their acquisition cost, the resulting savings, when applied against the funded program, could be used to restore additional excess articles to serviceable condition. Thus, as more excess articles were applied against the funded program, greater funds would become available to provide additional excess articles to fill valid, unfunded requirements. We believe restoring unserviceable articles at the expense of MAP would have a regulating effect on the use of the articles to fill unfunded requirements. Moreover, disclosing the planned and actual use of excess articles in MAP in relation to other types of assistance and defined materiel objectives, as we have suggested in chapter 5, would provide the Congress with greater visibility of MAP.

DOD believes that rehabilitating all excess articles at MAP expense would be retrogressive and would not result in major MAP savings. In chapter 2 we are recommending that the

delivery of unserviceable excess articles be authorized when certification is made that the recipient is capable of rehabilitating them. Given the availability of suitable articles to fill valid MAP requirements, we believe, as discussed above, that this certification, or rehabilitation at MAP expense, could result in savings to MAP.

## CHAPTER 7

### VIETNAM SURPLUSES

Vietnam surpluses are being generated through the re-deployment or inactivation of U.S. military units as a result of the reduction of U.S. combat operations and related military activities. At the time of our review in Vietnam, some of these surpluses were being provided to MAP countries but most were being provided to the Vietnamese Armed Forces.

GAO is reviewing the policies and procedures being applied in the phasedown of U.S. activities in Vietnam to identify logistical problems and to bring them promptly to the attention of DOD. Some of the information contained in the two reports issued thus far<sup>1</sup> is summarized as follows:

- Because of inadequate coordination among U.S. military services, some equipment needed by the Vietnamese Forces was returned to the United States.
- Because of ineffective screening procedures, repair parts and component items were issued to the Vietnamese Army which were required by the U.S. Forces in Vietnam.
- Until about mid-1970, procedures had not been established for screening Vietnamese requisitions against available in-country assets. As a result, requisitions were being submitted to the United States for items which were available as excess in Vietnam. Prior to November 1970 DOD had no provisions for Vietnam to requisition funded requirements from Pacific-wide excesses which were centrally managed by the Pacific Command.

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<sup>1</sup>"First Review of Phasedown of United States Military Activities in Vietnam" (Mar. 15, 1971, B-171579) and "Second Review of Phasedown of United States Military Activities in Vietnam" (Aug. 9, 1971, B-171579).

Almost all the articles becoming excess to the needs of the U.S. Forces in Vietnam were being made available to the Vietnamese Armed Forces. At the time of our review, therefore, only negligible quantities of serviceable or repairable unserviceable articles were being made available for redistribution to MAP countries under Pacific area excess programs. Pacific MAP countries were being given an opportunity, however, to obtain articles which had been transferred to property disposal activities as excess. These articles included (1) damaged equipment which was not economically repairable and (2) serviceable or economically repairable articles which were in excess of DOD worldwide needs or which were uneconomical to transfer from Vietnam.

The pattern of redistributing articles of withdrawing forces in Vietnam is illustrated in the following Department of the Army analysis of the disposal of eight types of equipment from July 10, 1970, through December 30, 1970.

<u>Item</u>	<u>Quantity available</u>	<u>Allocated to</u>				
		<u>U.S. Army Viet-nam</u>	<u>Other U.S. Army</u>	<u>Viet-nam Armed Forces</u>	<u>MAP (note a)</u>	<u>Sal-vage</u>
Grenade launchers	1,803	44	-	1,146	608	5
Fork lifts	54	46	1	7	-	-
1/4-ton trucks	1,031	630	-	292	-	109
2-1/2-ton trucks	1,235	261	17	914	34	9
3/4-ton trucks	948	171	-	751	-	26
Radio sets	2,539	562	27	1,874	76	-
Semitrailers	10	8	-	2	-	-
Night vision sight	<u>421</u>	<u>40</u>	<u>-</u>	<u>381</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>8,041</u></b>	<b><u>1,762</u></b>	<b><u>45</u></b>	<b><u>5,367</u></b>	<b><u>718</u></b>	<b><u>149</u></b>

<sup>a</sup>Represents equipment turned over to Cambodia, the highest priority MAP country.

PROPERTY DISPOSAL OPERATIONS

The U.S. Army Property Disposal Agency, Vietnam, is responsible for the receipt, storage, and disposal of all excess property generated in Vietnam by U.S. Forces, U.S. Government agencies, U.S. contractors, Free World Military Assistance Forces, and the Vietnamese Armed Forces.

Because of the magnitude of the property disposal operations, we did not attempt to quantify the stocks located in the various disposal yards. We identified the following distribution of military property from July 1969 through January 1971.

<u>Claimant</u>	<u>Amount</u>	<u>Percent</u>
MAP	\$21,543,268	39.1
Cambodia	\$ 738,506	
Republic of China	9,180,357	
Korea	10,153,592	
Philippines	<u>1,470,813</u>	
U.S. Forces	19,424,310	35.2
Other Federal agencies	5,092,904	9.2
Vietnamese Armed Forces	<u>9,069,350</u>	<u>16.5</u>
Total utilization	<u>\$55,129,832</u>	<u>100.0</u>

The table shows that, notwithstanding Cambodia's high priority, most of the property distributed to MAP countries during the period was provided to China and Korea.

(Classified material deleted.)

(Classified material deleted.)

### CONCLUSIONS

With the continuing phasedown of U.S. military activities in Vietnam, significant quantities of equipment and materiel will become available for redistribution. A relatively smaller proportion of this equipment will be transferred to U.S. units because of the declining level of U.S. Forces. Likewise, the basic requirements of the Vietnamese Armed Forces are almost satisfied, although the need to replace attrition losses--combat and other--will continue. It therefore appears that in the future larger quantities of equipment and materiel in Vietnam will, subject to U.S. requirements elsewhere, become available for possible redistribution to MAP countries.

DOD advised us that it had assigned Vietnamization logistics programs the highest priority for Vietnam excess materiel but that it had made some exceptions to satisfy critical, worldwide DOD shortages. The Vietnamization programs and retrograde of stocks from Vietnam have significantly reduced in-country stockage lists. DOD is currently emphasizing support for the remaining U.S. Forces and Vietnamese Forces, support for other Southeast Asia requirements, and removal from the area of all U.S. materiel for which there is no immediate need.



## CHAPTER 8

### INDONESIAN PARTICIPATION IN EXCESS PROGRAMS

(Classified material deleted.)

#### U.S. MILITARY ASSISTANCE OBJECTIVES FOR INDONESIA

The Indonesian MAP was resumed in April 1967 after the new Indonesian Government headed by President Suharto requested that the United States assist the armed forces in their civic action programs. Military assistance had been terminated in August 1965 because of the hostile attitude of the Sukarno regime. U.S. objectives in resuming military assistance were to encourage the military Government of Indonesia to pursue constructive and rational friendly relations with the United States and with Indonesia's Southeast Asian neighbors and to give tangible support to the use of Indonesian Armed Forces in civic rehabilitation efforts.

(Classified material deleted.)

During calendar year 1970, the Indonesian Government requested increased military assistance, including support for the internal security role of the Indonesian Armed Forces.

Articles requested included weapons; trucks and transport aircraft to move troops and supplies; communications equipment to permit reliable contact among the scattered islands; propeller-driven, close-support aircraft to assist troops in counterinsurgency operations; and patrol vessels to prevent sea infiltrations and to check smuggling.

On September 5, 1970, the President authorized the use of up to \$18 million of the funds available for military assistance during fiscal year 1971 for the grant of defense articles and services to Indonesia. The entire fiscal year 1970 program of \$5.8 million was to provide equipment, supplies, spare parts, and training for civic action projects; most of the fiscal year 1971 program related to internal security.

PROBLEMS IN INDONESIAN EXCESS PROGRAMS

(Classified material deleted.)

Defense Liaison Group records indicated that excess DOD equipment and materiel with an initial acquisition cost of about \$3 million had been provided to Indonesia during fiscal years 1969 and 1970 and the first 9 months of 1971.

Equipment items

(Classified material deleted.)

(Classified material deleted.)

We found only one significant problem--the delivery of 146 cargo trailers. Although they were purported to be in good condition, only about half of them were usable. The remainder will have to be cannibalized or scrapped.

#### Secondary items

Indonesia obtained secondary items with a value of about \$1.5 million under the excess programs. Indonesian participation in excess programs for secondary items declined in fiscal year 1971 because existing lists became outdated on July 30, 1970. Defense Liaison Group officials advised us that subsequent lists contained very few items that, in their opinion, could be reasonably used.

Indonesia received only a small portion of the secondary items requisitioned under the excess program during fiscal year 1970. In most instances the items were no longer available when the supply sources received the Indonesian requisitions.

Our review of selected requisitions revealed that requirements for items requisitioned were not based on historical demand data or on specifically identified requirements of MAP-supported Indonesian Armed Forces units. Rather, they were based largely on the Indonesians' judgment of need because of both the shortage of personnel at the Defense

## CHAPTER 4

### PROCEDURES USED IN DECLARING

#### WEAPONS AND EQUIPMENT AS EXCESS

DOD has a well-defined system for managing excess stocks, and the supplying agencies' overall implementation of the system has been generally adequate. However, we observed some problems in the operation of the system as it applied to the expanded programs for the use of excess articles in MAP, which appeared to be the result of shortcomings in the expanded programs rather than the fault of the basic system. We found that some articles which had been allocated to MAP as excess may not have been truly excess.

#### GENERATION OF EXCESS DEFENSE ARTICLES

Excess defense articles are generated through modernization of forces and changes in authorizations of articles to equip and sustain the approved forces. A recent DOD study of excesses generated by the Vietnam conflict stated that unavoidable excesses accrue because of unpredictable changes in policy, force deployment, expenditure rates, and enemy activity. The study also found that unavoidable excesses may occur because long leadtimes for requisitioning and procurement may cause articles to be delivered months after the requirements have been reduced or eliminated.

On the other hand, the study recognized that abnormal excesses had been generated by inadequate control over the movement of articles, lack of requisitioning discipline, and poor visibility of stocks on hand. In some instances, articles may be disposed of as excess due to their condition and location even though they are not in worldwide long supply, on the basis of the cost of packing, crating, handling, transporting, and rehabilitating such articles compared with the cost and leadtime for new procurement.

#### RESPONSIBILITIES FOR MANAGING EXCESS MATERIEL

The General Services Administration has overall responsibility for the disposal of excess and surplus property under the Federal Property and Administrative Services

scheduled for turnover in June 1971 and about \$600,000 for the two craft scheduled for turnover after the beginning of fiscal year 1972.

#### CONCLUSIONS

The procedures for secondary items were inadequate for insuring that the items provided were actually needed to satisfy valid requirements of the Indonesian Armed Forces.

The Defense Liaison Group advised us that since November 1970, when additional U.S. personnel were assigned to Indonesia, each requisition submitted by the Indonesians has been screened for need, applicability to MAP, quantity, cost, and correctness. We believe that, if the limitations of Indonesia's supply system are considered and if the requisitions are screened accordingly, such a review of each requisition should help prevent the delivery of unneeded items.

## CHAPTER 9

### LOANS AND LEASES

Defense articles, mainly nonexcess ships, were leased at no cost to foreign countries without congressional approval under a law which is not related to foreign assistance. We believe that such leases should be made under the Foreign Assistance Act which authorizes loans of defense articles to foreign countries and thus be subject to the purposes and restrictions of the act. In addition, we found significant discrepancies between in-country and DOD records as to the status of ships on loan and lease; in-country records did not accurately reflect how many ships and craft were actually on loan and lease. We attributed this condition to the lack of periodic reconciliation between in-country and DOD records and the absence of physical verification of ships' status. The lack of accurate records may detract from the MAAGs' capabilities to effectively monitor the use of such ships.

Loans of defense articles to foreign countries are authorized at the discretion of the President by the Foreign Assistance Act of 1961, as amended. Title 10, section 7307, United States Code, specifies, however, that no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register may be sold or otherwise transferred under any law after March 10, 1951, without the authority of the Congress.

Title 10, section 2667, United States Code, authorizes the Secretaries of the military departments to lease nonexcess property when it is determined to be in the public interest or will promote national defense. This section of the law, not related to foreign assistance, was enacted in 1947 to aid the industrial facilities standby program of the military services following World War II by authorizing the lease of defense plants and production equipment to private commercial interests.

Although the DOD Military Assistance Manual does not cite this law as a basis for military assistance, the Departments of the Army and Navy recognize it as authority to

transfer defense articles to foreign countries. For example, 111 ships of various types, still on the Naval Vessel Register, are currently on lease at no cost to foreign countries under this authority.

Thus, the authority under section 2667 appears redundant to the authority for loans in the Foreign Assistance Act, but leases so authorized are apparently not governed by any of the conditions imposed by that act or any other foreign assistance legislation.

We asked DOD why this section of the law, rather than the Foreign Assistance Act, was used as the authority to lease ships to foreign countries and were advised that DOD had done so since the mid-1950s after DOD and the Department of State had concluded that the law was sufficiently broad to authorize such transactions. DOD told us that the advantage of using this authority was that such leases could be made without reimbursement with MAP funds for the costs of the leases. Moreover, as additions to MAP-funded support, these leases were for low-priority requirements which would not otherwise have been filled.

None of the laws contain any limitation on the quantity or value of articles loaned or leased, although section 2667 specifies that the period of lease will usually be 5 years. It also states that the United States retains title to leased articles and may recall them for its own use at any time and that the lessee must provide maintenance, protection, repair, or restoration costs.

In implementing the laws relating to loans, DOD has established policies which generally conform to the conditions required by section 2667 for leases, in that loan agreements normally will (1) be of specified duration, (2) provide for return of equipment on short notice, and (3) require that the equipment be maintained in a fully serviceable condition in accordance with U.S. standards. MAP appropriations are required to reimburse the military departments for all costs associated with the loans. Loans may be considered appropriate when an article is no longer in production or is available only from service stocks, when MAP funds are limited, or when the recipient is confronted with unexpected

internal problems or external threats. Loans are required to be approved on a case-by-case basis at the Washington level.

SHIP LOANS AND LEASES

Since 1951 DOD has loaned a total of 90 ships pursuant to specific legislation, as required by section 7307. Of these, 16 were subsequently returned or scrapped. Of the remaining ships, 46 have been on loan for 10 or more years, as shown in the following table.

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u> <u>(note a)</u>
Quantity	1	5	5	2	3	2	14	10	4

<sup>a</sup>Delivered before August 1, 1961.

The table below shows the quantity of ships which, according to DOD records at the time of our review, were on loan or lease to the four countries listed.

<u>Country</u>	<u>Quantity</u>
Korea	37
Republic of China	23
Greece	8
Turkey	7

We attempted to verify the status of ships on loan or lease to these four countries but were unable to satisfactorily reconcile the data with in-country MAAG records. This is illustrated by the following in-country records of ships on loan to the Republic of China and Korea as of March 1971, compared with DOD data obtained at about the same time.



Quantity and source of records

Republic of  
China

	<u>Korea</u>		<u>Republic of China</u>	
	<u>MAAG</u>	<u>DOD Washington</u>	<u>MAAG</u>	<u>DOD Washington</u>
Destroyer	3	3	5	6
Destroyer escort	3	3	1	1
Auxiliary personnel carrier	1	1	-	1
Patrol frigate	1	4	-	-
Patrol escort	4	4	-	-
Minesweeper	3	3	-	-
Landing-ship tank	4	4	1	1
Landing-ship medium	11	9	-	-
Landing-craft re- pair ship	1	1	-	-
Light-cargo ship	3	3	-	-
Fuel, oil barge	1	1	-	-
Patrol craft	-	1	2	2
Landing-ship docks	-	-	1	1
Auxiliary tug fleet	-	-	1	1
Auxiliary oiler gasoline	-	-	1	1
Landing-craft util- ity	-	-	-	8
Auxiliary repair dry dock	-	-	-	<u>1</u>
Total	<u>35</u>	<u>37</u>	<u>12</u>	<u>23</u>

This comparison shows that MAAG records accounted for only about 78 percent of the ships which DOD records indicated were on loan. The actual quantity of ships on loan or lease cannot be determined without taking a detailed inventory. We are suggesting that DOD require the MAAGs to physically inspect the ships and reconcile the differences in their records.

Since 1954, 146 ships with an estimated total value of about \$173 million have been loaned to the Republic of China. The U.S. Embassy and the MAAG did not have effective procedures for recording and monitoring ship transfers so that, at the time of our review, 105 of the 146 ships, valued at

about \$3 million, could not be accounted for. MAAG records indicated that 12 ships were still on loan and that 21 had been either transferred or decommissioned. Of the remaining 113 ships, eight were reportedly transferred to the Republic of China, although no documentation of this transfer was available. There was no information on the other 105 ships.

We concluded that the transferred ships had not been monitored to insure that they were used consistently with Mutual Defense Treaty objectives and the terms of the loan agreements. This lack of control was evidenced by expired agreements; four agreements had expired in July 1967 but were not renewed until December 1970--about 3-1/2 years later.

We discussed these matters with the U.S. Ambassador to the Republic of China and with the Chief of the MAAG, who indicated their intent to strengthen the procedures for controlling assets transferred to the Republic of China.

In July 1971, subsequent to our work in the Republic of China, the U.S. Embassy provided us with a revised accounting of the 146 ships, which we believe represented a positive effort by the Embassy to reestablish controls. However, this accounting still could not be reconciled with the data we had obtained from DOD and raised a number of additional questions. For example:

- According to the Embassy, an auxiliary personnel carrier with an estimated acquisition cost of about \$8 million, which was previously loaned to the Republic of China, had been transferred to the Chinese Navy. DOD data showed this ship as still on loan. Subsequent DOD data we reviewed showed that the ship was approved for transfer to the Republic of China in 1966 as a MAP grant.
- The Embassy identified five patrol craft as still on loan, one of which was on an expired loan and had been scrapped. The Embassy stated that three of the five had been taken out of Chinese Navy service and had been provided to the Republic of China Ministry of Finance for customs patrol duty. DOD records indicated that only one patrol craft was still on loan to the Republic of China.

--The Embassy identified 97 various types of landing craft as on indefinite loan and believed to still be in service. Loaning items to foreign countries for indefinite periods is contrary to DOD policy.

Embassy records in Korea indicated that 36 ships had been loaned to that country since 1952 and that 35 were still on loan as of March 1971. We were unable to reconcile these quantities with ship status reports obtained from the MAAG, which showed 43 ships on loan.

MAAG records in Greece showed that as of March 1971 a total of 52 U.S. ships had been provided under MAP, but we were unable to determine from these records the method by which the ships had been transferred. MAAG records in Turkey showed that a U.S. ship originally costing \$2 million had been leased to Turkey in June 1970; DOD records did not show any leases of ships to Turkey.

#### LOANS OF OTHER TYPES OF DEFENSE ARTICLES

We found other types of defense articles were on loan, in addition to ships and craft. For example, about \$2 million worth of ground equipment was on loan to the Korean Armed Forces. We found instances in which the equipment had been returned in poor condition or lost. Moreover, although the loan agreements indicate the borrower must replace lost items, we found no instances in which the borrower had made any reimbursements.

#### CONCLUSIONS

While we believe that no-cost leases to foreign countries under section 2667 are not illegal in view of the broad provisions of that section, we found nothing in its legislative history to indicate that it would be used to provide foreign assistance. Since the Foreign Assistance Act provides the specific authority for this type of transaction, we believe that leases of defense articles to foreign countries should be made under that act and be subject to the restraints which it imposes on military assistance.

DOD needs to more effectively account for and monitor the use of defense articles, particularly ships, on loan and lease to foreign countries. In our opinion, the failure to fully account for ships on loan, as demonstrated in the case of the Republic of China, raises numerous questions concerning (1) the actual status of ships which, according to DOD records, are still on loan or lease, (2) the continuing validity of the need for such ships by the recipient countries, (3) the propriety of disposal procedures, and (4) the recipients' compliance with existing transfer agreements.

### RECOMMENDATIONS

We recommend that the Secretary of Defense direct that (1) existing records of ships on loan and lease be reconciled and verified by physical inspection and that the recipient countries' continued need for the ships be reviewed on a case-by-case basis and (2) such ships be inspected to insure that they are being adequately maintained and used and that, when ships have been returned or otherwise disposed of, appropriate reimbursement be made for loss or cost of repair and rehabilitation.

### MATTERS FOR CONSIDERATION BY THE COMMITTEE

To preclude providing defense articles to foreign countries under section 2667, we recommend that the Committee consider specifying in legislation that military assistance by grant, lease, loan, or other transfer be authorized only under the Foreign Assistance Act or successor legislation, except when another law expressly authorizes the transfer.

### DISCUSSIONS WITH AGENCY OFFICIALS

DOD acknowledged that Washington and in-country records differed but stated that the errors, with minor exceptions, were in embassy records. DOD conceded that, because of the age of the program and the fact that over 4,000 ships have been transferred, in-country accounting is difficult to maintain and is made more so by the transient nature of the embassy-MAAG communities. DOD stated, however, that no discrepancies exist for major articles, such as destroyers and submarines.

DOD stated that there is no legal requirement for monitoring ships, including those on loan and lease, transferred to foreign countries. The Defense Intelligence Agency maintains an "order of battle" on each country, in which it keeps the location, employment, and material condition of all ships. DOD agreed that the MAAGs should maintain unclassified records of loaned and leased ships and assured us that this would be done.

In our opinion, effective monitoring of ships on loan and lease requires not only maintaining a record of location, employment, and material condition but also verifying that this information reflects the ships' actual status. Moreover, we believe that the absence of a legal requirement for monitoring is not justification for not doing so. Ships on loan and lease are not excess and, as such, constitute part of the U.S. mobilization reserve. To insure that they are being adequately maintained and that the purposes for which such ships were provided are being served, DOD should maintain a reasonable degree of physical surveillance over the use of all ships on loan and lease to foreign countries, and in-country records, classified or unclassified, should be accurate and up to date to facilitate this monitoring.

DOD officials agreed that effective surveillance and review of the ship transfer program is necessary and said that DOD had initiated a program, with the cooperation of the Department of State, for the sale of ships whenever possible, including those now on loan and lease. The Navy has identified those ships on loan and lease which are no longer required to fill mobilization needs and, after seeking the advice of the Congress and with the support of the Department of State, will offer these for sale to recipient countries.

DOD stated that leases of ships at no cost to foreign countries under section 2667 are within the law. DOD emphasized that ships are leased at no cost to the United States and that the recipients pay all transfer costs and agree to maintain the ships. DOD officials believe that the precedent of a quarter of a century has established the propriety of such leases and that, because they involve no cost to the United States, there is no actual or implied circumvention of the Foreign Assistance Act.

DOD officials stated that the thrust of the ship transfer program is, and will continue to be, through sales. However, the use of section 2667 and the Foreign Assistance Act is necessary to provide program flexibility to best meet U.S. interests. We were told that the continued use of section 2667 is dictated by the following considerations.

1. The dependence of the inactivation schedule of U.S. ships on the Navy budget, new construction programs, and manning levels, which are factors that are impossible to determine far enough in advance to incorporate in congressional presentations with any accuracy.
2. The transfer of ships to non-MAP recipients.
3. The transfer of ships when the use of MAP funds to cover transfer costs is not desirable or necessary.
4. The future use of the law as a vehicle for quid pro quo assistance under treaties when MAP funding is not desired.
5. The ability to transfer ships as they become available to preclude the requirement for the Navy to pay prohibitive inactivation and storage costs.

Notwithstanding DOD's position, we question whether the lease of defense articles to foreign countries under section 2667 for any purpose is within the original purposes of the law regardless of a precedent of a quarter of a century. We also believe that, regardless of DOD's justifications, such leases constitute military assistance and should be provided under the Foreign Assistance Act and be subject to the restraints imposed by the act. It is our opinion, therefore, that the use of this section of the law to lease defense articles to foreign countries appears to be a circumvention of that act.

## CHAPTER 10

### TURNOVER OF U.S. EQUIPMENT TO KOREA

In July 1970 the United States informed Korea of plans to reduce the level of U.S. troop strength in Korea by about 20,000 personnel. To accomplish this reduction, it was necessary to redeploy and realign various U.S. military units. The major result of the reduction was the deactivation of the U.S. 7th Infantry Division and the redeployment of the 2d Infantry Division from its forward positions along a portion of the demilitarized zone to reserve positions formerly occupied by the 7th Division.

Public Law 91-652, dated January 5, 1971, authorized the President, until June 30, 1972, to transfer to Korea such U.S. military equipment and other materiel as he may determine, provided the materiel was located in Korea on July 1, 1970. The law does not (1) impose a limit on the amount or value of equipment to be turned over, (2) require that such materiel be in excess of the requirements of U.S. Forces in Korea, (3) specify that the United States be reimbursed for the materiel or that its value be applied against the funded MAP, or (4) require reports to the Congress on the amount and value of equipment turned over.

In March 1971 the Secretary of Defense implemented the provisions of Public Law 91-652 by authorizing the Secretary of the Army to transfer to Korea the equipment of withdrawing U.S. Forces which was in excess of U.S. residual force requirements. The Secretary of Defense also issued instructions which established procedures for programing materiel to be transferred and for accumulating value data. Prior to these instructions, equipment and materiel were loaned to and were being used by elements of the Korean Army, pending the official transfer of title.

DOD has estimated that the acquisition cost of articles to be transferred to Korea under this authority will be about \$195 million. The total acquisition cost of articles provided at the time of our review was about \$176 million. However, the congressional presentation of the fiscal year 1972 MAP for Korea did not take into account the articles expected

to be transferred or show how they would be coordinated with the appropriated funds being requested for that year.

(Classified material deleted.)

We were informed that, at the time title to the articles is actually transferred to the Korean Government, the MAAG will reduce the recorded shortfall requirements of the Korean Armed Forces.



## CHAPTER 11

### TRANSFER OF F-104 AIRCRAFT TO THE REPUBLIC OF CHINA

In November 1969 DOD approved the transfer of 22 model F-104 A/B aircraft to the Republic of China. These aircraft, which had a total acquisition cost of about \$40 million, were made available as excess defense articles at no cost to MAP. On December 20, 1969, the Senate rejected a bill to provide the Republic of China with a squadron of model F-4 aircraft. We reviewed this situation to determine the sequence of events and circumstances surrounding the transfer of the F-104 aircraft.

(Classified material deleted.)

(Classified material deleted.)

Both the United States and China have recently assigned top priority to improving China's air defenses, but efforts to accomplish this have been limited because of declining levels of U.S. grant aid.

Department of State records indicated that, as early as July 1968, China had requested that the United States provide a squadron of F-4 fighter aircraft. In December 1968 the U.S. Ambassador notified the President of the Republic of China that the United States was unable to comply with the request; the President asked that his request be reconsidered whenever the F-4s became available.

In late 1969 the House of Representatives added about \$55 million to the fiscal year 1970 foreign aid appropriations bill to provide a squadron of F-4s to the Republic of China. There was no evidence that the MAAG in the Republic of China had initiated a program requirement for these aircraft. An official of the MAAG informed us that the MAAG had not programmed the F-4s and had learned of the F-4 addition through the news media. On December 20, 1969, after considerable debate, the Senate rejected the F-4 addition.

According to U.S. Air Force records in Washington, the F-104s became available by a decision to inactivate the last Air Force F-104 A/B squadron as a part of a program to reduce fiscal year 1970 expenditures. Inventory records made after the inactivation revealed that no F-104 A/B aircraft remain in the Active U.S. Air Force inventory.

An Air Force official in Washington informed us that the F-104s being inactivated were one-of-a-kind aircraft modified specifically to counter the Cuban fighter threat and, as a consequence, were costly to maintain and operate. Moreover, due to onboard radar limitations and the lack of nuclear

weapons delivery capability, they were not considered suitable for use by either the Active Air Force or the Air Force Reserve components, in a U.S. air defense role. After considering the F-104s during its periodic status review of all aircraft, the Air Force staff determined them to be in excess of Air Force requirements.

The Chief of the Air Force Section of the MAAG in the Republic of China told us that the MAAG had become aware of the availability of the F-104s after a MAAG official visited Washington. During this visit the official learned that the F-104s were being phased out and were planned to be placed in storage; he communicated this information to the MAAG which then initiated the actions culminating in the transfer of the aircraft to the Republic of China. The decision to make these aircraft available to the Republic of China was made on October 24, 1969, almost 2 months before the Senate rejected the F-4 addition for the Republic of China.

According to DOD and Department of State records, the United States formally offered the F-104s to the Republic of China on December 8, 1969. On December 11, 1969, the Minister of National Defense of the Government of the Republic of China accepted the offer.

The Air Force Section Chief of the MAAG stated that the Chinese Air Force appeared to be a logical choice for the F-104s because it had a significant shortfall, it had maintenance capability and experience with this type of aircraft, and grant aid was insufficient to procure the F-5 aircraft. The Journal of Military Assistance also stated that these aircraft had a later and more powerful jet engine than the one which powered the F-104A aircraft that had been withdrawn earlier from the Republic of China.

In accepting the F-104 offer, the Minister of National Defense stated that the F-104s would replace one squadron of F-86 aircraft in the Chinese Air Force. He also reiterated China's need for F-4 aircraft and emphasized that acceptance of the F-104s and the requirement for F-4s were separate matters.

A DOD official stated that DOD had not included the F-104 requirement for the Republic of China in the

congressional presentation of the fiscal year 1970 MAP because, at the time that it had prepared the presentation, it had not anticipated the budgetary cuts which resulted in the subsequent availability of the excess F-104s.

J. W. FULBRIGHT, ARK., CHAIRMAN

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## United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, D.C. 20510

October 2, 1970

Mr. Elmer B. Staats  
Comptroller General of the  
United States  
441 G Street, N. W.  
Washington, D. C.

Dear Mr. Staats:

The Committee on Foreign Relations this year has been quite interested in the use of excess or surplus property in the military aid program. It would be appreciated if the General Accounting Office could initiate a study into certain aspects of this program for the Committee. I enclose a listing of some of the areas of particular interest to the Committee, although this listing should not be taken as a limitation on your staff if, in their opinion, other aspects of this program warrant investigation.

Norvill Jones of the Committee staff will be the person directly responsible for the study and I hope that members of your staff will feel free to contact him at any time concerning the investigation.

Sincerely yours,

*J. W. Fulbright*  
J. W. Fulbright  
Chairman

Enclosure

Selected Areas for Study

1. Procedures used in declaring weapons or equipment as excess -- history of the 1969 decision to give excess jets to Taiwan as a case study; difference, if any, between "surplus" and "excess" materiel.
2. Valuation -- how is it done and how accurate is it; reconditioning costs and their impact on the valuation process.
3. Scope of the excess property program -- number of personnel involved; storage centers; reconditioning units; quantities of weapons and materiel available now and the outlook for the future; etc.
4. The decision-making process in providing excess materiel -- policy review within the State and Defense Departments; the extent to which decisions are made in the field by MAAG units; selection of materiel at storage depots by foreign military people.
5. Historical data on the use of excess property in the MAP program -- where has the property gone; what was done with it before it was used in MAP?; alternative uses in the future, particularly its potential as a replacement for grant aid.

6. Reconditioning of excess materials -- where is it done; who pays and how; contracting and inspection procedures; use of other than MAP funds.

7. Vietnam surpluses -- how much is being left behind; what is being done with it; prospects for future availabilities from Southeast Asia.

9/28/70

NJ:mm

APPENDIX II

TOTAL VALUE OF MILITARY ASSISTANCE

FISCAL YEARS 1965-72

(Includes supporting assistance)

<u>Type of assistance</u>	<u>Value (billions)</u>	<u>Authority</u>
Excess defense articles	\$ 2.336	Foreign Assistance Act of 1961, as amended
Foreign military sales	11.913	Foreign Military Sales Act of 1968, as amended
Ship loans and leases	.276	Title 10, sections 2667 and 7307, United States Code, and Foreign Assistance Act of 1961, as amended
Commercial sales	3.399	Foreign Military Sales Act of 1968, as amended, and Mutual Security Act of 1954, as amended <sup>a</sup>
Grant military assistance	5.642	Foreign Assistance Act of 1961, as amended
Military assistance, service funded	14.554	Defense appropriation legislation
Transfer of assets to Korea	<u>.176</u> <sup>b</sup>	Special Foreign Assistance Act of 1971
Total	<u>\$38.296</u>	

<sup>a</sup>According to the Department of State, these two acts taken together provide authority for the U.S. Government to control all military export sales from the United States whether on a government-to-government or a commercial basis.

<sup>b</sup>As of March 15, 1972.



APPROVED FORCE QUANTITATIVE MATERIEL OBJECTIVES

Current fiscal year							Selected major items	Budget year											
Residual objective	Program							Residual objective	Program										
	Funded	Excess	Leases and loans	FMS <sup>a</sup>	Commercial sales	Local and third country assistance			Funded	Excess	Leases and loans	FMS <sup>a</sup>	Commercial sales	Local and third country assistance					
							Aircraft												
							Ships												
							General-purpose vehicles												
							Combat vehicles												
							Artillery												
							Small arms												
							Communication equipment												
							Construction equipment												
							Missile launcher sets												
							Missiles												

<sup>a</sup> Foreign military sales.

APPENDIX IV

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UNCLASSIFIED

COMPARISON OF EXCESS AND FUNDED PROGRAMS  
FOR SIMILAR ITEMS IN THE SAME FISCAL YEAR

Fiscal Year	Item description	Programed data			Requirements	Potential funds available for reallocation if excess items applied			Funded deliveries
		Source	Quantity	Cost		Funded quantity saved	Unit price	Funds available for re-allocation	
1971	Cargo carrier, FT M548	Excess	32	\$ -	32	-	\$ -	\$ -	\$ -
		Funded	36	1,152,792	4	32	32,022	1,024,704	-
1971	Self-propelled howitzer, 8-in. M110	Excess	34	-	34	-	-	-	-
		Funded	73	14,012,562	39	34	191,922	6,525,348	-
1971	1/4-ton truck, cargo	Excess	2,098	-	2,098	-	-	-	-
		Funded	415	936,578	-	415	2,144	936,578	\$ 893,698
1971	2-1/2-ton truck, cargo	Excess	2,333	-	2,333	-	-	-	-
		Funded	3,692	28,254,330	1,359	2,333	7,657	17,863,781	-
1971	5-ton truck, cargo	Excess	773	-	773	-	-	-	-
		Funded	112	1,646,826	-	112	14,558	1,646,826	-
1971	5-ton truck, dump	Excess	660	-	660	-	-	-	-
		Funded	108	1,577,448	-	108	14,606	1,577,448	-
1971	5-ton truck, tractor	Excess	1,113	-	1,113	-	-	-	-
		Funded	213	3,001,383	-	213	14,091	3,001,383	-
1971	5-ton truck, wrecker	Excess	65	-	65	-	-	-	-
		Funded	54	1,502,496	-	54	27,824	1,502,496	-
1971	Tractor, FT LS, medium	Excess	17	-	-	-	-	-	-
		Funded	127	5,185,537	110	17	40,831	694,127	-
1971	Recovery vehicle, full track, LT M518	Excess	7	-	7	-	-	-	-
		Funded	12	1,486,032	5	7	123,836	866,852	-
1971	Armored personnel carrier	Excess	239	-	239	-	-	-	-
		Funded	179	2,916,626	-	179	16,294	2,916,626	-
1971	Minesweeper, coastal	Excess	1	-	1	-	-	-	-
		Funded	2	10,000,000	1	1	5,000,000	5,000,000	-
1970	2-1/2-ton truck, cargo	Excess	4,630	-	4,630	-	-	-	-
		Funded	525	4,019,925	-	525	7,657	4,019,925	4,019,925
1969	2-1/2-ton truck, cargo	Excess	3,418	-	3,418	-	-	-	-
		Funded	401	2,399,647	-	401	7,657	2,399,647	2,399,647
1969	5-ton truck, cargo	Excess	292	-	292	-	-	-	-
		Funded	197	2,937,861	-	197	14,913	2,937,861	2,460,645
1969	5-ton truck, tractor	Excess	251	-	251	-	-	-	-
		Funded	32	445,292	-	32	14,091	445,292	445,292
1969	Helicopter, UH-1H w/av L-13	Excess	8	-	8	-	-	-	-
		Funded	22	5,604,596	14	8	255,365	2,042,920	5,604,596
Total				<u>\$87,079,931</u>			<u>\$55,301,814<sup>a</sup></u>	<u>\$15,823,803</u>	

<sup>a</sup>Includes transfer of items to Korea under Public Law 91-652, valued at \$4,909,038.



## DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, D. C. 20301

OCT 4 1972

In reply refer to:  
I-12338/72

Mr. Oye V. Stovall  
Director, International Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Stovall:

We have reviewed the GAO Draft Report, dated 3 August 1972, "Review of the Use of Excess Defense Articles and Other Resources to Supplement the Military Assistance Program" (OSD Case #3477). Comment on each of the major findings, conclusions and suggestions in the report (keyed to the page of the report on which they appear) are contained in the attachment to this letter.

Two aspects of the report merit special comment:

The report recommends major changes to the Congressional presentation of the Military Assistance Program. Balance might be added to the report if it included a definitive statement of the ongoing activity since the establishment of the Defense Security Assistance Agency in and between Defense, State, the Office of Management and Budget and concerned Congressional Committees to identify and respond to the information needs of the Congress.

The report also recommends Congressional control by legislation of program detail and item utilization of excess defense articles for military assistance. Again, balance would be added by a definitive statement of the legislative and management changes subsequent to the period covered by the report. It is essential to recognize that excess defense articles are not generated in order to benefit military assistance, but rather that military assistance provides a means for effective utilization of a small portion of excess defense articles generated. Passage of Section 8, P.L. 91-672, as amended already provides most of the recommended controls, and Defense is presently adopting the recommendation for applying excess defense articles against funded requirements where possible.

Comment on security classification of the report will be furnished separately.

APPENDIX V

In accordance with DoD Directive 5200.1, you are authorized to distribute the final report to appropriate Congressional Committees, individual members of Congress and Executive agencies.

It is requested that this reply be published in the appendix to the final report.

Sincerely,

A handwritten signature in black ink, appearing to read "Erich F. von Marbod". The signature is written in a cursive style with a large, sweeping flourish at the end.

Erich F. von Marbod  
Comptroller

Attachment  
a/s

BEST DOCUMENT AVAILABLE

ATTACHMENT  
29 SEPTEMBER 1972COMMENT BY THE DEPARTMENT OF DEFENSE  
ON THE GAO DRAFT REPORT, DATED 3 AUGUST 1972"REVIEW OF THE USE OF EXCESS DEFENSE ARTICLES AND OTHER  
RESOURCES TO SUPPLEMENT THE MILITARY ASSISTANCE PROGRAM"  
(OSD Case No. 3477)CHAPTER 11. Meaning of Excess Defense Articlesa. GAO FINDING AND CONCLUSION:

(U) Under DoD implementing regulations, the term "excess defense articles" and "DoD excesses" are not synonymous. As a result, most of the assets classified as excess defense articles are not excess to DoD inventory retention requirements. In view of the ambiguity of the definitions of excess defense articles, GAO believes the Committee may want to consider redefining the term in foreign assistance legislation. (pgs 10-14)

COMMENT: (U) Department of Defense finds no ambiguity of definition of excess defense articles. There is only one definition (in the Foreign Assistance Act of 1961 as amended) and it is clearly and consistently applied in various DoD issuances. Department of Defense supports current policy with regard to transfer of excess defense articles to the Military Assistance Program as stated in DODD 4100.37, "Retention and Transfer of Materiel Assets", as modified by the provisions of Section 8, P.L. 91-672, as amended.

b. GAO FINDING AND CONCLUSION:

(U) Department of Defense considers these assets (retention stocks, potential DoD excess and excess and surplus) available to satisfy MAP requirements at no cost to MAP. (pg 14)

COMMENT: (U) The Department of Defense does not consider all excess defense articles available to satisfy MAP requirements at no cost to the MAP. There are many commodities included in these assets that have no application in the MAP or which Department of Defense has no intention of transferring. Examples of these are commercial consumables, scrap metals, ammunition of many types, and major components (radars, guns turrets, etc.) applicable to ships and aircraft which are not in the MAP inventory. The \$13.3 billion in excess defense articles represent a limited source of materiel for the Military Assistance Program.

## APPENDIX V

### CHAPTER 2

#### 1. Summary of GAO Observations and Conclusions

a. COMMENT: (U) The Department of Defense comments are provided under the Chapter headings containing the detailed GAO observations and conclusions.

b. GAO RECOMMENDATIONS:

(U) The Secretary of Defense should direct a review of funded, undelivered program requirements to determine extent to which they could be satisfied by excess assets giving consideration to economically reparable unserviceable assets. Results should be identified in subsequent Congressional presentations. (pg 17)

COMMENT: (U) The Department of Defense concurs.

#### 2. Matters for Consideration by the Committee

a.

b.

(See GAO note 1, p. 101.)

c. GAO SUGGESTION:

(U) GAO suggest that DoD take advantage of in-country repair capabilities and deliver economically reparable unserviceable assets for repair by the MAP recipient. (pg 18)

COMMENT: (U) This has been DoD policy since FY 1969 when the MIMEX/SIMEX systems were initiated. About 90% of all excess defense articles provided under MAP is furnished in an "as is" condition with the recipient country assuming responsibility for repair and rehabilitation. Exceptions in which items are repaired at MAP expense are made only where determined necessary in the best interests of both the recipient and the U.S. Certification of ability on the part of the recipient to make repairs on a timely basis, as well as to utilize the material effectively, is by directive inherent to acceptance of material in an "as is" condition.

3. Discussions with Agency Officials

a.

(See GAO note 1, p. 101.)

b. GAO FINDING:

(U) GAO found that steps taken by DoD to constrain the use of excess materiel were designed to improve programming procedures and included advance programming of excess assets. (pg 18c)

COMMENT: (U) The latest Department of Defense directive on this subject established new policy relating to programming excesses against country requirements. It does not provide new procedures to improve the program. It is intended to constrain the use of excess materiel to the extent necessary to insure judicious use and where possible as a substitute for funded MAP.

c. GAO CONCLUSION:

(U) GAO concluded that the new procedures refine planning and programming procedures for only certain defined categories of requirements and should be applied to all excess defense article requirements. Moreover, Congress would have no more foreknowledge than it has under current procedures. (pg 18d)

COMMENT: (U) The revised requirements base applies to all excess defense articles. Provisions of all categories of excess will be limited to this base. As we continue to improve the requirements base as well as our forecast of availability, we will be better able to portray our use of excess to the Congress.

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d. GAO SUGGESTION:

(U) GAO suggests that unserviceable assets should be delivered only after certification of the recipients ability to rehabilitate and place them in service. (pg 18e)

COMMENT: (U) Certification of utility is, by specific directive, implicit in accepting excess, as indeed it is for all military assistance.

### CHAPTER 3

#### 1. Historical Data, Current Availability and Outlook for the Future

a. GAO FINDING:

(U) GAO, in reviewing historical use of excess defense articles in MAP, found that presentation documents to Congress did not always disclose the magnitude of excess defense articles and other military assistance planned for foreign countries. (pg 19)

COMMENT: (U) The comment suggests deliberate withholding of planning data from the Congress. The Congressional presentation document is continuously tailored to meet the needs and desires of Congress. It does not stand alone as the sole means of meeting Congressional needs for information and is often supplemented by specific requests for information or clarification.

#### 2. Historical Data of the Use of EDA in MAP

a. FIGURE 2. EDA Inventories Available to MAP (pg 21)

COMMENT: (U) Although the figures represented in the chart on page 21 are correct, we do not feel that the associated remarks (pg 20) are a proper presentation of excess articles available to MAP. Most of the articles in excess inventory are not usable for MAP because they are of a type which are not furnished as grant aid or they do not match a preestablished requirement.

b. FIGURE 3. Excess Defense Articles Programs in MAP (pg 23)

COMMENT: (U) We do not feel that the chart and associated remarks (pgs 22 & 24) are factual. The country pages of the Congressional Presentation Document (CPD) have always contained data on excess defense articles including program estimates for the budget and current years, actual programs for the prior year, undelivered balances and deliveries scheduled during the budget year. The Facts Book an unclassified supplement to the CPD, has shown cumulative deliveries of excess by country since its inception in 1964. In addition this data is carried by country in the White Book i.e., the backup data to the CPD.



c. GAO SUGGESTION:

(U) GAO believes analysis of FY 1965 MAP shows how use of excess can increase military assistance and reduce MAP cost.

COMMENT: (U) We feel the conclusions are invalid. The report states that a reduction of \$88 million in the funded programs for Korea, Republic of China, Greece and Turkey was satisfied by an increase of \$92 million in authorized excess programs. This suggests a direct substitution of excess for funded programs without an examination of the composition of the two programs.

d. GAO FINDING:

(U) GAO feels appendix III reflects the spectrum of data needed by Congress to evaluate annual MAP appropriations requests in relation to all types of military assistance. (pg 27)

COMMENT: (U) The array suggested by GAO in Appendix III reflects an effort to compile information relating to areas outside the cognizance of Defense at a level of detail beyond the administrative resources of the elements charged with administration of the Military Assistance and Military Sales Programs.

3. Expansion of the Use of Excess Defense Articles in MAPa. FIGURE 3a. Relationship of the Use of Excess Defense Articles to MAP Appropriations (pg 29)

COMMENT: (U) We do not feel that the chart and its related comment (pgs 27 & 28) arrive at a valid conclusion. The decline in MAP appropriations after 1966 and the increased availability of excess defense articles resulting from the Vietnam conflict were coincidental. The proper disposition of these excesses would have been a monumental problem regardless of the availability of MAP appropriations.

4. GAO CONCLUSIONS

a. (U) The GAO concludes that, with the increased availability of excess defense articles as a result of Vietnam troop withdrawals, it may be possible to use such assets to meet many future MAP requirements. (pg 32)

COMMENT: (U) The Department of Defense will continue its efforts toward proper disposition of Vietnam excesses including their application toward valid MAP requirements. We believe however, that the peak of such

## APPENDIX V

availability passed within the last calendar year. Because of the increased intensity of operations and the consumption of materiel, the availability of usable items for MAP requirements will be limited.

### b. GAO CONCLUSION:

(U) The GAO concludes that Congressional presentation documents do not appear to provide Congress with sufficient data to properly evaluate annual funding requests for MAP.

COMMENT: (U) We disagree with the conclusion as noted in our comments above.

### CHAPTER 4

(See GAO note 1, p. 101.)

### 2. GAO CONCLUSIONS:

a. (U) The GAO concluded that in some instances assets allocated to MAP as excess may not have been truly excess stock. (pg 41)

(See GAO note 1, p. 101.)

### CHAPTER 5

#### 1. The Decision Making Process in Providing Excess Materiel

(See GAO note 1, p. 101.)

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b. GAO FINDING:

(U) The report notes (pg 44) that the cost of packing, crating, handling and transportation are chargeable to MAP.

COMMENT: (U) The report should state that these costs may be charged to MAP. In numerous instances the recipient country pays some or all of these costs.

2. Planning and Programminga. GAO FINDING:

GAO found that allocation of excess trucks to Turkey and Greece did not appear to be made in accordance with relative needs. (pg 47)

COMMENT: (U) The possibility of inequitable allocations, as described, was identified and corrected in September 1971. The tabular materiel is outdated.

b. GAO FINDING:

The report cites instances where requirements are not properly calculated and items are ordered from one source without considering other sources. (pgs 49 thru 50)

COMMENT: (U) This problem is not unique to MAP and is not a fault of the excess program per se. It should not be so represented in the reports. Nevertheless, we are constantly working to tighten up requirements calculations and taking corrective actions wherever specific errors are found.

3. Need to Apply Excess Defense Articles Against Funded Requirements.a. GAO FINDING:

The GAO review of selected categories of major items found that \$55 million in funded item costs might have been saved by applying similar items which were programmed at no cost to MAP as excess or by special authority under P.L. 91-652. (pgs 50 thru 52a)

COMMENT: (U) The findings are incorrect. All specific examples offered by the auditors during the review were examined and no case was found to support the finding. The auditors were shown how they had failed to consider all pertinent facts.

4. Utilization of Excess Defense Articles by Recipient Countriesa. GAO FINDING:

(U) The GAO found that excess materiel was not being effectively utilized due to supply and maintenance problems caused by delivery before the recipient was physically prepared to receive the excess. (pg 53)

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COMMENT: (U) The report does not recognize the fact that excess assets must be taken when available. It is inevitable that delay in repair and return to utilization will occur. It usually is not possible to determine what specific work and parts will be needed before receipt and inspection of the materiel in-country. Thus, the incidents cited do not necessarily reflect short comings. Nevertheless we are constantly striving to make judgments based on all available information, and taking corrective action wherever specific cases warrant.

### b. GAO FINDING:

GAO is critical of several instances of cannibalization. (pg 54)

COMMENT: (U) Cannibalization, when authorized, is a legitimate purpose for the use of excess. It is often more economical to both the U.S. and the recipient country than acquisition of spare parts through the supply system. This is a matter of judgment on a case-by-case basis that cannot be generalized nor judged solely by U.S. standards. See preceding comment.

### 5. GAO CONCLUSION:

a. (U) GAO concludes that DoD policies have led to the introduction of excess materiel without sufficient planning and adequate coordination with the recipient country. (pg 56)

COMMENT: (U) As noted above, we do not agree that the conclusion is supported by the facts presented.

## CHAPTER 6

### 1. Valuation and Reconditioning of Excess Defense Articles (pgs 57 thru 61a)

a. COMMENT: (U) We view the theme of the GAO argument in this entire chapter as invalid. The law is clear on valuation of excess which is equated with cost to MAP. This value is less than "acquisition cost", but it is also greater than "average utility value" or "disposal value". Excess defense articles are a cost to MAP within the limits of Section 8, P.L. 91-672, as amended. The Department of Defense is making continuous efforts to identify the availability of excess, to program its rehabilitation and use, and to keep the Congress informed. GAO proposals for rehabilitation of all excess at MAP expense is retrogressive. The suggestion of major savings of MAP appropriated funds are delusive.

## CHAPTER 7

### 1. GAO CONCLUSION:

a. (U) GAO concludes that in the future larger quantities of materiel in Vietnam will become available for redistribution to MAP countries. (pg 65)

COMMENT: (C) Since January 1971, there has been a great deal of activity in the Pacific Command which has caused the retrograde of materiel

from Vietnam concurrently with troop reductions. Vietnamization Logistics Programs have been assigned the highest redistribution priorities while exceptions have been made to satisfy critical DoD shortages worldwide. USARV depot stocks have been attrited so that only one depot location remains, and it is on its way down to general support status. Military Assistance Program requirements are reviewed at the Pacific Utilization and Redistribution Agency to ascertain availability from PACOM excesses. The Vietnam Retrograde Program is on schedule with the redistribution of contractor excesses as the only remaining major challenge. Concurrently, with retrograde and Vietnamization Logistics the Army has significantly reduced in-country stockage lists to accommodate the greatly reduced U.S. combat force and has instituted direct support operations which are eliminating the need for in-country depot stockage. Current emphasis is being placed on responsive direct support for remaining U.S. Forces, balanced support for RVNAF Forces, priority support for other SouthEast Asia requirements and the removal from SEA of all U.S. materiel for which there is no immediate need.

#### CHAPTER 8

##### 1. GAO Conclusion:

a. (U) GAO concluded that the procedures for secondary items were inadequate to ensure the materiel was actually needed. (pgs 66 thru 71)

COMMENT: (U) This condition has been corrected since November 1970. Additional U.S. personnel were assigned to Indonesia and requisitions are now screened for need.

#### CHAPTER 9

##### 1. GAO CONCLUSION:

a. (U) GAO concluded that leases of defense articles to foreign countries under Section 2667 are improper, and are circumventions of the restraints imposed on military assistance by the Foreign Assistance Act. (pg 79)

COMMENT: (U) We do not find anything in the report which supports this conclusion. As the report notes, the primary emphasis on ship transfers is by sale. For many reasons a sale is not always possible or desirable and transfer by loan or lease is indicated. In these instances complementary laws - not redundant ones - permit program flexibility to best meet U.S. interests.

##### b. (U) GAO CONCLUSION:

(U) GAO concluded there is a need for DoD to more effectively account for and monitor the use of defense materiel, particularly ships, on loan to foreign countries. (pg 79)

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COMMENT: (U) DoD concurs. The Office of Chief of Naval Operations is responsible to account for all ships and craft whether on lease or loan. This office also is responsible for compliance with terms of ship leases while Department of State is responsible for compliance with conditions of ship loans. Specific examples have not been commented on because GAQ is currently performing a detailed audit in this area.

### 2. GAO Recommendations:

a. (U) GAO recommends that the Secretary of Defense direct that existing records of ships on loan and lease be reconciled and verified by physical inspection and that their continued need by the recipient country be reviewed on a case-by-case basis. (pg 80)

COMMENT: (U) The Department of Defense concurs in principle with the need for reconciliation of records and verification of use. Reconciliation of the records of MAAG China with those of Chief of Naval Operations is essentially complete. Additional action necessary will be identified during the ongoing detailed audit relating to ship transfers.

b. (U) GAO recommends that the Secretary of Defense cause such vessels to be inspected to insure that they are being adequately maintained and properly utilized and where vessels have been returned or otherwise disposed of that appropriate reimbursement was made for loss or cost of repair and rehabilitation.

COMMENT: (U) The Department of Defense concurs in principle. As noted in 1 b. above, the Office of Chief of Naval Operations is responsible for compliance with terms of ship leases while Department of State is responsible for compliance with conditions of ship loans. The report cites no specific instances requiring reimbursement for loss or repair and rehabilitation.

c. (U) GAO recommends that the Committee consider specifying in Foreign Assistance legislation that, notwithstanding any other law, military assistance to foreign countries by Grant, lease, loan or other transfer, is authorized only under the Foreign Assistance Act or successor legislation. (pg 80)

COMMENT: (U) As noted in a. above, the Department of Defense does not believe that the report findings support the conclusion or recommendation.

## CHAPTER 10

### 1. Turnover of U.S. Equipment of Korea (pgs 81 through 83)

(U) The report does not draw any conclusions or make recommendations. DoD has no comment.

## CHAPTER 11

### 1. Transfer of F-104 Aircraft to the Republic of China

(U) The report does not draw any conclusions or make recommendations. DoD has no comment.

## GAO notes:

1. Deleted comments pertain to material presented in the draft report which has been revised or which has not been included in the final report.
2. Page number references in this appendix refer to pages of the draft report and may not be the same in the final report.
3. DOD deleted this comment in separate correspondence and substituted the following.

"Comment: Current DOD procedures provide for a positive Defense-wide screen prior to release of property (MIMEX) to unfunded MAP requirements. Army assets offered to MIMEX are concurrently reported to the Defense Logistics Services Center(DLSC) and other military services. These assets are then held until the expiration of the DLSC purge date (date assets are released IAW DoD 4140.34M). Any assets identified as required for U.S. Forces, Foreign Military Sales of funded MAP requirements are withdrawn from MIMEX."



DEPARTMENT OF STATE

Washington, D.C. 20520

October 11, 1972

Mr. Oye V. Stovall  
Director, International Division  
U.S. General Accounting Office  
Washington, D. C.

Dear Mr. Stovall:

We have reviewed the GAO draft report dated 3 August 1972, entitled "Review of the Use of Excess Defense Articles and Other Resources to Supplement the Military Assistance Program." Since this program is primarily a responsibility of the Department of Defense for management, and since the report addresses itself primarily to that management effort, these comments are limited.

The State Department considers the Excess Defense Article Program an important and valuable element of the overall Military Assistance Program. We are prepared to cooperate with the Department of Defense to improve it as needed. In this regard, it should be noted that the State Department is a member of the Control Group and the MIMEX offers are cleared with the State Department before final commitments of the articles are made.

The Security Classification editing by the Defense Department has been reviewed and we concur with the changes therein made.

Sincerely,

A handwritten signature in cursive script that reads "Richard W. Murray".  
Richard W. Murray  
Deputy Assistant Secretary  
for Budget and Finance