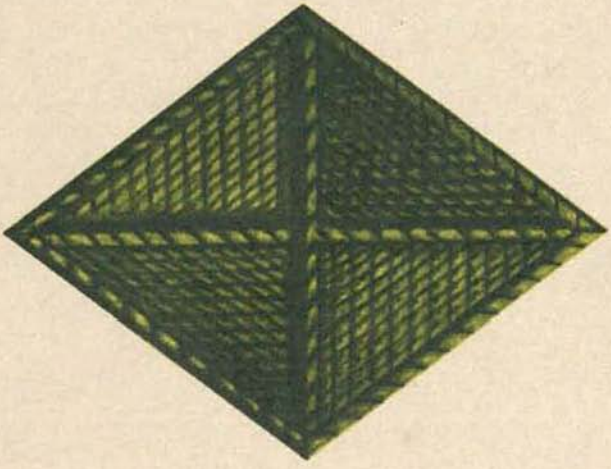
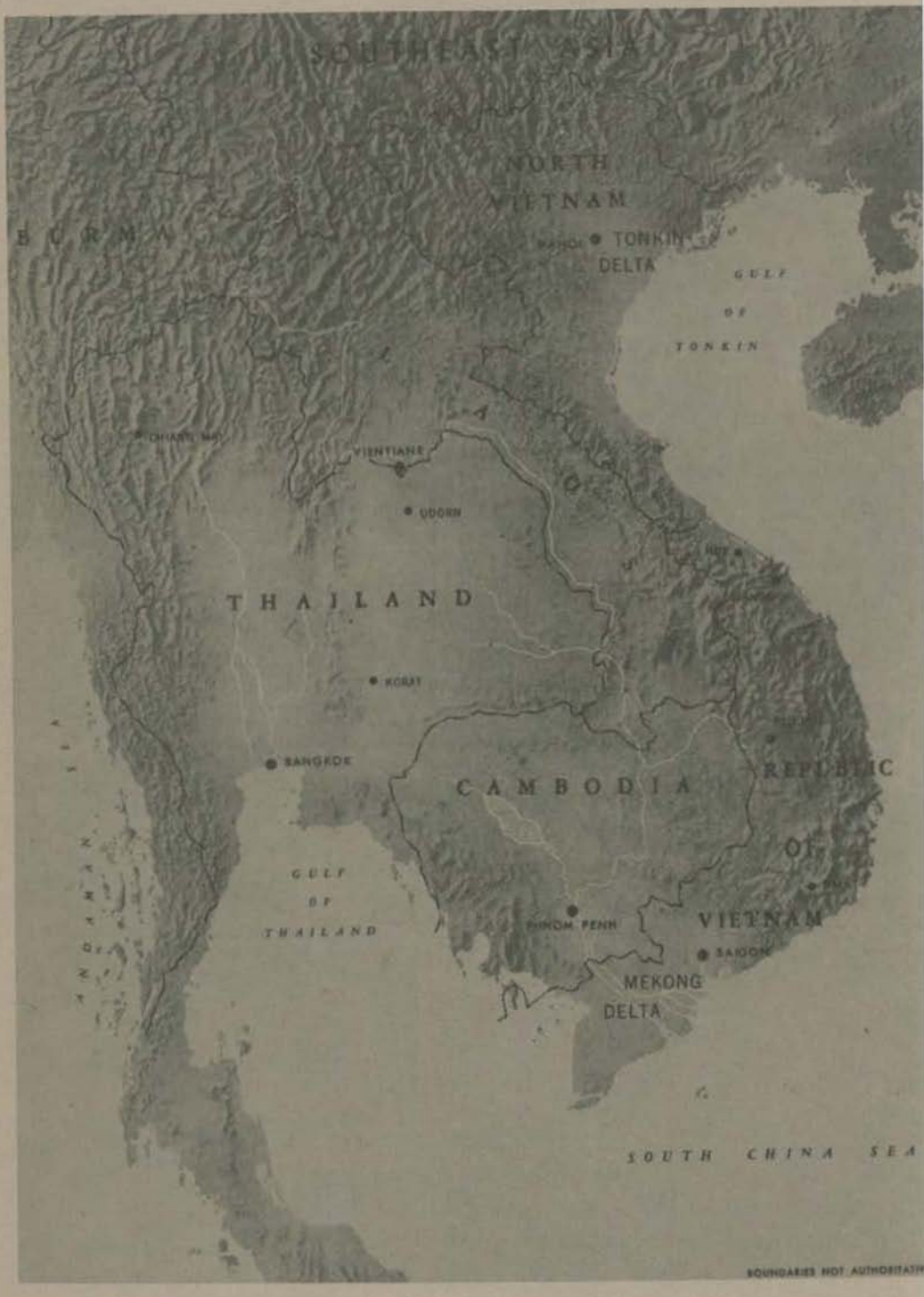
VIETNAM STUDIES

Financial Management of the Vietnam Conflict

1962–1972



DEPARTMENT OF THE ARMY


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VIETNAM STUDIES

FINANCIAL MANAGEMENT OF THE VIETNAM CONFLICT 1962–1972

by

Major General Leonard B. Taylor

DEPARTMENT OF THE ARMY
WASHINGTON, D.C. 1991

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Foreword

The United States Army has met an unusually complex challenge in Southeast Asia. In conjunction with the other services, the Army has fought in support of a national policy of assisting an emerging nation to develop governmental processes of its own choosing, free of outside coercion. In addition to the usual problems of waging armed conflict, the assignment in Southeast Asia has required superimposing the immensely sophisticated tasks of a modern army upon an underdeveloped environment and adapting them to demands covering a wide spectrum. These involved helping to fulfill the basic needs of an agrarian population, dealing with the frustrations of antiguerrilla operations, and conducting conventional campaigns against well-trained and determined regular units.

It is still necessary for the Army to continue to prepare for other challenges that may lie ahead. While cognizant that history never repeats itself exactly and that no army ever profited from trying to meet a new challenge in terms of the old one, the Army nevertheless stands to benefit immensely from a study of its experience, its shortcomings no less than its achievements.

Aware that some years must elapse before the official histories will provide a detailed and objective analysis of the experience in Southeast Asia, we have sought a forum whereby some of the more salient aspects of that experience can be made available now. At the request of the Chief of Staff, a representative group of senior officers who served in important posts in Vietnam and who still carry a heavy burden of day-to-day responsibilities has prepared a series of monographs. These studies should be of great value in helping the Army develop future operational concepts while at the same time contributing to the historical record and providing the American public with an interim report on the performance of men and officers who have responded, as others have through our history, to exacting and trying demands.

The reader should be reminded that most of the writing was accomplished while the war in Vietnam was at its peak, and the

monographs frequently refer to events of the past as if they were taking place in the present.

All monographs in the series are based primarily on official records, with additional material from published and unpublished secondary works, from debriefing reports and interviews with key participants, and from the personal experience of the author. To facilitate security clearance, annotation and detailed bibliography have been omitted from the published version; a fully documented account with bibliography is filed with the U.S. Army Center of Military History.

The author of this monograph, Major General Leonard B. Taylor, played a key role in the financial management of the U.S. Army's Vietnam war activities. From July 1966 to May 1971 he served as Assistant Director and subsequently Director of Army Budget in the Office of the Comptroller of the Army. A thirty-two year veteran of Army service, General Taylor served in the North African Theater and in Italy during World War II. He holds the degree of Master of Business Administration from the University of Maryland and has done postgraduate work at Harvard University. General Taylor is presently Commanding General, United States Army Administrative Schools Center and Fort Benjamin Harrison, Indiana.

Washington, D.C.
15 December 1973

VERNE L. BOWERS
Major General, USA
The Adjutant General

Preface

"Vietnam is different." That phrase or some semblance of the words couched in different terms has been voiced by nearly everyone involved in the conflict about every phase of the war. To financial managers, it might have been more appropriate to say, "Vietnam was a nightmare." It was much like starting out a game of baseball with the normal rules and during the third inning, finding out that you were playing basketball. Those of us involved in financial management believed that we would handle this war much as we had done the Korean conflict. This meant that there would be no requirement for stringent accounting controls or budgeting and that a sufficient amount of funds would be available. This assumption was responsible to a large degree for the lack of an adequate organization for financial management in the early days of the buildup. Early in the conflict the Secretary of Defense, Robert S. McNamara, counseled the heads of departments and major field commanders concerning Vietnam: ". . . Under no circumstances is lack of money to stand in the way of aid to that nation." When the rules were clarified, and we found that we were expected to establish virtually a peacetime system for financial control and reporting, it was almost too late. Many transactions had already occurred which were impossible to document in the normal fashion. In some cases, we will never be able to specifically identify exactly who received the benefit of funds expended, but we did attempt in every way to bring the situation under control and to respond to the requirements of the Department of Defense and Congress.

To state that our efforts in this regard were as prodigious as those of the combat troops or the logisticians might seem somewhat vain, but in many cases the same tenacity was required. Certainly innovative thought and actions were taken in spite of high odds favoring failure. Most of the financial contention did not take place in Vietnam, since we did not want and were so directed not to burden the commander on the ground with the bothersome task of obtaining data necessary to furnish to those individuals in the Office of the Secretary of Defense and Congress who increasingly questioned our prudent use of resources. I think that the system

we developed, particularly the concept represented by the Centralized Financial Management Agency, was the most rapid, effective operation which could have been accomplished in the time required. The total effort resulted in a method for doing something which had long been considered impossible—budgeting for a war.

In this monograph, I have attempted to record some of the major steps taken, but certainly not all details have been included. These steps are representative of the work done at all echelons to insure that every means at our disposal was used to obtain the needed funds and to prove that they were used effectively. The topics covered included areas where events might have been handled better or where some changes in laws, directives, or general concepts could have made our job a little easier. If after reading this treatise someone involved in planning for financial management will take action to gain early approval for changes that are necessary, I will have attained one of my goals in writing it. Further, if I can interest commanders in giving impetus to these plans perhaps on a par with logistics support, our task in the future will be considerably easier.

Criticism of our actions will be made, but it is easier to quarterback from a chair. This criticism may yet prove helpful if ways to improve the situation are explored. We attempted in Vietnam not only to account for costs, but to introduce discipline into the supply system as well. Perhaps this requirement was at fault and not those who answered. There is doubtless room for improvement in our financial management, but many of the necessary changes must begin at the level of the Secretary of Defense and must be approved by Congress. I believe that Congress will be willing to grant some changes if they are asked and given sufficient reason to do so. I have never found them deaf to new ideas provided that the presentation clearly detailed the need for action and the consequences for lack thereof. I am sure that Congress will co-operate in any endeavor to improve financial management in the Army.

I would like to thank the many individuals who have contributed material to this monograph, especially Lieutenant Colonel Charles T. Lynn, Jr., and Major Richard O. Felton of the staff and faculty, U.S. Army Finance School. It would have been impossible to compile the data without their assistance. I was deeply impressed with the co-operation I received at every level. Once the basic idea of the subject was conveyed to the present financial managers, they were eager to assist in the documentation of this facet of the war, in the hope that future conflicts will provide for a better method at the beginning of our involvement.

The views and interpretation of the data given are based on many years of intense interest in the Army's management of resources. Should these opinions not coincide with those of the reader, I trust that they will be given an objective appraisal before dismissal. We both should be interested in building the strongest Army possible within the resources provided, and this can only be accomplished through an effective financial management program.

Fort Benjamin Harrison, Indiana
15 August 1972

LEONARD B. TAYLOR
Major General, U. S. Army

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FINANCIAL MANAGEMENT OF THE VIETNAM CONFLICT

1962–1972

CHAPTER I

Planning for Financial Management of Limited War

The primary purpose of this treatise is to discuss financial management of the Army operation and maintenance appropriation in the Vietnam War. In order to complete the picture, however, it will be necessary to cover some of the activities prior to our deep involvement in Southeast Asia and the plans which had been made to conduct financial support of this area of the world under the circumstances which evolved.

The Roots of U.S. Involvement

A poll of individuals in the United States would probably show that the average citizen believes that we were not supporting a war effort in Vietnam prior to the early 1960s. Some of the more enlightened might estimate its start in 1955, when President Dwight D. Eisenhower pledged matériel and advisory assistance to the newly formed country of South Vietnam, but, in fact, the United States had been contributing to the war since the late 1940s because of treaties with France. When the French attempted to re-establish their rule after World War II, they were met with an insurgency well organized to fight the invaders during the war. The United States supplied weapons and supplies to assist the French until their defeat at Dien Bien Phu. With the subsequent resolution of the situation by the Geneva Accords of 1954, American advisory groups began entering Vietnam as the French troops were sent home, and direct support began.

The costs of these advisers as well as the supplies and matériel furnished the South Vietnamese at this time were funded in the Military Assistance Program, much like that in existence today in many countries around the world. At the time, there was little if any direct impact on the operation and maintenance appropriation, since the primary effort of any advisory group is to furnish weapons and train individuals in their use. The pay and allowances of the advisers were budgeted in the Army military personnel appropriation and the cost of weapons and equipment covered by the Army

procurement of equipment and missiles appropriation. The other minor supplies were negligible and unidentifiable in the overall appropriation expenditures of the Department of the Army for operations and maintenance. The budgets submitted during these early years show no direct support of Vietnam and little indication that the conflict which eventually evolved was considered.

While no thought was given on how to manage the funds for a war effort specifically for Vietnam, the climate in the political arena at the time dictated that the United States re-evaluate its position with respect to the conduct of war. During the late 1940s and 1950s, it was generally agreed that strategic weapons were all that were needed to prevent war. The concept of limited war began to gain general acceptance late in this period and the shift in planning was evident. Under the previous concept there was very little need for planning the best method of conducting general war, since the prevalent feeling had always been that a "blank check" would be available and that financial management would be relegated to keeping track of what had happened, with no real attempt being made to budget or to implement any other method of control of funds and expenditures. The parameters of a limited war included budgeting to the best extent possible, prudent use of resources, and something less than total mobilization of the economy.

The Need for Plans

The Army recognized the challenges of such an environment and began developing a plan for financial management in the late 1950s. The basic elements of the plan included the ability to react quickly to divert funds from currently approved programs to finance an emergency until Congress could be asked for additional money. In order to facilitate this program, certain deviations from what are considered normal procedures were envisioned. The most important of these, in my opinion, was a recommendation that when such an emergency arose, one service would be given the sole responsibility for the funding of all activities in the emergency area, to include furnishing all supplies and equipment that were common to all services. Those items unique to a service required by the forces in the limited war area would be specifically identified by the individual service concerned and a complete picture could be presented to Congress which would provide an adequate basis for restoration of the funds taken from other programs. Another important point in the plan was the provision which would allow the services to exceed current authorizations should the conflict deplete available funds. This plan was submitted to the Assistant

Secretary of Defense, Comptroller, the Honorable Franklin B. Lincoln, Jr., on 18 February 1960 for approval.

Certain aspects of this plan would have required some rather radical departures from normal procedures, including temporary relief from certain statutory limitations. The primary law which would have required modification was Revised Statute 3679, 31 U.S. Code 665. The provisions of this law form the basis for obligating the United States government to pay for supplies and services. Strict limitations are outlined as well as severe penalties for failure to comply with the prescribed method of obligation of funds. Additionally, Congress has traditionally imposed the limitation of $25,000 on minor construction from the operations and maintenance appropriation. A waiver of this requirement would have provided much needed flexibility. Finally, the normal budget submission with specific items identified to the respective service, under the Army proposal, could only have been accomplished after the fact.

On 31 May 1961, Mr. William F. Schaub, Assistant Secretary of the Army for Financial Management, restated the potential problem in a memorandum to the Assistant Secretary of Defense, the Honorable Charles J. Hitch, entitled, Budgeting and Financing for Emergency Conditions. In this he re-emphasized the critical nature of approval of some definitive plan for limited war in these words: "The Army has the demonstrated ability to react rapidly to emergency situations in a physical sense (e.g., in the movement of personnel, equipment, and supplies) and to take effective and positive action with all systems and organizations geared for emergency operations with one exception: the budget and financing system. The problem in budget and financing with regard to emergency operations stems principally from the rigidity and austerity of the budget, especially the O&M (operations and maintenance), which includes the consumer funds required for supplies to support all types of activities, routine and emergency." Even though at the time, Mr. Schaub was not considering Vietnam, per se, his words were almost prophetic of the situation which occurred. He made the following specific suggestions for meeting the problem:

a. The adoption of emergency financial procedures appropriate to the three services similar to the procedures which were submitted to your office on 18 February 1960 under the title Department of the Army Financial Management Plan for Emergency Conditions.

b. The use of the Contingency Fund of the Department of Defense (DOD). This would probably require language clarification and an increase in the amount of this appropriation as well as procedures for its use.

c. The determination of what requirements could and should be included in normal budgetary programs.

He closed the memorandum with, "The Department of the Army will be glad to assist in any way possible to reach a solution to this problem." Unfortunately, there is no evidence to indicate that this plea for action was given serious consideration until after the build-up in Vietnam was under way. Failure to act on this proposal created an inadequate and incomplete financial management picture.

The Army continued to push for some approval of a plan for financing emergencies such as a limited war. On 30 November 1962, a memorandum from the Secretary of the Army, the Honorable Cyrus R. Vance, again stressed the need for a definite plan for this type of funding. Although the primary purpose for the memorandum was to request additional funds, he stated, "Emergency situations involving Army participation, without a designated source of funds therefor, prevent responsible personnel at all levels from properly administering previously approved and still necessary programs. Considerable turbulence is caused in major field commands when they are faced with the financing of immediate emergency actions within funds currently available to them. The Commander is faced with the dilemma of seriously impairing already approved programs upon which his future combat readiness is based in order to finance an unforeseen contingency which may or may not develop into a national emergency." He further requested authority to work directly with the Comptroller to develop possible solutions to this problem in specific terms. Here again, Mr. Vance was not specifically addressing Vietnam, but he recognized the fact that normal budgeting and funding procedures combined with the stringent laws regarding obligations were not flexible enough to cope with emergency situations. A need existed for financial planning for military activities short of general war and exceeding peacetime funding levels.

Army Efforts

In keeping with the intent of the above memorandum, the Comptroller of the Army, Lieutenant General Robert Hackett, studied the problem, and on 25 November 1964, Mr. Edmund T. Pratt, Jr., the Assistant Secretary of the Army for Financial Management, forwarded his recommended actions which could be taken by the Secretary of the Defense to increase flexibility for the Comptroller. None of the six recommended actions required approval of the Congress, but were within authority already possessed by the Secretary of Defense.

The first of these actions is that the Secretary of Defense may authorize unlimited reprograming within appropriations. Under existing agreements with Congressional Committees, certain reprograming actions require advance approval by such committees. However, this is not legally binding on the Secretary of Defense, and he would undoubtedly take action in emergencies without awaiting approval. This type of authority is of little benefit near the end of a fiscal year, when funds are largely obligated and therefore not available for transfer. However, it can be useful at other times, particularly when Congress is not in session, to appropriate additional funds. It has the disadvantage of merely deferring a request for a supplemental appropriation to replace the funds diverted from normal uses to meet the emergencies. What often happens is that the delay in processing a supplemental appropriation request makes it impossible to obligate new funds within the fiscal year, and the Army is required to absorb the diverted amounts at the expense of other necessary programs.

Second, the Secretary of Defense may transfer funds between appropriations. This authority is limited to $200 million a year, and not more than 7 percent of any appropriation may be transferred to another. This is a useful device, since there are usually unobligated funds in the procurement appropriations, which may be transferred to the operating appropriations, normally required for emergency purposes. In addition, it permits fund transfers from one military department to another. However, the fiscal year end problem still exists, since an emergency near the end of the fiscal year may find the Secretary of Defense's transfer authority completely exhausted.

The third recommendation is that the Secretary of Defense may authorize incurring of deficiencies for costs of increased military strength beyond the numbers appropriated for. This requires a determination by the President that the increase is necessary. It would cover all military personnel, Army (MPA), and operation and maintenance, Army (OMA), costs incident to the strength increase, as well as other operating appropriations. In theory, it would also permit incurrence of deficiencies in the capital appropriations, such as procurement of equipment and missiles, Army (PEMA), for equipment, and military construction, Army (MCA), for minor construction up to $200,000 per project, if sufficient unobligated funds were not available in those accounts.

Fourth, the Secretary of Defense may authorize the incurring of deficiencies for subsistence: fuel including petroleum, oils, and lubricants; transportation; clothing; quarters; and medical supplies

free of the limitations now contained in Department of Defense Directive 7220.8. Although the military departments now have the authority to incur deficiencies for these purposes, they are required by the cited directive to make a certificate, in advance of incurring obligations, that the amounts authorized are only to cover the period of emergency. Obviously it is not feasible to forecast the duration and fund needs of emergencies affecting national defense. The directive also requires an immediate effort to obtain funds. This is not feasible where it is necessary to exceed the total of the appropriation, and Congress is not in session to enact a supplemental.

The final recommendation is that the Secretary of Defense amend the Department of Defense stock fund regulations to permit issue of stock fund property for use in emergencies without full reimbursement. Current Department of Defense directives permit such issue for short-term activities normally not over 90 days, such as maneuvers and training exercises and reserve forces field activities. Upon return of the property to the stock fund, reimbursement is made only for repair and reconditioning costs, or for losses of property not returned. It would appear that similar provision could be made for issue of equipment to troop units in emergencies, greatly minimizing the fund impact of such issues.

The basic purpose of forwarding these actions which could be taken was to urge the Secretary of Defense to delegate some of these authorities to the services in order for them to be able to take immediate action in case of emergencies. Mr. Pratt stressed the need for action in these words, "Recent experience in the handling of financial problems associated with the action in South Vietnam has not lessened my feeling that the procedures for giving authority to the command on the ground do not result in the kind of expeditious response that should take place in such a situation. Accordingly, I again urge that this matter be made an item of more urgency than has been accorded to it during recent years."

During the approximate time frame in which the Department of the Army was attempting to obtain additional flexibility from the Secretary of Defense, the headquarters of the United States Army, Pacific (USARPAC), developed a plan for financial management within that theater of operations. The plan was in three parts, with one specifically devoted to limited war. In this section, the need was recognized for deviations from normal procedures in this manner:

> Whenever forces of any USARPAC subordinate command become involved in combat operations or support thereof, Headquarters, USARPAC will immediately request Department of the Army, on

behalf of that command, for such of the following as is considered appropriate to the scale of operations involved:

a. Relief from the requirements to cite consumer funds on requisitions with concurrence transfer of funding responsibilities to depots for direct issues to the affected command.

b. Establishment of a general allotment for the funding of requirements, and the discontinuance of accounting for and reporting of obligations prior to payment.

c. Relief from all cost accounting requirements and from the preparation and submission of cost and performance summaries.

d. Elimination of financial inventory accounting and reporting requirements.

e. Elimination of requirements to maintain financial records of accounts receivable, accounts payable, fixed assets, accrued liabilities, revenues, and expenses.

f. Authority to drop stock fund-owned inventories from financial accountability and to close stock fund accounting records.

This plan was forwarded to Headquarters, Department of the Army, for information. Some of the recommended actions would have required Congressional approval. The authorization of a general allotment would have been one of the most beneficial procedural changes, but Congress would have to agree. I can find no evidence that the U.S. Army, Pacific, ever asked for this provision, nor that it was seriously considered at the Department of Army or the Department of Defense. The authorization of this type of funding would have solved many of the subsequent problems which arose in management of resources. For example, under a general allotment concept there would have been no need for the separation of construction projects from those which should have been funded from operation and maintenance, Army, appropriation. It would have removed the restriction that minor construction from operation and maintenance funds could not exceed $25,000. This one provision in the regulation will haunt the Army for years to come as the General Accounting Office conducts more extensive investigations into certain projects in Vietnam. The office will undoubtedly find that many projects which were begun using operation and maintenance funds eventually cost more than the limit. This is not to say that funds were misused intentionally. When these projects were begun, it was most often the honest estimate of those involved that the projects could be completed within the limitation or that they were required for emergency operation purposes. Many factors contributed to excessive costs, and in some cases attempts were made to hide the total costs simply to avoid criticism. By a simple modification of a peacetime regulatory requirement to fit the situation in Vietnam, the potential for this type of activity would have been

avoided. The difficulties encountered in arriving at a meaningful budget and the restrictions imposed on the use of funds will be covered in more depth in a later chapter, but it is obvious that had these plans been adopted, many problems would have been solved.

Another of the recommended actions would have eliminated the need for one service to reimburse another service for supplies and equipment. Approval of the common service supply system for all types of supplies, which was envisioned as a necessity in all of the Army planning, would have negated the need for a reimbursement program at all. I will devote another chapter of this monograph to the myriad of problems which this caused and the tremendous amount of paperwork which it generated, with little value to anyone. As long as costs are accumulated and Congressional needs for information met, it would seem that identification of the specific service which uses the resources is unnecessary. As a matter of fact, it is my opinion that if Congress had been asked to approve this type of funding early in the buildup phases, approval would have been granted.

Prophetic Planning

In all aspects of planning for financial management under conditions which later existed in Vietnam, the envisioned problems were identified which later became reality. The primary difficulty seemed to be that these plans were not taken seriously; at least they were not accorded the intense study and approval granted combat and logistics plans. Had they been, we would have been able to provide more effective management of resources without the turmoil which resulted and further would have been able to provide the field commander with the needed flexibility without fear of criticism for violation of regulatory and statutory requirements which were designed for a peacetime situation. By specifically identifying the allotment which would cover all costs associated with Vietnam, we would have been more responsive to Congressional interests concerning the total war cost which increased steadily from year to year and which will be the subject of discussions for years to come.

CHAPTER II

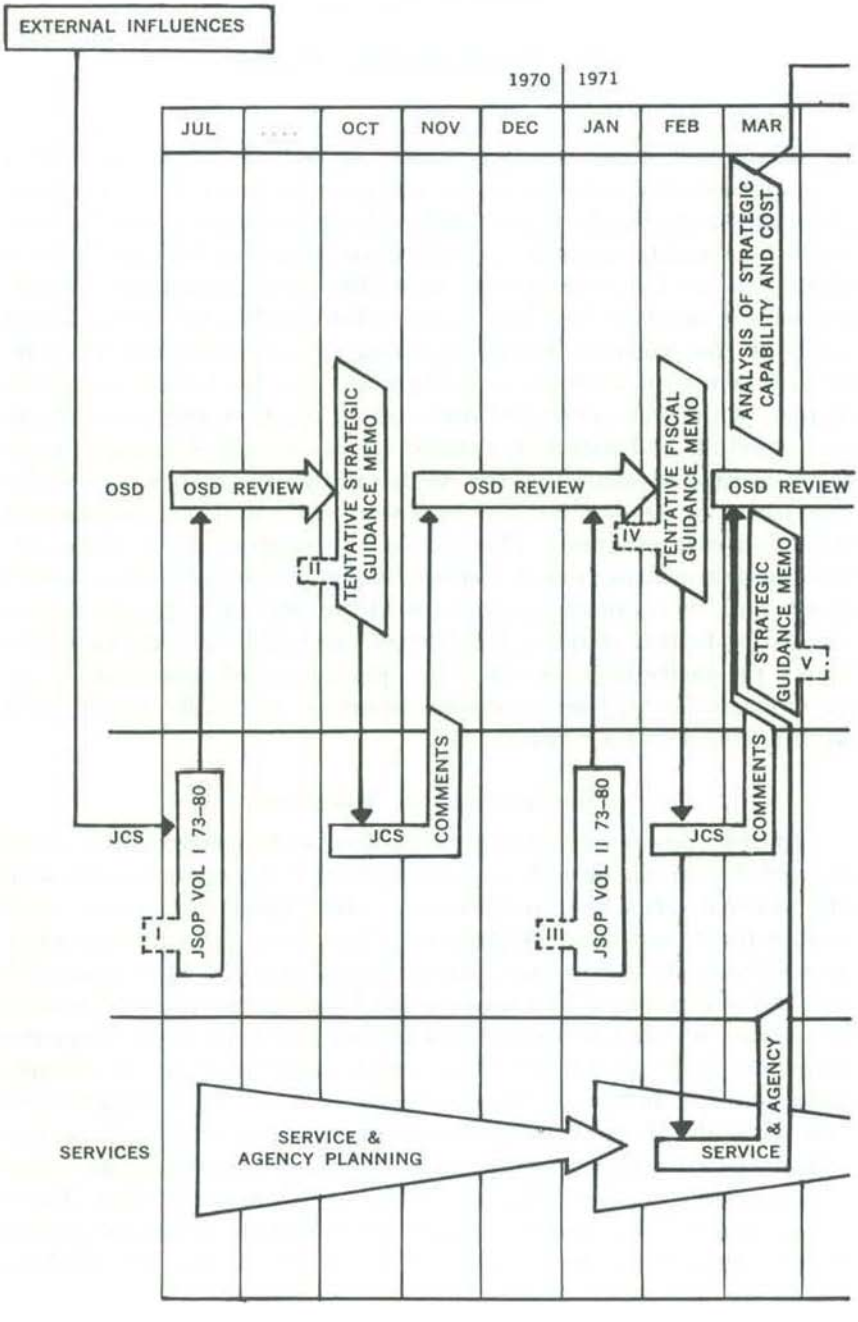
Budgeting for War

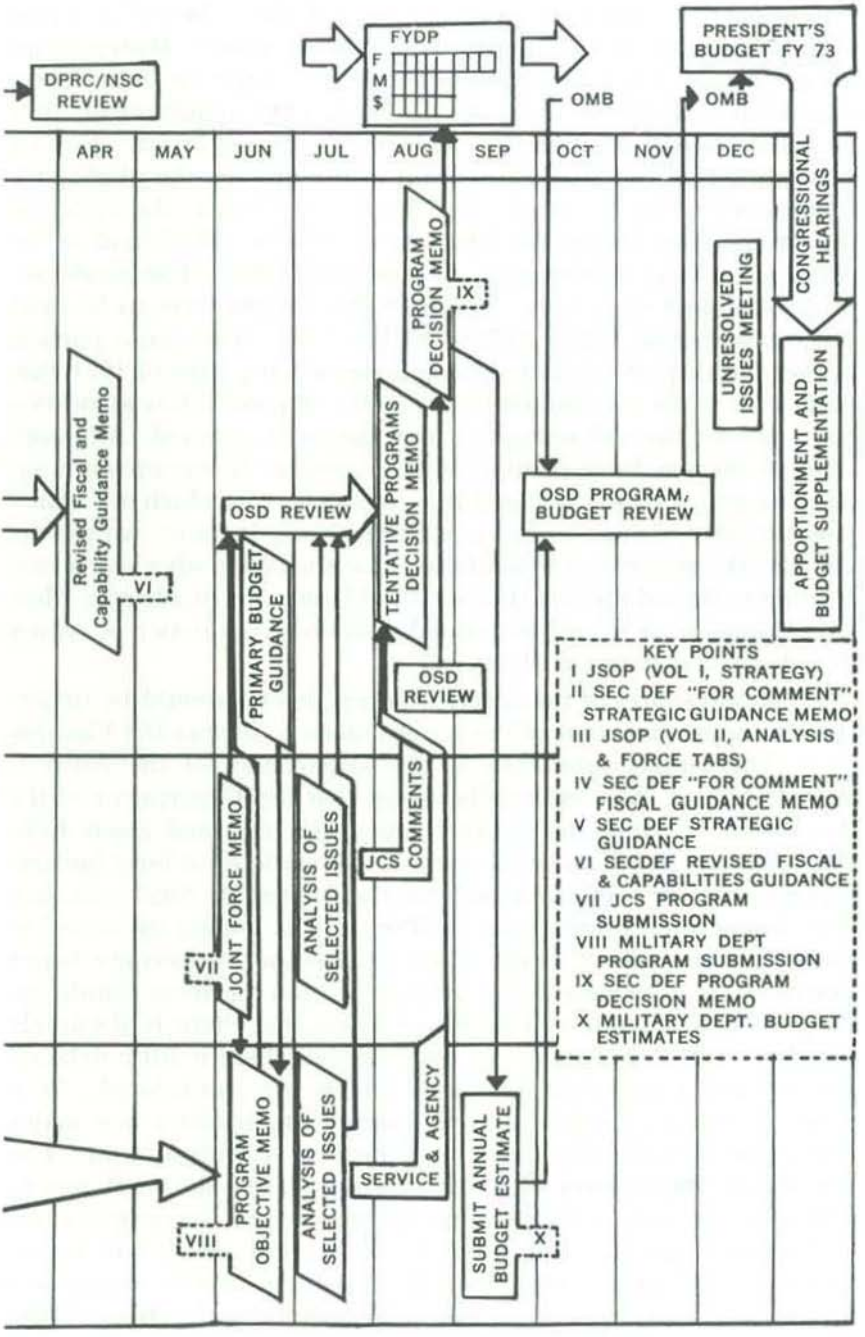
Never before had the Department of Defense been called upon to budget for the activities of its components during a war, as was the case during the Vietnam conflict. Even during the Korean War, when reasonably accurate records were kept concerning the cost, there was no real attempt to limit the funds required to assure everything necessary to bring a successful conclusion. At the beginning of the Vietnam situation, Congress regarded the Vietnam requirements in much the same light as those for Korea, but as the nature of the war developed into one of attrition, there was an intense feeling of frustration created in the minds of Congressmen. They wanted to assure that the American fighting man was provided everything he needed, but his needs were often in direct competition with domestic programs. This change in Congress was a subtle one, with no real turning point, but the budget hearings slowly required more and more information concerning the appropriate use of resources. In this chapter, I will trace the budgetary actions of the Army primarily dealing with the operation and maintenance appropriation; it will be necessary, however, to briefly touch other appropriations which affected it.

Background for Budgeting

In order to present a complete picture of the environment which existed during the period, it is desirable that the reader understand the normal planning, programing, and budgeting system used within the Department of Defense. *Chart 1* is a graphic representation of this cycle constantly in operation. For the most part, this method of arriving at a budget was used during the war, with certain deviations which I will point out as they occurred in the sequence of events. The chart is a rather complicated rendition of a simple basic concept. In theory, the development of a budget requires that one take the Joint Strategic Operations Plan and with certain adjustments to fit the current situation simply assign dollar values to the desired actions. This would then become the budget. There are a number of pressures being exerted during the entire process which are covered on the illustration by the block "External In-

CHART 1—PLANNING PROGRAMING BUDGETING CYCLE




DPRC/NSC REVIEW
FYDP
F
M
$
OMB
OMB
PRESIDENT'S BUDGET FY 73
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
CONGRESSIONAL HEARINGS
PROGRAM DECISION MEMO
IX
UNRESOLVED ISSUES MEETING
Revised Fiscal and Capability Guidance Memo
VI
OSD REVIEW
TENTATIVE PROGRAMS DECISION MEMO
OSD PROGRAM/ BUDGET REVIEW
APPORTIONMENT AND BUDGET SUPPLEMENTATION
PRIMARY BUDGET GUIDANCE
OSD REVIEW
JCS COMMENTS
ANALYSIS OF SELECTED ISSUES
VII
JOINT FORCE MEMO
KEY POINTS
I JSOP (VOL I, STRATEGY)
II SEC DEF "FOR COMMENT" STRATEGIC GUIDANCE MEMO
III JSOP (VOL II, ANALYSIS & FORCE TABS)
IV SEC DEF "FOR COMMENT" FISCAL GUIDANCE MEMO
V SEC DEF STRATEGIC GUIDANCE
VI SECDEF REVISED FISCAL & CAPABILITIES GUIDANCE
VII JCS PROGRAM SUBMISSION
VIII MILITARY DEPT PROGRAM SUBMISSION
IX SEC DEF PROGRAM DECISION MEMO
X MILITARY DEPT. BUDGET ESTIMATES
SERVICE & AGENCY
ANALYSIS OF SELECTED ISSUES
SUBMIT ANNUAL BUDGET ESTIMATE
X
VIII
PROGRAM OBJECTIVE MEMO

fluences." These could include decisions made concerning national policy by the President. They would most certainly take into consideration the economy of the nation and the "climate" existing within Congress with regard to defense spending. Disregarding these sometimes indeterminate factors which shape the budget, one is still left with the problem of calculating exact requirements in a peacetime situation, with the problem increasing in war. Just by examining the time frames involved in the process, the plight of a budgeteer becomes evident. The illustration depicts the cycle for the preparation of the 1973 fiscal year budget, which had to be ready to present to Congress in January of 1972. The funds appropriated by Congress as a result of this budget were to be used during the period 1 July 1972 to 30 June 1973. The major portion of the planning effort had to be completed during June of 1971, one year prior to the availability of any of the requested funds and two years before the exhaustion of the authority granted. Although refinements may be made until the last moment before presentation to Congress, at best, a budget has to include items which are anticipated needs for some eighteen months ahead. In other words, the Defense Department in time of war must anticipate what the enemy is going to do and the response we should make far in advance. Most field commanders would be pleased with one day's notice of enemy intentions and anticipated actions.

One other facet of the current budget process should be understood to appreciate some of the actions taken to finance the Vietnam War. The budget submitted by the Department of the Army is staff developed. This essentially means that the Department of the Army staff develops the entire budget with minimal input from the field. The installations throughout the world do submit budgets representing their requirements for the immediate fiscal year, but they do not impact directly on the Presidential budget submitted to Congress. As a matter of fact, these installation budgets are better described as a request for a certain portion of those funds appropriated by Congress. This is not to say that there is absolutely no input from commanders in the field, but there is little detailed information concerning programs which are anticipated. As a general rule, the commanders are allowed to indicate any major changes in the programs which were pursued in previous years. The staff of the Department of Army makes extensive use of factors to determine what is needed in the operations and maintenance appropriation. Basically, the number of divisions which will be required is established, and then factors for the various supporting activities are used in establishing funding levels for the Army. These

factors are usually based on historical information during like periods. As you can see, it was difficult to prepare a budget for Vietnam, when we had never been engaged in a war of this type before. Many of the initial factors proved incorrect and also were the subject of quite a number of debates not only before Congress but between the Department of the Army and the Department of Defense. These factors have been continually revised throughout the conduct of operations in Vietnam, and they have become rather accurate now (1972), but since we are diminishing our presence, they have not been useful in current budget preparations.

As if the difficulties already stated were not enough for the budgeteer to overcome, he has one more deterrent to effective financial management. Historically, Congress has been late in making the final determination on appropriations for the services. The budget which is submitted in January and is to become effective on 1 July of that same year is normally not enacted into law until late in the fiscal year. The following listing reflects budget submission dates and appropriation act dates for fiscal years 1965–72.

PRESIDENT'S BUDGET SUBMISSION AND APPROPRIATION DATES

Fiscal Year	*resident's Budget Submission*	*Appropriation*
1965	21 January 1964	19 August 1964
1966	25 January 1965	21 September 1965
1967	24 January 1966	11 October 1966
1968	24 January 1967	13 September 1967
1969	29 January 1968	17 October 1968
1970	15 January 1969	18 December 1969
1971	2 February 1970	29 December 1970
1972	29 January 1971	15 December 1971

This requires that the Army operate on an authority provided by Congress, which is stated to commanders in the field in these words:

> Effective 1 July you are authorized to incur obligations for essential operating expenses of a continuing nature under the OMA appropriation at a rate consistent with the level of your preceding fiscal year operating expenses.
>
> Unless specifically revised this authority will remain in effect until formal allotments are issued.

There are usually some indications of specific items which will not be approved based on Congressional hearings and informal

contacts with powerful personalities in Congress. The result of being forced to operate in this void of information is either to maintain a level of obligation which is below or above that which would have resulted in efficient use of resources.

With this as a backdrop, I would like to review the actions taken by the Department of Defense and the Congress during the period of the Vietnam War. There were some major innovations used to obtain additional funds, some of which were condoned by Congress and some which brought the wrath of certain Congressmen during hearings on the budget. The mood of both the people and certainly the legislature was different than had ever been experienced before.

The Early Budgets

As I mentioned in Chapter I, our support of Vietnam started with direct use of funds and other resources to sustain French operations. This fact was officially recognized in the *Semiannual Report of the Secretary of Defense* for the period January 1 to June 30, 1954. Charles E. Wilson, then Secretary of Defense, stated:

> The complete loss of Indochina, rich in raw materials and lying astride the air route between South Asia and the Pacific, would constitute a direct threat to the safety of all neighboring countries and to nations as far removed geographically as India, Australia, and even Japan. In recognition of this fact, the United States made a major effort during fiscal year 1954 to assist the French forces and those of the Associated States of Cambodia, Laos, and Vietnam in their struggle against Communism. In September 1953, $385 million were allocated to the direct support of the French Union forces and added to the $400 million previously appropriated for this purpose in the budget for fiscal year 1954. These amounts were in addition to the regular Indochinese military assistance program for weapons and equipment, the delivery of which was given the highest priority. Technicians were dispatched to help maintain in operational order the major weapons and equipment supplied by the United States. During the emergency in May 1954, United States Air Force transports rushed troop reinforcements from France to Indochina. Despite all the assistance that was provided, our allies found themselves in a precarious military position at the close of the fiscal year and felt compelled to negotiate a settlement. Such a settlement will not reduce the need for continued military assistance for the free people of Southeast Asia.

The Congress, at this time, regarded Vietnam as a necessary expense and a vital concern of national defense. Not only were funds provided for normal operations under the Military Assistance Program, including advisory support and weapons, but the Mutual Security Appropriations Act for 1955 made available a fund of $700 million to be used as conditions might dictate in Southeast Asia and

the western Pacific. This was used almost totally for operations in Indochina. Although an active insurgency existed in Vietnam, there were very few Americans directly involved and the amount of money being expended was relatively small when compared with the total defense budget.

This was the climate which existed in Congress from that time until well after the major buildup of U.S. forces had occurred. As a matter of fact, there is little record of Congressional interest in Vietnam as a major topic for discussion until funds were being requested for the buildup. Typifying the lack of opposition to our assistance efforts were the Senate hearings on the fiscal year 1964 appropriation. Senator Richard B. Russell, Chairman of the Senate Appropriations Committee, in querying the Army Chief of Staff, General Earle G. Wheeler, concerning our activities in Vietnam almost casually asked how many people were there, referring to the number of American military personnel. General Wheeler replied, "In the Armed Forces, as a whole, the figures are around 12,000, sir. The majority of those, oh, around 8,000-odd are from the Army." This number was noted as an increase over the last calendar year. When asked by Senator Russell if there were any plans which contemplated augmenting this force, General Wheeler replied, "No sizable increase, sir. We have had to make some changes in our maintenance units over there for helicopters, to beef up the maintenance. There will be other realignments of forces which may call for a small increase, but I wouldn't expect any sizable increase." The matter was promptly dropped in favor of a discussion on the co-operation which was being received from the Vietnamese, and then drifted quickly into an overall questioning concerning our armed forces located in 80 different countries around the world. It was plain that the Vietnam problem was virtually lost in the magnitude of our total support to other nations.

Although Vietnam escaped the intense interest of Congressmen, it is evident that such was not the case within the Department of Defense. It is difficult to state unequivocally that long range plans there envisioned such an increase in the involvement of the U.S. as that which actually occurred, but it is possible to establish the feeling of the Secretary of Defense, Robert S. McNamara, as of 1 March 1965. On that date, he signed a memorandum for all of the service secretaries which left little doubt of his position with regard to our support of South Vietnam. He stated:

> Over the past two or three years, I have emphasized the importance of providing all necessary military assistance to South Vietnam, whether it be through MAP or through application of U.S. Forces and their

associated equipment. Occasionally, instances come to my attention indicating that some in the Department feel restraints are imposed by limitations of funds. I want it clearly understood that there is an unlimited appropriation available for the financing of aid to Vietnam. Under no circumstances is lack of money to stand in the way of aid to that nation.

Here was the blank check again, which military leaders normally expected to receive when preparing for a war. This memorandum was the basis for many actions which precluded efficient management of resources, especially during the early stages of the buildup. Unfortunately in later developments, neither the Congress nor certain members of Mr. McNamara's own staff subscribed to the words in the memorandum. It became sharply evident that the luxury promised of "unlimited appropriation" was not, in fact, to be the case.

It is somewhat paradoxical that only two weeks prior to the date of the above memorandum, the Army was defending before Congress its operation and maintenance budget for fiscal year 1966 which requested a modest increase for Southeast Asia over fiscal year 1965. In the House Appropriations hearings, General Ralph E. Haines, Jr., then Deputy Assistant Chief of Staff for Force Development, responded to queries concerning this increase in this manner: "The $10,100,000 increase in the Pacific is primarily for the support of the increased strength and the equipment in this theater, and primarily in the Southeast Asia area. The increased number of tactical aircraft in the Pacific occasioned by deployment of additional aviation units to Vietnam will require an increase of over $6 million for mission support, and for the O&M realignment of aircraft repair parts."

It was not apparent at this hearing that a major buildup was contemplated, and certainly there were no funds requested to support such a plan. The Congressional interest was increasing, however, but the tenor of comments was still to the effect that we should do everything necessary to provide support. This feeling was typified by House Appropriation Committee Member Mr. George W. Andrews' comment concerning supplies of petroleum, oils, and lubricants, "I do not want you to have a shortage down there."

These same hearings provided some indication that Congress expected normal methods of funding and reimbursement to be used in Vietnam. There was a discussion of the costs of converting the USNS *Albermarle*, a Navy seaplane tender scheduled for mothballing, into a floating maintenance facility for repairing helicopters. Lieutenant Colonel J. P. Cribbins, Office of the Deputy Chief of

Staff for Logistics, testified concerning the funding for this conversion, "Actually, the Army funded for the PEMA and OMA funds for conversion and operation of the *Albemarle*. This was a program coordinated with the Navy." Mr. Andrews then asked, "Will you reimburse the Navy for all the work they will do?" Colonel Cribbins replied, "We will reimburse the Navy for all the work they do." Since I will devote a later chapter to the problems caused by reimbursement procedures, I will not dwell on this point here. This represents only the beginning of the use of different funds for various purposes so intermingled as to defy identification, and the insistence that normal procedures prevail.

Supplemental Budgets

It was shortly after this period that Mr. McNamara demonstrated his new approach to budgeting which was to continue throughout the early stages of the war. He made extensive use of the supplemental approach to submission of budgets. Although this was not a new method, it was normally reserved for emergency situations and Congress challenged this quite sharply, as will be pointed out later. Calendar year 1965 was to see the major buildup begin and it would continue into 1966 with the greatest increase in troops and matériel in one location since World War II. The chain of events began in March 1965, when 3,500 marines were sent to establish a defensive perimeter around the air base at Da Nang. May saw the 173d Airborne Brigade land at Bien Hoa from Okinawa. In June, Mr. McNamara announced the deployment of an additional 21,000 troops, bringing the total in Vietnam to 75,000. In an address to the people during July, President Lyndon B. Johnson, announced that he had given authority to increase the strength from 75,000 to 125,000 men. He further stated, "Additional forces will be needed later and they will be sent as requested." The number reached approximately 200,000 by the end of the year.

In order to finance this tremendous increase, Mr. McNamara appeared before Congress during August 1965, requesting $1.7 billion in a separate account, "Emergency Fund, Southeast Asia." There was very little opposition to granting this amount, even though testimony indicated that this was necessary primarily for additional financing to gear up the production machine in order to have equipment and weapons available to support the buildup. It was evident that the current year's appropriation did not contain sufficient funds to sustain the effort in Vietnam, and I do not think that anyone in Congress was truly surprised when a supplemental request for fiscal year 1966 was submitted to Congress on 19 January

1966. *Table 1* shows the total submission including the original fiscal year 1966 funds approved, the disposition of the $1.7 billion given to Department of Defense in August 1965, and the new requirements for the remainder of the fiscal year.

TABLE 1—FINANCIAL SUMMARY OF FISCAL YEAR 1966 BUDGET
(INCLUDING THE PROPOSED SUPPLEMENTAL FOR SOUTHEAST ASIA)
(In thousands of dollars)

	NOA enacted excluding amendment	$1,700 million amendment	Military and civilian pay supplemental	Southeast Asia supplemental	Total NOA
Military personnel:					
Army	4,092,291	.....	222,100	833,600	5,147,991
Navy	3,055,000	.....	182,600	318,500	3,556,100
Marine Corps	749,900	.....	42,400	184,600	976,900
Air Force	4,393,800	.....	227,600	219,300	4,840,700
National Guard personnel, Army	271,800	.....	4,500	45,900	322,200
Reserve personnel, Army	238,600	.....	.....	7,500	246,100
National Guard personnel, Air Force	71,300	.....	3,500	5,700	80,500
Reserve personnel, Navy	105,100	.....	4,600	.....	109,700
Reserve personnel, Marine Corps	33,000	.....	1,600	2,200	36,800
Reserve personnel, Air Force	60,500	.....	1,200	2,700	64,400
Retired pay, defense	1,529,000	.....	71,000	.....	1,600,000
Total military personnel	14,600,291	.....	761,100	1,620,000	16,981,391
Operation and maintenance:					
Army	3,434,067	.....	33,400	1,077,200	4,544,667
Navy	3,292,137	.....	23,000	506,000	3,821,137
Marine Corps	192,101	.....	1,054	102,600	295,755
Air Force	4,403,737	.....	27,600	544,900	4,976,237
Defense agencies	683,680	.....	14,356	41,769	739,805
Operation and maintenance, Army National Guard	208,796	.....	2,000	35,700	246,496
Operation and maintenance, Air National Guard	238,000	.....	1,000	8,100	247,100
National Board for Promotion of Rifle Practice, Army	459	.....	.....	.....	459
Claims, defense	24,000	.....	.....	.....	24,000
Contingencies, defense	15,000	.....	.....	.....	15,000
Court of Military Appeals, defense	579	.....	11	.....	590
Total operation and maintenance	12,492,556	.....	102,421	2,316,269	14,911,246

TABLE 1—FINANCIAL SUMMARY OF FISCAL YEAR 1966 BUDGET—Continued

(In thousands of dollars)

	NOA enacted excluding amendment	$1,700 million amendment	Military and civilian pay supplemental	Southeast Asia supplemental	Total NOA
Procurement:					
Procurement of equipment and missiles, Army	1,204,800	504,500	.....	2,465,000	4,174,300
Procurement of aircraft and missiles, Navy	2,220,387	190,200	.....	764,500	3,175,087
Shipbuilding and Conversion, Navy	1,590,500	.....	.....	.....	1,590,500
Other procurement, Navy	1,135,000	167,090	.....	607,500	1,909,590
Procurement, Marine Corps	43,800	149,100	.....	516,600	709,500
Aircraft procurement, Air Force	3,516,700	158,800	.....	1,585,700	5,261,200
Missile procurement, Air Force	771,900	4,000	.....	63,700	839,600
Other procurement, Air Force	829,100	360,600	.....	1,016,400	2,206,100
Procurement, defense agencies	15,200	.....	.....	.....	15,200
Total procurement	11,327,387	1,534,290	.....	7,019,400	19,881,077
Research, development, test and evaluation:					
Army	1,433,988	.....	.....	27,995	1,461,983
Navy	1,513,130	.....	.....	52,570	1,565,700
Air Force	3,181,956	.....	.....	71,085	3,253,041
Defense agencies	491,300	.....	.....	.....	491,300
Emergency fund, defense	19,426	.....	.....	.....	19,426
Total, research development, test and evaluation	6,639,800	.....	.....	151,650	6,791,450
Military construction:					
Army	346,843	64,600	.....	509,700	921,143
Navy	329,405	43,210	.....	254,600	627,215
Air Force	361,773	57,900	.....	274,100	693,773
Defense agencies	19,768	.....	.....	200,000	219,768
Army Reserves	.....	.....	.....	.....	.....
Naval Reserves	9,500	.....	.....	.....	9,500
Air Force Reserves	4,000	.....	.....	.....	4,000
Army National Guard	10,000	.....	.....	.....	10,000
Air National Guard	10,000	.....	.....	.....	10,000
Loran stations, defense	5,000	.....	.....	.....	5,000
Total military construction	1,096,289	165,710	.....	1,238,400	2,500,399

TABLE 1—FINANCIAL SUMMARY OF FISCAL YEAR 1966 BUDGET—Continued
(In thousands of dollars)

	NOA enacted excluding amendment	$1,700 million amendment	Military and civilian pay supplemental	Southeast Asia supplemental	Total NOA
Family housing: Defense	665,846	.....	.....	.....	665,846
Civil defense:					
Office of Mobilization	64,066	.....	.....	.....	64,066
Research, shelter survey, marking	42,700	.....	.....	.....	42,700
Total civil defense	106,766	.....	.....	.....	106,766
Total military functions	46,928,935	1,700,000	863,521	12,345,719	61,838,175
Military assistance: Executive	1,470,000	.....	.....	.....	1,470,000
Total Department of Defense	48,398,935	1,700,000	863,521	12,345,719	63,308,175
Recapitulation:					
Army	11,241,644	569,100	262,000	5,002,595	17,075,339
Navy	14,268,960	549,600	255,254	3,309,670	18,383,484
Air Force	17,842,766	581,300	260,900	3,791,685	22,476,651
Defense agencies	3,468,799	.....	85,367	241,769	3,795,935
Civil defense	106,766	.....	.....	.....	106,766
Military assistance	1,470,000	.....	.....	.....	1,470,000
Total	48,398,935	1,700,000	863,521	12,345,719	63,308,175

It was during the hearings for this supplemental appropriation that it was officially recognized that Vietnam no longer fell within the purview of the Military Assistance Program. A request to transfer all balances from the assistance program to other appropriations was granted. The actual transfer took place on 25 March 1966. The interest of Congress in total costs in Vietnam was becoming more and more evident. One of the specific requests of Senator Stephen M. Young, a member of the Senate Committee on Appropriations, was a revelation of the total amount of military assistance provided South Vietnam. The amounts shown in *Table 2* were entered into the *Congressional Record.*

It is interesting to note that at the time Congress was considering the 1966 fiscal year supplemental, the budget for fiscal year 1967 had already been submitted by the President. This fact was addressed several times during testimony, and Mr. McNamara indicated through his comments that the fiscal year 1967 budget was based on current plans and would support the anticipated activity through June 1967. Although he did not specifically outline his new ap-

TABLE 2—ECONOMIC AID FOR VIETNAM

(In millions of dollars)

U.S. fiscal years	AID and predecessor agencies	Public Law-480 (all titles)	Total
1953–57	783.9	39.4	823.3
1958	179.1	9.7	188.8
1959	200.6	6.5	207.1
1960	169.0	11.5	180.5
1961	132.6	12.0	144.6
1962	110.7	32.5	143.2
1963	133.2	64.3	197.5
1964	159.3	71.0	230.3
1965	216.1	52.8	268.9
TOTAL	2,084.5	299.7	2,384.2
1966	[1] 541.1	79.5	620.6
1967	550.0	98.1	648.1

[1] Current estimate of fiscal year 1966 AID program, including $275,000,000 requested in the fiscal year 1966 supplemental.

proach to budgeting to Congress at this time, he certainly gave several hints to this effect. In discussing the basis for formulation of the budget for this fiscal year, he said, "With regard to the preparation of the FY 1967–71 program and the FY 1966 Supplemental and the FY 1967 Budget, we have had to make a somewhat arbitrary assumption regarding the duration of the conflict in Southeast Asia. Since we have no way of knowing how long it will actually last, or how it will evolve, we have budgeted for combat operations through the end of June 1967."

This, then, became the pattern for budget submissions for Vietnam. The assumption was always made that enemy activity would continue at the level which existed at the time of budget preparations and that the war would be over by 30 June of the fiscal year under consideration. This, naturally, would require a supplemental request should either of these assumptions prove invalid.

Growing Congressional Concern

During the proceedings of the Senate subcommittee of the Committee on Appropriations, it became increasingly evident that the cost of the Vietnam War was of growing concern to the Congress. As an illustration, the following dialogue between Senator Stuart Symington, Member, Senate Armed Services Committee, and me is furnished from the *Congressional Record.*

Senator Symington. I saw the Deputy Secretary of Defense on a television show last night. To the best of my recollection he said the Vietnam war was costing a billion dollars a month minimum, and that they could not figure all the overhead. Some of us figure that it is costing a great deal more than a billion a month. As the budget officer for the U.S. Army, do you have any figure that you have drawn up as to what the total cost is per month for the Vietnamese operations?

General Taylor. We have not made an attempt to put a precise price tag on the cost of the war. There are many, many reasons for this. The rationale is simple. Each estimate would depend entirely on the assumptions that you use to determine what price you derive. For example, the very large procurement appropriation that we received in fiscal year 1966 provides for things which won't be delivered for another year or 18 months. So you really can't charge these to any one particular fiscal year. I am aware that Secretary McNamara used the $1 billion figure and I have no reason to depart from that. This is a good order of magnitude cost estimate. Also, you get into this situation in trying to determine costs. The 25th Infantry Division, for example, is now in Vietnam. If the 25th Infantry Division had remained in Hawaii, it would incur a major portion of the cost that it is now incurring in Vietnam. The only items you could charge off to Vietnam would be such things as increased combat consumption and provide for a faster rotation of people.

Senator Russell. Where would you charge all the installations there? Do you not think the 1st Infantry ought to bear a part of that? They could not be supplied without it?

General Taylor. Yes, sir; I think so. The construction that is going on out there, to what fiscal year can you apportion that? Some of it will not be completed until —.

Senator Symington. What worries me, Mr. Chairman, is that one sees headlines about saving $4 billion, $3½ billion, the same time you are heavily increasing the cost of the war. It is hard to correlate that. I personally view with grave apprehension the danger to the future value of the U.S. dollar incident to these various programs. I noticed, for example, the tremendous development in Okinawa. But your request this year for docks and aircraft alone in South Vietnam are over a quarter of a billion dollars more than the total investment in Okinawa by the United States since World War II. This budget apparently really means little as against the president of a company reporting to his board of directors just how much money he needs to run his business for the next year. You know there will be some gigantic supplementals come up here incident to what we are doing. The people do not have any idea as to what the basic facts are incident to the cost of Vietnam.

This question of the Department of Defense ability to identify the total cost of the Vietnam conflict generated actions which were later to haunt the budgeteers in attempting to justify budgets during the years of diminishing troop strengths. The Department of Defense instructed the services to introduce a new account into their respective accounting systems to identify those costs which could be associated with the Vietnam troop support. This was not only to

include those direct expenses in Vietnam and the Pacific, but also those expenses in the continental United States training base, which could be considered as being directly related to training of replacements for that area. Here, again, the concept of the "blank check" reared its ugly head. There is little evidence to support the general feeling which prevailed concerning this new expense account, but it was almost universally assumed that any costs which could be logically charged to Vietnam would be funded completely. At the training centers, it was difficult, if not impossible, to identify each individual who was destined to go to Vietnam upon completion of training. Additionally, it was equally difficult to specifically identify accurately all of the costs on an installation and pinpoint whether or not it should be included in the Vietnam account. I think it is common knowledge now (1972) that the prevailing trend at the time was, "When a doubt exists, charge it to Vietnam." As these costs were subsequently accumulated and provided in bulk to Congress, they became concrete evidence, not only of the cost of the war, but also that those funds would not be needed should our presence in Vietnam be no longer required. This mistake will plague us for some time in attempting to establish a meaningful base line for the cost of a peacetime force.

Changing Attitudes

As had been anticipated by Senator Symington, the "gigantic" supplemental for fiscal year 1967 was submitted to Congress by the President on 24 January 1967. The request was for a total of $12,275,780,000, of which $1,968,000,000 was for operation and maintenance, Army. This was perhaps the most difficult time for those individuals who were charged with the responsibility of justifying this budget. The climate in Congress had definitely changed and many of the Congressmen felt as if Mr. McNamara had overstepped his authority in administering the funds appropriated to the department. The concern of Congress is adequately stated by Mr. Glenard P. Lipscomb, Member, House Committee on Appropriations, in the following excerpt from the *Congressional Record* of hearings on the fiscal year 1967 supplemental before the House subcommittee:

> Mr. Lipscomb. Mr. Secretary, you spent a part of your statement explaining why you did not request of Congress a supplemental last autumn and fall when Congress was still in session, and you explained in your statement why you made the decision.
>
> Now, I recognize, as I am sure all of us do, that it is necessary in an emergency to have flexibility in the Department of Defense budget

to permit you to make quick decisions, take care of unforeseen problems, and I think that this is necessary. This authority was placed in the law by Congress for this purpose, but is was not intended, as I see it, to be used excessively or abused.

When the 1967 budget was before the Congress, it was clear at that time that the estimates for fiscal year 1967 were understated and that a budgeted estimate could have been given to Congress to be acted upon when we were still in session. It made a lot of difference to us as Congressmen to know just what the fiscal year 1967 demands were for the whole budget. We could have made a determination, should other programs in the domestic area be reduced; should we raise taxes at that time; what was our national debt going to be. In other words, it was a very significant time for us.

You indicate that the budget is an estimate, that you couldn't precisely see what the needs would be for Southeast Asia, but a budget is always an estimate. It is a plan. It is a guess in many cases.

We had before us at that time military and civilian pay. We knew about the stock fund. Certainly we realized that certain production funds were needed. We could have reevaluated the assumption at that time that the war wouldn't be over June 30, 1967. Many Members of the House and the Senate recognized that the Department of Defense needed more money.

This is of concern and this is a good time, I think, to talk about it, because you have changed your assumptions and have recognized a great difference in your fiscal year 1968 budget, as well as the supplemental that is before us. There is a big change in your approach.

At that time, suppose Congress, which I believe represents the people, had decided that there was a limit to the amount they were willing to spend in Southeast Asia? Suppose they wanted to debate at that time the size of the forces or whether they desired to appropriate funds before the forces were committed? Suppose that we had wanted to know at that time what the commitments were in that which the Department of Defense was proposing? Suppose we had wanted to give you all the money you wanted, but had said to come back to Congress before you make any further commitment, so that we could look at it?

As of the end of calendar year 1966 we were in the dark.

That just does not seem to be the way Congress should handle the Department of Defense budget. It appears to me that we have lost all control as a Congress over the Department of Defense appropriation process. No matter what we do, whether we raise your budget or vote it in as you request it, it doesn't seem like Congress has any control over this at all. This is a meaningless operation we go through every year.

For instance, if the State Department or the Commerce Department or the U. S. Information Agency or the Federal Bureau of Investigation came in here and asked for 123,000 employees that were already hired, or on board, and then would come in and say they wanted the funds to pay them, there would be a revolutionary development in the Congress if they handled it the same way.

Now, what gives the Department of Defense this great and uncontrollable authority and what gives the Department of Defense the right to be as loose in handling the money that Congress appropriates to it,

and why can't we, as Members of Congress, have a better idea and a better control over Department of Defense money?

Secretary McNamara was very seldom placed on the defensive before Congress, and this was certainly not to be the case when confronted by the above statement. The following dialogue ensued:

Secretary McNamara. Mr. Lipscomb, no Congress in the midst of military operations has ever had as much detailed information as this Congress has been receiving in the last two years and is receiving now about our military program. I would simply ask you to look at the record if you doubt my statement. I have looked at the record. I examined the financing of the Korean War and I examined the financing of World War II and the manner in which we are submitting the budget to you is vastly more precise than that employed by the Defense Department in either of those two previous occasions. I completely disagree with your conclusion that Congress has lost control of the war. Such is not the case. You had the opportunity last year, you had the opportunity in 1964, and you have the opportunity today, to debate the issue of the support of our forces in Vietnam and to turn down the appropriation requests that lie before you.

I don't believe that it is ever wise for a department to submit to you requests for appropriations in advance of the leadtimes required for those appropriations and especially when we are so uncertain as to the requirement as to not be able to document it. That is exactly the condition we were in last year. I explained it very carefully to this committee and to other committees. You may have a different view. I think the process we are following leads to the most prudent financial management possible under the circumstances. I believe it gives the Congress the greatest degree of potential control over the budget. I guarantee you that we are going to come out of this military operation with a better financial control and with less waste than was incurred in the Korean War. I think that result will be entirely a reflection of the change in the way the budget has been prepared and presented to the Congress.

Mr. Lipscomb. Mr. Secretary, why does the Department of Defense have a different approach to the budget than is required of other Government agencies?

Secretary McNamara. The main reason is we are fighting a war and they aren't and it is absolutely impossible for us to predict the actions of our enemy 21 months in advance.

The desire of Congress to maintain costs at a minimum level is epitomized in the following exchange between House committeemen Daniel J. Flood and Speedy O. Long, and Department of Defense representatives General Wheeler and Secretary McNamara.

Mr. Flood. You know artillerymen and so do I. What about your ammunition? You give an artilleryman a gun and a lot of ammunition and he will have a ball day and night. He just keeps pulling that lanyard—whang, whang, whang. What about that?

General Wheeler. They are shooting a lot of ammunition. There is an ample supply of ammunition.

Mr. Flood. Is that an answer?

General Wheeler. I didn't know to which point your question was directed.

Mr. Flood. I know you are not short of ammunition.

Secretary McNamara. The answer is that we are not short, and they are shooting a lot of ammunition.

Mr. Flood. Just so they are not having fun with this hardware.

General Wheeler. I don't think you could characterize it that way, Mr. Flood.

Mr. Flood. It is just a question of waste and not a question of shortage. I never thought there was a shortage. I know there was once a certain line [type of ammunition] but that didn't last long. It was about a year now. Now it is coming out of your ears and you are all right, with an extra line standing by. There is such a thing as waste in war.

General Wheeler. I think General Westmoreland can be trusted to keep a proper control over the assets given him.

Mr. Flood. General Westmoreland [in Saigon] is a long way from that hill [Artillery Hill near the demilitarized zone] you are talking about.

General Wheeler. He is up there quite frequently. I was with him there the other day.

Mr. Long. Is the cost of artillery shells, bullets, and that sort of thing a very important part of the cost of the war?

General Wheeler. Substantial.

Mr. McNamara. It is substantial but I think in relation to potential gain to us it is not something we are seeking to hold down. We have encouraged our commanders to request whatever they wanted in the way of ground ordnance and to use it freely.

It was evident already to budgeteers within the services that this type of reception could have been anticipated, since their submissions to the Department of Defense had been carefully pared to minimum levels. In the case of the Army, the Department of Defense had eliminated 32 percent of the total budget dollar value submitted to it by the Army. Thus, only 68 percent of the Army's requirements were forwarded to Congress. Whether these cuts made by the Department of Defense before submission to Congress were genuine attempts to provide only those funds which their statistics indicated were necessary or were cuts imposed to bring the total supplemental request within levels which might be acceptable in Congress is a question difficult to answer.

There was one specific point of disagreement between the Army and the Department of Defense which resulted in almost all of the cuts. The budget had been based on the anticipated number of troops to be supported in Vietnam. More importantly, a factor of tons per man-year was used to obtain the total amount of funds to be requested. The fiscal year 1967 regular budget had been sub-

mitted using a factor of 5.5 tons per man-year. This was obviously incorrect, but the question of just what it should be was the point of discussion. Figures accumulated by the Army during 1966 and the first quarter of 1967 indicated that it should be 9 tons per man-year. The Department of Defense believed the correct factor to be 7.8 tons per man-year. Since this is a bulk factor covering all types of equipment and supplies, it is naturally a judgment decision as to which is correct. Even though the Army submitted a reclama concerning the decision, the Department of Defense factor was used in developing the budget. From this point on the blank check was obviously gone. Service submissions since have been carefully scrutinized by the Department of Defense before submission to Congress, and more and more effort has been expended to control the cost of the Vietnam War. Financial management and responsibility in this conflict began here after the major buildup was accomplished.

The Fiscal Year 1968 Budget

Compared to the discussions of the fiscal year 1967 supplemental appropriation, the hearings on the fiscal year 1968 budget were mild. Congress had evidently vented its wrath during the earlier deliberations, and further, had been told that a change in the method of budget preparation had been made for fiscal year 1968. The major change was the estimate that the war might extend beyond 30 June 1968 and that continuation of the current level of activity would be experienced. This would negate the necessity for another large supplemental as had been required in fiscal years 1966 and 1967. The hearings on the regular budget did bring out one new twist in funding which was later to generate considerable verbiage in the *Congressional Record* concerning its propriety. Under a program, known as AID/DOD Realignment, the Department of Defense (DOD) was to assume some of the functions in Vietnam previously performed by the Agency for International Development (AID). This was a logical shift of responsibility, since projects such as building roads, repairing the railway system, providing medical supplies, construction of ports and waterways, and other normal developmental actions were just as necessary to the war effort as they were to the improvement of the Vietnamese infrastructure. In fact, many of the same requirements existed in both programs.

The funds required to pursue the program was another matter, not so clearly defined. In attempting to obtain sufficient funds it was sometimes difficult to correlate figures which the Agency for International Development was willing to relinquish with the sums

requested by the Department of Defense to administer these activities. This was brought rather forcefully to light in this comment during the fiscal year 1968 hearings.

> Mr. Lipscomb. Regarding the AID/DOD Realignment program, we have now been provided with three different sets of figures as to the amount required for fiscal 1968. The information you have provided the committee shows that $92.1 million will be required to carry out this function.
>
> The Office of the Assistant Secretary of Defense, Comptroller, has submitted a project listing which indicates you will obligate $97.8 million for this program. However, Mr. [Rutherford M.] Poats, Assistant Administrator, Far East, Agency for International Development, has advised the Subcommittee on Foreign Operations that the Army will only require $50.4 million to carry out this activity.
>
> For instance, your supporting information states you need $5 million for MEDCAP teams. The Office of the Assistant Secretary of Defense shows it at $5.3 million, but AID estimates that at only $3 million. Can you tell the committee which are the proper figures?

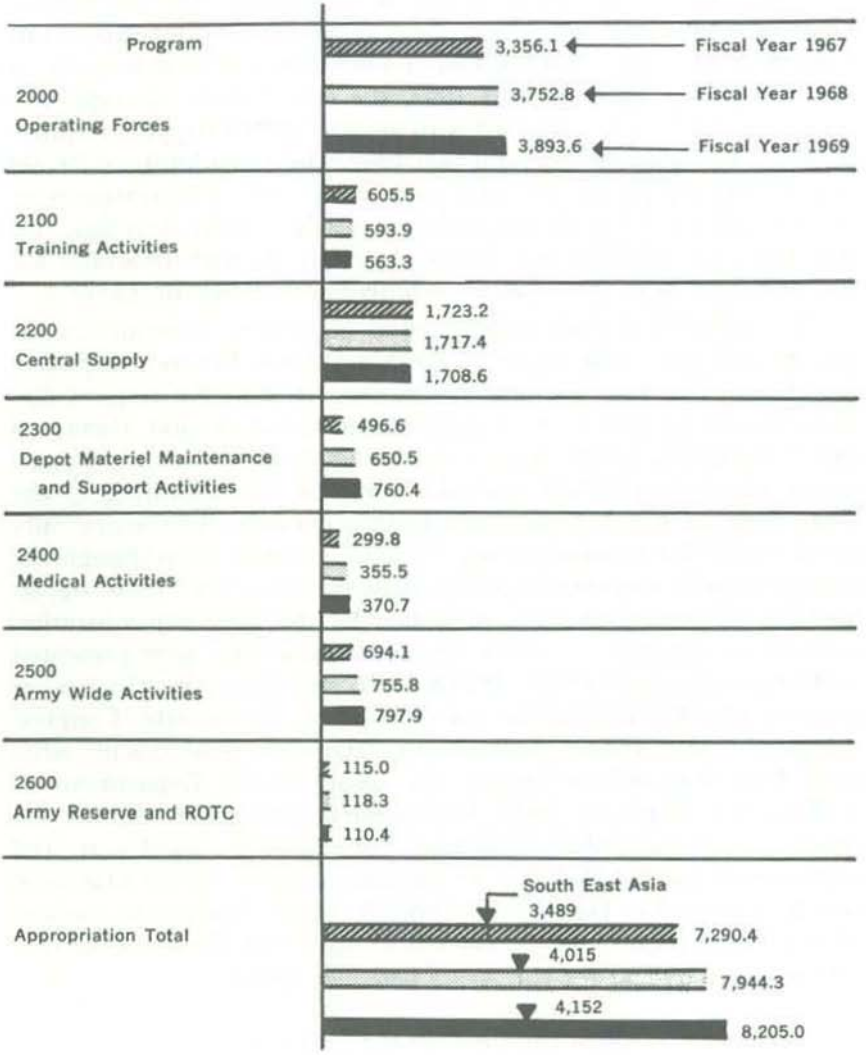
The response was, as expected, that the Army's figures which were currently under consideration were the correct ones and stated the exact needs. Even though there was considerable comment, there is no evidence that Congress seriously balked at approving the requested funds.

Although the fiscal year 1968 budget had been prepared using different guidelines, there was a need for another supplemental as the year progressed. Its size, however, was only approximately one-third that of the supplementals for fiscal years 1966 or 1967. Whether Congressmen had resigned themselves to the supplemental form of budgeting, or they were relieved that it was so small in comparison, is not clear, but this supplemental passed virtually as requested with none of the innuendoes concerning the possibility of mismanagement of funds which had characterized the fiscal year 1967 supplemental hearings. There were instances when the Army's obvious attempt to institute a form of financial management was lauded by certain members of the subcommittee. It was evident that some measure of control had been initiated at least and that we were truly underway toward having more meaningful data on which to base future submissions.

The Fiscal Year 1969 Budget

The fiscal year 1969 budget discussions were equally mild, although the budget represented a slight increase over fiscal year 1968. The budget plan shown in *Chart 2* was submitted to Congress to illustrate the budget plans for fiscal years 1967, 1968, and 1969.

CHART 2—DIRECT BUDGET PLAN IN MILLION DOLLARS



Also indicated on the appropriation total lines are the costs for Vietnam. The explanation which accompanied this illustration emphasized the larger numbers of personnel planned for support in 1969 than had been accomplished in 1968 with a modest increase in funds required. In fiscal year 1968, the active Army strength was quoted as 1,477,525, compared with an anticipated support requirement for 1,501,397 during fiscal year 1969, while an additional 39,000 free world military armed forces were envisioned. The realignment program received the anticipated scrutiny during the hearings, and the Army was asked to specifically identify costs with programs for the new fiscal year. The Army's submission is shown in *Table 3*.

The fiscal year 1969 supplemental arrived on schedule as expected and was made quite acceptable by two factors completely unrelated. The first was that it was smaller than the request had been for the fiscal year 1968 supplemental, and, second, there was much discussion at this time concerning the Vietnamization program, which was looked upon by many as the beginning of the phasedown of the U.S. presence in that country. The actual submission date for this budget was 17 January 1969. Even though the initial amount requested was less than the fiscal year 1968 supplemental, additional changes in policy by the new administration called for re-evaluation of the request. Reductions were presented to Congress formally on 27 March 1969, and during hearings other areas of possible reductions were identified. Apparently, Congress adopted a wait-and-see attitude to determine just exactly what would be required to finance the needs of the Department of Defense for fiscal year 1969. The supplemental appropriation was finally passed on 22 July 1969 after the end of the fiscal year, and represented approximately a 15 percent reduction from that originally requested in January. The end of massive budgets to support this increasingly unpopular war was in sight, but the problems of a diminishing budget for the Army had just begun.

New Problems in the Seventies

At the time of submission of the fiscal year 1970 budget, withdrawal of American troops had already begun. The Army found itself in the unique position of trying to anticipate the phasing of troops out of Vietnam, which proved just as difficult as projecting the buildup in many instances. This was somewhat paradoxical, since we had just accumulated quite accurate data on which to base budgets for continuing activity in Vietnam. We even had some factors concerning the costs of increasing American troops in

TABLE 3—REALIGNMENT PROJECTS

Description of AID/DOD Project
(In millions)

	Amount
1. MEDCAP: Supply medicines for Military Civic Action Teams. These supplies are used by US, RVNAF and FWMAF medical personnel conducting the Medical Civic Action Program (MEDCAP)	$ 3.0
2. Medical supply: Provide funds for procurement of common use medical supplies in treating civilian population by medical personnel working for the Ministry of Health. AID and DOD will share costs equally (50–50)	15.8
3. Railway sabotage replacement: DOD will assist the GVN Directorate of Vietnam Railway Systems to continue implementation of the USAID planned restoration of VN railroads. Assistance will consist of commodity support and technical assistance	3.8
4. Commodity support of GVN police: To provide supplies or funds for financing items used by the National Police Field Forces involved in paramilitary operations	12.4
5. Highway maintenance: Originally this program was to furnish supplies and technical assistance to the GVN Ministry of Public Works for the Directorate General of Highways. It has been expanded to include contractor and troop maintenance of some major highways and streets	23.1
6. Ports and waterways, commodity support: Commodity assistance for rehabilitation and development of RVN ports by the GVN Ministry of Communications and Transport. AID continues to provide technical assistance and training but DOD finances the commodity support	.8
7. Revolutionary development: DOD provides commodities to support 3 military affairs projects: (1) Military Civic Action; (2) Popular Force Dependent Housing; (3) People's Self Defense	3.0
8. Vietnam TV: DOD finances the Vietnamese Television Service as an integrated adjunct of the U.S. Armed Forces Radio and Television Service and as a separately managed program by JUSPAO. As an essential psychological warfare effort JUSPAO co-ordinates with GVN Ministry of Information and Open Arms and the Director of Television	2.5
9. *Chieu Hoi* program: Provides encouragement to NVN defectors and care, including educational program for these defectors	2.0
10. Port handling and off-loading charge: Formerly reimbursed by AID is now budgeted as a direct Army expense	7.0
11. Subsistence, consumable, and associated air transport for military personnel families and refugees	5.3
Total	$78.7

Vietnam. Now, the whole picture had changed, and our budget became a guessing game again.

The hearings on this budget brought to light a problem which had heretofore been lost in all of the activities to support our troops with everything necessary to carry on combat—excess supplies and equipment. I will discuss the matter of "push" shipments of supplies and the methods used to insure that no shortages existed in Vietnam in a later chapter. The Army had just begun to identify

those items which were in long supply, and this became a subject for debate during the deliberations on the fiscal year 1970 budget. Mr. Robert L. Sikes, Member, House Committee on Appropriations, issued this prophetic understatement during the House appropriation hearings: "You will get some criticism for shipping too much material in there, but I would rather err on the side of too much than on the side of not enough." The criticism did, in fact, materialize, and in the very same hearing. The following excerpt is only one example:

Mr. Lipscomb. I am getting a little tired of working on the supplemental budget basis, Mr. Chairman. The next thing we know we will have another supplemental budget in here that we have got to work on in a hurry in order to get help to our men in Vietnam. It just seems inconceivable to me that with all the computers, accountants, and technicians and all of the compiled statistical data that we have over in the Pentagon, or have had, that now at this date we are told of a great oversupply and overstockage, an excess of stock; and yet the combat intensity over there, as far as I can tell, is still pretty high. It just does not make sense to me.

But I should be able to think it out, probably.

General Taylor. No, sir. May I respond?

Mr. Lipscomb. Yes, I would be glad to have you respond.

General Taylor. Mr. Lipscomb, this is the first time in the history of our country that we have ever conducted a war where we have attempted for the first time to institute in an active theater of operations any type of financial inventory accounting or actual monetary controls. Even this was not started until, I guess it was, 1968.

General Hayes. 1968; right.

General Taylor. 1968, after the war had been going on for a period of 2 years, we are now attempting to do this. I think we are well on the way. But this is part of our problem. We have never attempted to have an actual inventory of supplies on hand in an active theater of operations, nor have we attempted in the past to maintain a strict monetary accounting system in-country. We actually have not instituted financial accounting, per se, in-country, but it is in the theater at Headquarters, USARPAC at this particular time and we are now starting to make improvements. I am not trying to tell you that we will be perfect because I would be foolish.

Mr. Lipscomb. I do not expect you to. You just happen to be across the table. I am not being critical of the present officers but I have never before been under the impression, sitting on this side of the table, that we have been other than carefully prudent about appropriating money and sending supplies necessary to our men over there. I thought that the Department had the best available system to do this—to get these supplies over there. In fact, I have thought from time-to-time that we have been too close in what we sent. There was a time a few years back they were short of clothes, and they were short of ammunition in some areas. You remember the shortages talk. Well, at that time we were being criticized because we were holding it too much in line. So I have never had the impression that we have been just shipping supplies out, tires

and all the rest of these things, without adequate authorization or adequate invoices and whatever you use to account.

Not only did the Army experience some difficulties in justifying requests for funds in Congress, but analysts in the Department of Defense disagreed in many areas with the anticipated costs for operations during the 1970 fiscal year. The original operation and maintenance appropriation of Budget Program 2000 submission by the Army to the Defense Department totaled $3,662.3 million. Reductions identified by the Department of Defense were $712 million. Reclamas were $327.1 million, of which $23.7 million were restored. *Table 4* is a detailed listing of the Office, Secretary of Defense (OSD), adjustments to the original submission, the Army reclamas by projects, and those which were restored.

For the first time since fiscal year 1966, no supplemental was required for the 1970 fiscal year. This was made possible to a large degree by the decision to further reduce the number of troops in Vietnam during the year. The required funds were supplemented by

TABLE 4—ADJUSTMENTS, RECLAMAS, RESTORATIONS
(In thousands of dollars)

	OSD adjustments	Army reclama	OSD restoration
Operation, tactical forces aircraft	—12,800	.....	.....
Other support activities	—7,797	7,797	+842
Revolutionary development cadre, Vietnam	+2,694	9,100	.....
JCS directed and co-ordinated exercises	—9,000	.....	.....
Classified project	+50	.....	.....
Republic of Vietnam supplies and matériel	—252,700	211,100	.....
Air pollution abatement program	—228	.....	.....
Army civil defense training	—92	30	.....
Real property maintenance	—34,398	34,398	.....
Automatic data processing	—11,400	11,400	.....
Reactor support activities	+1,700	—1,000	.....
Air Defense Forces	—409	158	.....
Sentinel system	+69	—69	.....
Man-year costs	—2,859	.....	.....
Military assistance activities	+6,700	.....	.....
Administration and associated activities	—905	905	+228
Reduction of costs in Europe	—31,455	13,222	+10,869
General purpose forces	—155,103	7,499	+10,500
Additional submissions	—19,845	9,100	+2,052
Strategic and Reserve Forces air defense	—10,624	10,286	—552
General purpose forces air defense	—9,992	9,992	.....
Civilian employment	—3,169	3,169	.....
Southeast Asia attrition and consumption	—160,000	.....	.....
Miscellaneous	—387	.....	—251
Total	—711,950	327,087	+23,688

the identification of more excess supplies and equipment which could be used by other commands, thereby reducing their need for new obligational authority. Financial management improved throughout the year, and the Army was finally bringing all aspects of funding and supply under firm control. As evidence of the renewal of interest in eliminating unnecessary spending, a Chief of Staff Action Memo was issued by Headquarters, Military Assistance Command, Vietnam, to all commanders. It urged conservation of resources in these words:

> During fiscal year 1970 there has been increasing pressure to reduce spending within DOD. This has been evidenced by the receipt of actual funding authorizations which are far below previously budgeted requirements. From all indications to date, the austere funding limitations will continue for the next several years. Accordingly, efforts must be initiated now to effect substantial reductions in all elements of cost and to initiate a program that will insure the conservation not just of funds, but all other MACV resources as well.

With the continued withdrawal of troops and renewed awareness of cost by commanders, the fiscal year 1971 budget reached a new low during the conflict and was only lightly challenged by Congressmen. The major area of discussion concerned the fact that many members of the Appropriation Committee did not feel that we were reducing the budget enough in light of the reduced activity in Vietnam. They harked back to previous hearings when the Army had presented their total costs for Vietnam, and the feeling seemed to be that we should be able to live at pre-Vietnam levels of funding when all of the troops were withdrawn. The indication was present that we were not headed toward that level at a rate consistent with the draw-down of troop strength. The response by the Army to this line of reasoning was based on several factors, including pay raises for civilians, training and maintenance which had been deferred due to the need for funds in Vietnam, rise in cost of supplies and equipment, and costs associated with actions which would have to be completed in connection with the withdrawal, such as excess supply identification and distribution. It was made exceedingly clear to the Congress that the Army could never support the same troop strength which existed in 1964 with the same number of dollars which were appropriated in that year. This method of justification had prevailed since the hearings on the fiscal year 1971 budget.

A Review of Army Actions

In submitting the 1972 fiscal year budget to the House subcommittee, the Assistant Director of the Army Budget, operations

and maintenance, Office of the Comptroller of the Army, Brigadier General John A. Kjellstrom, provided an insight into the actions taken by the Department of the Army to establish a viable financial management arena for the operation and maintenance appropriation. His remarks included the following:

I would like to highlight some of the efforts we have initiated within the Department of the Army to improve the management of the Operation and Maintenance, Army Appropriation.

Financial Management

In January 1970, an Army Financial Management Committee was convened at the direction of the Vice Chief of Staff of the Army. This committee, which was chaired by the Comptroller of the Army, was charged to conduct an examination of the Army's organization and procedures for Financial Management and to make appropriate recommendations as to how they could be improved. The recommendations of this committee have resulted in significant changes in the Army staff financial management organization and procedures. The thrust of the reorganization was to improve the capability to review critically the total Army program and budget request so that the very top Army managers could make timely decisions concerning the allocation of funds between all programs and appropriations. It was the recommendation of this committee that resulted in assignment of responsibility for OMA to the Assistant Director of Army Budget in order to allow the Director to concentrate his attention to the entire Army Budget. These recommendations have resulted in better balance between appropriations and better budget justifications.

Operation and Maintenance, Army Analysis

A second effort to improve the management of the Operation and Maintenance, Army appropriation was the formulation of an in-house Department of the Army group to conduct an indepth analysis of the appropriation. The objective of the analysis was to improve budget development techniques and procedures to ensure that programs funded by this appropriation are sound and balanced.

The major effort was directed toward development of cost estimating techniques which would facilitate the program and budget development of this appropriation. As a result of this effort, new cost estimating techniques, which relate costs to military strength supported, have been developed and are being validated at the present time. This effort also provided new insights into the relationship between mission and base operations funds.

Mission funds provide support for the soldier, his unit and other supporting activities without respect to their geographical locations. For example, mission funds support the divisions located in the Continental United States. Should one of these divisions be deployed to reinforce the North Atlantic Treaty Organization (NATO), the same mission funds would support the division in Europe as in the United States. These funds provide for command and control, individual and

unit training, operating supplies and equipment maintenance. Base operations funds, on the other hand, provide housekeeping services for the soldier, his unit and other supporting activities at a specific geographical location. Referring to the earlier example, these funds pay for the operation of installations where the divisions are located. These costs continue as long as the installation is open, whether or not a division is located there. Base operations funds provide essentially the same services that a city provides to its residents plus services peculiar to a military organization.

The group researched and studied the validity of historical workload indicators such as student loads, items processed, short tons shipped, and patient loads. In addition, they studied the application of the accepted business practice which recognizes that some costs vary with volume or output while other costs remain essentially fixed. This was found to be applicable in many of the OMA programs, but it was particularly so in the force related programs. The group found that the dollar requirements in these programs are quite variable and relate to the average number of military personnel in the Army.

The group also found that many of the costs which OMA supports cannot be related directly to the average number of military personnel supported. These costs, which we have chosen to call "static costs," closely resemble what the business world calls fixed costs in that they do not vary directly with volume or output. A good illustration of static costs occurs in base operations where costs vary only somewhat with volume or output but do not vary in direct proportion. For example, the annual base operations cost to operate Fort Hood, Texas, which supports two divisions, is approximately $27 million. If we moved one of the two divisions from Fort Hood, we would have reduced the troop strength by one half, but would not be able to reduce the base operations by one half. The reason is that some costs continue whether there are 10,000 or 20,000 soldiers at an installation. For example, there are the same miles of roads to maintain and essentially the same number of buildings to repair. Since the buildings remain, the cost of fire protection remains the same. The base services, such as commissary, laundry and dry cleaning, can reduce some costs by reducing the number of people they employ and, to some extent, by limiting the hours of operation. However, if the level of services is to be maintained, the costs cannot be cut in half solely because the military population has been reduced by one half.

I believe the Army's efforts in this direction hold great promise in improving the management of manpower related programs as well as our base operations activities. We are continuing within my organization to refine and improve these management techniques. I would like, however, to emphasize that this approach is not designed to replace our proven workload indicators nor our field commanders' estimates. It is an additional management technique which has been used along with many others in developing this request.

Continental Army Command Base Operations

A third effort to improve our management began in June 1970 when the Comptroller of the Army, in coordination with the Commanding General of the Continental Army Command, undertook an analysis of

base operations at installation level. The objectives of the analysis were to identify the reasons for the wide variance in base operations costs at various installations in the Continental Army Command. The analysis also sought to establish a method for analyzing installation base operations funding levels in relation to a standard of performance. Although we do not attempt to manage each installation from the Pentagon, we do, however, assist the installation commander in improving the management of his resources. This study was directed at assisting our field commanders as well as our own overview of these costs.

The study identified the key factors which influence the base operations fund requirements and account for the differences in cost between installations. Some of these determinants are:

—The number and type of military personnel assigned to the post.

—The number, type, condition and use of real property facilities. For example, physical size of the post, the training areas and temporary versus permanent construction.

—The density, type, condition and use of vehicles, weapons and other equipment items.

—Geographic location in terms of weather conditions, wage rates and transportation charges.

—Policies, directives, and priorities emanating from the installation commander or high commands.

It was recognized that, because of these determinants, each installation is unique in its requirements for base operations funds. In view of this, it is necessary that the character of each installation be recognized when resource decisions are made.

Using data obtained by reports and field visits, we have been able to develop specific base operations cost levels for 25 major and 17 lesser Continental Army Command installations. With the methodology developed in this study, the Commanding General, Continental Army Command, who is responsible for managing the installations, will continually validate, update, and expand its application.

The real value of this technique, when fully developed, is that we will have a valid standard against which to measure performance and develop base operations estimates. This standard is designed to relate workload to dollars received and, at the same time, provide adequate support to our soldiers.

The methodology developed in this study has been determined to be applicable to both mission activities and base operations world-wide. We have just recently undertaken the extension of the study with personnel resources presently assigned to the Office, Comptroller of the Army.

Transportation

One of the most serious financial management problems facing the Army today is that of determining and managing second destination transportation. As you recall, we found it necessary to reprogram in excess of $100 million into the transportation account in order to meet our Fiscal Year 1971 requirements. We believe the Fiscal Year 1972 request is correctly stated; however, we are continuing our efforts to improve transportation management.

In January of this year, we formed an in-house group to examine ways for improving the financial management of the Army transportation program. The group is headed by a general officer from the Office of the Comptroller of the Army and has representatives from other Army staff agencies and field commands. The group's recommendations are scheduled to be completed by May of this year.

Supply Support of Forces in Vietnam

The Army has, for several years, devoted a great deal of effort to managing the procurement of operating supplies for our forces and Allies in Vietnam. We have in operation in Vietnam, within the depot system, a Financial Inventory Accounting System comparable to that utilized throughout the rest of the Army. We did not implement a Financial Inventory Accounting System during the early stages of the conflict, but our experience indicated a firm requirement for financial information on supply levels, issues, and receipts. The Commander, U.S. Army, Vietnam, now provides for Headquarters, Department of the Army, information on supply operations on a monthly basis. This data is utilized at all echelons to carefully manage our financial requirements for supplies in support of our forces in Vietnam.

Since Fiscal Year 1968, we have had the Centralized Financial Management Agency located at Headquarters, U.S. Army, Pacific in Hawaii. This organization is the financial manager for all Operation and Maintenance, Army funded supplies and materiel purchased in support of U.S. Army Forces, Republic of Vietnam Armed Forces, and Free World Military Assistance Forces in the Republic of Vietnam. In the formulation of the budget request, requirements for Southeast Asia supplies were separately determined and reviewed.

The computation of requirements involves the use of a zero based consumption budget using actual monthly dollar consumption. The fact that the Vietnamese and other Free World Forces consume fewer supplies than a U.S. soldier is considered in the computation formula. Once the total requirement has been determined, we then determine how much of the requirement can be satisfied by utilizing assets already on hand and how much will require new obligational authority.

For example, in Fiscal Year 1970, the Army was able to use assets on hand in the amount of $231.5 million against a total consumption requirement of $1,404.4 million. The Fiscal Year 1971 plan calls for asset utilization in the amount of $215.4 million against a total consumption requirement of $753.4 million. The Fiscal Year 1972 budget contains a planned asset utilization figure of $101.8 million against a total estimated consumption requirement of $533.9 million. The lower asset utilization plan for Fiscal Year 1972 is the result of our intensive efforts to achieve better supply and financial management over our inventories in support of Vietnam and reduce our excess supply position.

As a result of aggressive and intensified supply and financial management actions, the Army has, in the past two fiscal years, been able to provide supplies to our forces in Vietnam worth over $1.8 billion, at a cost in current years obligational authority during these two years of just slightly over $1.3 billion. Because of its importance to the support of our forces in Southeast Asia, this supply program is intensively man-

aged and undergoes frequent personal review by the Secretary of the Army. This intensive management has paid dividends by allowing the Army to take advantage of savings and long supply utilization to offset what might otherwise be new dollar requirements in support of Southeast Asia.

A Reputation for Responsibility

The Army has emerged from the Vietnam conflict with a reasonably good reputation with Congress. Even in the years when frustrations resulted in sharp comments and sometimes ridicule, it was the Department of Defense which bore the brunt of the attacks. Numerous instances arose, in which Army budgeteers were more successful in obtaining funds from Congress than they had been with their requests at the Department of Defense level. The general impression created throughout was that the Army was making every effort to maintain a reasonable degree of financial control while insuring that no commander in the field was deprived of anything absolutely necessary to pursue the war as he deemed necessary. This is a difficult tightrope to walk, but the dividends to be derived in future budget submissions will be evident. At least with Congressmen, the Army has no credibility gap at the moment. I think it is also evident that the Congressmen were walking the same tightrope with their constituents. There will always be competition for the limited funds available, but with the reputation developed through this period of extreme turbulence and the institution of measures such as described above, the Army should be in an excellent position to defend its requirements. While some belt tightening will be necessary, proper financial management should provide for a strong, responsive force.

CHAPTER III

Accounting for the Conflict

Most, if not all, governmental accounting systems concentrate on fund control, almost to the exclusion of accounting for managerial purposes. The system used by the U.S. Army focuses on fund control and aims at reporting to Congress how appropriated funds are spent. Congress has persistently displayed a keen interest in financial operations and seldom has relinquished tight controls or the need to account for funds. It would be untenable to question the interest of Congress when the 1969 fiscal year defense budget for support of Southeast Asia reached $29 billion. Given that the Army was charged with maintaining an accounting system designed, primarily, to function in a stable, peacetime environment, how was the task to be accomplished in a wartime atmosphere?

Accounting systems rely basically on capturing data closest to the point of origin and as soon as it is available. The fact that most of the information was generated in a tactical environment by nonadministrative oriented personnel presented a perplexing problem. The Army Chief of Staff established the policy, early in the conflict, that the Army in Vietnam would be relieved of as many administrative responsibilities as possible. This decision established a sizable roadblock and interfered with a basic accounting principle. It meant information would somehow have to flow to a remote accounting operation through a pipeline using minimum staffing.

Army financial planners began a search around late 1964 for alternatives as to where to locate the accounting operation and how to collect data. Basically there were two alternatives: to locate somewhere in the continental U.S. or to locate somewhere in the Pacific. Proximity to the theater of operations weighed heavily in favor of a Pacific site. Okinawa appeared to be an excellent choice as the logistical system was centered on that island outpost. Furthermore, some accounting was being done for the Military Assistance Advisory Group in Vietnam although the funds were allotted to the Military Assistance Program and transactions mainly involved reimbursement to the operation and maintenance, Army, allocation. Hawaii too was considered but decided against, although resources existed and several accounting operations were in being.

Once a site was selected, the job of setting up a collection system loomed high on the horizon. There were too few members of finance units in Vietnam. The units further had been designed to be more capable of paying the troops and selling piasters than of operating an accounting system. Comptroller staffs were almost nonexistent or constrained by size. The logistics system was primitive and lacked centralized control. Initial troop deployments correctly concentrated on combat units to the exclusion of support troops. It was to be a while before the support elements caught up with the volume of the war. With all these hurdles, the necessity for reporting to Congress prodded the Army into developing a workable system. In the end, Okinawa was chosen because it combined proximity with availability of data. The latter, it was decided, could be generated as a by-product of the supply system. Since logistics consumed most of the Army operations and maintenance funds, the planners believed the residual expenditures could be accounted for with minimal effort.

The Early Days

Thus, Okinawa was chosen, and accounting for Vietnam expenditures appeared imminent. In a normal situation, the operation and maintenance funds for the Army flow from Congress through the Department of Defense, the Department of Army, special operating agencies, and regular operating agencies to the final place where they are obligated. Okinawa had an operating agency, so again it appeared a good choice. The operating agency, it should be noted, is just an administrative activity which consolidates reports and channels funds. The major difference with Vietnam is that it did not receive the normal "allotment of funds" as would a stateside installation. This would involve more sophisticated accounting and budgeting in-country than allowed by Department of Army policy. Thus, the normal chain was broken at its bottom link.

Constrained by this departmental policy, an alternative vehicle to the allotment of funds was needed to inform the commanders in Vietnam of how much they could spend. This was not a unique problem. In numerous cases funds are required by an installation to finance a unit or activity which is absent from the installation. Therefore, several methods of funding or financing these absent activities have developed. One of the devices is an "Advice of Obligation Authority." This is a cumbersome document at best, chaos at worst. Let us digress for a brief explanation of the obligation authority. The home installation issues a Department of Army Form 14–114 to the installation where its absent activity is tempo-

rarily located. The authority is for a stated period and amount. Funds are normally spent for local procurement items required immediately and for items of a nonrecurring nature. The authority is usually limited to a thirty-day period from the date of issuance. The period may be extended to ninety days but normally no longer. A record of all obligations is maintained on the reverse side of the form. At the end of each month all supporting documents are forwarded to the issuing installation where the transactions are recorded in the formal accounting records. Almost immediately it was recognized that Okinawa would be inundated by the flood of fiscal papers flowing toward the island. Eventually, a high of over fifty million dollars was positioned in Vietnam under the obligation authority. This is not much money compared with what was eventually spent on the war, but the sum is significant when the number of documents supporting obligations for this amount is considered since an obligation authority is normally used for small, limited transactions.

To finance the supplies for Vietnam, it was decided that the stock fund would be used and reimbursed from the Army operation and maintenance allocation, using established Army procedures. The stock fund is a revolving or working capital fund and is one of the many types of funds used in the federal government. The basic concept of any revolving fund is that the capital of the fund theoretically remains constant since there are established procedures for adjusting the capital. At the time of initial capitalization, the fund is given an allocation of funds with the U.S. Treasury. The Army Stock Fund uses these funds to procure inventory for resale. Thus the stock fund is generally composed of funds with the Treasury and of inventory. When supplies are procured, there is an increase in the amount of inventory, but since payment must be made to the source of procurement, there is a corresponding decrease in funds with the Treasury. When a sale is consummated, there is a reduction in the amount of inventory; but since the customer must pay for the items received, there will be a corresponding increase in funds with the Treasury. Normally, supplies are purchased by the major command stock fund from Army Materiel Command and the Defense Supply Agency. These act as wholesalers and purchase the supplies from civilian producers. The command stock fund then retails or sells the supplies to the users and is reimbursed from the user's funds.

One requirement for an orderly interface, the common boundary of different organizations, is that the users must estimate, rather accurately, their needs for the fiscal year. This requirement suffered

from the impact of a 1965 memo from Secretary of Defense McNamara. At that time, Mr. McNamara said that unlimited appropriations were available to finance the U.S. involvement in Vietnam. This policy was reiterated later by the Secretary during a visit to Headquarters, Pacific Command. With a blank check, and no supply discipline to constrain requisitioners, forecasting was almost impossible. Compounding the problem was the lack of supply accounting. Many requisitions were probably submitted without an underlying requirement because no one knew what was available. The stock fund was never furnished accurate forecasts, and the supply requirements were overwhelming. Also, the troop level increased so rapidly that the financial procedures could not keep pace. Financial managers in the theater had no idea at what rate troop levels would accelerate or what the final base line would be.

Other procedures complicated a tenuous situation. "Push packages" prepared by the Army Materiel Command were being shipped automatically to Vietnam and Okinawa, and Army operation and maintenance funds were being charged. The push shipments were packaged by the various National Inventory Control Points and sent to Vietnam without processing requisitions. National Inventory Control Points are organizational elements of a wholesale stock fund assigned responsibility for integrated matériel inventory management of a group of items. The packages were assembled based on engineering estimates, experience gained from other theaters, and the end item density or the level of supplies needed for sustained operations. The logistical concept and rationale for push packages is probably sound but presented budgeting and accounting problems. For example, demand data were sometimes not recorded, so that the pipeline could be filled. In many cases, before the push package could be identified and supplied to the customer, he would have initiated requisitions, thereby inflating actual demands on the National Inventory Control Points in the continental United States.

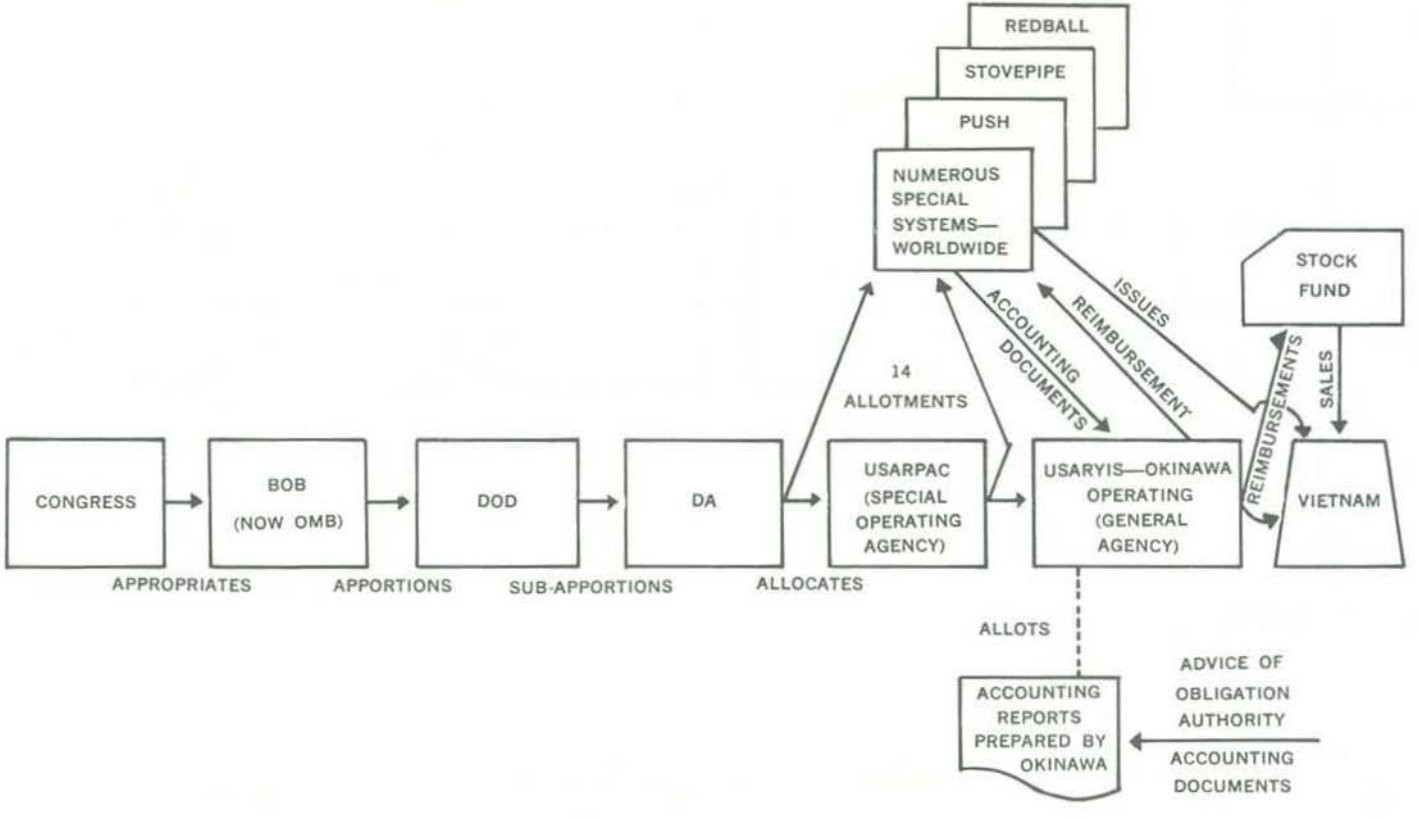
Another technique devised was the "Stovepipe." This was a management technique designed to supply special types of equipment such as for missiles and helicopters. Requisitioners dealt directly with U.S. suppliers and by-passed all normal supply channels. Once again, the goal of expediting supplies was attained at the expense of financial management. This idea proliferated until there were over ten systems all submitting bills to Okinawa. These logistical solutions further degraded the accounting system's integrity and added to the problem of keeping the stock fund liquid. Additionally, shortages of qualified personnel and data processing machines combined to make accurate projections of stock fund

requirements impossible. Sales data were not recorded promptly nor accurately, thus delaying reimbursement. Cash availability became critical and at times the fund was illiquid. This was in violation of U.S. statutes which were later changed. Now (1972) cash must exceed accounts payable only at the home office or headquarters. This legislative change eased conditions somewhat. A complicating factor was that obligation authority was often insufficient to procure items from inventory because of poor forecasting and inaccurate supporting data. *Chart 3* shows the financial environment in which Okinawa was operating. This can be compared with *Chart 4* which shows a prototype financial network. In essence, just bringing all the fiscal paper together at Okinawa was a major problem. Processing the paper once it was received was hindered by limited automatic data processing equipment and numerous breakdowns of this equipment. The hectic planning and the failure to consider all aspects of the potential operation dealt the *coup de grace*. One of the most important aspects was the shortage of available personnel. Individuals capable of operating the system were in short-supply and sufficient numbers could not be hired. Thus, a bad situation worsened from the start.

Confusion was not limited to Okinawa. Some Army supply activities used their own funds obtained from the Department of the Army; others requested funds from the U.S. Army, Pacific, to pay for issues to U.S. Army, Vietnam, or requested bills to be forwarded to Vietnam, Okinawa, Hawaii, and many separate offices in the United States for payment. It was not known if the issues should be billed to stock funds or consumer funds. Requests were received from many sources for funds to support U.S. Army, Vietnam, issues; these requests could not be refuted or verified. The result was that funds were widely dispersed; piecemeal funding actions became the rule; and the overall Vietnam budget, fund requirements, and responsibilities could not be established. Budgetary actions became so numerous that funding actions had to be handled on an emergency basis to meet the support requirements. Thus, a current status of funds in support of U.S. Army, Vietnam, could not be determined; requirements could not be identified or forecast; adequate controls could not be exercised to assure that the U.S. Army, Vietnam, supply support funds were actually being applied to this purpose; nor was it possible to "pin down" information with regard to total Vietnam support costs.

The situation needed change which was soon coming. During 1966, the Department of the Army completed a study of the U.S. Army, Pacific, logistic system in support of forces in Vietnam. This

CHART 3—OKINAWA FINANCIAL MANAGEMENT ENVIRONMENT



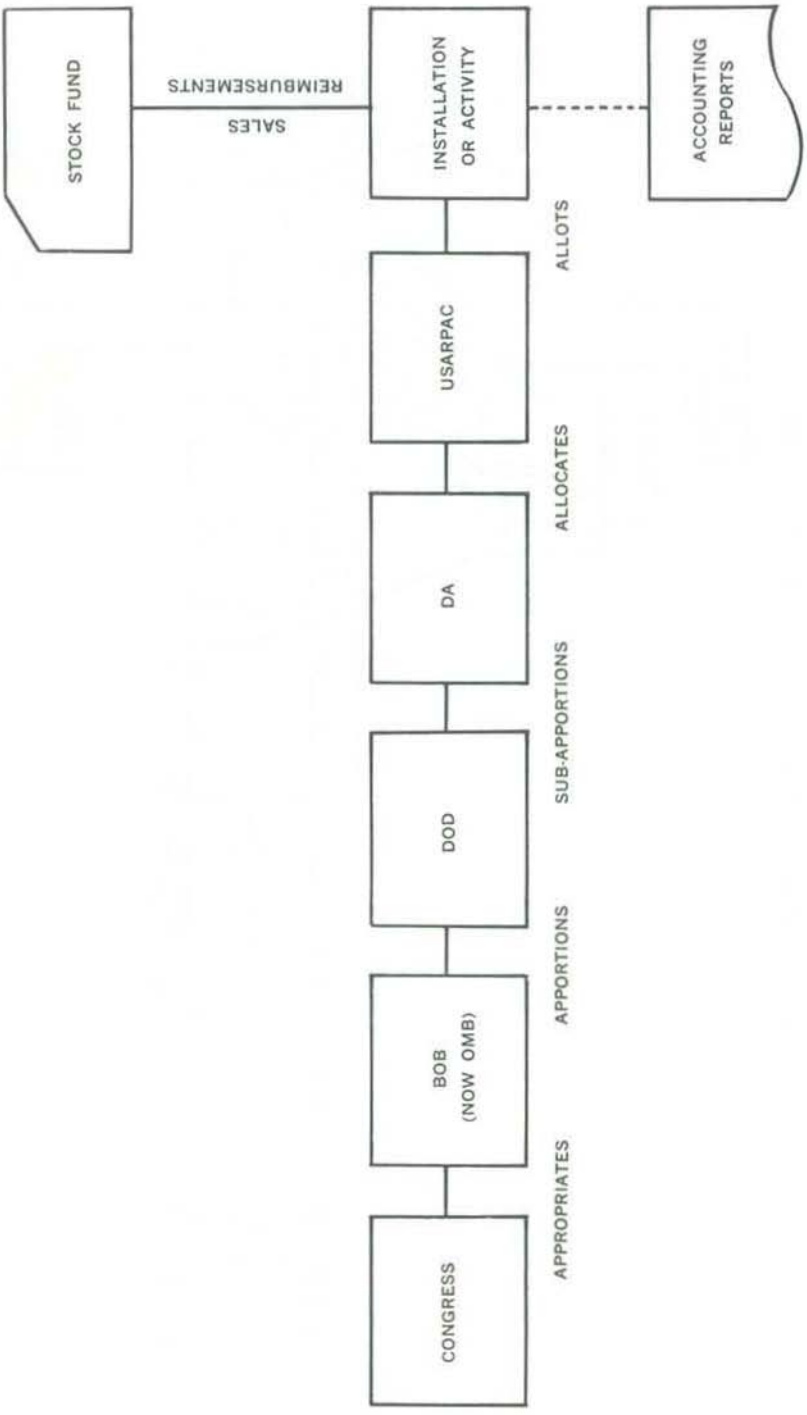


CHART 4—PROTOTYPE FINANCIAL NETWORK

study was made under the direction of a steering committee composed of Dr. Robert A. Brooks, Assistant Secretary of the Army for Installations and Logistics; General Creighton W. Abrams, Vice Chief of Staff; Lieutenant General Lawrence J. Lincoln, Deputy Chief of Staff for Logistics; and Lieutenant General Ferdinand J. Chesarek, Comptroller of the Army. In addition to recommendations concerning realignment of the Army Pacific logistical system, the committee also recommended that the financial management functions for all support systems for Vietnam be centralized and performed by Headquarters, U.S. Army, Pacific, in Hawaii. There were to be several more important Department of Army studies, but none had the effect of the Brooks Study. Financial procedures for Vietnam assumed a new character.

Planning started in November 1966 under the direction of the Materiel Management Agency, an activity of the U.S. Army, Pacific, Deputy Chief of Staff for Logistics. After much planning, writing of computer programs, co-ordination, and correspondence, on 1 July 1967 centralized accounting started in Hawaii. In June 1968 the organization was renamed the Centralized Financial Management Agency and established as a separate table of distribution and allowances organization under the operational control of the Deputy Chief of Staff, Comptroller, Headquarters, U.S. Army, Pacific. To eliminate confusion, the term Centralized Financial Management Agency (CFMA) will be used for all time periods discussed.

In 1968 there were six major features of the computerized CFMA system. The first concerned the release of supply documents from Vietnam without financial restriction. Vietnam requisitioners were not constrained by fund limitations, but accounting for supplies was initiated.

The second feature, concerning the centralized obligation of funds on receipt of billing, discontinued the use of the stock fund for Vietnam requisitions. However, this meant consumer funds of the operation and maintenance appropriations had to finance depot and unit inventories. Another significant technical change was that funds were not obligated until a bill was received from the supplier. Normally, funds would have been obligated at the time a requisition is submitted. This change reduced the time consumer funds were tied up. When a requisition was received, it was edited and entered in the fund reservation file. A reservation was equivalent to a formal commitment which is an administrative earmarking of funds. When a matching bill was received from the supplier, the requisition resulted in an obligation which is a legal earmarking of funds.

The third feature concerned the forecast of fund requirements. Using priorities assigned to supply actions and statistical methods based on past experience, forecasts were made of fund requirements.

Fourth, regarding the centralized reimbursement billing function, all documentation for support furnished by the Army to other military departments or agencies on a reimbursable basis was funneled into CFMA for preparation of billings and receipt of collections. Inter-Service Support Agreements between the Army and other activities or customers were the basis for most billings and covered all appropriations whether military personnel, operations and maintenance, or procurement of equipment and missiles. (Chapter IV discusses reimbursements in detail.)

The fifth feature concerned budgeting and accounting outside the combat area. Except for in-country expenditure requirements, all budgeting and accounting functions were performed at Headquarters, U.S. Army, Pacific.

Finally, in regard to the daily status of funds, the master files for fund reservation, obligation, and disbursement were updated daily. This procedure kept records on a more current basis and related amounts obligated to the annual funding program.

These major features are a part of CFMA today (1972) and are discussed later; however, the second feature warrants additional comment at this point. Normally, requisitions submitted to the Army Materiel Command would result in an obligation of funds at the time of submission. This procedure caused difficulty for Vietnam because of the uncertainty in the supply system, extensive lags in receipt, or nondelivery of many items requisitioned. Thus, funds available would be reduced needlessly, and many obligations would never result in a bill. Therefore, the Department of Army decided in 1967 that a fund reservation would be established and the obligation would be recorded when the bill was received. This procedure has been challenged and discussed over the years. As late as 1971 approval of Headquarters, Department of Army, and Office of the Secretary of Defense was underscored, and it was noted that neither the General Accounting Office nor the Army Audit Agency had questioned the technique. While the procedure may appear to be a splitting of hairs, it was a most important deviation and an example of the will to bend when needed. More of this philosophy was required, however.

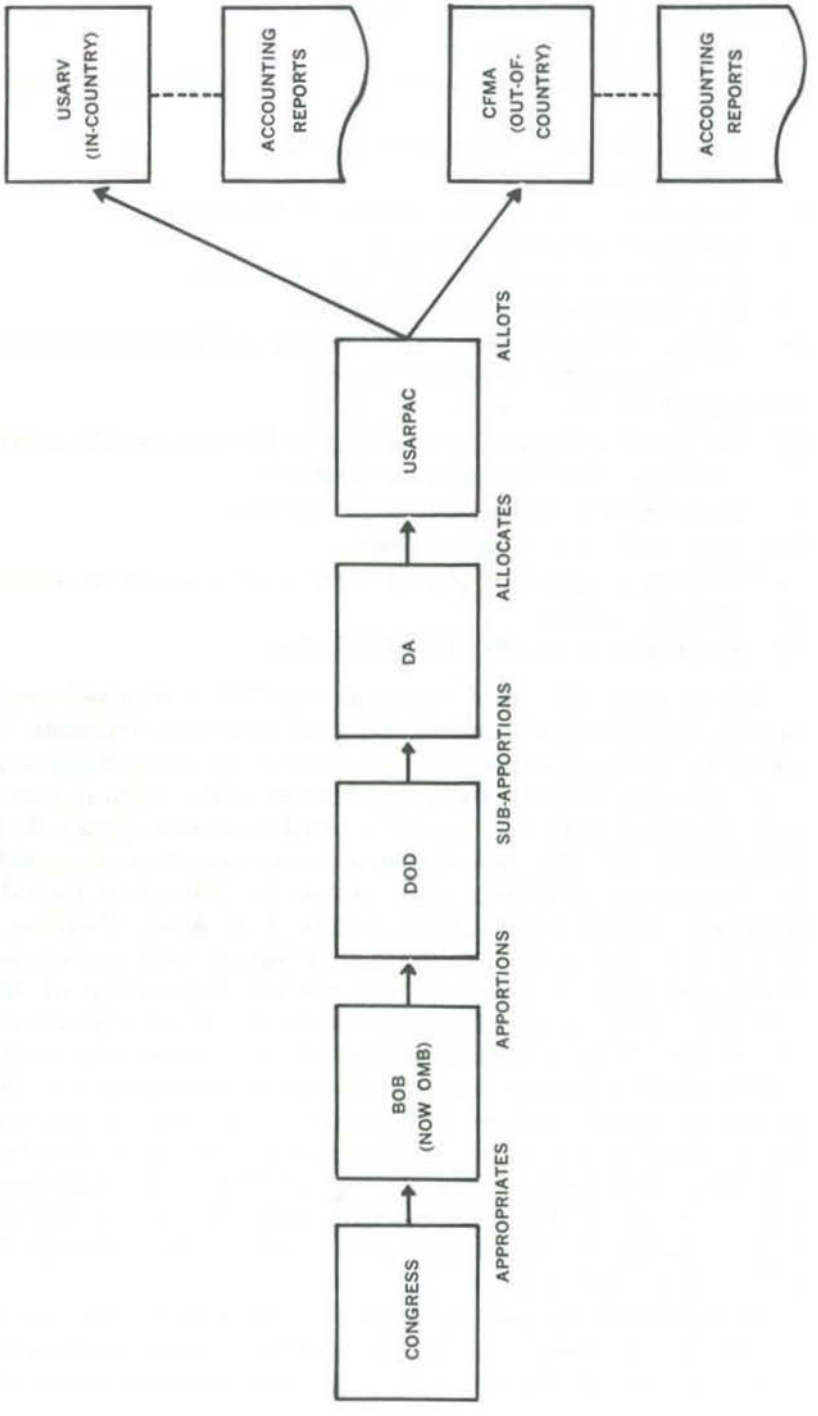
The scope of CFMA's mission can be appreciated when one considers the numerous support subsystems operating in Vietnam. In 1972, these included the following:

1. Milstrip (Normal supply system)
2. Army Marine maintenance activity
3. ARVN base depot supplies (Realigned Military Assistance Program)
4. Aircraft Materiel Management Center
5. Hawk parts
6. Commercial vehicle repair parts (Philco-Ford)
7. Special Services depot supplies
8. Armed Forces Radio and TV service supplies
9. Bulk petroleum, oils, and lubricants
10. Offshore local procurement (San Francisco Procurement Agency and Japan Procurement Agency)
11. GOER vehicle parts
12. Military Interdepartmental Purchase Requests and Intra-Army Orders (Out-of-country performance)
13. Non-standard repair parts depot (PA&E)
14. Supply directives/support lists
15. Milstrip requisitions placed with other services in Vietnam
16. Medical supplies
17. Red Ball Express/Red Ball Expanded

There were also in Vietnam almost 500 authorized requisitioners, submitting documents through numerous channels, who could introduce an action which could end up as an obligation. A major feature of CFMA was simplification of the funding network even though it placed more of the burden on one agency. In the 1968 fiscal year, only two allotments were issued as compared to fourteen in the 1967 fiscal year. (*Chart 5*) This chart should be compared with *Chart 3*. Headquarters, U.S. Army, Vietnam, received an allotment to pay for such items as local procurement, rental hire of local nationals, and pay for Department of Army civilians. CFMA received an allotment for all out-of-country requirements. Even with streamlining, there were many procedural routines for the diverse types of requisitions and customers. These variations complicated the administrative process and increased the probability for errors and the probability that documents would by-pass the system. Also during the 1968 fiscal year, to underscore the scope of CFMA, requisitions, bills, cancellations, and other support documents entered the centralized file at an average daily rate of almost $4.5 million.

Sophisticated procedures were still stymied by the fact that CFMA was tangential to the supply system. Reservation documents were received from the initiator or some intermediate agency, while

CHART 5—REVISED FINANCIAL NETWORK IN FISCAL YEAR 1968



actual fund obligation documents came from the billing by the supplier. In fiscal year 1968, 67 percent of the dollar value of requisitions (over $1.8 billion) were wiped off the records due to various actions, some because an obligation document was never received. Further, the fund reservation technique is designed to be used to earmark funds for later obligations; however, in fiscal year 1968, 67 percent (over $1 billion) of the total obligations were established without a matching fund reservation. These statistics certainly portray how hectic it was to budget and manage in an orderly manner. It also points out that CFMA was still not receiving all the documents necessary to account for the Vietnam conflict. The logisticians concentrated on providing information and documentation to the various supply organizations. As CFMA was not in the direct supply channels, it had difficulty in obtaining the required documents from the logistical operators. The agency was not idle. In April 1968 a series of messages went from the Department of Army to the Army Materiel Command, the Defense Supply Agency, and General Services Administration asking for help. The goal was to ascertain the validity of fund reservations in excess of $500 million which had not been billed. Magnetic tapes and punched cards were handcarried to CFMA to help reconcile the files as soon as possible. Also, computer routines were developed to identify which units requisitioned supplies but failed to send CFMA the necessary documents.

Establishment of the Logistic Control Office, Pacific, has greatly facilitated the chore of maintaining a current fund reservation file. This office informs the CFMA of the status of requisitions and controls "Redball" requisitions. The latter is a system designed to expedite certain items of supply. In 1969 the Department of Army instituted changes to place CFMA in the regular supply channels for status information. However, there was still no central control in Vietnam for requisitions—a problem that was to last several more years.

As mentioned, the Brooks study had the most significant impact on the financial network. However, a Department of Army task group which reviewed the financial management system in 1967 also had several major findings. The main thrust of the task force review is related to the reimbursement problem and is discussed in a separate chapter. Some of their findings are included at this point to highlight organizational weaknesses and staff philosophy which clouded an already confused picture.

A small fiscal accounting office staffed with two officers and eleven enlisted men had been operating as an integral part of the

U.S. Army, Vietnam, Comptroller organization. This office administered the in-country allotment of funds which was $500 million in 1966. The task force found that accounting for reimbursements was accomplished by this activity. The group saw no need for an expanded accounting capability merely for the reimbursement program. However, the group concluded that CFMA was an expedient until the U.S. Army, Vietnam, had a requirement to accomplish its own financial management. In 1967 the emphasis was on more staff systems accountants to provide managerial accounting assistance. The U.S. Army, Vietnam, had estimated that 400 additional personnel would be required to accomplish expanded responsibility for finance and accounting. These spaces would have had to be filled by military as recruiting of civilians was impossible.

The task group found further that inherent weaknesses in the Okinawa finance and accounting office were not properly evaluated when the decision to use Okinawa was made. The concurrent activation of the 2d Logistical Command received most of the command emphasis to the detriment of the financial requirement. The group further recommended placing CFMA under the Comptroller of the U.S. Army, Pacific, to provide a focal point for financial management rather than a sharing of responsibilities with the G–4.

During the Vietnam buildup, staff responsibility for accounting at the Pacific headquarters was under the budget and accounting staff officer. The emphasis was placed on the budget process and less effort on the accounting capability necessary to support the emerging situation. This organizational arrangement had a deleterious effect on an inherently worsening situation. In May 1967, the responsibility was transferred to the staff finance and accounting officer as in continental U.S. army headquarters and other major headquarters.

In More Recent Times

As time passed, CFMA changed and operating procedures evolved to present day methods. Many actions required long periods for modification because of the geographical dispersion and the subsequent multitude of commands. There are still today in 1972 significant operating problems, and it is unlikely they will soon abate as the withdrawal continues. Currently, an important issue is ensuring that only needed supplies, not available in Vietnam, are requisitioned and that stocks in Vietnam are exhausted. This issue is complicated by the fact that staff planners and field operators do not know the true withdrawal rate or schedule of units far enough in advance.

All problems aside, it would be beneficial to review the current mission, organization, and staffing of CFMA as it is at this time of writing in 1972. There are several key features of the mission that warrant mention, some of which were listed in the discussion of the earlier period. Today in 1972 the CFMA:

1. Operates under the operational control of the Deputy Chief of Staff, Comptroller, U.S. Army, Pacific, and acts as the fiscal agent for the Deputy Commanding General, U.S. Army, Vietnam. The agency receives the Approved Operating Budget for out-of-country funds, that is, the operations and maintenance fund and military personnel fund, in support of U.S. Forces, Republic of Vietnam Armed Forces, Free World Military Assistance Forces, and the U.S. Agency for International Development in Vietnam.

2. Formulates policies, plans, and procedures for the management and control of the operation and maintenance funds and the military personnel funds for Vietnam.

3. Maintains accounts to reflect current status of approved program and funds; issues statements of program and fund availability; records, reconciles, analyzes, and reports program and accounting transactions pertaining to Vietnam funds.

4. Performs the accounting and billing function for all supplies and services furnished by elements of the U.S. Army, Vietnam, to other Department of Defense services, other government agencies, commercial activities, and individuals on a reimbursable basis.

5. Prepares numerous cyclical and special reports on all financial aspects discussed above which are common to many finance and accounting offices plus reports unique to CFMA, provides analysis and interpretation of fund data.

6. Prepares periodic operation and maintenance budget estimates, for example, the Command Operating Budget and Budget Execution Review, with direct co-ordination with the U.S. Army, Vietnam; maintains records required to permit evaluation of progress toward program goals; initiates action to reprogram, as required, subsequent to periodic evaluations.

7. Computes and issues operation and maintenance requisition ceilings to the Commanding General, 2d Logistical Command, and the Deputy Commanding General, U.S. Army, Vietnam, while the 2d Logistical Command, located in Okinawa, handles certain classes of supply as well as matériel excesses in addition to military assistance items; reviews cyclical requisition ceiling status to ascertain its adequacy and initiates necessary changes—this important item is discussed more fully later.

Accomplishing the above is truly a major job and requires

liaison with numerous commands dispersed over a wide geographical area—from Southeast Asia to the continental United States. This is all done with only three officers and fifty-one civilians. Computer support is not organic and does reduce manpower requirements somewhat. Also, the actual disbursement is accomplished by another office. The organization in 1972 is shown in *Chart 6*. The elements accomplish actions indicated by their name, and a detailed listing of their functions is not necessary. The key point is the simplicity and orderly flow of data within CFMA. To laymen, CFMA can be compared to the accounting division of a finance and accounting office or the program and budget division of a comptroller office.

Earlier the financial environment was discussed along with the simplification of the funding network in fiscal year 1968. *Chart 7* shows the 1972 financial environment and document flow between CFMA and activities providing information. Requisitioning channels are now (1972) more centralized and the sources of input to CFMA have been reduced from twenty to four. Concurrently, while the budget was around $1 billion in 1966–1967, it is now approximately $143 million for Program 2, U.S. Forces, and $278 million for Program 10, other nations. However, the workload has not decreased but increased. The difference is that the individual requisitions are for fewer numbers of an item; e.g., when 1,000 tires were on a requisition in 1966, there were probably 100 in 1971. Also, CFMA is acquiring more data than in earlier days and is getting more information from the supply sources. The Army Materiel Command alone published several letters on insuring documents reaching CFMA. As mentioned, this was a reversal of earlier policies when CFMA was excluded from direct channels by supply regulations. This is reflected in the decrease in "surprise bills." These are bills for which CFMA has no matching requisition in the fund reservation file. These amounted to $174.9 million or 25 percent of obligations in 1971. This compares to $1 billion or 67 percent in the 1968 fiscal year. For four months in the fiscal year 1972, the figure was $32.2 million or 14.3 percent. Fund reservation adjustments are also down to $492.7 million or 38 percent for fiscal year 1971, and $58.3 million or 19 percent for four months of fiscal year 1972, as compared to $1.8 billion or 67 percent in fiscal year 1968. CFMA is also matching (in 1972) its tape files against those of the supply agencies in Vietnam to keep the fund reservation file more accurate. Most surprise bills are now the result of administrative procedures and not the failure to receive the necessary documents. Requisitions arriving after receipt of billing are the cause of most surprise billings.

Chart 6—CFMA Organization

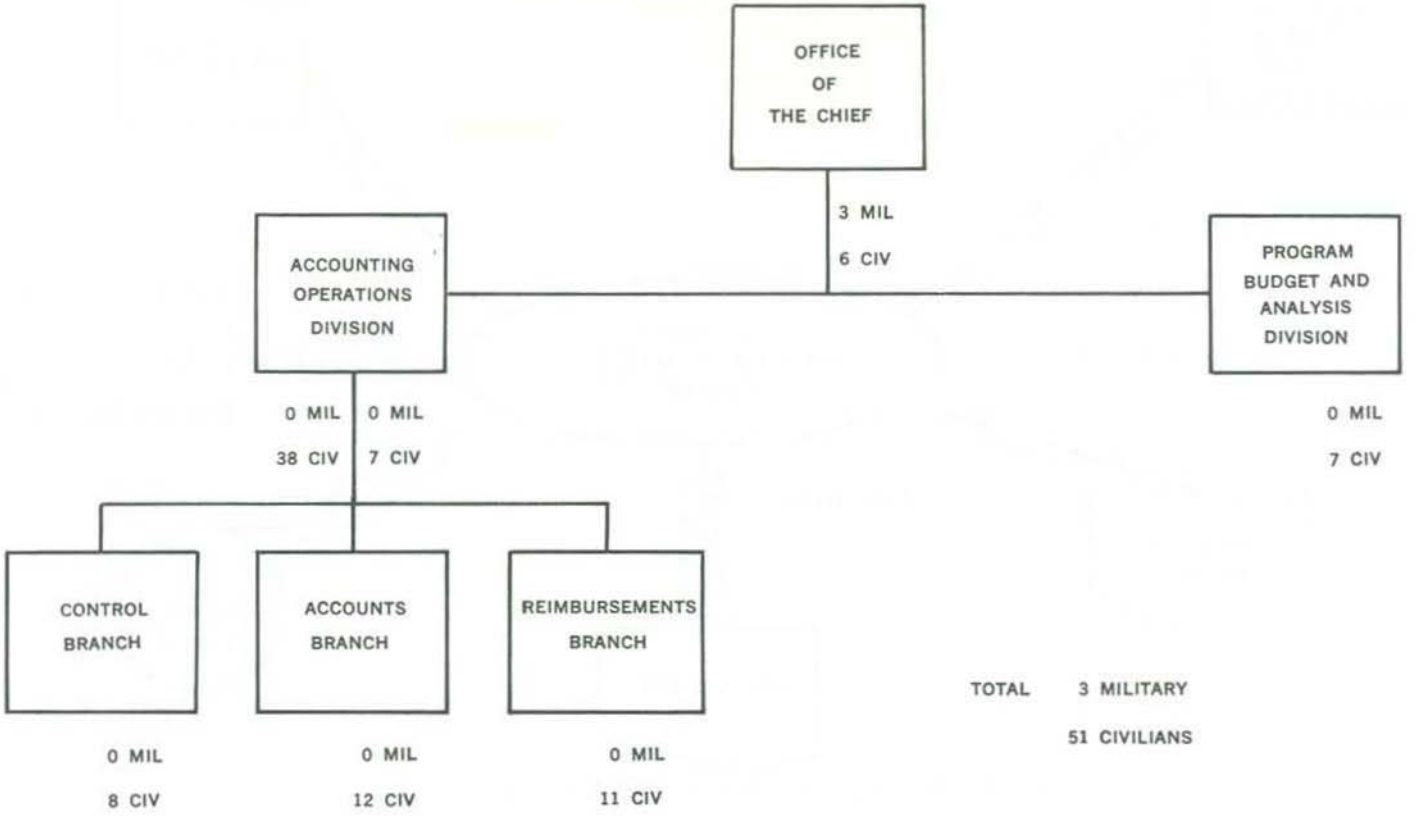
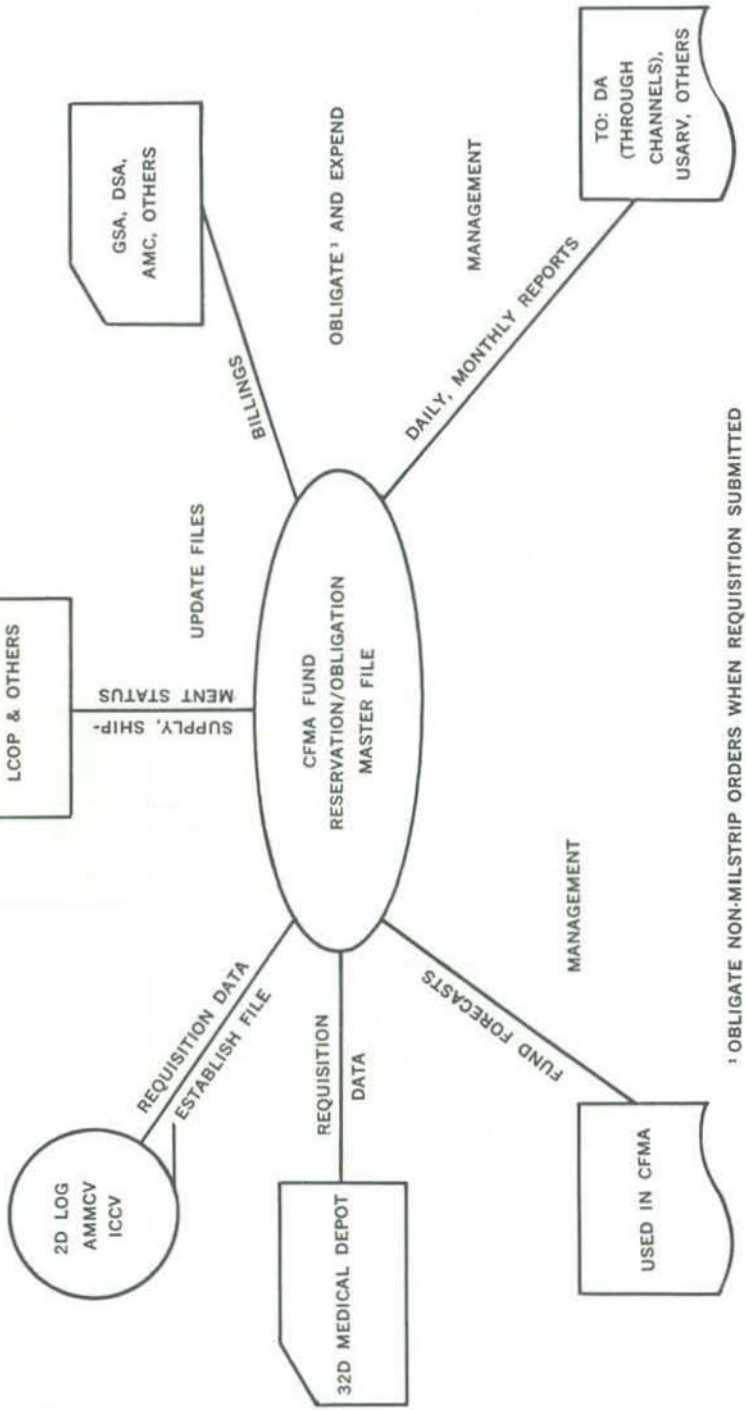


CHART 7—FINANCIAL ENVIRONMENT AND DOCUMENT FLOW



[1] OBLIGATE NON-MILSTRIP ORDERS WHEN REQUISITION SUBMITTED

In early 1969, General Chesarek, then Assistant Vice Chief of Staff, headed a team to the Pacific headquarters in Hawaii, Okinawa, Japan, and Vietnam. One of the purposes was to examine Army operation and maintenance fund control. This marked a turning point away from the blank check philosophy to financial controls. However, General Chesarek reiterated the caveat that controls would not impair mission accomplishment. General Haines, the commanding general of the U.S. Army, Pacific, immediately dispatched a personal message to Lieutenant General Frank T. Mildren, Deputy Commanding General, U.S. Army, Vietnam, on the subject of "Improvements in Management of Logistic and Financial Resources." General Haines warned of severe financial constraints and reduced funding levels in the 1969 and 1970 fiscal years. He also emphasized the belief of the Bureau of the Budget and the Secretary of Defense that management and control techniques were needed. A staff paper written several weeks later recognized, as in the message, that significant actions had been taken. However, the fund reservation system was still plagued by problems and this was a key stumbling block to resource management. General Haines directed, among other things, that an objective be established to: "Apply financial management techniques at HQ USARV and at agencies authorized to requisition out-of-country that will instill financial responsibility through establishment of financial goals. These techniques should provide a framework within which supply action can be specifically related to and controlled by fund availability should such be required."

General Mildren soon replied: "USARV is applying all financial management techniques available to reduce the level of requisitioning to that considered minimum essential to combat operations; however, the support of the combat units is paramount and cannot be constricted by financial restraints which may interfere with successful mission accomplishment. Therefore, I would hope that an army in combat would never be limited by a financial goal."

The Pacific Army Command decided to proceed with financial guidelines and a 26 March 1969 letter to the Commanding General of U.S. Army, Vietnam, announced that "Program Dollar Goals" would be assigned. Assignment of such goals was not restrictive in the legal sense, as an allotment would be for example, but were to serve as a target against which performance or fund utilization could be measured. The system was also to be used to support budget and reprograming requests. Targets were issued for the first and second quarters of the 1970 fiscal year. The program was not successful and was dropped. There evidently were still too

many requisitioning points and no way to truly enforce the goals or discipline the system.

The financial planners never gave up. Effective 1 July 1971, a Requisition Ceiling Fund Control System (RCFCS) was implemented in Vietnam. This system was developed as a part of the Logistics Support System 1971 of the Pacific headquarters study to improve managerial control over the CFMA allotment of funds.

CFMA in 1972 computes and issues three ceilings: two to the commanding general of the 2d Logistical Command for the Army of the Republic of Vietnam Military Assistance Service Funded and Republic of Korea Overseas Replacement Training Command programs; and, one to the commanding general of U.S. Army, Vietnam, for out-of-country procurement of supplies and associated services. *Chart 8* shows this distribution. All requisitions are processed through a routine against the appropriate ceiling. If the ceiling is reached, the requisition is suspended for management review. The ceiling can be exceeded for certain high priority requirements. Data are captured on magnetic tape and used for report purposes and to update the CFMA fund reservation file. The system appears to be working because of more centralized control and better reporting procedures.

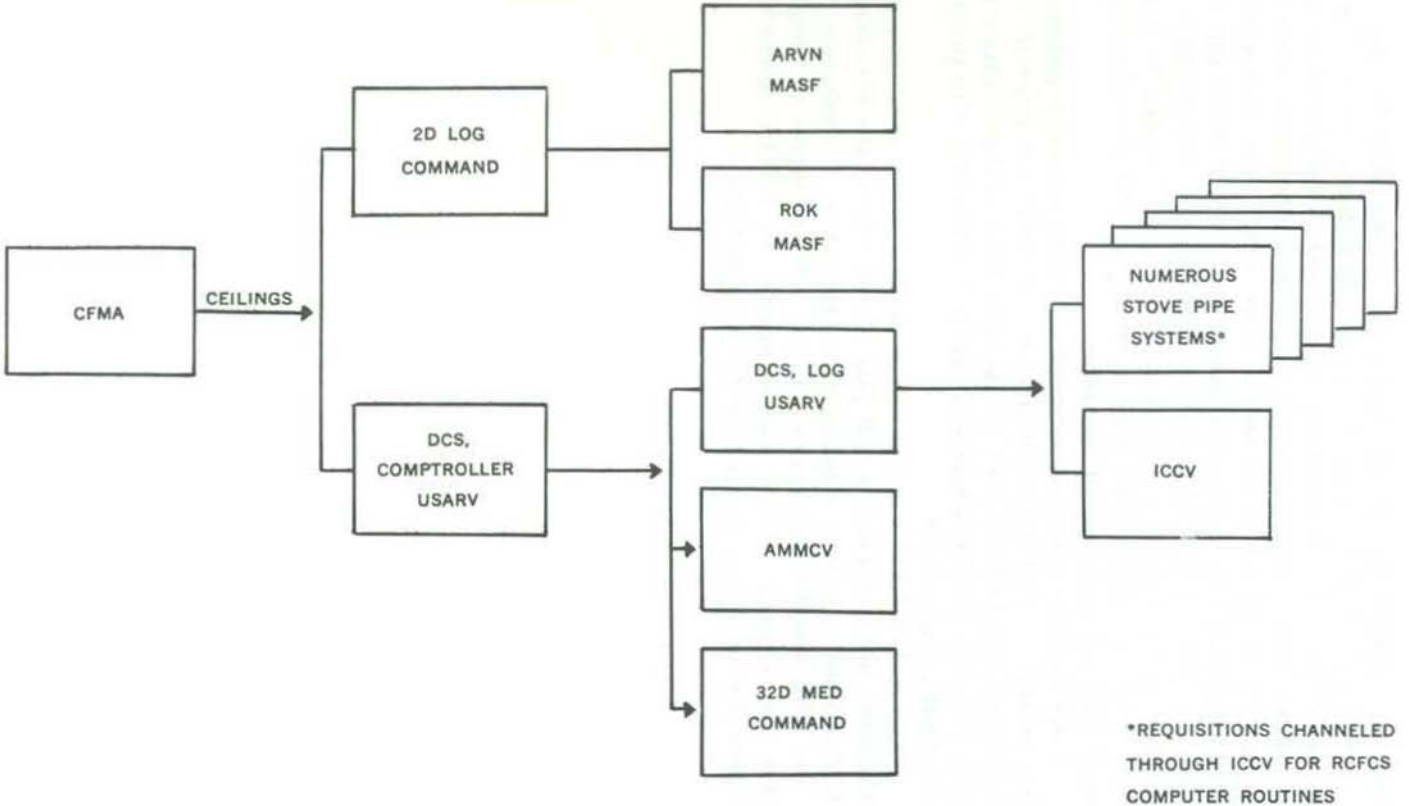
The foregoing covers the major elements of CFMA and reflects its current procedures in 1972. More changes will be necessary to meet the challenges of the drawdown.

In Retrospect

Looking back, the Army had little choice but to account for the war using modified peacetime techniques. This may have been done more at the insistence of the Office of the Secretary of Defense than of Congress. The defense office was exercising caution and attempting to validate their budget requests and document the use of funds. Decisions made along the way seemed appropriate at the time albeit problems with Okinawa started almost immediately. If CFMA had been started earlier, better asset control and utilization may have occurred. I did take exception several times with the Office of the Secretary of Defense about imposing a peacetime accounting system on a combat environment. When one considers that many requirements were instituted after the buildup, it demonstrates that timing may be as critical as the system.

The establishment of CFMA was probably the best decision that the Department of Army made in the financial area. It must be remembered that CFMA was activated and designed for a specific purpose. It is better suited for emergency situations than normal or

CHART 8—REQUISITION FUND CONTROL SYSTEM CHANNELS



sustained operations. Along these lines actions must be taken to retain accurate files of routines and procedures to aid future financial planners. Accounting out-of-country did interfere with obtaining more accurate, complete data. The alternative was a full fledged financial operation in Vietnam which was unacceptable given departmental policy and manpower ceilings. I am not sure such an operation would have been cost effective. One thing is for certain, in the future, a systems approach must be used to insure that financial management is an integral part of logistical management and not a peripheral nuisance.

Care must be exercised to avoid repetitive errors in judgment. For example, in 1970, the Department of Army was seriously considering moving CFMA back to Okinawa. Most of the disadvantages that led to the earlier failure still existed. Fortunately, this proposal was finally disapproved.

The end of CFMA is contingent on the future involvement in Vietnam, but it appears it will play a vital role in the withdrawal. Unfortunately, systems development takes time; for example, not until 1969 was the Department of Army able to report tc Congress that the logistical system was complete. As CFMA reached its operating optimum, it was time for a phasedown.

CHAPTER IV

The Reimbursement Problem

Appropriation reimbursements are probably one of the least known or understood facets of military accounting. Reimbursements are well founded in accounting theory and are similar to cost transfers or the apportionment of costs in a civilian cost accounting system. In governmental fund accounting they also have a logical basis. So, let us digress temporarily for a short course in accounting for appropriation reimbursements.

What are appropriation reimbursements? They are collections, other than refunds such as a soldier repaying an overpayment, for supplies or services furnished between appropriations, to other agencies of the government, or to an individual or firm to be credited to an appropriation account. The term can also include collections for supplies or services furnished between allotments within a Department of Army appropriation. Collections are credited to the appropriation current at the time they are earned, regardless of whether or not an account receivable has been established and recorded. Normally, reimbursements are considered to be earned at the time the services are rendered or supplies are shipped. Earnings can also accrue as expenses are incurred even though the services or supplies are not delivered.

To the extent possible, reimbursements are budgeted, controlled, and accounted for at the level of performance, normally the installation. In certain cases, the use of reimbursements is controlled at organizational levels higher than that at which reimbursements are earned. In such cases, reimbursements are budgeted and accounted for at that higher organizational level.

There are two types of reimbursements: funded and automatic. The latter is the more prevalent and the type which caused problems in Vietnam. The reader can ignore funded reimbursements which were mentioned only for the sake of completeness. For emphasis, it should be noted that the term reimbursable is used with reference to a transaction which eventually results in a transfer or collection of actual funds or money. The transaction involves the sale of supplies or services by the installation to a customer. Authority to engage in automatic reimbursement activity is granted

to the installation on the Approved Operating Budget. The funds are generated or created at the installation when it is necessary to temporarily finance the procurement of supplies or services which will be sold.

Certain specific stages or steps must be present in automatic reimbursement transactions. The first is known as Authority Received. As mentioned, authority is annotated on the Approved Operating Budget or funding document.

The second step, Orders Received, is any firm authorized agreement to furnish equipment and supplies to others, or to perform work or services on a reimbursable basis. Quantities and estimated dollar amounts of supplies or services to be delivered must be stated in an order. Orders may also be recorded based on estimates of reimbursable supplies or services in cases where it is customary to provide services without the use of a specific order. The receipt of orders from reimbursable customers increases the funds available to the installation for obligation. These funds are used initially to provide support to reimbursable customers.

In the third step, Earned Reimbursements, the reimbursement is earned based on the actual delivery of supplies or services to the customer. Any difference between the amount of orders received and the actual amount ultimately earned is adjusted on an individual order basis to insure that these two amounts correspond. A reduction in the amount of orders received reduces available funds by the same amount. Such a reduction can result in an overobligation of funds at the end of the fiscal year, if earned reimbursements are not accurately estimated. Since reimbursable sales result in an expense to the installation or the relinquishment of an installation asset, an accounts receivable must be established to assure collection from those individuals or activities to which the reimbursable sale is made.

Collection is the final stage and signifies receipt of cash in payment of the bill for the earned reimbursement. Detailed files on the stages are usually maintained. Special accounts are designated to control the handling of reimbursements. Each state of the procedure requires the matching of documents to insure validity of the transaction and increase internal control. A monthly report is submitted to the Department of the Army to assist in the control of and funding for the reimbursement program.

Various agreements are used to determine support to be furnished other installations and activities. The three most used agreement documents are discussed here. The first is the Intra-Army Order (DA Form 2544). This order is a firm agreement between

two installations or activities of the Army authorizing supplies or services of a specific and definite nature to be furnished on a reimbursable basis. The order must be supported in terms of quantities and dollar amounts before it can be accepted. The seller furnishes the required items and periodically bills the customer. If receiving reports match the bills, the customer reimburses the seller.

The second is the Military Interdepartmental Purchase Request (DD Form 448). This interdepartmental request is a method of financing used between the Department of the Army and other departments, offices, and agencies of the Department of Defense. Use is similar to the Intra-Army Order; however, a suballotment and a direct fund citation can be used to finance the request as well as a reimbursable order. The suballotment is a method of financing in which an installation or activity transfers a portion of its allotment to another installation. When a direct fund citation is used, the requester gives the performing activity the authority to cite its funds on all documents and contracts executed on behalf of the ordering activity.

The third agreement document is the Interservice Support Agreement (DD Form 1144). This form is used to document all continuing support agreements between and among Department of Defense components and other participating federal government activities. The requesting activity furnishes the performing activity funding data and the address to which the billing document is to be sent. The agreement states the accord reached between the two activities involved, especially the obligations assumed by, and the rights granted to each. All agreements must be specific with respect to the resources provided by the parties. Agreements are subject to annual review and may be canceled at any time by mutual consent of all parties concerned or with ninety days' notice by either party. Quarterly reports are required.

Early Stages

A Department of the Army fact sheet written in 1966 noted that during the early stages of the 1965 buildup, complications and administrative problems were beginning to mount because of the multitude of funding channels in Vietnam. The different military services were responsible for providing various types of supplies and services, but generally were responsible to finance only the support of their own force. This led to many peculiar and inefficient situations. For example, up-country military advisers were required to obtain their day-to-day logistical support from Saigon, located 200 miles away, even though the same support could have been

made available at much closer locations, but then would have been financed by funds of another service. Another specific source of delay and paperwork was the fact that Army cargo was carried only on a reimbursable basis on the small cargo vessels operated by the Navy along the Vietnam coastline. This situation required detailed Interservice Support Agreements. The fact sheet observed that "continuation of this situation would involve tactical commanders in financial matters which do not contribute to carrying out their assigned missions."

The solution of minimum record keeping in-country and the accomplishment of reimbursement actions in Okinawa was thought to be a positive decision. However, it was proposed that an optimum solution would be either to make one service responsible for logistical support including necessary funding or to make one service responsible for logistical support, with each service funding costs of its support. Here reimbursement action would be taken on a factored statistical basis at locations out of the country.

A team from the Department of the Army was engaged in preparing a departmental plan for common supply support in Vietnam. The Army, it was contemplated, would provide common supplies with reimbursement at departmental level. In February 1966, representatives from the Office of the Secretary of Defense indicated doubt as to the legality of reimbursement between military services based on the use of statistical factors, and suggested legislation would be required. It was noted in the referenced fact sheet that: "The advantages of a common supply support system would be lost, and its purpose defeated, if it should be necessary for the Army to keep detailed auditable records of supplies issued to other military services."

In early 1967, the Department of Defense requested the Army to submit its plan for common funding to the other services for co-ordination. The Department of Defense had endorsed the plan but restricted application to petroleum, oils, lubricants, subsistence, medical supplies, and some 3,500 common housekeeping items. For various parochial reasons, the Navy, Marine Corps, and Air Force all nonconcurred in the plan. The fact that Mr. McNamara did not force the services to accept the Army plan or some modification is perplexing. For awhile the Armed Forces seemed headed toward more service integration with the establishment of such activities as the Defense Supply Agency and Defense Intelligence Agency. Common funding would have been an even more logical step.

The problems in Okinawa with accounting were even more critical in the handling of reimbursements. The latter, being a much

more involved process, proved too much for Okinawa and this function was also passed to the Centralized Financial Management Agency and will be discussed later.

Later Developments

As mentioned in the discourse on procedures, reimbursements usually start with an order received, thus generating funds to support the transaction. In a June 1967 message from the Department of Army to U.S. Army, Pacific; Military Assistance Command, Vietnam; and U.S. Army, Vietnam; it was noted that this was not presently the case. Army operations and maintenance funds were being used by the Army to finance services and supplies furnished others. Millions of dollars of the operation and maintenance fund were diverted from financing Army needs until bills for reimbursement transactions could be collected. Additionally, billings were not accomplished on a timely basis. Thus, the message warned of an "unwarranted deficiency" and an "unexplainable and embarrassing" situation. Compounding problems was the fact that centralized accounting was not in operation—it came into being one month later, 1 July 1967.

The Department of the Army requested immediate billing to such diverse activities as Air Force, Navy, Red Cross, 5th Special Forces, Pacific Architect and Engineers, and other private contractors. Reimbursements from the military construction to operation and maintenance appropriations were also to be accomplished using statistical estimates. If billings for Class II, IV, and V issues could not be developed on the basis of actual issues, negotiated settlements were to be used. (Designations for classes of supply referenced throughout the monograph are for those used prior to 1969. Class II includes such articles as clothing and weapons; Class IV takes in equipment for fortifications and airborne operations; Class V includes ammunition.) The use of the more normal order system was to be instituted retroactive to 1 May 1967. This procedure would increase fund availability and reduce the threat of a fiscal deficiency. Addressees were given less than six days to advise the Department of the Army if actions could be accomplished and what the amount of earnings could be expected to be.

The use of the order system was also directed for the 1968 fiscal year. This was in addition to the Interservice Support Agreement and provided for quarterly estimates. Adjustments were to be made after comparing estimates with earnings; this procedure seemed odd since the agreement can serve as the basis for recording an order

received. Negotiated settlements were again urged for all government agencies to reduce the backlog of bills and unbilled transactions. It was hoped this would allow fiscal year 1968 transactions to be kept on a more current basis.

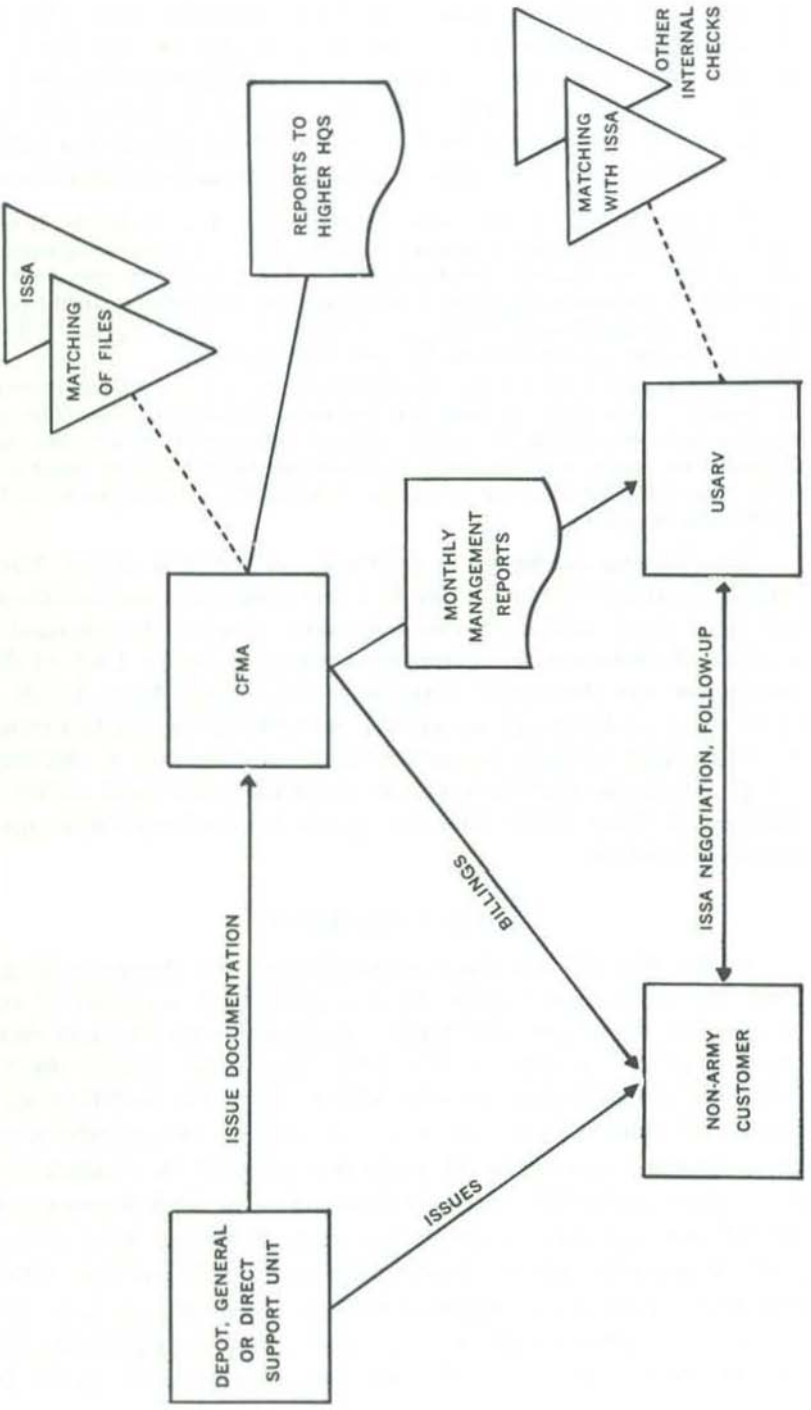
In July 1967 the U.S. Army, Pacific, in support of the U.S. Army, Vietnam, sent a message to the Department of the Army in further response to their June message. There were several key facts in this reply. First was that the Centralized Financial Management Agency was activated on 1 July 1967 and that the U.S. Army, Vietnam, had been directed to furnish reimbursable issue documentation clearly marked "Reimbursable Issue Documentation" on a daily basis. Orders received and earned reimbursements were recorded simultaneously. This is a deviation from normal procedures and from the June message of the Department of the Army. The agency had established detailed accounting controls and reports to monitor the reimbursement program. (*Chart 9*) The U.S. Army, Vietnam, was to be provided monthly feeder information to determine if all documents were reaching the centralized agency and if estimates contained in related Interservice Support Agreements were over- or understated. The reports were to result in improved management of reimbursable transactions.

The Pacific headquarters further replied that the U.S. Army, Vietnam, had been instructed to attempt to negotiate interservice agreements to allow reimbursement on a factored basis, thus reducing the paper mountain. Also, confirmation of shipping was to replace the need for receiving reports. The latter was apparently never accepted and is discussed in a later section. Both attempts are deviations from the normal procedure mentioned earlier.

The U.S. Army, Pacific, also asked reconsideration of the requirement to obtain quarterly orders when the transaction was supported by an interservice agreement. U.S. Army, Vietnam, argued that the agreement is an order received, as noted above, and that further action would duplicate it. The command believed that reimbursements could be monitored using those procedures outlined above.

Evidently the U.S. Army, Pacific, was still uncertain that the Centralized Financial Management Agency could alleviate the reimbursement problem. General Dwight E. Beach, the commanding general of U.S. Army, Pacific, sent a personal message, also in July 1967, to Lieutenant General Bruce Palmer, Jr., the deputy commanding general of the U.S. Army, Vietnam, and Brigadier General Shelton E. Lollis, the commanding general of 1st Logistical Command, on the subject "Loss of Army Resources in Support of Re-

CHART 9—REIMBURSABLE ISSUE INFORMATION FLOW



imbursable Customers." Losses of Army resources were valued at $24.5 million based on Interservice Support Agreements. Failure to recoup Army funds was attributed to the failure to require documented requests for matériel and the failure to obtain the issue documentation to furnish it to the centralized agency for billing. The latter was identified as the most prevalent. General Beach wrote:

> This problem is a matter of command concern at all levels. It is apparent that more positive action is required to safeguard against the issue of resources without reimbursement. The administrative workload involved in documenting issues to reimbursable customers cannot justify the Army's failure to obtain proper documentation to support billings. This is another task that must be accomplished.
>
> In the future, issues/support should not be furnished reimbursable customers unless they present the required documentation. The only exception to this would be under combat emergency conditions. Additionally, no issues will be made without preparing proper issue documentation and forwarding it to the USARPAC MMA [now CFMA] for billing action.

In reflecting on financial problems in the U.S. Army, Pacific, during fiscal year 1967, I wrote in a fact sheet that no real advances had been made in the reimbursable area in spite of command emphasis and directives from the Department of Army. Lack of documentation was the major obstacle to recouping Army funds. No matter how sophisticated accounting procedures are, the fact remains that the supply clerk in the field is the base of the system. Adding to the problem was the blank check philosophy discussed earlier. An attitude of "easy come—easy go" prevailed and militated against stringent controls.

The Crisis Builds

At the direction of the Comptroller of the Army in January 1967, the U.S. Army Audit Agency performed an audit of reimbursements due from non-Army organizations in Vietnam during the period 15 March to 19 May 1967. The audit covered the fiscal year 1967 transactions up to 31 March 1967. The auditing agency concluded that a more active monitoring of the reimbursement program was required by all levels of command. As a result of the audit and subsequent developments, Chief of Staff Memorandum 67–350 was issued by General Harold K. Johnson, Army Chief of Staff. This memorandum directed the Comptroller of the Army to review the financial management system employed by U.S. Army, Pacific, and recommend actions needed for strengthening these operations. The Army Staff Task Group conducted its survey from

25 September to 21 November 1967. Highlights of the report are discussed below.

No reimbursement program was operative within Vietnam prior to the last quarter of the 1967 fiscal year. Emphasis placed on the problem by the higher commands resulted in positive action at all levels within Vietnam to secure the necessary documentation to support reimbursement billings in fiscal year 1968. Reimbursement documents transmitted to the Centralized Financial Management Agency increased from 404 documents in December 1966 to 13,000 documents in October 1967. However, types of issue documents and procedural instructions varied at all levels in-country, and standardization was needed to strengthen the program. Improvements were effected within the existing logistics system without the imposition of additional financial controls. It should be noted, however, that the new centralized accounting system was in operation and contributed to the accomplishment of these improvements.

Interservice Support Agreements were better monitored due to the procedures referred to earlier. Review by the U.S. Army, Vietnam, of the 146 interservice agreements in effect in September 1967 revealed that potential reimbursements were overstated by $76 million.

Reimbursable issues of subsistence were not always processed for billing because certain subsistence ration breakdown points and depots were not aware that issues to non-Army customers were reimbursable. The 7th U.S. Air Force had received about $200,000 of subsistence per month from one ration breakdown point but had not been billed for over two years. A negotiated settlement was finally made for $5 million. Reimbursable issues by tactical units were not substantial and should be excluded from the program. Issues below depot level from self-service supply centers were insignificant and not worth the cost of reimbursement record keeping. This practice was discontinued in February 1968.

Receipt, storage, distribution, and control of bulk petroleum products posed a major problem. Division of responsibility between the Army and Air Force by type of fund appeared clear as far as initial financing from the Defense Fuel Supply Center. However, storage, distribution, and transportation were an Army responsibility and were accomplished by a complex distribution system using many modes. During the 1966 and 1967 fiscal years, almost no documentation was maintained. Instructions on reimbursable issues were misunderstood; for example, the Air Force was charged for issues from its own fund. Air Force fuel transported by the Army was paid for by the Army although delivered to Air Force users.

Construction supplies were financed by operation and maintenance and military construction funds and were commingled. The operation and maintenance appropriation was, in effect, pre-financing military construction appropriation projects and tying up operation and maintenance funds.

Joint Chiefs of Staff directive 5848, 15 July 1966, subject: "Responsible Logistics Support for Combined Operations," assigned to the Army responsibility for providing logistical services support on a nonreimbursable common service basis to all U.S. sponsored activities located within a U.S. Army area of jurisdiction in the Republic of Vietnam. Nonreimbursable support was valued at $70–80 million per year or 15 percent of the annual Vietnam operations and maintenance budget. Twenty-one percent of the total 1st Logistical Command personnel were used to support non-Army activities.

It can be seen that many areas were identified for management action, but major problems were still being identified after the Task Group left and much remained to be done. The problem was receiving top-level attention. Also, beginning in November 1967, a special section of the centralized agency was designated to handle reimbursements. There is now (1972) a separate branch established for this purpose as discussed in Chapter III. In March 1968 the Army Comptroller, Lieutenant General Frank J. Sackton, forwarded to General Beach, Commander in Chief, U.S. Army, Pacific, a follow-on report of the Department of Army Task Group discussed earlier.

Noted was a significant backlog of documents awaiting processing. This was caused by the increased workload resulting from renewed emphasis and the activation of the Centralized Financial Management Agency. Collection of actual billings was proving difficult. As of 31 October 1967, $5.6 million had been billed but only $328,000 had been collected. General Beach replied that obtaining the required documentation to support billings was the most difficult problem. The 1968 Viet Cong *Tet* offensive had further complicated the situation. General Beach reiterated the need for common service funding and simplification of financial accounting requirements.

In June 1968, a message from the Department of Army directed that obligations for petroleum, oils, and lubricants would be based on consumption rather than shipping documents. As with many new procedures involving numerous agencies scattered over a wide geographical area, communications was a problem. The other services were not aware of the revised rules. Accounting and billings

were being accomplished under two separate systems. Duplicate bills were being received. The Air Force was still billing for the fiscal year 1968 although the Army had paid for all of the petroleum, oils, and lubricants for that fiscal year. Even within the Army, some commands had not received the word. The Army Petroleum Command and U.S. Army, Japan, were not following the revised technique. Bills from these two commands exceeded obligations by $7 million. Receipt of bills at the centralized agency for petroleum, oils, and lubricants chargeable to another service was a major problem. Over $5.7 million in bills for these products consumed by the Navy had been received from the Army Petroleum Command. The latter did not appear cognizant of the mission of the centralized agency or the financial organization of the U.S. Army, Pacific. The Air Force and Navy were billing the agency for bulk issues at the retail level. The Department of Army Task Group had recommended cessation of this procedure which was also supported by the Pacific Command in a message to the Joint Chiefs of Staff. The Joint Technical Assistance Team which was dispatched to review problems with petroleum, oils, and lubricants had also suggested discontinuing billing at the retail level.

In a briefing dated October 1968, it was noted that problems were still being encountered. Full mechanization was not suitable and about one quarter of the work force of the Centralized Financial Management Agency was spending full time on the reimbursement program. This effort was expended for only 1 percent of the agency's dollar volume.

More Studies and Audits

As discussed in Chapter III, General Chesarek visited the U.S. Army, Pacific, in 1969. His visit caused much soul searching and another review of financial procedures. A staff paper written after his trip revealed that reimbursements were yet a problem and that the situation could be expected to continue. Documents were still not being received. Some issue documents could not be matched with a supporting Interservice Support Agreement or with an office to be billed. Additionally, accounts receivable were not being liquidated promptly. Administrative changes were being instituted without much success.

Although recognizing that some improvements had been achieved as a result of the combined efforts of the Department of the Army and the Army in the Pacific, I was still concerned with the low collection rate indicated in financial reports. This was true of fiscal years 1966 through 1969. So, two representatives from the

Department of Army went to the U.S. Army, Pacific, Okinawa, and Vietnam in April 1969 to again review financial procedures and follow up the recommendations of the Department of Army Task Group (CSM 67–350) discussed earlier. Representatives from the Navy and Air Force joined the team in Vietnam. Having representation from the Air Force and Navy proved beneficial. In the Saigon area alone, the Navy representatives located $28 million worth of delinquent bills in their accounting offices.

Improvements in collections for ammunition, subsistence, petroleum, oils, and lubricants were noted. Billings were based on negotiations supported by certain accepted reports. The U.S. Army, Pacific, was now buying bulk petroleum products from the Army Stock Fund through the Army Petroleum Agency, and not using operation and maintenance funds to finance excessive inventories or sales to other agencies.

The reimbursement program was receiving command support and surveillance, although not always to the depth or extent contemplated by the Department of Army Task Group. Down through direct support units, care was being exercised and special emphasis was being placed by logisticians, internal review staffs, and financial managers. Some weaknesses were noted at the lowest levels upon which effectiveness of the system was dependent.

As I had gleaned from financial reports, the U.S. Army, Pacific, was encountering substantial difficulty in actually effecting collections from most customers with whom interservice agreements had been negotiated. Billings for Class II and IV supplies were a prime problem. Documentation to support issues which failed to satisfy the criteria of the billed agency aggravated the situation. Geographical separation intensified the critical situation as most customers positioned their funds and accounting offices in Vietnam far from the centralized agency.

The Centralized Financial Management Agency was in the unenviable position of relying on personnel in Vietnam to follow through on billings and to satisfy terms of the Interservice Support Agreement. A deluge of correspondence flowed between Hawaii and Vietnam. Judging from the collection rate and age of the receivables, the efforts in Vietnam were of questionable intensity.

As mentioned numerous times, initial documentation of the transaction was the primary problem. Identification of the customer was often difficult as key information was missing or illegible on the supporting document. Verification by the suspected customer and follow through by the Army in Vietnam seemed endless. If punch cards were used, the source document was destroyed and unavail-

able for use in the audit trail. Use of a charge-plate system similar to the current commercial credit cards was again recommended as it had been several times before. The Department of Army Task Group had considered the idea in 1967 but did not adopt it. The charge plate appears to have been a reasonable idea as the card would have imprinted the required information very legibly on the source document. It also would have eliminated a decision step as to reimbursement at the initial transaction level.

The report reflected that the major recommendations of the Department of Army Task Group had been implemented. It was concluded after the Task Group Study that continued split responsibility between the centralized agency and the U.S. Army, Vietnam, was undesirable. It was suggested that responsibility for the reimbursement program be transferred from the agency to the fiscal office in Vietnam. The Task Group had concluded that the centralized agency was an "expedient" until the U.S. Army, Vietnam, had a requirement to establish its own financial management. This transfer was not executed, however.

Other agencies and activities were concurrently concerned about the reimbursement program. From February to May 1969 the Army Audit Agency conducted another audit of the reimbursement program. Their findings were released in two reports—70–1, Reimbursements for Interservice Support–Republic of Vietnam; and 70–2, The Reimbursement Program–Republic of Vietnam. Succinctly stated, the reports concluded that the reimbursement program in Vietnam had never worked well. This much should be obvious from all that has been said thus far in this chapter. Highlights of the reports are discussed below. Repetition of previous observations are included to emphasize the persistence of the problems and the time involved in correcting deficiencies.

In the 1969 fiscal year reimbursable supply support cost the Army an estimated $138 million. As evidenced throughout the life of the program, much less than $138 million was recovered. Most of the loss was caused by weaknesses in the accounting system. Attempts to upgrade the system have been neutralized by the desire to minimize paperwork in Vietnam.

The effectiveness of the program was almost wholly dependent on the quality and timeliness of the data flow to the centralized agency. Distance, marginal communications, fragmented responsibilities, and volume combined to weaken the program. Use of departmental level negotiation for bulk petroleum products, subsistence, and ammunition was tacit recognition that conventional methods could not be made to work. Findings for these commodities paralleled

the Department of Army Task Group findings in 1967. Some of the recommendations had not been implemented because of the lengthy co-ordination process involved. Also referenced in the report of the Army was a Joint Technical Assistance Team made up of Army, Navy, and Air Force representatives who visited Vietnam in January 1968. They also found a complete breakdown in accounting control over petroleum products.

Billings for Class II and IV supplies continued to be a problem, and controls had never been effective. The system relied heavily on the ability of supply personnel to recognize reimbursable transactions and process them correctly. Fluidness of the tactical situation, rapid turnover of personnel, and lack of instructions were causative variables. The report gave examples of lack of knowledge of procedures and showed that some documents were two years old. About 10 percent or 1,500 of the documents sent to Hawaii were returned by the centralized agency to Vietnam each month for correction. This was a time-consuming process, and many documents were never returned. Audit trails were nonexistent, and no control existed over documents going to or returned from the centralized agency. Many documents never reached the agency. In November 1968 the Navy informed the agency that it had over $3.4 million in accounts payable for issues in Da Nang. The Navy was not billed automatically because the agency never received the issue documents.

As of 31 March 1969, there were 112 interservice agreements naming U.S. Army, Vietnam, as the agency providing support. The estimated yearly value was $138.8 million. Unexplained differences between the estimated value and actual billings were large enough to suggest a breakdown in billing procedures. At the end of the third quarter of the fiscal year 1969, nothing had been billed on 33 of the 74 interservice agreements for equipment, repair parts, and general supplies. Actual billings on the other 41 of the 74 agreements mentioned were over and under the estimates by a gross $25 million. Lacking audit trails and other management aids, causes could not be determined. Lost documents, unrealistic estimates on agreements, and billing lags were probable causes. Even after billing, some bills were not collected because they lacked support documents and customers refused to pay.

The audit report observed that however desirable remote accounting may be for other reasons, it complicates the problem of accounting control. As discussed, the concept was based on the decision to minimize paperwork in Vietnam. Remote accounting is not unique but the 6,500 mile span is unusual. Communications and document control were difficult. Document control, it was observed,

must originate in-country. Department-level reimbursement was a perceptible improvement. Command emphasis had also helped. The report goes on to say:

> But there is one very cogent reason why further efforts to upgrade the system may not achieve the hoped-for results. The advantage imputed to reimbursement for interservice support versus common service funding is restrained consumption. Ordinarily, both the buyer and seller have limited resources. Presumably, consumption is restrained when the consumer has to pay for what he gets. The seller is similarly motivated. Under the automatic reimbursement concept, new funds became available as soon as the seller recorded income from sales. Unless the seller recovers the costs of sales to his customers, he will exhaust his resources. The buyer would benefit from a windfall at the expense of the seller's mission. But the theory does not hold in Vietnam. The fund controls that are so rigidly enforced elsewhere in the Army are ill-suited to the realities of combat. Sudden and unforeseen changes must be reacted to quickly. To preclude over-obligation, Vietnam is necessarily given priority in the distribution of Operation and Maintenance funds. In Vietnam, the unrecovered cost of reimbursable issues has less immediate impact on the seller.

The report went on to recommend common service funding and noted it is authorized in combat zones by Department of Defense Directive 4000.19. A less attractive but workable alternative was common servicing for support below the depot level. Also suggested was conventional accounting with rigid controls, including an audit trail for individual documents. The Assistant Secretary of Defense, Comptroller, nonconcurred in the approach of the Army Audit Agency and directed continuation and improvement of the existing system.

If turnabout is fair play, it was the Army's turn. The 1st Logistical Command was a customer under sixteen interservice agreements. Estimated value of these agreements for the first eight months of the 1969 fiscal year was $40 million. As of 28 February 1969 only $2.5 million had been billed. No check was made on bills and most were not matched with an interservice agreement. They were obligated and disbursed at the same time. The Army Audit Agency recommended that receiving reports be sent to the Centralized Financial Management Agency for comparison with bills received from the supplier.

In reply to the Army Audit Agency, the U.S. Army, Vietnam, and the U.S. Army, Pacific, made several suggestions and comments. First was that new subsistence reimbursement procedures were to be implemented on 1 July 1969. These procedures had been recommended in 1967 by the Department of Army Task Group. It was further suggested that Interservice Support Agreements be sup-

ported by Military Interdepartmental Purchase Requests, thus funding the centralized agency in advance of actual receipt of supplies and services. This would avoid tying up Army funds during the lengthy reimbursement process. New procedures were also instituted for the transmittal of documents. Detailed instructions on handling reimbursable issues were distributed and used in on-the-job training for enlisted personnel. Finally, the use of common service funding was again recommended.

In November 1969 the Joint Logistics Review Board was briefed on financial management and procedures in support of Vietnam. Almost one-third of the briefing was based on the two Army Audit Agency reports reviewed above. In the discussion period of the formal briefing that followed, it was pointed out that the Army was trying to make the system work as the Office of the Secretary of Defense had vetoed the use of common service funding and that the use of charge plates was being introduced. The failure of documentation to reach the billing point was mentioned. Common service funding was again recommended. Complexity of the supply system and the need for internal discipline were also discussed.

The Seventies

As time passed, automatic data processing equipment became more sophisticated. Procedures were refined and agreements were renegotiated. Innovations occurred, but many of the old problems persisted. In 1970 command emphasis had not waned, and the reimbursement program was receiving much attention. Computer listings were useful for identifying problem areas and recurring deficiencies. Special master files had been developed such as the Interservice Support Agreement file and the activity index file for identifying reimbursable customers. Unbilled account payables were yet being found during co-ordination visits with customers. Reimbursements from the Army military construction to operation and maintenance funds were still low and inadequate. One of several conferences in Vietnam was held in November 1970 for the primary purpose of discussing reimbursements.

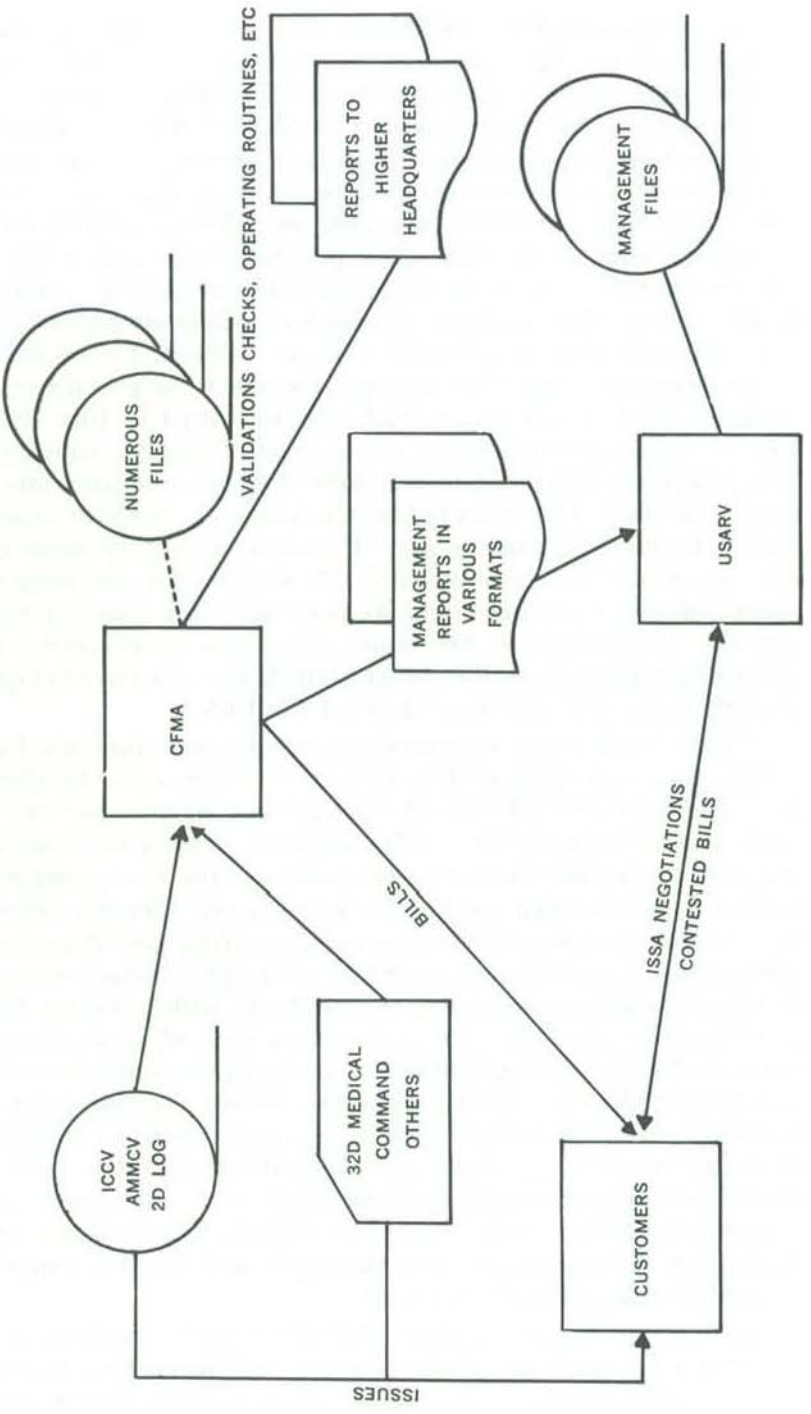
Difficulties were also encountered in paying the Air Force for support received. As in the Army's case, documentation was a problem as well as improperly prepared documents. Additionally, many bills had not been paid because of confusion over responsibility. It was not known if the Air Force should be paid by the Centralized Financial Management Agency or from the in-country funds. This was finally ironed out and the agency assumed action on the disbursements.

In a February 1971 conference at U.S. Army, Vietnam, control of documents was again discussed. Transmittal records and supporting files were in use and of value in proving sales to reimbursable customers. Also mentioned was the problem of maintaining "hard copy" backup. Although the centralized agency was supposed to retain the source document which could be used to support contested bills, some direct support units were destroying the original documents after thirty days when punched cards were prepared. During this time period operating problems were still the subject of much concern. For example, subsistence documents forwarded to U.S. Army Food Service Center, Chicago, Illinois, for submission to the centralized agency for billing were now to be sent directly to Hawaii. The Chicago routine had been instituted in July 1969 as part of revised procedures to increase collections for subsistence. The procedure did eliminate over 3,000 documents flowing into the agency monthly. The direct-to-Hawaii change was made to expedite billing by the centralized agency. Unbilled subsistence items were still significant in November 1971. Procedures for handling contested bills were yet unsettled. Responsibility for data conversion was also being debated. Maximum conversion to automatic data processing had increased the ability of the financial agency to rapidly provide additional and more detailed feedback.

Chart 10 reflects the current system used in handling reimbursement transactions supported by interservice agreements. As reflected here, the Centralized Financial Management Agency now receives most data on magnetic tapes. This allows the agency to manipulate the data to provide various listings and reports. For example, information is furnished the United States Army, Vietnam, showing dollar value of reimbursements by issuing activity and by customer. The agency uses computers to review all supply transactions to detect reimbursable transactions by matchings with a master file of reimbursable customers. The tape system evolved from the introduction of a decision logic table for use by supply clerks. Each clerk was furnished a table listing numerous activity account codes and the action to be taken depending on the status of the requisitioner. Reimbursement transactions almost doubled after the card was introduced. The idea identified the significance of reviewing each transaction. Thus, it was decided to record all information from hard copy documents on magnetic tapes and let the computers decide the status of the transaction.

Collections are still causing difficulties. Fifty percent of the reimbursable issues are mailed to the customer. This creates a difficulty in proving that the requistioner received the shipment and

CHART 10—CFMA REIMBURSABLE TRANSACTION PROCESS



that all items ordered or shipped were received. Currently, a transportation control and movement document card is prepared to accompany the shipment, but the card identifies only the first item in the package. Current Army Post Office regulations do not permit return receipts or registered packages. Thus, it is impossible to prove that all items were received if a bill is contested. Complicating the situation is the procedure that bills are produced based on listings of issue documents. Some bills are even refuted because of administrative differences in filling out forms. An attempt is made to avoid duplicate billing. The computer routines of the centralized agency provide for matching reimbursable issue transactions against a one-year history file. In November 1971, duplicates were being identified at a significant volume. Contested bills are forwarded to the U.S. Army, Vietnam, for settlement with the customer. Unfortunately, the Army has a habit of backing off and not pushing for payment. If a bill is canceled, Army funds are used and diverted from their primary purpose of supporting Army requirements. For example, in November 1971, almost $380,000 was outstanding in the accounts receivable files for the fiscal year 1969 and $942,000 was due from fiscal year 1970. The 1971 fiscal year figures were $7.7 million. In 1972 a reserve was established for adjustments to bills. This is a technique similar to the commercial practice of establishing a "reserve for bad debts." There is some question as to the legality of the procedure, but the theory is sound and deserves further consideration. In the first five months of the 1972 fiscal year almost the entire reserve of $1.3 million was exhausted.

Realignment Program

One of the more interesting reimbursement transactions is the Realignment Program of the Agency for International Development and the Department of Defense involving a considerable amount of money. For instance, in the 1971 fiscal year the program totaled approximately $80.9 million. The U.S. Army, Pacific, assumed funding responsibility for the program in the latter part of fiscal year 1967, retroactive to 1 July 1966, based on a memorandum of understanding between the Department of Army and the Agency for International Development, dated 25 May 1967. The Secretary of Defense had determined in November 1966 that certain of the programs performed by the international agency were appropriate functional responsibilities of the Department of Defense.

In hearings from the 1967 fiscal year Department of Defense appropriations before the Senate Appropriations Subcommittee, the late Senator Richard Russell questioned putting funds for the pro-

gram in the Department of Defense budget. As previously noted, the 1967 fiscal year was the second year for the Military Assistance Service Funded so assistance funds were being put in the operation and maintenance appropriations. The senator stressed that very little money should be included in the Department of Defense budget but rather that funds should be included in the economic program. Senator Russell saw this move as a ploy to augment the economic program because no one would oppose military assistance to Vietnam. Senator Russell asked for a breakdown of the value of funds for projects previously funded by the Agency for International Development. The total was $20.8 million. Mr. McNamara further explained that some actions could not be identified as purely military or economic efforts. Items in this gray area which were an essential adjunct to military operations or a result from military activities were being shifted from the economic program to the Department of Defense. The department would refrain from paying for programs not closely related to military operations. Some of the programs covered by the Department of Defense in 1972 are:

1. Military Medical Civic Action Program
2. Military Provincial Hospital Assistance Program
3. Railway sabotage
4. Highway maintenance
5. National police force
6. Public safety telecommunications
7. Popular Forces shelters
8. Military civic action
9. *Chieu Hoi* amnesty program
10. Government of Vietnam television

Budget requirements are developed by the Military Assistance Command, Vietnam, and the Agency for International Development, Vietnam, and included in the U.S. Army, Pacific, budget submissions to the Department of Army. Budget and program guidance also flows through joint channels, that is, from Vietnam to the Pacific Command to the Joint Chiefs of Staff to the Department of Defense. The Pacific Command has little, if any, influence over the size or composition of the program and merely acts as a funding channel. The Agency for International Development, Vietnam, initially incurs the expenses in support of those programs it operates solely and then bills the Centralized Financial Management Agency. The latter maintains reimbursement records and pays all bills for the Army in support of the program. The international agency maintains auditable accounting records to support billing of the

Army. This negates maintaining two complete sets of accounting records. Some elements of the program are financed initially by service funds, and then the cost is transferred to the Realignment Program or else reimbursement is effected between the Army and the service concerned. In cases where the international agency reimburses the Army for certain services, it is a round robin affair. The Centralized Financial Management Agency bills the Agency for International Development but the international agency sends their payment to the 7th Finance Disbursing Section in Saigon. The Saigon finance office processes the collection as a "transaction for others," an involved administrative process. It would be simpler to eliminate the Saigon office from the reimbursement channel.

Once again the program is mired in a quagmire of administrative red tape. The verification process of the U.S. Agency for International Development delays payment to the financial agency and often results in contested bills. The development agency has admitted that their records may not be accurate. In June 1971 there was $1.5 million outstanding. Billings to the financial agency are also delayed by a complicated administrative program, and thus the current status in 1972 of the program is not readily available.

Another difficulty is that negotiations with the U.S. Agency for International Development were normally handled at the level of the Office of the Secretary of Defense with the Department of the Army only informed after-the-fact. Additionally, the program grew rapidly from $20.8 million in the 1967 fiscal year to $50.4 million in fiscal year 1968. The figure grew to $78.7 million in the fiscal year 1969, went to $64.5 in 1970, back to $80.9 in 1971, while $65.1 was requested for fiscal year 1972.

Reimbursements by Allies

Reimbursement of support furnished the Army of the Republic of Vietnam and the Free World Military Assistance Forces falls into two distinct categories: reimbursable and nonreimbursable. Most support was of a nonreimbursable nature and was a cost transfer between funds of the U.S. Army, Vietnam, under Program 2 and operation and maintenance Program 10, Support of Other Nations. An interesting exception to this program was the payment procedures used by the Australian and New Zealand forces in Vietnam. Agreements between these two countries and the U.S. called for complete reimbursement for all services rendered. This procedure worked both ways and was advantageous to the three countries.

Australia and New Zealand did not want the U.S. to support any of the cost of their forces in Vietnam; however, they realized that

there were many areas of support which we could furnish more economically due to our extensive administrative and logistical system. These areas included items such as billeting for the headquarters personnel in Saigon, fuel and repair parts for aircraft and vehicles, and certain other items of logistical support.

Reimbursement for this support was broken down into two categories: reimbursement on a capitation basis and reimbursement for so-called actuals. Capitation reimbursement was a monthly charge for a particular service. Examples would be charging so much per man per month for billeting or so much per vehicle per month for fuel and repair parts. These rates were reviewed annually and adjusted accordingly. The charge for actuals on the other hand was the charge based on actual cost of a service or the cost of a particular item of supply plus a surcharge to cover transportation expenses. Examples would be the cost of fuel for a visiting aircraft or the cost of repairing a wrecked vehicle. A monthly statement was provided each country reflecting the amount due the U.S. for these services. New Zealand reimbursed the U.S. on a cash basis; the reimbursement from Australia included cash plus other commodities.

To offset an adverse balance of payments deficit in Australia, the U.S. agreed to accept sugar and other commodities as part of the reimbursement. An annual specified amount of sugar was shipped from Australia to Southeast Asia. All reimbursement charges which exceeded the amount of commodities received by the U.S. were paid on a cash basis.

The capitation process worked very smoothly. The cost offset by sugar and other commodities was prorated on the basis of 75 percent for the Royal Australian Army component and 25 percent for the Royal Australian Air Force component. Due to its small size, the Royal Australian Navy component reimbursed the U.S. on a cash basis. The Australian and New Zealand forces furnished the comptroller of the Military Assistance Command, Vietnam, a monthly report which contained information pertaining to strength, vehicle usage, and fuel consumed. This information was used to prepare a formal billing for each country in accordance with the financial working agreements.

Some problems were encountered in the billing for actuals. Original agreements stated that each country would furnish the comptroller a monthly listing of supplies and equipment drawn from U.S. supply sources. These listings were forwarded to the centralized agency for preparation of a formal billing. The listings did not include the original requisition number and the agency had no way of verifying the supplies drawn by cross-checking against

U.S. Army, Vietnam, depot issue listings. The General Accounting Office took exception to this policy, and Australia and New Zealand agreed to furnish requisition numbers on subsequent listings.

As a result of the General Accounting Office audit, the Centralized Financial Management Agency began to bill Australia and New Zealand by comparing the U.S. Army, Vietnam, depot issue listings with the monthly listings furnished by the two countries. This created some duplicate billings due to partial shipments on requisitions. Additionally, Australia and New Zealand were being billed for items which they had not received. These items were on order for direct shipment to them in Vietnam. Under their regulations they could not pay for an item until it was physically received. The Australian Air Force was also being billed under the actuals process for aircraft repair parts which they were paying for based on capitation rates for aircraft operating hours. These items are still being studied in 1972.

Reimbursements between U.S. agencies caused many problems, but procedures worked rather well with the allies. It is true, however, that the costs of U.S. forces have been overstated due to failure to identify all issues chargeable to the allies. This occurred most often when supplies issued to U.S. forces were subsequently furnished the allies and no documentation was prepared.

Looking Back

Looking back at the repetitive phases of the reimbursement problem, it can be concluded that seldom was so much effort expended so fruitlessly. The obvious solution for a joint theater is a common supply plan, an idea suggested numerous times at all levels of command. The parochial interests overshadowed all attempts to impose order on the interface among the services, allies, and government agencies.

Much overhead was created and administrative costs expended attempting to keep the records straight. Many times reimbursable issues were ignored as the easy way out. It was often too much of an administrative hassle to collect for the issues and to document the transaction. The supply clerks who are the cornerstone of the system were often ill-trained or lacked guidance. No amount of sophistication at higher levels could overcome these basic shortcomings.

Reviewing the numerous inspection and audit reports one can see that the defects which reappeared so often were inherent to the system. Many problems have never been reconciled or were

resolved too late; now that the end of the conflict is near the urgency of the matter is gone.

A subtitle for this chapter could aptly state, *quid pro quo;* the government spent much time, effort, and money identifying who should get something in return. The result is that U.S. Army funds were supporting the major portion of the war while in the continental U.S. badly needed repair and maintenance projects were being deferred from year to year at nearly every installation. The amounts lost through failure to obtain reimbursement would have considerably improved the permanent plant facilities in the continental United States.

CHAPTER V

Organization for Financial Management

After years of working in the financial management structure, I was prompted by this monograph to review how certain elements of the Defense Department are organized and how the structure affects management. Students of organizational theory and behavior can find a plethora of potential subject areas if they were to examine the federal government. This is not to ignore the many fine Presidential commissions such as the Hoover Commission. Implementation of the latter's recommendations are with us today and will likely remain. However, an entity as large as the federal government is too dynamic not to warrant periodic review. One of the latest groups at the time of writing—the Presidential Advisory Council on Executive Organization or the Ash Commission, headed by Mr. Roy L. Ash, President of Litton Industries in 1972—again recognized the need for reassessment and restructuring. A Presidential commission more closely identified with the Armed Forces was President Nixon's Blue Ribbon Defense Panel chaired by Mr. Gilbert W. Fitzhugh, Board Chairman of the Metropolitan Life Insurance Company. This panel made over one hundred recommendations relating to the Defense Department's organization and functioning in 1970.

The Army has also made in-house studies which have resulted in improved organization. For example, in 1970, based on the findings of an ad hoc committee on Army financial management, the Assistant Vice Chief of Staff was designated the Director of Army Programs. The change was instituted to improve the programing and budgeting procedures and provide a more integrated, systems approach. Many citizens and even individuals within the government do not appreciate the awesome size of the government. The Defense Department, with an annual $70 billion budget for the last several years, ranks far ahead of the largest companies in *Fortune's* "Directory of the 500 Largest Industrial Corporations." The Army would place about fourth on the list based on its operation and maintenance appropriation alone, ignoring all the other appropriations such as the funds for the procurement of equipment and missiles or for military construction. The amount spent for Southeast Asia in the

1969 fiscal year would rank about fourteenth. These rankings were based on a comparison with the total sales of the various companies on *Fortune's* list. A total-asset comparison would be even more one-sided in favor of the government. An organization this large is worthy of review. Some of the structure has been explained in discussions of the various functions such as budgeting and accounting; however, the focal point in this chapter is the organization per se.

Basic Design

The basic framework for financial management as well as for most facets of national security is depicted in *Chart 11*. Detail is omitted in some cases when focus on financial management is not sharp. It can be seen immediately that the framework is multi-layered and there are many off-shoots or spurs. Contrast this chart with *Chart 12* which shows the influence network in which the Department of Army operates. Together the two charts depict a frenetic atmosphere where there is much co-ordination required, and backtracking and retracing of actions abounds.

Organizations usually evolve without central planning or control and often are not as efficient as if they were redesigned at each stage of development of the activity itself. This is especially true of the government as new responsibilities are added and new requirements are absorbed. This is manifested by legislation that established the Transportation Department. Responsibilities were fragmented and so diverse that a major realignment was required. As expected, power groups prevailed and not all agencies having responsibilities in the transportation area relinquished their functions. Thus it can be seen that even when the need for realignment is identified, attainment of a more efficacious system is difficult.

The Defense Department organization reflects the needs of tactical command and administrative control. For example, the unified commands are most useful when organizing for combat or maintaining a deterrent force where representation from two or more forces is necessary such as in the Pacific Command. This tactical solution creates nightmares for the administrators. Each service has separate logistical and administrative systems which do not interface with the other services easily. The handling of the exchange of assets and the problems of mutual support create numerous hassles and increase the administrative overhead. The traumatic experiences reflected in Chapter IV bear witness to this. The Defense Department situation is not unlike any textbook con-

CHART 11—FRAMEWORK FOR FINANCIAL MANAGEMENT

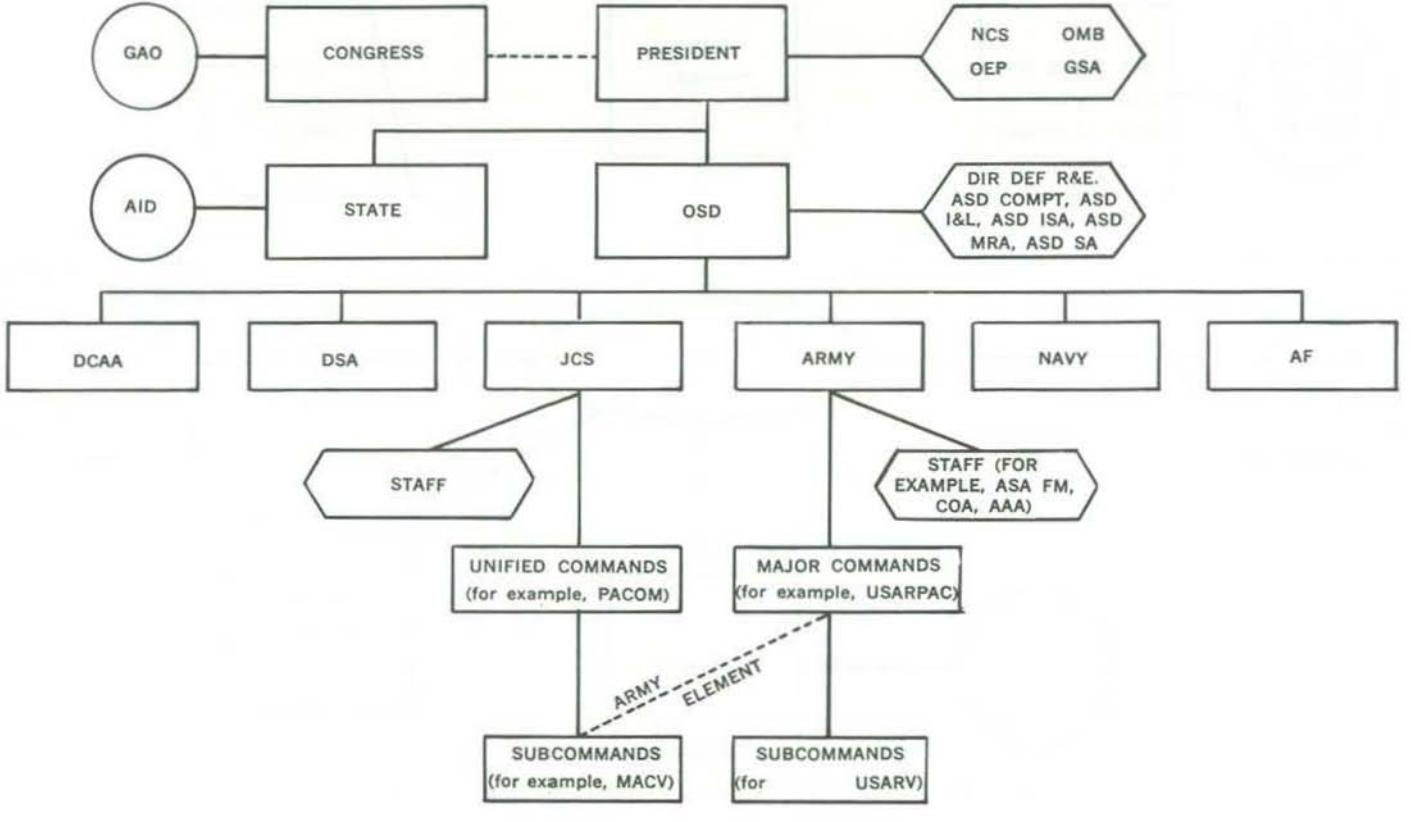
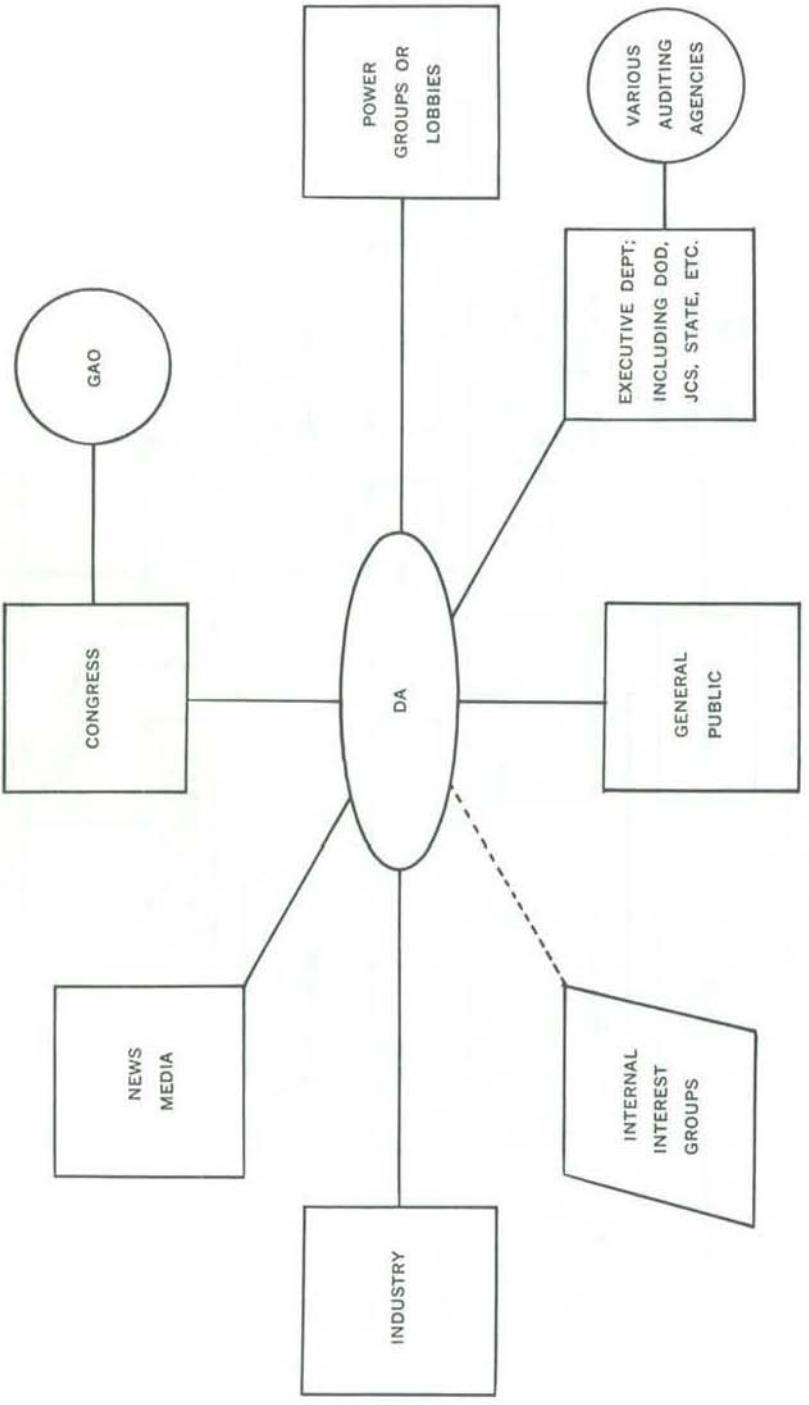


CHART 12—DEPARTMENT OF THE ARMY INFLUENCE NETWORK



flict between staff and line officials. There is no way to avoid the inevitable conflict and dichotomy of needs, but there must be emphasis on minimizing the differences.

The multi-layers of organization and the dual requirements for structuring combine with the influence of special groups to provide a formidable environment for management. The Army is not unique in having to wrestle with numerous special interest and power groups. Industry often has this problem. What does make the Army different is its place in American society and its role as public servant. This limits the action the Army can use in countering pressure groups and magnifies the numbers of laws and regulations designed to keep the armed forces impartial.

Management of a War

With the foregoing as a background, it would be appropriate to discuss the organization's impact on Vietnam. Before the buildup and the transition to Military Assistance Service Funded, the management of the war followed the normal channels of the Military Assistance Advisory Group. The assistance group in Vietnam submitted requirements through the Pacific Command because it was an advisory element and all services were represented. As depicted in *Chart 12,* the Army was responsible for supporting its own element and providing the necessary resources. These requirements were merged at the Department of Army after traveling the separate channels of communication. Designation of the assistance group as Military Assistance Command, Vietnam, and the activation of large field commands such as the U.S. Army, Vietnam, the 1st Logistical Command, and the III Marine Amphibious Force changed the complexion of the structure. The joint channel of command was emphasized although the Army element was involved with sending information and requests through the U.S. Army, Pacific. Actually, the latter was more of a figurehead because of the nature of the U.S. involvement. Thus, requirements were not always anticipated at the Department of Army and often the password was react instead of act. The Executive Department played a more direct role in establishing requirements and providing policy, thus further subjugating the Army's prerogatives. What had been an orderly dual track flow of information soon became a one-track with emphasis on flow from top to bottom.

Perhaps one shortcoming to the emphasis on the joint channel of command was the supporting comptroller organization. Because in the Military Assistance Command, Vietnam, the comptroller was not a general officer, his role as a financial manager was diminished

and his influence on the staff reduced. Many problems were passed to the U.S. Army, Vietnam, for resolution when they could have been handled in the Military Assistance Command, Vietnam, which perhaps could have forced all the services to an agreement. Lack of a strong financial organization at the bottom further forced impetus to originate at the top echelons of the defense hierarchy.

The peacetime procedure was bureaucratic enough but operated because there was time to make the system work. The exigencies of a combat environment, especially one directed from the highest levels of government, left little or no time for making the system work. Emphasis was rightly on making the correct move from a tactical standpoint with financial management being a tangential issue. The stress affected the American economy from a macro point of view, and perhaps finances were de-emphasized too much. At any rate, the military organization pushed aside financial considerations, and the tactical and logistical planners and operators assumed full direction of the daily operation.

Thus as anticipated, the Army's *raison d'etre* became the consumer of all its attention and the administrative resources languished. The Army needs a financial management structure to help conserve limited national resources and to effectively utilize those assets made available. The requirement for the structure during a time of combat involves national priorities and an ordering of objectives. It has been advocated that less money and manpower would have been consumed had financial management been a more integral part of the decision process. The type of war and the stages of escalation mitigated against financial management. The stress was on a quick military victory at any price. Not many people saw such a long-term, escalatory involvement. Also, the rest of the Army was not at war. Many installations and activities of the Army were needed as a deterrent against aggression from other areas and for the normal housekeeping activities of a large armed force. Thus, we had two systems operating simultaneously, each competing for resources and attention.

Within the Department of the Army there is overlap and often a fine delineation of duties. The Comptroller of the Army has the responsibility for budgeting but must rely on the program managers. There is designed into the system a balance of power and a need for co-ordinated effort. For example, the Department of Army prepares the plans and programs which consume many of the Army operation and maintenance dollars which the comptroller has worked so strenuously to obtain through the budget process. The costs of this type of organization are often expensive, especially during a time

of crisis. Some of the problems are: overlapping responsibilities; organizational conflict; excessive time required to process actions; failure to act when responsibilities are unclear; and duplication of effort.

Even within the financial channels there are numerous layers, and our research has shown some overlap. *Chart 13* highlights the financial channel from the Department of Army to Congress. The reader of the chart must not forget that there are financial staffs at all levels of the Army, and that some are filled with personnel lacking the proper training and experience. The chart shows only the financial channels and ignores all the other organizational elements which are a strong influence on the process. Each block represents within itself a myriad of responsibilities and a separate organizational entity. Granted that some elements are larger than others, each does add to the bureaucratic process and at times inhibits fast action. Within Congress there is much organization and the numerous committees which have a say on the budget consume reams of paper for printing concerning the Army operation and maintenance appropriations alone. Perhaps it is time again to re-examine and possibly streamline our financial management process.

New Horizons for Financial Management

The computer opens new frontiers for financial management and makes available vast amounts of organized data in a decision-making format. There are numerous systems being designed and proliferated which will in time make decision-making easier.

Until the marvels of the electronic age are assimilated, improvements must be made. Increased centralization and the elimination of intermediate financial managers would increase the rate at which information moves. The danger is too large of an organization at the central point. This can be contained with proper planning and the use of systems analysis techniques during the organizational design phase.

Consolidation and reduction at the top levels is also possible. As mentioned earlier, organizations often grow unchecked and without purposeful planning. Thus, it is no indictment of anyone when a suggestion is made to periodically review an organization. A thorough management analysis of the Comptroller of the Army organization would probably identify areas for improvement and reorganization. The interface between the various levels depicted in *Chart 13* warrants examination. There may be unnecessary

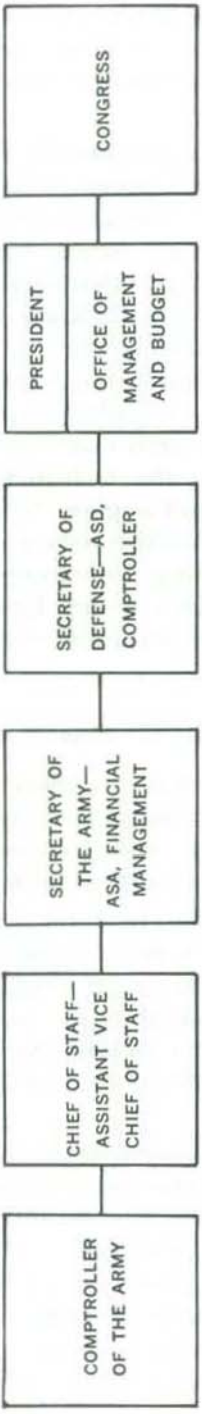


CHART 13—TOP FINANCIAL MANAGEMENT CHANNELS

overlap and the repeating of requirements or functions that are similar in scope and content.

Within the Department of Army staff there is overlap and the need to reassess responsibilities. The relationship between the Comptroller of the Army and the other major staff elements needs to be studied. Also, the interface among the other staff elements warrants re-evaluation in the area of financial management responsibilities. The "Report of the Special Review Panel on Department of the Organization" released in 1971 is a good starting point. While the Special Review Panel analyzed the Department of the Army staff and selected major commands, the review proposed in 1972 would focus on the financial management organization.

In organizing for a war, especially the limited type such as Vietnam, our organizational design requires rethinking. We tried to manage from within a peacetime financial organization. Perhaps what was needed and may be suitable for future conflicts is a special purpose organization. In academic jargon "matrix management" is in vogue. Matrix management is the administrative equivalent of the tactical task force. A separate activity would be established at the Department of the Army to administer the financial aspects of the war much as the Centralized Financial Management Agency handles the accounting mission. The special activity would have a counterpart activity in the theater or outside the theater, such as the centralized agency. All intermediate commands would be eliminated to expedite information flow and to avoid the pyramiding of manpower requirements. At the Department of the Army, each interested staff section would be tasked to provide subject area specialists to assist the financial managers. The activity would be a well-rounded and balanced team whose sole mission would be to effectively manage asset acquisitions and utilization. The normal staffs would be unaffected and permitted to conduct their normal operations with minimum interference. Streamlining above the Department of Army staff would also be necessary to increase reaction time and flexibility. Matrix management has been effective in industry as an addition to the normal organization when designed with a limited life for a specific purpose.

Along with special purpose organizations comes the need for supporting table of organization and equipment-type accounting units which can be deployed. The Army had available accounting table of organization and equipment units which could have been used in place of the Centralized Financial Management Agency. When the agency was established, it was an organization using a table of distribution and allowances and staffed mainly with civil-

ians. If the Army had an accounting table of organization and equipment unit available for early activation and deployment, accounting could commence sooner and at less cost using military personnel. Our doctrine on the use of accounting units needs rethinking.

What I have said in this chapter should not be taken as an indictment of the financial management system or its managers. If this monograph is to serve the future, it should serve as a guide to our past and should illuminate the need for change. An organization as large and dynamic as the Army requires re-evaluation. While our experiences are current, the situation should be examined.

CHAPTER VI

Future Financial Management

Throughout this treatise, many methods of better financial management have been indicated, but the question of the future continues unless some definite steps are now taken to prepare for an emergency or a repeat of the conditions of limited war. Planning is currently under way within the Department of the Army to establish procedures which could provide for effective utilization of resources, and the lessons learned in Vietnam will contribute to the shape of these plans. One such plan is entitled LSS–71 and, while primarily a logistics procedure, embodies the financial implications as a major portion. It is perhaps a tribute to the planners of the late 1950s and early 1960s, that the financial procedures envisioned are virtually the same as had been included in plans of that era, such as a single service concept for common supplies and other relief from peacetime limitations imposed by Congress. If those earlier recommended methods of financial control were never implemented, what hope do we have that the situation will be altered in the future? It would appear that now is the time to assure that the elements of the plan are approved at all levels so that their activation will be automatic in case of another limited war. By seriously considering the innovations required in these periods of conflict, it is conceivable that some changes will be dictated in our peacetime structure for financial management as well.

Far too often in the past, our approach to resource management has been based on reaction rather than action. An installation commander, faced with the requirement to respond to a query of some higher authority, has concentrated on that specific area of interest, to the detriment of other programs just as important. Our current accounting system at installation level is designed more to render reports required at higher echelons, including the Department of Defense and Congress, than to provide for the informational needs of the local commander. It is a fortunate commander who has developed a comprehensive method of gathering all of the information required to effectively manage his resources on a day-to-day basis.

More of a problem is the seeming lack of co-ordination between missions given and the funds to adequately support these missions. This was pointed out repeatedly during the Vietnam War when many tactical decisions were made in joint channels, including the Department of Defense and the White House. These decisions were passed down through the Commander in Chief, Pacific, and Headquarters, Military Assistance Command, Vietnam, to the U.S. Army, Vietnam, for implementation. Rarely was there any real co-ordination of the impact on funds which some of these decisions had. In the period when there was no limitation on funds available, this was not a major consideration, but diversions from other necessary programs were required later to finance these decisions. This is not to say that financial considerations would, or should have changed the outcome, but had commanders been made aware of what was being deleted from the program in order to meet the new requirement their actions may have been far different. It is possible that some alterations would have been dictated. We are currently trying to obtain levels of funding which will allow us to perform some of the maintenance and act on other programs which were deferred for years in order to provide money for some of these actions in Vietnam.

The ideal situation would be for the budget to actually fit the pattern which I described earlier and merely be a reflection of the amounts of money required to carry out all of the approved programs, as indicated in the Five Year Defense Program. While this may never become a total reality, we should strive toward that end. One way in which to accomplish this would be to make Congress more aware of the elements of the plan and the funds required to pursue it. Vietnam has forced the budgeteers and programers to move in this direction. A great deal of emphasis has been and is being given to the development of factors both for bulk allocation of funds and for specific requests for information. This approach could well prove to be the salvation of our financial management program. Once data is developed which is accurate enough to convince the Office of the Secretary of Defense and Congress of its validity, we no longer would be debating the cost of a particular budget item, but whether or not it should be accomplished at all. If it was decided that it was necessary, there would be an automatic price tag involved. While this utopian approach may never be reached completely, the closer we come to making programming decisions automatic budget decisions, then the easier the task of effective management of resources will become. We cannot just stop with Congress, but the same idea must permeate the entire

Department of Defense. Any commander given a mission should be given the resources to accomplish this mission virtually in the same directive, or else be allowed to identify in the previously approved program that item which will not be accomplished due to the diversion of funds to the new one.

The above concept will require a shift in the thinking of many individuals involved in the utilization of resources, since human nature makes it difficult to admit that by some miracle of better management one cannot assume new missions without more resources. In actuality, if an installation commander can take on new projects without letting others suffer as a result, he is admitting that he was not achieving maximum results from his present funding level prior to the assignment of the new program. Admittedly, this has not been the interpretation generally prevalent in the past, but it should be in order to insure a truly effective financial management posture within the Army.

If program decisions could, in fact, become budget decisions, it is conceivable that this could have a very desirable effect on two deterrents to effective resource management. The first, I have mentioned before—late approval of the budget by Congress. Although we will never completely divorce dollars from the consideration of the programs of the Department of Defense, if we could merely standardize the formulation process, the discussions of what a particular program should cost would diminish and there would be a good chance that budget approval could be granted much earlier in the fiscal year under consideration. Not only that, but once a program was approved, if it lasted over a number of years, individuals involved in pursuing that program could rely on funds being made available since to do otherwise would eliminate the project and thereby negate any value from money already expended. The key element here remains the Army's ability to forecast accurately the total cost of any of the elements of their program. This would include taking into consideration external influences such as a factor for inflation, the side effect costs associated with the introduction of a new weapon into the inventory, replacement comparison costs with the weapon being eliminated, and all other elements which might be affected even extraneously by the project under consideration. In other words, a totally complete program should be submitted, and, more important, once approved, cost data should be developed to prove, or disprove, the validity of our costing procedures. The more reliable these become and the more

we can prove to Congress that we are capable of effective financial management, the less suspect will be our budget, and the quicker it will gain approval.

The second deterrent, of which I spoke, is almost an extension of the first, since it involves the installation commander and his reliability index in the use of funds. There is a rather prevalent myth that a 99.9 percent obligation of available funds indicates effective utilization of resources. Even more germane is the feeling that if one does not achieve this figure, the next year's budget will be cut, since one obviously does not need all of the funds which were requested. It appears to me that both of these statements should be incorrect, particularly in an environment where accurate factors provide accurate costs for accomplishing a particular mission. As a matter of fact, the above two statements could only be true in an environment where more missions were assigned than resources to effectively pursue them. This destroys true management of resources and leads to "stop-gap" measures, which are designed to apply enough resources to each little area to keep it from falling apart, merely delaying the inevitable day when some inspection reveals an activity which is desperately in need of funds and there are none to be found. If a commander, through better financial management, can perform the task with only 90 percent of the funds which had been estimated for its cost, then he should receive the plaudits of his superiors for an outstanding job. Certainly, his next year's budget should not reflect any change for this exemplary accomplishment, except for the possible revisions to factors based on similar performance by a number of commanders under like conditions.

In one area alone, the Army should have learned its lesson in this regard—repairs and utilities maintenance. For years the Congress approved budgets which included funds to maintain the facilities on installations. They did not seriously question either the amounts requested or whether or not the maintenance was actually being performed. Considerable liberties were taken with these funds, however, and they were diverted to other higher priorities in many cases. The required maintenance was deferred. As a result many of the facilities reached the point that something had to be done, but this required funds. Once Congress was aware of this situation, their reaction was naturally one of shock. In effect, the members of Congress asked some rather embarrassing questions about what had been done with the money which had been appropriated for this purpose. They then imposed an additional control on funds to insure that we used the funds for repairs and utilities maintenance

which they had given us. They gave us a floor; we had to spend a certain amount of money in this category. This action typifies the reaction which one can expect on any area in which mismanagement of funds is indicated, but, worse, from a congressional point of view, it is an indictment of the Army as a whole. The only way to escape these added controls and the extremely close scrutiny of Congress in all areas is to prove ourselves capable of their trust to manage effectively.

As I have indicated earlier, I feel that the Army will emerge from Vietnam with a relatively good reputation in Congress, but there naturally will be some closer looks given the expenditures of the entire Department of Defense. This will require that commanders at all echelons become interested in all aspects of the financial management structure, and in the development of a comprehensive plan to insure that information is immediately available regarding costs of alternatives prior to reaching a decision. There will be times when more mundane actions must be pursued in order to have a complete program which makes the best overall utilization of funds. If this does not become the rule, our reputation can quickly diminish to one in which Congress and other higher echelons are directing each activity to the lowest detail. This will certainly be admitting a failure in effective resource management.

If this same interest were carried over into the planning for any type of engagement which might occur in the future, perhaps our financial management posture could gain the same reputation which is enjoyed by our combat troops ability to react to any situation. Throughout Vietnam, numerous laudatory comments were made about our ability to build up so quickly without a major drain on Reserves or National Guard. Also considered exemplary was our rapid establishment of a logistics base to supply the troops, and to construct necessary facilities in an area which almost defies construction efforts. When questions arise as to whether or not prudent use of our resources was made in accomplishing these tasks, the Army may be criticized severely.

In order to remedy this for future limited wars, we must plan for a viable organization to accomplish this activity. I feel strongly that we should plan for the immediate establishment of an organization something like the Centralized Financial Management Agency to be implemented at the outset of hostilities. We should ask Congress for relief from statutory requirements which hamper operations, and that approval should be granted now to be effective immediately whenever conditions warrant. Further, we should strive to have any deviation authority authorized by Congress passed to

the lowest possible level to provide the maximum flexibility to the commander who must insure that he takes every action to obtain the best mission accomplishment through effective utilization of all factors at his disposal—including efficient financial management.

Glossary

AAA	Army Audit Agency
AID	Agency for International Development
AMC	Army Materiel Command
AMMCV	Aviation Materiel Management Center, Vietnam
AOB	Approved operating budget
ARVN	Army, Republic of Vietnam
ASA FM	Assistant Secretary of the Army, Financial Management
ASD Comp	Assistant Secretary of Defense, Comptroller
ASD I&L	Assistant Secretary of Defense, Installations and Logistics
ASD ISA	Assistant Secretary of Defense, International Security Affairs
ASD MRA	Assistant Secretary of Defense, Manpower and Reserve Affairs
ASD SA	Assistant Secretary of Defense, Systems Analysis
BOB	Bureau of the Budget
CFMA	Centralized Financial Management Agency
Chieu Hoi	South Vietnamese open arms or amnesty program
COA	Comptroller of the Army
DA	Department of the Army
DCAA	Defense Contract Audit Agency
DOD	Department of Defense
DPRC	Defense Program Review Council
DSA	Defense Supply Agency
FWMAF	Free World Military Assistance Forces
FY	Fiscal year
FYDP	Five Year Defense Program
G–4	Assistant chief of staff for supply
GAO	General Accounting Office
GVN	Government of Vietnam
Hq	Headquarters
IAO	Intra-Army Orders
ICCV	Inventory Control Center, Vietnam
ISSA	Interservice Support Agreement
JCS	Joint Chiefs of Staff
JLRB	Joint Logistics Review Board
JSOP	Joint Strategic Objectives Plan
JUSPAO	Joint U.S. Public Affairs Office

LCOP	Logistics Control Office, Pacific
Log	Logistics
Loran	A long range electronic navigation system
MAP	Military Assistance Program
MASF	Military Assistance Service Funded
MCA	Military Construction, Army
Med	Medical
MEDCAP	Military Medical Civic Action Program
MILPHAP	Military Provincial Hospital (or Health) Assistance Program
MILSTRIP	A uniform procedure for requisition and issue of material within standardized priorities
MIPR	Military Interdepartmental Purchase Request
MMA	Materiel Management Agency
MPA	Military Personnel, Army
NOA	New obligation authority
NSC	National Security Council
NVN	North Vietnam
O&M	Operation and maintenance
OEP	Office of Emergency Planning
OMA	Operation and Maintenance, Army
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
PA&E	Pacific Architects and Engineers
PEMA	Procurement of Equipment and Missiles, Army
POL	Petroleum, oils, and lubricants
RCFCS	Requisition Ceiling Fund Control System
ROK	Republic of Korea
ROK ORTC	Republic of Korea Overseas Replacement Training Command
RVNAF	Republic of Vietnam Armed Forces
SEC DEF	Secretary of Defense
USAID	United States Agency for International Development
USARPAC	United States Army, Pacific
USARV	United States Army, Vietnam
USARYIS	United States Army, Ryukyu Islands

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