

A REVIEW OF STEEL PURCHASED FOR THE
COMMERCIAL BARGE CONSTRUCTION
PROGRAM IN VIETNAM

THIRTY-THIRD REPORT

BY THE

COMMITTEE ON GOVERNMENT
OPERATIONS



OCTOBER 8, 1970.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D.C., October 8, 1970.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's thirty-third report to the 91st Congress. The committee's report is based on a study made by its Foreign Operations and Government Information Subcommittee.

WILLIAM L. DAWSON, *Chairman.*

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REPORT
No. 91-1582

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OCTOBER 8, 1970.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

Mr. DAWSON, from the Committee on Government Operations,
submitted the following

THIRTY-THIRD REPORT

BASED ON A STUDY BY THE FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE

On October 7, 1970, the Committee on Government Operations approved and adopted a report entitled "A Review of Steel Purchased for the Commercial Barge Construction Program in Vietnam." The chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

On October 12, 1966, the House Committee on Government Operations published the first comprehensive congressional report on the efficiency and economy of the U.S. aid program for Vietnam. The report (H. Rept. 2257, 89th Cong., second sess.), entitled "An Investigation of the U.S. Economic and Military Assistance Programs in Vietnam," was the result of intensive onsite investigations and hearings in Washington and Saigon by the Foreign Operations and Government Information Subcommittee under Chairman John E. Moss.

The introduction to that report stated that—

The committee has a continuing interest in the development of an efficient and economical aid program in Vietnam and intends to keep the situation under constant watch in the months to come, not only checking the effectiveness of recently instituted changes but also urging action toward further improvements.

In furtherance of that commitment, three subcommittee staff members traveled to Vietnam in November 1966, to check on steps being taken to implement the recommendations made in the committee report and on June 29, 1967, the subcommittee left Washington for an onsite, followup investigation of U.S. assistance programs in Vietnam.

The continued surveillance and followup investigation by the subcommittee resulted in the committee issuing six followup reports. On August 25, 1967, the committee issued three reports entitled, "Illicit Practices Affecting the U.S. Economic Program in Vietnam" (H. Rept. 609, 90th Cong., first sess.), "The Commercial (Commodity) Import Program for Vietnam" (H. Rept. 610, 90th Cong., first sess.), and "The Port Situation in Vietnam" (H. Rept. 611, 90th Cong., first sess.); on March 5, 1968, the committee issued two reports entitled, "Land Reform in Vietnam" (H. Rept. 1142, 90th Cong., second sess.) and "Excessive Programing and Procurement of Sweetened Condensed Milk for Vietnam" (H. Rept. 1143, 90th Cong., second sess.); and on June 25, 1970, the committee issued a report entitled "A Review of the Inequitable Monetary Rate of Exchange in Vietnam" (H. Rept. 1228, 91st Cong., second sess.). The seven reports included substantial recommendations to improve and correct U.S. foreign aid operations not only in Vietnam but worldwide.

Although the subcommittee directed most of its efforts to studies and investigations of aid programs in other parts of the world during 1968 and 1969, surveillance over the Vietnam program continued with the assistance of the U.S. General Accounting Office (GAO). On February 26, 1969, Chairman John E. Moss requested that the GAO make a detailed assessment of how well any weaknesses and irregularities previously reported by the subcommittee had been remedied. To date, the GAO has provided the subcommittee seven reports in which the implementation of the committee's recommendations pertaining to the port situation, claims against the Government of Vietnam (GVN), illicit practices, land reform, the hamlet evaluation system, the budgeting, control, and release of counterpart funds, and the commercial (commodity) import program were studied and evaluated. These reports comment on those recommendations which were and were not satisfactorily implemented and will be the basis for or included in subsequent committee reports on Vietnam.

The findings and observations of the GAO reintensified the subcommittee's interest in certain aspects of the current U.S. aid program for Vietnam. On October 5, 1969, three subcommittee staff members left Washington to conduct a preliminary investigation of current matters disclosed during the subcommittee's continuous review and to follow up on the observations and findings reported by the GAO. On the basis of the staff's findings during this preliminary investigation, the subcommittee scheduled a detailed investigative trip for early 1970. The chairman and three staff members left for Vietnam on February 6, 1970, to investigate not only U.S. economic aid operations, but also certain urgent matters falling within the jurisdiction of the Government information responsibility of the subcommittee.

During the October 1969 investigative trip, the subcommittee staff noted large quantities of steel haphazardly stored at the GVN's Phu An storage facility which bore markings indicating that the steel had been provided to the GVN by the Agency for International Develop-

ment (AID). Photographs of the steel storage conditions are included as exhibits to this report. Representatives of the GAO were requested to develop information for the subcommittee concerning the steel. Subsequently, in February 1970, hearings regarding the steel were held in Saigon.





Investigation disclosed that the steel had been purchased by AID in 1965, at a cost of \$1.3 million, and was originally intended to be used for a commercial barge construction program. The program failed to fully materialize and the steel was permitted to sink into the mud, to rust and deteriorate, at the Phu An storage yard. The

findings resulting from the subcommittee's onsite investigation in Vietnam and information obtained from GAO and AID officials are the basis for this report.

II. FINDINGS

The failure of the Agency for International Development to properly plan and efficiently time phase the procurement and use of thousands of tons of steel in Vietnam resulted in the unnecessary expenditure of more than \$1 million of the American taxpayers' funds. Moreover, the failure of the Government of Vietnam to properly store and safeguard the steel upon arrival in Vietnam resulted in the deterioration and shortage of thousands of tons of the steel and possibly diversion from its intended use.

Commodities Costing Over \$1 Million Provided to the GVN Without Proper Planning

During fiscal year 1965, the U.S. aid mission to Vietnam (USAID/V) included in its country assistance program document a subactivity for the construction of vessels needed to meet Vietnam's inland waterway requirements; the subactivity was identified as the commercial barge construction program.

Initially, USAID/V thought that \$18 million worth of imported commodities would be needed, over a 10-year period, for the program. USAID/V proposed to provide \$1 million in commodities from fiscal year 1965 AID funding with future years' commodity requirements being funded from revenues provided by the sale of commodities for barge construction to commercial entities in Vietnam.

In October 1965, USAID/V, without adequate negotiation with the GVN, established as its target the construction of ten 550-ton barges and thirty 350-ton barges for the initial input into the program. USAID/V, in its haste to get the barge construction program started, authorized the procurement of 6,200 metric tons of steel, costing \$1.3 million, on October 25, 1965. However, USAID/V had neglected to arrive at an agreement with the GVN and, thus, had nothing in the way of mutually agreed to designs, working drawings, and/or plans for the barges at the time USAID/V authorized the purchase of the steel.

It was planned to sell the steel, upon its arrival in Saigon, to local bargeowners who would have the steel fabricated into barges. The sale of the steel was to be on a credit basis with payment in 3 years without interest. However, USAID/V had also neglected to assure that agreements had been worked out between the GVN and the local bargeowners prior to ordering the \$1.3 million worth of steel.

Subsequent reports by responsible USAID/V program officials indicate that the \$1.3 million worth of steel was simply ordered in random sizes for three general types of barges. USAID/V's purchase authorizations contained no specifications for either the steel or welding rods ordered. As a direct result, the steel delivered to Vietnam was 25- to 50-percent thicker than needed. Conversely, the length of the steel sheets were only one-third the length they should have been; thus, necessitating three times the welding at three times the cost. USAID/V also neglected to provide proper packing instructions for welding rods ordered with the steel. As a result, the welding rods

were completely destroyed in transit and had to be reordered at an additional cost of \$74,000. The second order of welding rods, properly packaged, is purported by an AID official to have arrived in Vietnam with every pound intact. In June 1967, USAID/V engineering personnel estimated that the 6,200 metric tons of steel ordered was sufficient for construction of 70 to 130 barges, depending on size and design, a number substantially in excess of the 40 barges initially planned and indicating a gross miscalculation of steel requirements by responsible USAID/V officials.

Failure to Establish Control Over Steel on Its Arrival in Vietnam

The steel arrived in Vietnam during March-June 1966; was off-loaded and forwarded to the Phu An dredging warehouse for storage. However, USAID/V neglected to assure that proper documentation attesting to receipt of the steel in Vietnam and delivery of the steel to the Phu An storage area was prepared. As a result of USAID/V's negligence, accountability for the steel was not established.

In effect, AID spent \$1.3 million of the American taxpayers money for the steel but could not clearly establish that the steel shipped from the United States had actually arrived in Vietnam or that the steel offloaded in Vietnam had been delivered to the Phu An storage area.

The failure to properly establish accountability for the \$1.3 million worth of steel was repeatedly brought to the attention of USAID/V managerial officials by USAID/V auditors and operating personnel during the period 1966 through 1969. However, no successful effort was made by USAID/V to establish proper accountability. In August 1966, a USAID/V contractor inventoried the steel on hand at the Phu An storage area and found a net shortage, at that time, of 200 metric tons. A claim against the GVN was not presented, however, because USAID/V officials were unable to determine whether the shortage occurred as a result of the steel being shortlanded or while the steel was stored outside in unguarded storage at the Phu An yard. USAID/V also took the view that the contractor's inventory could not be verified because of the haphazard manner in which the steel had been dumped in unprepared, open storage at the Phu An yard where the markings weathered and the steel became comingled with steel belonging to commercial importers.

By August 1967, visual observation by USAID/V operating officials clearly indicated that the GVN Director of Navigation was arbitrarily releasing steel to private truckers to haul to unknown destinations. In spite of this clear indication of possible diversion of the steel from its intended use, USAID/V officials failed to take action to bring the 6,200 metric tons of steel under proper accountability control or take action to file claims for refund against the GVN. In fact, as late as October 1969, at the time of the subcommittee's investigative trip to Vietnam, USAID/V officials did not know, with any degree of certainty, the quantity of steel actually received in Vietnam and delivered to the Phu An storage yard, the quantity of steel actually used and what it was used for, and the quantity of steel still on hand.

Failure to Assure That Agreement With the GVN Met U.S. Objectives

Agreement between AID and the GVN as to utilization of the steel was not entered into until March 31, 1966, 5 months after USAID/V authorized the purchase of the steel. Subsequent USAID/V reports show that the agreement for the utilization of the steel was grossly inadequate. Nothing in the agreement with the GVN permits USAID/V to stipulate plans for the barges; nothing stipulates the sizes, or even the range of sizes, for the barges; nothing stipulates how many barge types are to be designed; nothing stipulates how the barges are to be used or where they are to be used. In his March 31, 1966 concurrence in the GVN changes to the agreement, Mission Director Charles A. Mann, stated that—

many additional details regarding barge construction will have to be worked out in order to materialize this agreement.

No details were ever worked out.

USAID/V Remiss in Contracting for Engineering Design Services

After arrival of the steel in Vietnam, USAID/V was confronted with its failure to provide for proper and complete barge design and engineering plans for the construction of the proposed barges. USAID/V, recognizing that the program could not move forward without barge design and engineering drawings, set about to obtain such services by contract. Contract authorizing documents were issued and delivered to the USAID/V Contract Services Division on March 17, 1966, requesting the needed design engineering and monitoring services.

Five firms were available within Vietnam, at the time, which were considered qualified to provide the services required. However, the USAID/V contracting officer did not award the contract on a competitive bid basis; instead, AID Procurement Regulations were totally disregarded and a cost-plus-fixed-fee contract was awarded, on April 26, 1966, to the Ralph M. Parsons Co. in the amount of US\$80,000 plus VN\$1,500,000 (equal to US\$12,700). Especially noteworthy, in this regard, is correspondence on file in USAID/V records which state that—

Ralph M. Parsons was given a verbal notice to proceed the 6th of March, so that there would not be any loss of time in the utilization of this \$1 million worth of commodities.

USAID/V reports indicate that the contractor was later considered the least qualified of the barge design firms available.

The contract with Parsons provided that design engineering services would be provided by a U.S. naval architect. USAID/V reports state that Parsons did not use a U.S. naval architect; instead, Parsons provided a Chinese engineer to perform the barge design engineering services. While the contract does not specify the number

of barge types to be designed, USAID/V reports indicate that it was agreed that Parsons would design six types of barges. USAID/V failed to require Parsons to live up to either of the two provisions.

Drawings for only three types of barges were submitted and these were totally rejected by the prospective bargeowners. Further USAID/V reports state that Parsons' designs were severely criticized by experts from the Mekong Committee and the GVN Directorate of Navigation. The Parsons contract, in reality, produced essentially nothing of real value for either the USAID/V or the GVN. Nevertheless, the contract resulted in expenditure of more than \$80,000 of the American taxpayers' money.

Previously, the Ralph M. Parsons Co. had provided design and engineering services, under contract, on an AID project in Indonesia. Significantly, AID described the Indonesia project, in which Parsons was involved, as AID's "least successful project" in Indonesia and attributed the lack of success of the project directly to Parsons' poor performance. Specifically, AID stated:

Throughout the history of this undertaking, the Ralph M. Parsons Co. failed to perform in the manner originally expected. Once having participated in the design and layout of facilities for which the generators supplied by AID were selected, the personnel of the company did not follow up on a timely basis to insure that progress was maintained on schedule. In addition, the training to have been undertaken by this company with Indonesian personnel can, at best, be described as incomplete, since few of the Indonesian personnel who eventually came to operate this equipment were sufficiently familiar with its operation and maintenance. As a result, several of the units were damaged in initial operations and repairs were required. The Parsons Co. contract was terminated in mid-fiscal-year 1964 by USAID largely because of dissatisfaction with the professional caliber of personnel sent by this company to Indonesia.

In spite of Parsons' poor performance in Indonesia, AID, nevertheless awarded the barge design contract to the Parsons Co. Had USAID/V been apprised of Parsons' prior poor performance, it could have avoided its mistakes with regard to the barge design contract. However, AID lacked a workable system of keeping its missions advised of contractors' poor performance at the time the barge design contract was awarded.

Negligence in Assuring Full Utilization of Steel

By mid-1966, it became evident to USAID/V that the requirement for substantial additional barges for commercial purposes no longer existed. Only 16 barges were built under the program: six for the GVN Directorate of Navigation and 10 for the Ha Tien Cement Plant, the only barge owner/operator willing to utilize the steel provided under the commercial barge construction program. Small amounts of steel were used for other purposes. However, USAID/V

and the GVN were unable to reach agreement on full utilization of the thousands of tons of AID-provided steel until late 1969. As a result, the unused steel remained negligently and improperly stored at the GVN Phu An storage yard from 1966 until 1970.

The steel was stored in the open without protective cover against the deteriorating effects of salt air, sun, and water. In most cases, the steel plates and angles were lying flat on the ground. Some bundles of steel plate were almost completely buried in mud or were submerged in water. Exposed surfaces of the stored steel were covered with rust, some with thick layers of peeling rust.

A report to USAID/V from the accounting office of the GVN Directorate of Navigation indicated that, as of October 3, 1969, the actual distribution made of the barge steel since its arrival in the Phu An yard totaled about 2,220 metric tons. This would indicate that approximately 4,000 metric tons of the AID-supplied steel remained unused in the mud at the Phu An storage yard. Nevertheless, USAID/V did not present refund claims to the GVN for nonutilization.

Efforts To Eliminate Problem

From 1966 to 1969, USAID/V was unsuccessful in its efforts with the GVN to find a legitimate use for the Phu An steel. Finally, with the arrival of the subcommittee in October 1969, USAID/V moved forward with a plan to trade the steel remaining in the Phu An storage yard for commodities needed for the GVN highway program.

USAID/V issued a request for proposal, in October 1969, in which it specified that it was to receive 33 piledrivers, two ferry landing pontoons, and an unknown number of bridges in exchange for the steel, estimated by USAID/V at approximately 2,000 metric tons, located at the Phu An storage yard, with the award going to the contractor who agreed to provide the largest number of bridges.

Representatives of eight firms visited the Phu An yard to inspect the steel; seven expressed an interest in submitting proposals, and four firms submitted offers. On December 18, 1969, USAID/V entered into a contract with the high offeror. In exchange for 1,300 metric tons of steel, USAID/V was to receive 33 piledrivers, two ferry landing pontoons, and 14 bridges. The piledrivers were all to be delivered by October 1970; one pontoon was to be delivered in May and the other in August 1970; the 14 bridges were all to be delivered by June 1970.

The steel was to be removed from the Phu An yard by the end of January 1970, with inventories being made during removal of the steel. Within 30 days thereafter, negotiations were to be entered into directed toward mutual agreement as to an additional number of bridges to be supplied by the contractor for steel transferred to him in excess of the aforementioned 1,300 metric tons.

The subcommittee requested information from AID in August 1970 as to the current status of the Phu An steel and was advised that the contractor had removed a total of 2,611 metric tons of steel from the Phu An yard. Delivery of the piledrivers had been made, ahead of schedule; but the contractor had not delivered any of the pontoons or bridges. AID further advised that negotiation for additional bridges for the additional 1,311 metric tons of steel removed from the Phu An yard by the contractor still had not been completed.

Again USAID/V had failed to properly carry out its responsibilities; the contractor was not required to live up to the contracted delivery dates nor had USAID/V finalized negotiations regarding the additional 1,311 metric tons of steel in a timely manner.

Allegations of Fraud and Bribery

Shortly after award of the barter contract, an unsuccessful contractor alleged (on January 12, 1970) that USAID/V employees and GVN officials had either solicited or been offered bribes in connection with award of the contract and removal of the steel from the Phu An storage yard. The specific allegations were that (1) the successful contractor's offer had not arrived at USAID/V's Contract Services Division until 3 days after the closing date for receipt of offers; thus, 3 days after the unsuccessful contractors' offers had been opened, and (2) the successful contractor had offered a USAID/V employee a bribe to "undercount" the steel as it was being removed from the Phu An yard.

The unsuccessful contractor further advised that he and all the potential contractors who viewed the steel were well aware that there was substantially more steel at the Phu An storage site than the 2,000 metric tons indicated in the USAID/V request for proposal. He estimated the Phu An steel at approximately 3,760 metric tons.

Investigation into the allegations of bribery were conducted by AID's inspections and investigations staff (IIS) during February and March 1970. On April 22, 1970, IIS prepared its first report on the investigation; the report clearly indicating an attempt to bribe a USAID/V employee. Further investigation by IIS was delayed, however, until June 26, 1970. A second report was prepared, on August 10, 1970, but it adds relatively little to IIS's first report and is in itself totally inconclusive. The subcommittee fully intends to follow up on the IIS investigation to insure that any evidence of wrong doing is vigorously pursued by AID's inspections and investigations staff.

USAID/V Remiss in Negotiating Barter Contract

Analysis of the USAID/V barter contract disclosed gross inequities in the contract between USAID/V and the contractor. USAID/V estimated the cost to the American taxpayers, of the 1,300 metric tons of steel provided to the contractor, to be approximately \$250,000 and the value of the commodities to be received in exchange for the steel to be approximately \$400,000. However, USAID/V completely failed to take into consideration the substantial appreciation in the value of steel in Vietnam since 1965, caused by higher steel prices in the United States, higher shipping charges, and new Vietnam taxes. In February 1970, USAID/V estimated the value of the Phu An steel to have appreciated "from an average price of approximately \$200 per metric ton when procured to approximately \$700 per metric ton at present." Thus, USAID/V has given the contractor commodities valued at approximately \$900,000 in exchange for commodities valued at approximately \$400,000. Further, the contractor has in his possession an additional 1,311 metric tons of Phu An steel, which, according to USAID/V's own estimates, was worth more than \$900,000 in February 1970; USAID/V is to receive additional bridges for this

1,311 metric tons of steel. However, in spite of the fact that negotiations were to be entered into during March 1970, agreement has yet to be reached as to how many additional bridges USAID/V is to receive.

III. CONCLUSIONS

USAID/V's commercial barge building program was hastily conceived and poorly administered. USAID/V based the program on a need to construct a substantial number of barges to meet Vietnam's inland waterway requirements; yet, 6 months after the initial \$1.3 million in commodities were ordered for the program—and before construction of the first barge—USAID/V found that the need to construct barges for commercial use, for all practical purposes, had vanished. It is doubtful whether the program was ever really needed. In total, only 16 barges were constructed under the program instead of the hundreds which USAID/V initially envisioned.

In its haste to get the program started, USAID/V neglected to assure adequate planning prior to authorizing the procurement of \$1.3 million in commodities for the program. Agreements relating to the design, construction, and financing of the barges had not been entered into with either the GVN or the prospective owners/operators of the proposed barges at the time procurement of the steel was authorized; adequate agreements were never reached. In fact, USAID/V lacked something so elementary as barge design plans and working drawings at the time they ordered the steel for the barges. USAID/V's design contract, for the barge construction program, produced essentially nothing of any real value to either USAID/V or the GVN yet more than \$80,000 of the American taxpayers' money was paid to the contractor. AID had previously experienced poor performance from this same contractor on an AID project in Indonesia. However, AID lacked a system whereby poor contractor performance in one geographical area would be made known to all segments of AID.

Upon arrival of the steel in Saigon, USAID/V treated the steel as if it was worthless; \$1.3 million of the American taxpayers' money was spent for commodities which were not even counted as they were offloaded from the ships in Saigon. USAID/V was further negligent in failing to establish accountability for the steel as it was moved into the Phu An Storage yard. At the time of the subcommittee's October 1969, investigative trip to Saigon, USAID/V still did not know with any degree of certainty the quantity of steel offloaded in Saigon and transferred to the Phu An storage yard, the quantity of steel actually used and what it was used for, and the quantity of steel which should have been on hand at the Phu An yard at any particular time. Thus, USAID/V considered itself precluded from submitting claims for reimbursement to the GVN for either misutilization or nonutilization of the steel. In fact, adequate physical protection of the steel was not even provided. During its 4-year period of nonutilization, the steel was simply permitted to sink into the mud, to rust and deteriorate, at the Phu An storage yard.

Finally, in October 1969, USAID/V took positive action to rid itself of its steel problem. However, again USAID/V management displayed its inability to satisfactorily resolve its steel problem. It entered into agreements which immediately resulted in allegations of fraud and bribery and which, according to USAID/V's own computations,

resulted in the successful contractor for USAID/V's barter contract receiving \$900,000 worth of steel in exchange for \$400,000 worth of commodities for the GVN highway program. Additionally, the successful contractor has an additional \$900,000 worth of the Phu An steel in his possession. USAID/V has yet to conclude its negotiations as to what USAID/V will receive for this \$900,000 worth of steel. Likewise, AID's investigation into the bribery charges have been permitted to "coast along" without a timely conclusion.

IV. RECOMMENDATIONS

1. The Administrator of the Agency for International Development should establish and enforce procedures to insure that AID projects are properly planned prior to ordering commodities for such projects. In those instances where AID officials disregard such management procedures and proceed with implementation of AID projects before the projects are adequately planned, the Administrator should assure that appropriate disciplinary action is taken against such employee.

2. The Administrator of the Agency for International Development should establish and enforce procedures which will insure that adequate agreements are finalized between the U.S. Government and countries being assisted before action is taken to implement AID projects.

3. The Administrator of the Agency for International Development should establish and enforce procedures which will insure that adequate consideration is given to establishment of detailed specifications prior to authorization of large procurement requests.

4. The Administrator of the Agency for International Development should establish and enforce procedures which will insure that commodities furnished for AID projects are adequately controlled by AID until actually utilized on the AID project.

5. The Administrator of the Agency for International Development should establish and enforce procedures which will assure that, when adequate competition is available, AID contracts are awarded on a competitive bid basis.

6. The Administrator of the Agency for International Development should assure that the AID Auditor General establishes adequate procedures to insure that all segments of AID are kept apprised of contractors' failure to properly perform under AID contracts.

7. The Administrator of the Agency for International Development should establish and enforce procedures to insure proper utilization of commodities furnished for AID projects. Immediate action should be taken to file refund claims when AID commodities are not properly utilized.

8. The Administrator of the Agency for International Development should establish and enforce procedures which will insure prompt and complete investigations of wrongdoing on the part of AID officials and/or contractors.

9. The Administrator of the Agency for International Development should require a high-level review of USAID/V's barter contract to assure that the contractor does not receive windfall profits.