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**AN INVESTIGATION OF THE U.S. ECONOMIC
AND MILITARY ASSISTANCE PROGRAMS
IN VIETNAM**

FORTY-SECOND REPORT
BY THE
**COMMITTEE ON GOVERNMENT
OPERATIONS**



OCTOBER 12, 1966.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D C., October 12, 1966.

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 forty-second report to the 89th 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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PREFACE

This is the first comprehensive congressional report ever written on the U.S. AID program in Vietnam. It gives credit where credit is due and demands action where the committee feels it is demanded. If this report is critical in tone, it is because the facts justify it. That is the committee's duty under the Rules of the House of Representatives. We are the watchdog of the Congress and are charged with the mandate of pointing out those areas where the economy and the efficiency of Government operations can be improved. Unquestionably, another report could be written about the great dedication and sacrifices of thousands of American civilians in Vietnam who toil tirelessly in our aid effort there. We salute them. We commend also the officials who direct this vital work at home and abroad for their cooperation in this investigation. They gave the committee wide freedom of access to necessary files and other information.

The committee is convinced more than ever as a result of this study that there are really three wars raging in Vietnam. There is a military war, a political war, and an economic war. Without victory in the last, success in the other two would be meaningless. Thus the intent of this report is to provide recommendations which are designed to bolster our attack in the economic war. We strongly believe that if these steps are adopted and forcefully advanced, victory and peace will be much closer at hand. In summary, we hope we have achieved our objective of being thoughtful and constructive critics.

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AN INVESTIGATION OF THE U.S. ECONOMIC AND MILITARY ASSISTANCE PROGRAMS IN VIETNAM

OCTOBER 12, 1966.—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

FORTY-SECOND REPORT

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

On October 6, 1966, the Committee on Government Operations approved and adopted a report entitled "An Investigation of the U.S. Economic and Military Assistance Programs in Vietnam." The chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

In the last fiscal year, the United States spent \$590 million for economic assistance to Vietnam and provided another \$138.5 million in agricultural commodities. This represents almost \$1 out of every \$4 spent by the United States for economic assistance throughout the world. Since 1953, when the U.S. economic assistance program began in Vietnam, the United States has spent more than \$3 billion for aid to that southeast Asian country, almost all of it in the form of outright grants.

A substantial increase in the infiltration of Communist North Vietnamese troops into South Vietnam began in late 1964. The Communist expansion of the war brought forth, in addition to the increased U.S. military commitment, a corresponding increase in U.S. economic assistance.

Some committee members feel the Agency for International Development (AID), may have tried to do too much, too soon. The U.S. economic assistance program has mushroomed enormously in the last year and vast resources in some instances have been utilized without the kind of planning that should have been dictated by simple considerations of efficiency and economy. Certain programs, such as commodity imports, have been expanded without being carefully thought out in advance and without the setting of clear priorities.

Some of the mistakes made by AID in its commercial import program for Vietnam in the past year already had been made in similar programs in other countries in the past. Unfortunately, AID did not learn from its worldwide experience of the past 20 years in conceiving and executing much of its program for Vietnam. Because of the critical situation in Vietnam and the very real possibility that the United States may one day be called upon to face a similar crisis in some other part of the world, the committee believes that the recommendations contained in this report should be implemented without delay and that the deficiencies noted here must serve as costly lessons for the future.

The Secretary of State has declared that the goal of U.S. efforts in Vietnam is to enable the Vietnamese to make their own decisions about their own affairs without having these decisions imposed upon them by outside force. The U.S. economic aid program is designed to help develop and stabilize the country in line with this goal.

AID's basic objectives in Vietnam are twofold—to combat inflation and critical commodity shortages in the market place, and to provide the supplies and technical skills necessary to fight against Communist subversion and insurgency in the countryside. To achieve these objectives, AID has initiated or increased its support for a wide variety of programs which can be divided into six basic categories: rural construction and grassroots political development; refugee relief; police training, equipment and advisory assistance; longer term development; transportation and logistics; and the commercial import program.

The Vietnamese people should be at the heart of all of these programs. In order to be successful, our aid must effectively reach the masses of the people, and its helpful impact must be felt by the peasants and not just the higher strata of Vietnamese society.

Thus, the United States must—in the course of its assistance—urge actions by the Government of Vietnam which will bring about such basic things as land reform, improved education and health and the chance for a better life. The rehabilitation of refugees and the election of honest and just officials in the villages are of major importance too. All of these are necessary steps toward building a truly representative and responsive Government of Vietnam.

We believe that the American public will continue to support our large AID program in Vietnam if these changes are genuinely sought by the Saigon government. But progress must be clearly evident, not only to the Vietnamese peasant, but also to the American taxpayer.

Because of this, the United States must be firm in conditioning its economic aid to the achievement of progress in these important areas

whenever possible. The war crisis makes this difficult but not impractical.

The need for stronger controls over the actual administration of our AID program in Vietnam is discussed in detail in this report.

In the early months of 1965, basic decisions were made by our Government which led to a large-scale increase in the U.S. military commitment to Vietnam.

Concurrent with the military buildup, U.S. economic assistance to Vietnam was greatly expanded in recognition of the importance of political and economic factors in contributing to a satisfactory resolution of Vietnam's many problems. In the latter months of 1965, when the U.S. economic assistance program in Vietnam was being increased from an annual level of \$368 million to \$728 million, numerous allegations of inefficiency, waste, diversion, and corruption in the program and related areas began to be reported in the United States.

In January of this year, Chairman John E. Moss of the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations met informally with a number of U.S. officials responsible for administering and overseeing the aid program in Vietnam. On February 3, 1966, the subcommittee heard testimony in executive session from Mr. Rutherford M. Poats, AID's Assistant Administrator for the Far East, and Mr. Oye V. Stovall, the Director of the International Operations Division of the General Accounting Office (GAO).

Under Chairman Moss' direction, the subcommittee staff continued to gather information on the U.S. aid program in Vietnam during the months of February and March and a preliminary report of the staff's findings was submitted to the subcommittee on March 23, 1966. Chairman William L. Dawson of the Committee on Government Operations then authorized extension of the inquiry overseas. On March 26, 1966, three staff members were ordered to start detailed investigative work in Vietnam. At that time, it was anticipated that members of the subcommittee would join the staff in Saigon a week later, but demonstrations and violence in Vietnam shortly after the staff's arrival prompted the U.S. Ambassador to cable Washington requesting that the visit to Vietnam be postponed until conditions improved. The subcommittee's original plans were temporarily canceled in deference to the Ambassador's request, but the staff members remained in Vietnam for 12 days and continued to gather information from many sources, both official and unofficial.

On May 6, 1966, following the easing of rioting in Vietnam, the subcommittee left Washington for a 10-day inspection tour of selected areas of the Far East. The other members of the subcommittee accompanying Chairman Moss were Representatives John S. Monagan, David S. King, Henry Helstoski, Robert P. Griffin (now a U.S. Senator), and Donald Rumsfeld. Representative Howard H. Callaway of the Military Operations Subcommittee also participated in the investigation in Vietnam. Representatives Ogden R. Reid, Torbert H. Macdonald, and David S. King also made separate investigative trips to Vietnam. Their observations and the information they obtained during these trips contributed materially to this investigation.

The subcommittee spent 5 days in Vietnam and formal hearings were held at the AID mission's main building in Saigon. Members of the subcommittee also conferred at length with top officials of the AID mission, the U.S. Embassy, the U.S. Information Agency, and the U.S. military. One day was spent in inspecting new port facilities at Cam Ranh Bay, 200 miles northeast of Saigon, and pacification, police training, and refugee programs in and near Vung Tau, at the mouth of the Saigon River. Additional hearings were conducted in Bangkok, Taipei, and Hong Kong on matters specifically related to the aid program in Vietnam.

The subcommittee returned to Washington on May 16, 1966. The hearings held in the Far East are highly classified and comprise a total of 701 pages of testimony and exhibits. The transcripts and documents are in the committee files.

As a result of information provided to the subcommittee by officials of the U.S. Embassy in Saigon, Chairman Moss and other members of this inquiry proposed a key amendment to the Foreign Assistance Act of 1966 which was approved by the House and subsequently accepted by the Senate in conference. Additional hearings were held by the subcommittee in Washington on July 19, 29, August 1, 3, 4, 5, and 9, 1966. These hearings were in executive session and total 567 pages of testimony and exhibits. The hearings, as well as other information, material, and documents pertinent to the inquiry are in the committee files.

The report which follows is an examination of certain aspects of the U.S. economic and military assistance programs in Vietnam which the subcommittee, in the course of its investigation, determined to be of special significance. U.S. officials, both in Saigon and in Washington, have made improvements in both the administration and the surveillance of programs in Vietnam in the past 9 months. The majority of these improvements have either been initiated or speeded as a direct result of the committee's investigation of the aid program and related matters.

On July 19, 1966, AID's Assistant Administrator for the Far East, Rutherford Poats, stated in testimony:

The committee certainly brought to my attention the degree to which we have excessively given priority to the personnel buildup in other aspects of the (Vietnam) program * * * at the expense of adequate support, strengthening of the management, and data-gathering aspects of the commercial import program * * *. Now the fact that we are building up the staff, after you have brought it to our attention, obviously indicates we could have done it earlier.

On August 17, 1966, the Assistant Secretary of Defense for Manpower, Thomas Morris, advised the chairman in a letter (exhibit 1):

As I stated during hearings on August 1 and 5, 1966, the Department of Defense is mindful of and grateful for the many constructive contributions made by your subcommittee in our joint effort to eliminate any adverse economic impact upon the Vietnamese people and the Government of that gallant nation, which might otherwise result from the presence

of our forces in that country * * *. It is my earnest hope that the comprehensive exchange of information which took place in the course of the hearings will facilitate the continued close association between us which has proven so effective in assuring the orderly conduct of our affairs in the Republic of Vietnam.

Statements similar to these were made to the subcommittee by the Inspector General of Foreign Assistance, Department of State, on July 19, 1966, the Acting Inspector General, Department of Agriculture, on August 29, 1966 (exhibit 2), and the Director of the U.S. Information Agency on August 15, 1966 (exhibit 3).

These statements are not cited with the intention of implying that all possible improvements have been made and that the entire program is now operating at maximum efficiency. Many of the changes that have been instituted in recent months have not yet become fully operational and it remains to be seen how effective they will be in practice. The committee also has additional recommendations for improvements which are contained in the body of this report.

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.

II. BACKGROUND: THE ECONOMIC SITUATION IN VIETNAM

The military buildup in Vietnam has been accompanied by enormous problems for United States and Vietnamese economic planners. Inflationary pressures on the economy of Vietnam have been severe in the last year and a half. The very existence of the Vietnamese Government could be dependent upon finding a satisfactory solution to the problem of inflation.

The cost of living in Vietnam increased at an annual rate of 74 percent in the second quarter of this year as opposed to an annual rate increase of only 3.5 percent as recently as early 1965, before the beginning of the buildup. The effects of a galloping inflation of this sort are felt most acutely by persons living on fixed incomes and Government workers, civil servants and military, whose wages tend to lag behind the earnings of independent businessmen and workers in the private sector. An inflationary squeeze on the purchasing power of Government employees offers inducement to the sort of administrative corruption which could lead, eventually, to a mass loss of popular confidence in any government. Inflation can force civil servants to take jobs on the side in order to make ends meet, thereby increasing absenteeism and reducing their efficiency in official duties. Low salaries in the civil service also make Government workers susceptible to outside offers of higher wages and increase the turnover while lowering the caliber of Government personnel. In the military, inflation without corresponding salary increases creates severe morale problems and reduces the effectiveness of the army as a fighting force. Paradoxically, any increase in Government salaries is in itself inflationary and therefore partially self-defeating.

The price of food, which is the most important element in the budget of the average Vietnamese family, rose by almost 70 percent in the year following the beginning of the buildup. The price of rice, which alone accounts for 13 percent of the budget of the average Vietnamese family, increased by about 30 percent in the first 6 months of this year. "The price of rice," one official is quoted as saying, "could put a lot bigger mobs in the streets than the monks can muster." Because of inflation, bar girls and taxi drivers can make more money than cabinet ministers. Middle- and low-income families are forced to move into inadequate quarters when rents are raised beyond their ability to pay, and owners of needed commodities are encouraged to make speculative profits by holding goods off the market while prices are rising.

Causes of Inflation

The foregoing is intended to be merely illustrative of the seriousness of inflation under present circumstances in Vietnam. Inflationary pressures stem from two principal sources, both of which are

directly related to the war: increased Government of Vietnam (GVN) budgetary deficits; and increased spending by U.S. elements for construction, operations, and personal expenditures.

1. GVN budgetary deficits.—In 1965, the GVN ran a deficit of 22 billion piasters on a total budget of 52 billion piasters. Prior to the devaluation of the piaster, which was announced in June of this year, the 1966 budget was set at 55 billion piasters and the estimated deficit was 20 billion piasters. A general wage increase of from 10 to 30 percent for Government employees was announced at the same time as the devaluation and it has been estimated that this, plus the increased costs of goods and services to the GVN as a result of the devaluation, will increase the original estimate of this year's deficit by 10 to 20 billion piasters.

Two factors combine to make it unlikely that the GVN deficit can be significantly reduced in the near future. The first of these is the absolute necessity of a high level of spending for both defense and civil programs under present war conditions. The GVN budget has already been pared to what is thought to be an absolute minimum and further reductions are not, in the opinion of both Vietnamese and United States officials, either militarily or economically feasible. The second factor is the unlikelihood that a simple increase in tax rates would result in a significant increase in GVN tax receipts and a corresponding reduction of the deficit. This results from the limited GVN administrative capability to enforce higher taxes and the absence in Vietnam of a public tradition of tax compliance.

2. Spending by U.S. elements.—The U.S. Military Assistance Command/Vietnam (MAC/V) in January calculated that the average U.S. soldier in Vietnam spends \$45 a month in piasters. Using this figure, it was estimated that total U.S. troop spending in Vietnam this year will be \$182.5 million, or 21.5 billion piasters. Expenditures by contractor employees were estimated at 0.25 billion piasters and the local currency costs of military construction projects at 8 billion piasters. Once again, the recent devaluation will probably serve to increase this latter figure. These three elements total an expenditure of almost 30 billion piasters from U.S. sources for purposes directly related to the war effort. A revised estimate provided by the DOD on September 29, 1966, indicates that per capita monthly piaster expenditures will probably fall in the range of \$30 to \$35 for this year. On this basis, the DOD estimates that total U.S. troop spending in Vietnam will be about \$100 million and, in consequence, total piaster expenditures from U.S. sources for purposes directly related to the war effort should be lower by an amount equal to \$82.5 million.

Recent GVN Measures To Combat Inflation

The tremendous infusion of piasters into Vietnam's economy resulting from large budgetary deficits and increased U.S. military spending has brought about a classic inflationary situation with too much money chasing too few goods. Much of the need for additional piasters has been met simply by printing additional quantities of banknotes as needed. In 1965 the money supply increased by 75 percent from 27 billion to an estimated 47 billion piasters. During the first 4 months of 1966 there was a further increase of 18 percent to 56 bil-

lion piasters. The uncertainties inherent in a period of rapidly rising prices not only tend to weaken confidence in the ability of the Government to bring the situation under control but also act as a powerful inducement to currency black marketeering, illegal acquisition of gold, and other transactions resulting in illegal capital flight, which provides a form of financial security independent of the value of the piaster. In order to control what was generally conceded to be the widespread existence of such practices and in an attempt to bring greater stability to the value of the piaster, the GVN announced the implementation of major new economic measures on June 18 of this year.

Primary among these was an increase in the exchange rate on U.S.-financed import transactions from an effective rate of 60 piasters to the dollar to a new effective rate of 118 piasters to the dollar. Assuming that the total level of imports remains the same, this will almost double the amount of piasters received by the GVN in payment for U.S.-financed import transactions, thereby taking large sums of piasters out of circulation. The devaluation was undertaken after consultation with the International Monetary Fund, which sent a special team to Vietnam in May at the request of the GVN to study Vietnam's economic problems. Although the devaluation, as expected, resulted in an immediate increase of about 25 percent in the general retail price level, it is reported there are already signs that prices are leveling off and it is hoped some degree of price stability will soon be achieved.

Other measures announced at the time of the devaluation include a 10-to-30 percent wage increase for Government employees, the liberalization of certain economic regulations, and the free sale of gold to authorized jewelers. The wage increase, although inflationary in effect, was necessary for reasons discussed previously. The liberalization of economic regulations includes the opening of the previously closed list of firms authorized to import goods and to abolition of an ancient quota system by which foreign exchange was allocated in fixed amounts to authorized importers. The free sale of gold in limited quantities and for a temporary period is intended to draw additional piasters out of circulation.

Recent U.S. Measures To Combat Inflation

The United States, on its part, has also undertaken a series of measures designed to help curtail inflation in Vietnam. A recent \$50 million construction contract with a U.S. firm stipulates that a large majority of workers on the project be Americans. These Americans will be required to work longer hours than usual and to bank a large part of their salary in the United States, thus cutting down on the opportunity to spend money they earn on the local economy. The United States has also taken steps to reduce troop spending on the local economy. U.S. banking facilities were opened in Vietnam in the month of July and special accounts with particularly attractive terms, designed to lure the savings of servicemen, have been established for military personnel. A system of military payment certificates (MPC's) valid only in U.S. official or related installations, was instituted on September 1, 1965. All U.S. personnel, military and civilian, including contractor personnel, are now paid in MPC's and it is a

violation to exchange MPC's for piasters other than through a U.S. disbursing office. U.S. officials are studying the possibility of moving large numbers of U.S. troops outside the Saigon area, putting Saigon off limits to some troops, and using recreation areas outside of Vietnam more extensively. These and other measures designed to reduce DOD piaster expenditures in Vietnam are detailed in a letter from Assistant Secretary of Defense, Thomas D. Morris, dated August 17, 1966, which is included as exhibit 1. The United States has also provided professional customs and tax guidance to the GVN in an attempt to improve Vietnamese customs administration and increase Government revenues from this source. In early August, a White House mission headed by Economist Robert Nathan spent 2 weeks in Vietnam studying the feasibility of these and other measures by which the United States could help control inflation in Vietnam.

With the exception of the MPC system, most of the above measures have been undertaken during the period of the subcommittee's investigation. The major tool with which the United States is attempting to combat inflation in Vietnam has not yet been discussed and it is the subject of the following section. This is the \$420 million U.S. commercial import program.

III. COMMERCIAL (COMMODITY) IMPORT PROGRAM

Committee investigation disclosed that the United States has provided over \$1.7 billion worth of consumer goods and raw materials for manufacturing to Vietnam since 1955 under the commercial import program (CIP) of the Agency for International Development and its predecessor agency. These consumer goods, comprising about 70 percent of the nonmilitary aid provided to Vietnam, were being pumped into the country at the time of the subcommittee's investigation (a) without any determination as to whether the quantities imported were excessive and could be properly and efficiently absorbed into the Vietnamese economy, (b) without any determination as to whether certain types and grades of commodities were luxurious under current conditions in Vietnam, (c) without any determination as to the quantity of stocks on hand and in the supply pipelines, (d) without any determination as to whether the commodities programed were likely to be hoarded, diverted, or used for purposes incompatible with U.S. objectives, and (e) without verification and adequate surveillance of the use made of commodities previously delivered under the CIP. These deficiencies in addition to the unrealistic rate of exchange and lack of effective monetary and fiscal controls encouraged speculation, windfall profits and corruption, fed inflation, and deprived the United States of maximum benefit from its assistance programs.

Briefly, the mechanics of the CIP are as follows:

AID issues procurement authorizations permitting the purchase of certain approved commodities and sets up dollar credits against these authorizations in U.S. banks. In Vietnam, importers registered with the GVN invite bids from the United States or other authorized countries. These are authorized countries, most of them in the Far East, that had been or are receiving U.S. assistance. This trade contributes to U.S. country programs for economic development. The United States makes payment to the suppliers in these countries through letters of credit which are valid only for purchases in the United States. This limitation has been imposed by AID in order to curtail the U.S. balance-of-payment deficit. Before ordering from a successful bidder, the importer obtains a letter of credit from his bank and an import license from the GVN. He then forwards his order to the supplier. The U.S. bank where AID has set up the dollar credits makes payment to the supplier upon presentation of the proper documents, including shippers' bill of lading. The Vietnamese importer pays his bank the piaster (local currency) equivalent of the dollar cost of the commodity when it arrives in Vietnam and then sells it on the local market. The Vietnamese bank pays the piasters received from the importers into a GVN-owned counterpart fund which theoretically is jointly controlled by the United States and the

GVN.¹ The counterpart funds generated through the CIP are used to support the military effort and economic programs of the GVN.

The need for corrective action such as the establishment of sound management policies and tighter controls has existed since the beginning of the CIP more than 10 years ago and has long been recognized. In July 1964 the General Accounting Office (GAO) reported on inadequate policies and practices in financing commercial imports and in the administration of other financial elements of the economic and technical assistance program for Vietnam between 1958 and 1962. The GAO reported on profiteering, overpricing, and the import of nonessential commodities under the CIP; the imprudent use of foreign exchange for luxury goods by the GVN; and the unrealistic dollar-piaster exchange rate which prevailed from 1955 to 1962 and a resulting shortage of the necessary local currency to finance military, economic and counterinsurgency programs. Since the GAO study was completed, other studies have been made by officials of AID and the Treasury Department and the same deficiencies have been identified repeatedly. As a result, sweeping changes have been recommended on numerous occasions.

It was not until the subcommittee initiated its investigation, however, that AID took aggressive action to implement such changes. "No question about it," AID's Assistant Administrator for the Far East stated in an appearance before the subcommittee on July 19, 1966, "this program needed a great deal more management—we feel very uncomfortable with the absence of knowledge in trying to run this program." He advised the chairman, "your subcommittee's interest in these problems has been very effective, certainly a very useful stimulus to our own people and more than a reminder to the Vietnamese Government that the U.S. Congress and people are concerned and have a right to express concern about the uses of AID funds." The more serious deficiencies and problems which prevailed in the CIP during the subcommittee's investigation and the corrective action initiated by AID to eliminate many of these deficiencies and problems are presented below.

Changes Instituted by AID To Curtail Laxity in Determining Commodity Requirements

At the time of the subcommittee staff's investigative trip to Vietnam in March 1966, the basic purpose of the CIP was to combat inflation by providing seemingly unlimited funds to meet the market demand for commodities approved for financing under AID. Putting it another way, the underlying philosophy was to flood the Vietnamese markets with enough AID commodities to "sop up" the excess local currency. In spite of AID's philosophy, inflation soared. Prices almost doubled in 1965 and increased another 50 percent in 1966. Moreover, the AID mission in Vietnam had neither the management tools nor the personnel to administer an effective commodity import program.

Commodity requirements for Vietnam were being established within broad categories and only on the basis of import applications from

¹ See chapter V, "Use and Control of Plasters Generated by U.S. Programs," p. 38.

Vietnamese importers without regard to the real need for or ultimate use of the commodities. Information essential to the determination of sound and realistic requirements was for the most part nonexistent. Quantitative studies had not been made to determine whether the commodities requested by the importers and programed by AID were excessive. Qualitative studies or value judgments had not been made to determine whether certain types or grades of commodities were luxurious or could be used for purposes which were detrimental to U.S. objectives. These studies would normally be made by commodity analysts, none of which were assigned to the AID mission in Vietnam prior to February 1966. Although eight commodity analysts had been authorized only one position had been filled at the time of the subcommittee's investigative trip to Vietnam in May 1966. The position was filled by transferring an employee from another office to the Commercial Import Division.

Other information needed to determine realistic requirements and also needed for the effective programing of AID funds was either inaccurate or nonexistent. At the time of the subcommittee's inquiry, no effective system had been established and no adequate records had been maintained on the arrival, pipeline and inventory of commodities in Vietnam. Information on outstanding license applications was available at the National Bank of Vietnam, but AID personnel doubted the accuracy of the information.

The subcommittee concluded, after intense review and analysis of the basic purpose and operation of the CIP in Vietnam, that the manner in which the import program was being administered by the AID mission was contrary to sound management practices in Government operations and was contributing to—rather than preventing—widespread abuses. The subcommittee expressed this view to responsible AID officials during its investigative trip to Vietnam in May 1966.

During executive hearings held in Saigon on May 10, 1966, the subcommittee voiced grave concern about the "free enterprise" system adopted by the AID mission as the basis for determining requirements and importing commodities under the CIP, the minimum amount of involvement and control by the United States in the administration of the CIP and the lack of information within the AID mission on the procurement, arrival, pipeline, inventory, and distribution of AID commodities.

Concerning the "free enterprise" or "market demand" system, the AID mission's Associate Director for Program and Economic Policy stated that "The national requirement for commodities is determined by purchasing power in the identical way it is in the United States." The Chief of the Commercial Import Division stated that national requirements are—

determined by importers, in their requests for import licenses. We (AID) have not tried to establish a government control system here (in Vietnam) of determining by fiat what we should import—in other words, what is good for the Vietnamese to have or what is not good for the Vietnamese to have. The whole system in Vietnam has been based on the

freedom of the individual importer to make his own decisions based on his own knowledge of the market and what he feels he can sell.

These AID officials advised us that the "free enterprise" system was not applicable in the case of commodities which were luxurious or could be used as war material by the Vietcong. Subcommittee investigation disclosed, however, that quantitative and qualitative studies and analyses of commodities for the purpose of identifying luxury and war materials were not being made because of the lack of commodity analysts.

The views expressed by the subcommittee during the hearings in Vietnam were that:

- The wartime and economic conditions in Vietnam, as opposed to the peacetime and economic conditions in the United States, were not conducive to a workable system of free enterprise.
- The present system with its lack of controls and records permitted the importation of commodities several times in excess of national requirements and served as a source for diversion of war and other materials to the Vietcong.
- The present system along with the unrealistic exchange rate of 60 piasters to the dollar when the free or black-market exchange rate ranged from 160 to 200 piasters to the dollar encouraged speculation in a business community of strongly individualistic human beings traditionally characterized by the drive to take advantage of every speculative opportunity. (See pp. 21-22.)

The mission's associate director for program and economic policy agreed that commodities in excess of Vietnam's true national requirements could be imported and diverted to the Vietcong under the system and stated that "in any economy which has as many uncertainties as this one—military, political, economic—there are many opportunities for speculation." He and other top AID officials in Vietnam, however, were firm in their opinion that a system of "free enterprise" was the best means of accomplishing the primary objective of the CIP; namely, to control inflation.

The subcommittee sharply challenged this contention on the grounds that many factors, such as the war, the incapacity to produce essential goods, the reliance on the United States for basic consumables, the speculative inclinations of the Vietnamese businessman, among other reasons, all work toward a captive rather than a free system. It is highly improbable that a "free enterprise" system which is in any sense comparable to the West could exist in Vietnam under present circumstances.

The deputy director of the AID mission in November 1965 had complained to AID/Washington (exhibit 4) about "the problems created by the hasty and emotional approach to assistance to Vietnam." He referred to the manner in which the AID mission was managing the program as "both unconscious and unconscionable" and stated that the CIP and other programs were "vastly overfunded."

In elaborating on these statements, he protested that "the 1966 program represents the unfettered dreams of each division chief without later meaningful tailored review," that "this program was dreamed

up under the illusion that all Government agencies in Washington are committed to massive expenditures without any restraint or accountability," and that "everyone is agreed that the effort is excessive and thus prone to widescale mishandling, but everyone reacts to even hints of need by all-out requests for more resources."

The subcommittee heard testimony from the Deputy Director on May 12, 1966, in Bangkok. Although officially he was the Deputy Director of the Vietnam mission, he had been on a temporary assignment in Bangkok since January 1966 and had submitted his resignation to AID/Washington. He advised the subcommittee that he requested this assignment because of his inability to work with the AID mission director in Vietnam.

Subcommittee investigation disclosed that recordkeeping for the CIP in Vietnam was seriously lacking. Readily available information needed to determine sound and realistic commodity requirements was not being maintained on a current basis. Neither were historical records on imports into Vietnam being maintained by the mission. Statistical data on license applications, commodities in transit, arrivals and stocks in Vietnam were available on only 6 of the 55 major categories of commodities being provided to Vietnam. This information was compiled manually and laboriously by mission personnel at the subcommittee's request during the hearings. Prior to the initiation of the subcommittee's investigation, only scattered information on licence applications being questioned and some information on stocks were available.

On July 19, 1966, AID's Assistant Administrator for the Far East advised the subcommittee in Washington of changes and corrective action being implemented to improve the U.S. administration of the CIP. Some of these changes if properly and vigorously implemented should result in the determination of more realistic requirements for some commodities and curtail the laxity which has prevailed in this area for years. The changes, however, do not constitute any basic departure from the "free enterprise" system under which the CIP is operated. They merely constitute the establishment of certain procedures designed to match the quantity and quality of certain commodities programed with the true needs of the Vietnamese people. They also provide reasonable control over the use of certain commodities. Moreover, they lay the groundwork for the establishment of an automatic data processing system of recordkeeping for the CIP.

The changes which will affect the operation of the CIP are as follows:

- Seven additional commodity analysts will be assigned in Vietnam for the CIP. In addition to the one commodity analyst assigned in Vietnam to review pharmaceuticals after the subcommittee initiated its investigation, seven more have since been authorized. These commodity analysts will perform to the extent physically possible quantitative and qualitative commodity studies and surveys of the actual market in Vietnam for chemicals; iron and steel; industrial machinery, yarns and fabrics; nonmetallic minerals; food and fertilizer; transportation equipment, tires, tubes and POL; and paper, pulp, newsprint and coal. Although the recruitment of commodity analysts and other personnel had

been delayed because of administrative and processing delays, AID/Washington took action to expedite the recruiting program for Vietnam following the subcommittee inquiry into the recruiting program.

- Strategic commodities which can be used by the Vietcong as war materials will be closely watched and limited to quantities determined to be essential for the commercial and domestic needs of South Vietnam. Pharmaceuticals, chemicals, explosive products, and certain types of iron and steel products have been identified and designated as strategic commodities. The list of strategic commodities will increase as the efforts of the Special Projects Division of the AID mission are intensified and commodities in demand by the Vietcong are identified.
- Certain commodities will be procured in the United States and overseas on a consolidated basis through the General Services Administration (GSA). Combining requirements prior to procurement facilitates analysis of importer's requests, pipelines and stocks in country and permits more meaningful evaluation and judgment as to the true need for the quantity requested and the priority of the request in relation to the entire CIP. Combining procurement holds promise of savings in procurement and transportation due to the larger quantities involved, will preclude collusion between suppliers and importers, and should relieve port congestion and expedite customs clearance.
- An automatic data processing (ADP) system will be installed to maintain a current accountability and record on the CIP. Three members of an ADP group were sent to Vietnam to determine priorities and study the best approach in establishing an ADP system in the AID mission after the subcommittee investigation was initiated. Four ADP experts will be added to the group when the study is completed to help install the system. "There is no question about it," the AID's Assistant Administrator for the Far East advised the subcommittee, "we are woefully inadequate in knowledge of it (the CIP) now, and of the uses."

The above changes if fully and properly implemented by the AID mission should establish within the CIP a system of recordkeeping and some of the basic controls essential to the determination of sound and realistic requirements for certain commodities. The subcommittee, however, still has strong reservations about using a so-called "free-enterprise" system, which it obviously is not, as the basis for determining the requirements for the remaining commodities.

Changes Instituted To Exercise Proper Surveillance Over the CIP and Expand End-Use Checks

The AID mission in Vietnam had neither the procedures nor the personnel to exercise proper surveillance over the CIP and to insure efficiency and honesty in its implementation. Thus, the CIP has been the device for such forms of corruption as profiteering through speculation, fraud, smuggling, theft, overpricing and kickbacks, under-the-table payments, false certification for origin of commodities, and diversion to the Vietcong. (See pp. 25-30.)

About 2,000 importers have been authorized to import AID commodities into Vietnam. The privilege was granted to these importers between 1956 and 1961. Although it is common knowledge that AID commodities are being diverted to the Vietcong, the AID mission had not established procedures for checking the background, loyalty, honesty or secret connections of these importers. Investigations of each applicant's political background and behavior were made by the GVN at that time. The responsibility for monitoring importer activities since that time has been left to the GVN. Subcommittee investigation disclosed that only 23 of the 2,000 authorized importers had been declared ineligible and blacklisted by the GVN because of infractions of AID regulations; 20 of the 23 importers were blacklisted after the subcommittee initiated its investigation. In late June 1966, a mission blacklist committee was established for the purpose of identifying and suspending importers violating AID regulations. The Commercial Import Division, the Office of Financial Management, the Management Inspection Staff, and Special Projects Office are represented on this committee.

Under the new system of open general licensing adopted by AID with the concurrence of the GVN, new firms and importers will be permitted to enter the previously closed import community if they can demonstrate that they are responsible firms, 70 percent Vietnamese owned with at least 15 million piasters of paid-in capital, that they have adequate warehouse facilities, and if they deposit 1 million piasters as surety against illegal activities. These conditions and collateral, however, are not being required of old firms and importers. AID/Washington advised the subcommittee on August 29 that the GVN took the position such a requirement would be contrary to Vietnamese law. On July 19, 1966, AID's Assistant Administrator for the Far East advised the subcommittee that background investigations of the new importers will still be the responsibility of the GVN with the United States accepting the GVN's certification of the new importers. On July 22, 1966, however, the Administrator of AID advised the subcommittee of action being initiated by the mission to acquire background information on importers after they are certified by the GVN. The investigative audit staff of the Mission Special Projects Office is in the process of establishing a list of importers who will be asked to fill out a questionnaire designed to help in analyzing the composition and working habits of any given firm. On a selected basis, these questionnaires will be screened by the investigative audit branch to determine the validity of the statements and to develop in greater depth more information on the activities of the firm. The mission hoped to have the questionnaires mailed out and returned by August 31, 1966.

Some AID personnel at high levels in both Vietnam and Washington have attempted to minimize the extent of diversions to the Vietcong either by importers fronting for the Vietcong, North Vietnam or Chinese Communists, or by purchase on the economy, by stating that despite widespread publication of such diversions, there is little proof that such diversions actually took place. They purport that the AID commodities recovered from the Vietcong by the military forces were more than likely captured by the Vietcong during village

raids. An AID press release dated June 19, 1966, reiterates the position taken by AID/Washington in February 1966 on the diversion of AID commodities to the Vietcong. In this release, AID inferred by presenting information in the form of "Allegation" versus "Fact," that charges of diversion of AID commodities to the Vietcong were unfounded. Upon careful reading of the "Facts," however, it becomes obvious that they do not refute the "allegations."

On the other hand, the subcommittee during its investigative trip to Vietnam in May was advised by the deputy director and other personnel of the AID mission in Vietnam that the large quantities of such commodities as iron and steel mill products, industrial machinery and parts, cement, pharmaceuticals, and chemicals being imported into Vietnam were excessive. Since they were of the opinion that the CIP had been left unmanaged, unaudited and without concern, they believed with good reason that part of the excess was being diverted to the Vietcong or black market. The deputy director estimated that "at least 60 percent of the aid is diverted from the purpose for which it is intended." He also stated that he had "circumstantial evidence" that some of the goods went to Cambodia, Thailand and Communist China.

The deputy director's high estimate might be regarded by some as merely the guess of a vocal critic of the program, but other AID personnel on the scene also believed the diversion was substantial. (See exhibit 10.)

Apparently, the extent of such diversions is a matter of opinion among AID officials because of the absence of sound evidence and statistics. **They simply do not know.** It is the view of the subcommittee, however, that the responsibility for detecting and determining the true extent of the diversion of AID commodities to whatever source is that of AID itself and this responsibility had not been carried out.

Some of the commodities mentioned above are being recovered in the largest quantities from the Vietcong by United States military forces. On June 29, 1966, CBS News reported on one of the largest and best organized enemy base camps ever uncovered by U.S. troops. It was believed to be a major receiving depot for goods moving into Vietnam along the Ho Chi Minh trail from the north and from the Saigon docks and the black market. Among the commodities seized were over 1,500 tons of rice, galvanized sheet metal for building bunkers, tunnel complexes and aid stations, almost 6,000 pieces of 3 by 6 corrugated sheet metal, a minimum of 1,000 gallons of kerosene, some still in sealed cans bearing U.S. trademarks, and a Vietcong post exchange complete with luxury items. CBS stated, "There are enough supplies here to keep a Vietcong regiment going for four and a half years."

In replying to a subcommittee inquiry on this matter, the Administrator of AID in a letter to the chairman, dated July 19, 1966 (exhibit 7), confirmed the seizure of the commodities and said "information on the presumably imported items is not yet complete, and U.S. military officials in Saigon have been requested to provide, if possible, further identification on the seized flour, sardines, rice, oil, kerosene cans, and sheet metal." On August 8, 1966, however, the Administrator in a

public statement conceded that AID commodities were reaching the Vietcong as a result of pilferage and black marketing.

Proper surveillance and control over the CIP by AID should include the screening of all import licenses as well as other internal controls, such as checks on suppliers as well as importers, commodity eligibility, prices, quantities requested, compliance with requirements of the Office of Small Business (OSB) and similarity of information on the letters of credit and the import licenses. Little, if any, of this checking was being done in Vietnam at the time of the subcommittee's initial inquiry. In May 1966, one AID employee was located in the Office of the Directorate of Commercial Aid, GVN, to initiate surveillance in the areas mentioned above. However, the eight commodity analysts mentioned previously will be assigned some responsibility for such surveillance as the positions are filled.

Proper surveillance and control over the CIP by AID should also include the inspection and the safeguarding of commodities upon arrival at Vietnamese ports to ascertain that they are the same in quantity and quality as ordered and to prevent pilferage and mass diversion from the ports. Arrangements between suppliers of CIP goods and Vietnamese importers to send a lesser quantity or quality than ordered is a common method of kickback and also an instrument through which capital can be illegally transferred from Vietnam. Inspection and surveillance is also required to ascertain that no more than 10 percent of the components of each item imported under the CIP do not come from such free world sources as Japan and countries of Western Europe where our balance-of-payments position is unfavorable, and to ascertain that CIP goods are removed from the GVN customs warehouses by importers before the expiration of the 30-day period required by the GVN.

The 90-10 componentry regulation is very difficult to police and had not been done to the extent required because of the shortage of AID personnel. Neither was AID in a position to request refunds for goods that remained in the customs warehouse for more than 90 days because they normally had no way of knowing what goods fell into this category. It was not until April 1966, that a customs advisory group, with an authorized strength of 15 personnel, was established to exercise surveillance over the arrival, safeguarding, and disposition of AID goods at the port. Six of the fifteen personnel authorized were in Vietnam at the time of the subcommittee's investigative trip in May 1966.

The subcommittee found that only a few end-use audits on AID commodities were being made when its investigation was initiated and that there had been practically no verification of the final destination or use of AID commodities. The responsibility for these checks and verification rests with the Special Projects Office, the management inspection staff (MIS) and the audit branch of the AID mission in Vietnam.

The Special Projects Division was established in May 1966 for the purpose of participating in the identification and ultimate distribution and use of sensitive commodities having strategic value as war material for the Vietcong and to prevent diversion to the Vietcong. The Special Projects Division—which has been authorized an assistant director, a deputy, four investigators and seven auditors—acts on

information from Washington and gathers information locally, checks suspect shipments at the port, advises the GVN on the arrival of strategic components, investigates Vietnamese firms for irregularities, investigates the end-use of commodities and traces back the route of commodities found in Vietcong caches. Also, AID has established in Washington the Office of the Special Assistant for Commodity Analysis for the primary purpose of identifying commodities which are particularly susceptible to diversion to the Vietcong and alerting the Special Projects Division in Vietnam of their expected arrival or the need for special measures. A staff of four professionals has been assigned to this office and one more is to be added. This prior review effort should be given increased attention.

The management inspection staff investigates allegations of fraud and other irregularities between suppliers and importers. These irregularities are described in detail on pages 25-30. At the time of the subcommittee's investigative trip in May, surveillance in this area was clearly inadequate. Only two of the four investigators authorized in February 1966 for permanent assignment in Vietnam were on hand. Another investigator from Washington was assigned in Vietnam in February 1966 on temporary duty for 90 days. Two other investigators from Bangkok and Taipei were assigned to Vietnam late in May for a period of about 30 days each. Since these were the only MIS investigators at these two locations, their assignment in Vietnam was made at the expense of their regular duties at their permanent locations. Following the subcommittee's investigative trip to Vietnam, the MIS staff was increased again to six personnel. Five of the six are currently on hand in Vietnam.

The Director of MIS advised the subcommittee in July 1966 that, in his opinion, the MIS had been understaffed for the past 4 years and that each year, since 1962, he had made requests to the top management of AID for authorization to establish eight or nine new MIS positions. Each of these requests was rejected. He advised us that despite these requests, the actual staff had been reduced from 49 to 29 positions during the past 4 years. Because of the understaffing, he stated that MIS investigations have been conducted only on a selective basis with no attempt to provide comprehensive coverage of all possible areas of interest. After the subcommittee initiated its investigation, an increase in MIS staffing in the Far East was approved. The approval increased the number of investigators authorized from two to six in Saigon, and from one to three in Bangkok.

Perhaps the deterioration of the MIS activity was due at least in part to the MIS Director's apparent lack of aggressiveness and knowledge in his management of the program. Subcommittee investigation disclosed that he had not visited Vietnam since March of 1964. Moreover, in discussions with the subcommittee and the staff during the investigation he left the impression that he was lacking in the information and knowledge required to manage an effective program. On August 14, 1966, a new Director of MIS was appointed by AID. On September 13, 1966, he left Washington on a 4-week tour of southeast Asia to review his operation.

End-use checks and audits are performed by the Audit Branch of the Mission Office of Financial Management for the purpose of de-

termining that CIP commodities have been removed from the customs' warehouses by the importers, that the importers have maintained the required records on their sale, and that the commodities have been used in Vietnam for the purpose intended or are in working stocks and have not been diverted to some unauthorized person.

In January 1966, mission personnel responsible for the CIP expressed the opinion that end-use checks should be made of at least 20 percent of all CIP commodities. The application of this criteria would have involved end-use checks of CIP commodities valued at about \$75 million in fiscal year 1966 and will involve end-use checks of over \$100 million in fiscal year 1967. Subcommittee investigation disclosed, however, that only four end-use audits of CIP commodities valued at about \$8 million were in process in January 1966. Although responsible AID officials agreed with the subcommittee during its investigative trip to Vietnam in May that surveillance over the distribution and final use of CIP commodities was inadequate, they attributed much of the inadequacy to the shortage of U.S. auditors in the mission.

On July 19, 1966, AID's Assistant Administrator for the Far East advised the subcommittee that with the expansion of the mission audit branch from 17 U.S. auditors in February 1966 to 20 U.S. auditors on the day he testified, 14 new end-use audits have been initiated. One audit was initiated in February, 2 audits were initiated after the staff's investigative trip in March, and the remaining 11 audits were initiated after the subcommittee's investigative trip in May. Although the number of end-use audits in process in July 1966 represents a marked improvement over the number in process in January 1966, the total dollar coverage of the audits does not represent a similar improvement. The total dollar coverage of 12 of the 14 new audits amounts to only slightly more than \$4 million. The total dollar coverage of the remaining two audits has not been determined. It is doubtful, even if the total dollar coverage of these two audits is substantial, that the total dollar coverage of the 14 new audits will approach the \$75 million to \$100 million figure suggested by AID personnel.

AID commodities which are not removed from customs' warehouses within 90 days after arrival at Vietnamese ports are considered to be abandoned by the importer and classed as distressed cargo. Such cargo is auctioned off periodically by the GVN. The proceeds are to be deposited in the counterpart fund and expended as mutually agreed upon by the United States and GVN. Subcommittee investigation disclosed that the mission did not maintain records on the type, quantity, or dollar value of distressed cargo, did not attend auctions, did not maintain records on the proceeds from the auction sales, and had no control over the ultimate use of these proceeds. As a matter of fact, subcommittee investigation further disclosed that these proceeds were not being deposited in the counterpart fund. Instead, they were being deposited into a general miscellaneous receipts account and going into the coffers of the GVN.

The mission's assistant director for financial management attempted to dismiss the significance of this loss of control when he testified be-

fore the subcommittee in Vietnam. He maintained that since the proceeds from auction sales are expended by the GVN, regardless of whether they are deposited in the counterpart account under joint U.S.-GVN control or a GVN account not under U.S. control, the accounting for the transaction was not important.

"There is a real question as to how much this really makes in the way of difference," he stated, "We do lose control. But I would point out here as well that the amount involved is relatively insignificant."

In sharp contrast to this statement, Representative Griffin stated:

in view of our conversation yesterday, when we talked * * * about the lack of leverage that our country has in dealing with the Government of Vietnam, I am not inclined to accept the assumption that the result would be the same. I think the funds that are going into the treasury of the Government of Vietnam are completely beyond our control. To that extent, there is a reduction in the terms of our bargaining power with the Government of Vietnam. It seems to me it makes a great deal of difference.

AID personnel advised the subcommittee that the GVN rejected a recommendation from the mission in 1965 that proceeds from auction sales be deposited in the counterpart fund. Following the staff's investigative trip to Vietnam, the mission again approached the GVN on this subject. On May 18, 1966, immediately following the hearings held by the subcommittee in Vietnam, the GVN settled a long outstanding claim by the United States for distressed cargo and deposited the payment in the counterpart fund. This action indicates that the GVN has agreed to deposit the proceeds from the sale of distressed cargo in the counterpart fund. Pending this action, the mission had initiated other action to exercise proper control over the identification and accounting for distressed cargo. In May 1966, the Mission Audit Branch began a continuing review of distressed cargo and auctions. This review will include the continuous investigation at the port for the purpose of identifying abandoned AID commodities, compiling and maintaining a cumulative list of such commodities, attending all the auctions held by the GVN, and maintaining cumulative and current records on the type, quantity, value, and proceeds of AID commodities sold by auction.

Improvements in the Commercial Import Program Resulting From Changes in the Monetary Rate of Exchange

The subcommittee contended throughout its investigation that the official exchange rate of 60 piasters to the dollar for CIP commodities in Vietnam was unrealistic; was conducive to speculation, windfall profits and corruption; was feeding rather than curbing inflation; and was depriving the United States of maximum benefit from its assistance programs. In expressing these views to AID officials in both Vietnam and Washington during the investigation, the subcommittee felt that AID officials were reluctant to concur in its views and hesitant to consider changes in the rate of exchange. However, on June 18, 1966, following the subcommittee's investigative trip in

May and on the advice of the International Monetary Fund which conducted a study of economic problems in Vietnam in May, the piaster was devalued from the effective rate of 60 piasters to the dollar on import transactions to an effective rate of 118 piasters to the dollar.

A rate of 35 piasters to the dollar was originally established by a Franco-Vietnamese monetary arrangement in 1953 and was accepted by AID as the basis for counterpart generations at the start of the expanded AID program in fiscal year 1955. Since that time, a series of taxes, agreements, and changing economic, political and military conditions have produced different exchange rates for different categories of transactions. At the time of the subcommittee's investigation, an exchange rate of 60 to 1 had evolved for AID commodity imports, 73.5 to 1 had evolved as an official rate for GVN transactions, 118 to 1 had been set as an accommodation rate for U.S. personnel in order to curtail black-market trading by making the exchange rate more realistic and attractive, and from 160 to 200 to 1 had evolved for free market or illegal black market currency transactions.

During the subcommittee's investigative trip to Vietnam in May, the deputy director of the AID mission, unlike most of the other AID officials, expressed his concern over the unrealistic exchange rate for AID imports and stated "that this is the most serious problem that exists for the U.S. Government in Vietnam today." He shared the opinion of the subcommittee when he further stated—

the opportunity to get goods at less than one-third of their value, to realize more than their value within the country, has created a vast number of profiteers, it has attracted a number of people to this program, and with less than adequate management I think diversion, corruption, thievery, have mounted at an alarming percentage. I think it is unfortunate that we (the United States) have tolerated this low rate, and continue to tolerate it, putting our taxpayers' dollars into this country at less than a third of their real value.²

The deputy director of the mission stated that in January 1966, during a survey performed by mission personnel for the purpose of identifying available warehouse space, many warehouses filled with hoarded commodities were located in back alleys and byways. For example, 40,000 tons of fertilizer were located during the survey. He further stated that certain Chinese merchants in Vietnam had enough storage space to carry on continual shortages in order to drive the price up on certain commodities.

Obviously, any exchange rate which permitted an importer to procure goods at one-third their value for sale in a market where they can be sold at or in excess of their value was highly susceptible to speculative and inflationary reactions.

As stated above, the piaster was devalued from an effective rate of 60 to 1 on import transactions to an effective rate of 118 to 1. In addition, the basic rate for official conversions and certain limited private transactions has been set at 80 to 1 and a wartime exchange tax on imports and profit remittances of 38 piasters per dollar is added to the 80-to-1 base for importers purchasing foreign exchange.

² The committee, after careful study, concludes the one-third figure is accurate. AID contends it was more like one-half but, in any event, an advantage—unnecessary and undesirable—was given.

On July 19, 1966, AID's Assistant Administrator for the Far East advised the subcommittee that the devaluation was "a very necessary change." He stated—

The effect of the devaluation is to make foreign exchange almost twice as expensive to importers, thus taking more piasters out of circulation and so reducing inflationary pressures. Thus projected imports financed by GVN foreign exchange, AID financing and Public Law 480 that would have absorbed 48 billion piasters will now absorb 80 billion (piasters).

In addition, he said the devaluation, by doubling the piaster cost of foreign exchange, will also result in an appreciable curtailment of illegal transactions and reduce or eliminate the opportunity for profiteering and corruption.

The committee recognizes that the tremendous rapid buildup during the past 2 years of U.S. military and civilian personnel and the accompanying increased flow of military supplies, commercial goods, and dollars have created in the small, underdeveloped country of Vietnam conditions which are inherently conducive to the type of abuses which prevailed when the subcommittee initiated its investigation.

Based on its investigative findings, however, the committee is of the opinion that the problems and abuses which have plagued the U.S. economic assistance program and hampered its effectiveness are deep rooted and stem from the failure of AID to establish sound management policies and tight controls in the conduct of the CIP since its inception over 10 years ago.

Since these management deficiencies have long been recognized and repeatedly brought to the attention of responsible U.S. personnel, the committee believes that it can reasonably conclude that the failure over a long period of time to take vigorous action to implement repeated recommendations for corrective action has contributed materially to the continuance of the various abuses.

However, the committee believes that the primary reason for the widespread abuses which it found in the CIP during its investigation lies in the basic AID objective of combating inflation by flooding Vietnamese markets with hundreds of millions of dollars in U.S. goods, in an attempt to "sop up" the excess local currency in circulation, without any attempt to determine if they meet or are in excess of Vietnamese demands, without adequate surveillance over their distribution and ultimate use, and at an unrealistic monetary exchange rate which permitted Vietnamese importers to purchase U.S. goods at less than one-third their value and sell them at a price in excess of their value.

Significant changes were made by AID during the subcommittee's investigation which, if properly and expeditiously implemented, should eliminate many of the deficiencies and result in more effective management of and tighter controls over the CIP. The chairman of the subcommittee has stated on the House floor that—

Significant progress is being made to whip the AID program in Vietnam into sounder shape. If the corrective action taken by AID officials is followed up by additional actions,

our aid programs will be able to help materially in our eventual victory in Vietnam.

RECOMMENDATIONS

1. The types and amounts of commodities imported under the CIP should be determined on the basis of comprehensive studies made by qualified AID commodity analysts. AID should not permit the determination of commodity requirements to be based solely on the license applications of Vietnamese importers.

2. AID/Washington should promptly bring the authorized staff level of eight commodity analysts in Vietnam up to full strength. AID also should continuously evaluate the effectiveness of these commodity analysts and increase the staff if necessary.

3. AID/Washington should expand the list of GSA-procured commodities. This list should include, at a minimum, all bulk and uniform commodities as well as commodities particularly susceptible to diversion or of strategic value to the Vietcong.

4. The AID mission should review the background and qualifications of all applicants for import licenses independent of the review conducted by the GVN.

5. The AID mission should conduct an independent review of the background and qualifications of all bidders for distressed cargo sold at auction and take all other necessary action to prevent it from falling into the hands of the Vietcong.

6. The AID mission should insist that established importers be required to conform to the same conditions that currently govern the issuance of import licenses to new applicants. If this would require an amendment to existing Vietnamese laws, the mission should formally request the GVN to take this step.

7. AID/Washington and the Treasury Department should quickly bring the authorized staff level of 15 U.S. customs advisers in Vietnam up to full complement.

8. The AID mission should expand the scope of end-use audits on CIP commodities to the dollar coverage of \$75 million to \$100 million recommended by AID's own experts.

9. AID/Washington should intensify its prior review of commodity import shipments and suppliers to prevent diversion and fraud problems from developing. Too many of these cases are attacked after the fact.

IV. ILLICIT PRACTICES AFFECTING THE U.S. ECONOMIC PROGRAM IN VIETNAM

The possibilities for illicit gain through such practices as speculative hoarding, black-marketeering, theft, and smuggling are almost unlimited in an economy operating under the conditions that prevailed in Vietnam earlier this year. As one commentator stated then, "It appears that running parallel with the war is a national symphony of theft, corruption, and bribery." A number of U.S. agencies have made studies of the various types of illicit practices in Vietnam. One such study was done at the end of 1965 when, in the words of the AID official who requested the study, "It became apparent that extraordinary U.S. intervention would be needed to reduce leakage of goods to the Vietcong and to prevent the growth of corruption associated with the accelerating war boom and import expansion."

Although U.S. officials believe that they are familiar, as a result of such studies, with the mechanisms of many illicit practices that take place, there apparently has been some difficulty in obtaining quantitative statistics on their extent due to the very nature of the subject matter. Most estimates of the overall extent of illicit practices have, therefore, been little better than "educated guesses" and the following section, although it illustrates alleged practices with specific examples where possible, reflects to some extent this difficulty.

Illicit Practices Directly Related to the U.S. Commercial Import Program

1. *Diversion of CIP goods prior to arrival.*—The offloading of CIP goods in another country prior to their arrival in Vietnam has long been considered a possibility. No specific cases have come to light, however, and an official of the U.S. Treasury Department has stated that it would be extremely difficult, due to the system of irrevocable bills of lading and master's receipts required by U.S. laws and regulations, to divert goods carried on American-flag vessels prior to arrival. The same official, however, noted that it would be considerably less difficult to do this when the goods are carried on foreign-flag vessels. In the latter case, diversion prior to arrival would require collusion among a number of parties but a U.S. official reported in January of this year that " * * * no one can definitely guarantee, prove, or disprove, that to date merchandise either arrived or was diverted prior to arrival."

At the time that particular report was written, there was virtually no physical verification by U.S. officials of the arrival of CIP goods in Vietnam, but a U.S. Customs unit has since been established in Saigon and is inspecting CIP goods upon arrival in the port.

2. *Diversion of CIP goods after arrival.*—The diversion of CIP goods from their intended uses after arrival in Vietnam is considerably

more difficult to control than diversion before arrival. CIP goods are the property of the importer and are under his control once they have arrived in Vietnam. Many of the goods are sold on the open market and even if the importer is not himself an agent of the Vietcong, he may unknowingly sell to Vietcong agents. An Office of Special Projects was established by the AID mission in Saigon in March of this year to deal with this type of diversion. The operation of that office is the subject of a subsequent section.

Due to inadequate security conditions, unknown quantities of CIP goods have been stolen in Vietnamese ports and at other points in the channels of distribution. They were diverted either by the Vietcong or by private parties for personal gain. At the hearing in Saigon, Congressman Monagan pressed the director of the AID mission for evidence of diversion of AID-financed goods to the Vietcong. The director stated:

I have no indication of large-scale diversions, but there is evidence * * * in various combat actions, supplies have been found that conceivably could have been financed by the AID program.

The Treasury Department reported that between July 1965 and January 1966, for example, U.S. forces six times seized quantities of U.S. pharmaceuticals from the Vietcong. The discovery of a Vietcong cache of supplies, including numerous AID goods, was reported in June and has been detailed in the previous section. CBS News reported in August that "At any Saigon corner you can buy for a dollar a box, giveaway U.S. AID powdered milk * * * the box is marked with the clasped hands and the stars and stripes and emblazoned with the motto: 'Not to be sold or exchanged.'" The wide availability of PX and other U.S. goods in the street markets of Saigon was personally observed by the subcommittee and is further evidence of the diversion of goods after arrival.¹

Another form of diversion after arrival is the reexport of CIP goods to other countries after they have been received in Vietnam. Reexport of CIP goods is a violation of United States-Vietnamese agreements. It is usually motivated by the possibility of greater profit in the foreign market or the desire to obtain foreign currency as a means of capital flight. The director of the AID mission in Saigon testified that "the biggest leak of this type is probably sale of commodities to Cambodia." Investigation uncovered a case early this year of the reexport to Bangkok of 84,000 Nicholson metal files that had been imported under the CIP. The files were sold on the open market in Thailand and it was impossible to establish the guilt of anyone in Vietnam since 20 different firms in Saigon had imported Nicholson metal files. This, of course, illustrates the need to develop ways of tracing diverted goods—by special serial numbers, for example.

3. Kickbacks and agents commissions.—A kickback is a transaction, generally concealed, involving a return of funds to the importer as a part of the sales agreement. It is a form of inducement to the importer to place his order with a particular seller by offering a rebate on the stated purchase price and this type of payment has always been ineligible for AID financing.

¹ See chapter XI.

Until recently, AID financed the payment of all commissions to legitimate sales agents. Some Vietnamese importers developed the practice of acting, through concealment, as their own sales agents and thus receiving the commission themselves. During the period of the subcommittee's investigation, AID has moved to eliminate this practice and thereby improve the U.S. balance-of-payments position as well as restrict capital flight from Vietnam. In May, a new regulation was drafted which would eliminate AID financing of all agents' commissions except those paid to U.S. citizens maintaining a residence in the United States. The new regulation was in effect from May until early in July, when the commercial banks responsible for paying CIP suppliers raised objections to the implementing procedures and forms. As a result, two different sets of forms are presently in circulation and the resulting confusion is intolerable and clearly detrimental to the efficient processing of CIP payment documents. AID must make every attempt to meet the objections raised by the banks, which the committee understands were based on the complexity of existing AID documentary and procedural requirements and a hesitancy to assume responsibility for payment under conditions that further complicate the situation and impose new restrictions.

4. *Overpricing and short shipments.*—Invoice prices can be overstated, causing the U.S. Government to pay more for the AID-financed commodity than it is worth. Short shipment, or the shipment of quantities less than what is stated on the invoice and shipping documents, achieves the same objective. Both transactions enable the supplier to realize unwarranted profits which the supplier, in collusion with the Vietnamese importer, usually splits with the importer. The importer takes his cut in the form of a payment into an overseas bank account and, at the same time, he is able to realize a profit on the goods received because of the low exchange rate at which he acquired them. When used in this manner, both overpricing and short shipments are, of course, a form of concealed kickback to the Vietnamese importer. The practices of overpricing and short shipping are probably not so common in transactions with U.S. suppliers as in transactions with suppliers in third countries due to the risks involved for the U.S. supplier. A false statement by a U.S. supplier concerning commissions, kickbacks, or other payments is the basis for legal action against him.

A U.S. official stated that "several sources have informed me that both the underevaluation and overevaluation scheme is fairly widespread." An example of overpricing is the shipment, in 1965, of rice from Thailand under the CIP. An investigation determined that the United States had been overbilled 100 percent on the freight charges for shipping this rice and that the companies to whom these payments were to be made were suspected Chinese Communist agents. The payments have been placed in a blocked account pending investigation. However, remedial action in this case was held up for virtually a year for unexplained reasons.

The U.S. Customs unit established in Saigon in March will, as one of its duties, check arriving commodities against invoices for the possibility of short shipments. In addition, seven positions were added to the Financial Review Division of AID/Washington in April to review Vietnam CIP documents for irregularities, particularly in price.

5. Underpricing.—Underpricing is a scheme for avoiding customs duty on goods that are taxed at a high rate. The supplier, in collusion with the importer, understates the value of the goods on the invoice and the importer remits payment to the supplier either in cash or through a numbered bank account. Because most of the goods that are brought into Vietnam under the CIP are not luxury goods and are not, therefore, taxed at a high rate, this scheme is probably not profitable for most CIP transactions. The director of the AID mission in Saigon stated, however, that "Although this is not a direct misuse of AID funds, it is of concern to us because it results in decreased revenue for the Vietnamese Government and thereby increases inflation." Underpricing, too, is a form of kickback. The new U.S. Customs unit in Saigon is responsible for advising the Vietnamese Government on means to increase its customs revenue and the new section of the Financial Review Division in AID/Washington also reviews CIP documents for price irregularities of this type.

6. Nonconformity to specifications.—When low quality goods that do not conform to specification and are worth less than the invoice price are shipped, AID is paying for more than it receives. Here, again, the importer and the supplier are usually working in collusion and splitting the profit. This is another form of concealed kickback and the new U.S. Customs unit in Saigon has been ordered to check arriving goods for conformity with specifications.

The subcommittee was particularly interested in the case of a shipment of nonconforming lathes from Taiwan and held hearings on the subject in both Saigon and Taipei. In December 1965 a U.S. inspector who was in the port of Saigon on other business happened—purely by accident—to notice a crate that had broken open. Upon checking, he discovered that the lathes were of either inferior quality or second hand and his discovery led to a massive investigation involving suppliers of lathes in Taiwan, Pakistan, and India. The case is still under investigation and a refund claim for \$658,392 has recently been submitted to the GVN. The importation of all U.S.-financed lathes was suspended and three Taiwanese suppliers have been suspended. In addition, the U.S. mission in Saigon has recommended to the GVN the suspension of a number of Saigon importers.

AID has recently instituted a requirement that all offshore industrial machinery be inspected in the country of origin prior to shipment and has stated that "inspection will be extended to most other commodities." While the committee recognizes the difficulty of finding sufficient personnel to do the job, the Taiwan lathe case points up the need for and value of an effective preshipment inspection policy.

7. Falsification of origin.—The purpose of falsifying the country of origin of AID-financed commodities is to circumvent the AID 90-10 componentry regulation described in the preceding section. The difficulty of effectively enforcing this regulation was also mentioned in that section and was emphasized in the recent hearings held in response to Senator Birch Bayh's charges of falsification of origin of galvanized steel products shipped from Korea to Vietnam under the CIP. Another case involving falsification of origin which is currently under investigation involved the shipment of diesel engines to Vietnam by a U.S. supplier. Other irregularities have been charged in this

case and the importation of all diesel and gasoline engines under the CIP was temporarily suspended.

8. Hoarding of imported goods for speculative purposes.—The hoarding of imported goods for the purpose of realizing greater profits in an inflationary situation has been touched on in previous sections and, while it does not entail any direct waste of the U.S. dollar, it does operate to increase the inflationary pressures on the Vietnamese economy which the CIP is designed to combat. For this reason, it should be a matter of deep concern to the U.S. Government.

The director of the AID mission in Saigon testified in May that "Goods are sometimes hoarded in the expectation that prices will rise. The Vietnamese Government has economic police who are supposed to prevent hoarding, but they weren't very effective until recently." In February of this year a Chinese businessman was tried and executed in Saigon on several charges, one of which was hoarding. The trial, which was widely publicized in the United States, was conducted in a summary manner and virtually no attempt was made to clothe the proceedings in even a semblance of fairness and due process. The apparent intent of the trial and execution was to impress upon Vietnamese profiteers the seriousness of the GVN's intent to enforce its own laws relating to speculation and profiteering. The manner in which the proceedings were conducted served only to shock the American conscience, however, and to reinforce the hostility of the Chinese business community in Saigon toward the Central Government. The committee wishes to state emphatically that, in its opinion, this type of hastily conceived action is a travesty on justice and that it is *not* the answer to the problem of curbing speculation in Vietnam. A recent newspaper article reported that on August 29, another Vietnamese businessman was tried and sentenced to death in absentia on charges of speculation. He had been charged with hoarding, for the purpose of speculation, all the refrigerators available and imported since early this year.

9. Conversion of CIP goods to other than their intended use.—In early February of this year, AID was warned by the Du Pont Corp. that unusual quantities of Unicel 100, a chemical manufactured by Du Pont, were being shipped to Vietnam. The chemical is used as a blowing agent in the manufacture of rubber but Du Pont informed AID that it also has a high explosive potentiality and that the quantities being shipped seemed to be far in excess of the legitimate needs of rubber manufacturers in Vietnam. This information was relayed to the AID mission in Saigon, and, in tests conducted in Washington in April, it was discovered that the explosive potential of Unicel 100 is equal to or greater than that of TNT. The shipment of Unicel 100 to Vietnam under the CIP was stopped in late April but only after an estimated 52,000 pounds of the chemical had been shipped in the 3 months since the original warning. Investigation has not yet turned up firm evidence that any Unicel 100 was diverted to the Vietcong for use as explosives. However, not all of the quantities imported have been accounted for.

An investigation was undertaken in February of silver nitrate being shipped into Vietnam under the CIP ostensibly for use in the manufacture of mirrors, as an antiseptic, and in certain photographic processes. It was found that large amounts of the silver nitrate re-

ceived in Vietnam had instead been refined into pure silver, presumably for sale on the black market or for hoarding. The nitrate left after the extraction of the silver could have been used to make explosives. A cable from Saigon in late March stated that "Although total quantity silver nitrate imported not yet accounted for, practice appears widespread." AID financing for silver nitrate was subsequently suspended. During 1965, about \$1.3 million worth of silver nitrate was imported into Vietnam with AID financing.

Unicel 100 and silver nitrate are two outstanding examples of goods that should only have been shipped to Vietnam under controlled conditions, if at all, but were financed by AID without limitation because of inadequate personnel and loose procedures in the administration and review areas of the CIP, both in Washington and in Saigon. The Office of Special Projects, which was established in the AID mission in Saigon in March, will be responsible for identifying other items of similar potential in the future, particularly insofar as they may be of use to the Vietcong. The work of that office will be supplemented by the efforts of additional commodity analysts being assigned to the mission in Saigon and by the newly established Office of the Special Assistant for Commodity Analysis, the AID/Washington counterpart of the Special Projects Office in Saigon. The Unicel 100 case and the Taiwan lathe case illustrate the need for improvement of AID suspension procedures. The delay of almost 3 months between AID's receipt of information regarding the explosive properties of Unicel 100 and suspension of shipment of the chemical is, in the opinion of the committee, inexcusable. Information of this sort from reliable sources should be investigated promptly and action should be taken immediately upon completion of the investigation.

At the time of the subcommittee's visit to Taiwan in May, AID was continuing to finance shipments to Vietnam by the prime Taiwanese suspect in the lathe case, which was still under investigation. This was almost 6 months after the original discovery of the defective lathes in the port of Saigon. The evidence of guilt that had already been developed was more than adequate to justify at least a temporary suspension of the supplier pending completion of the investigation.

10. Procurement of import licenses.—Individual licenses granted by the GVN authorizing approved importers to bring in specific quantities of CIP goods are supposed to be issued free of charge. A U.S. official reported in January, however, that the "under-the-table" payment for license approval was about 6 piasters for each dollar of imports authorized. The same official reported that some merchants falsified their export records in order to obtain additional import licenses under the Vietnamese system, which allows a merchant to import 25 percent of the merchandise he exports. Corrupt practices such as these distort the alleged free market pattern of supply and demand upon which the CIP is based.

Establishment of an Escrow Account

The United States has been attempting for some time to obtain the agreement of the GVN to the establishment of an escrow account in the amount of \$4 million, which could be automatically drawn on by the AID mission whenever there is a finding that violations of AID

regulations regarding import transactions have taken place. A similar system is presently being employed in Laos to obtain prompt reimbursement of money owing the United States as a result of such violations. In the past, U.S. claims for refunds have been submitted only sporadically to the GVN and collections that have been made have required lengthy negotiations and often compromise settlements. For example, the AID mission in Saigon submitted a refund claim for 20 million piasters to the GVN on January 17, 1964. After numerous meetings and protracted correspondence on the matter, the claim was finally settled on May 27, 1966, during the period of the subcommittee's investigation, for slightly more than 1 million piasters.

AID officials in Saigon and in Washington informed the subcommittee that negotiations to establish an escrow account had been well underway with a previous Government but that, subsequently, it has not been possible to obtain GVN assent in the matter. The establishment of this account has been under negotiation for too long and the precedent established in Laos should be more than sufficient to support the U.S. case for a similar arrangement in Vietnam. U.S. negotiators must take a firm position on this matter and not permit any further delay in the establishment of the account.

Other Illicit Practices

There is a black market in Saigon for both currency and commodities of all kinds as well as a market for smuggled gold. Continued tolerance of the black market inevitably weakens the interest of other governments and their citizens in cooperating with official exchange agreements.

1. **The black market in commodities.**—The street markets in Saigon are bulging with a wide variety of U.S. commodities, including luxury items from the U.S. PX and commissary. The center of this activity is a two-block street in downtown Saigon known as "PX Alley." The sidewalks in PX Alley are lined with the stalls of vendors offering for sale a wide variety of PX and other U.S. goods including radios, canned foods, K rations, blankets, styrofoam coolers, liquor, tape recorders, chewing gum, hair spray, and many other items. It is likely that some of these items are locally produced copies of commercial U.S. products. Examples might be undershirts, tropical boots, and sunglasses. The subcommittee toured PX Alley on several occasions and the photographs in exhibit 8 were taken there at the subcommittee's request. In these and many of the other pictures that were taken, PX and other U.S. markings are clearly visible on the merchandise. Items that are temporarily unavailable in the PX can almost always be obtained in PX Alley and the subcommittee was told that newly arrived PX goods are often available on the street before they appear on the shelves of the PX.

Nor is the black market for commodities limited to this one small street. Sidewalk stands offering a variety of U.S. goods are found on numerous streets throughout the downtown area of the city and virtually all of the hundreds of bars in downtown Saigon are amply stocked with liquor, much of which bears PX identification marks clearly on the label. There is some difference of opinion as to

whether these goods are supplied to the street market through a systematic scheme of wholesale diversions or merely through the sales of individual items to local merchants by persons who have obtained them legally through purchase at the PX. The absence of PX prices or markings on many of the items suggests that they were diverted before they reached the shelves of the PX and a well-informed official of the AID mission told the subcommittee that, in his opinion, a market of this size and variety could not be supplied solely through individual sales.

The existence of the black market in commodities is, of course, well known to both United States and Vietnamese officials. The subcommittee has a copy of the official minutes of a meeting held on December 8, 1964, well before the beginning of the buildup, between United States and Vietnamese officials for the purpose of discussing appropriate steps to eliminate the diversion and sale of U.S. items entering the country tax free. Although both sides agreed, at that meeting, to take appropriate steps to eliminate the black market, neither lived up fully to its part of the bargain. The United States, for example, did not carry out its promise to "carefully escort the goods-carrying vehicles from the customs warehouse to the receiving warehouse to prevent any loss along the route." The continued open existence of the black market on a wide scale a year and a half after this agreement was made bears ample testimony to the fact that the GVN did not live up to its promise to "enforce this prohibition (against the resale of any PX and commissary items) by investigating all shops and confiscating any such item, if found."

The Department of Defense informed the subcommittee that—

there is no record of additional * * * formal agreements governing overall cooperative action by USG/GVN authorities in enforcing their * * * laws and regulations prohibiting illegal transactions. Rather, the close rapport developed during the period of our presence in RVN * * * guides the existing policy on joint USG/GVN enforcement actions (including joint patrols) looking toward detection and punishment of those who engage in illegal currency, black market, or related transactions.

An official of the Department of Defense testified that the USG/GVN response to black marketing and currency manipulation has been "joint police patrols."

The agreement that was reached in December of 1964 was not effectively implemented by either the United States or the GVN and the committee does not believe that "close rapport developed during the period of our presence in the Republic of Vietnam" is sufficient basis for effective joint action. There must be an additional agreement or working arrangement of a more formal nature and the combined effort should include more than just "joint police patrols" or other informal actions.

2. The black market in currency, gold smuggling, and capital flight.—The presence of large numbers of Americans has resulted in a substantial flow of U.S. dollars into Vietnam. The dollar, because of its stability relative to the Vietnamese piaster and because of its

foreign exchange value, is in great demand on the black market. Vietnamese law prohibits the holding of dollars by either Vietnamese or foreigners in Vietnam and the black market exchange rate ranged up to 200 piasters to the dollar against an official exchange rate of 118 to 1. The subcommittee was informed that dollar checks drawn on American banks can also be exchanged for piasters at rates approaching 200 to 1.

All American personnel in Vietnam are paid in military payment certificates (MPC's), which are good only for transactions on U.S. installations in Vietnam. Regulations require Americans to exchange MPC's for piasters at U.S. disbursing offices at the official rate of 118 to 1 but the MPC, also, has a value on the black market. Subcommittee staff members were offered as high as 160 piasters in exchange for one MPC on the street in Saigon.

The Department of Defense informed the subcommittee in August that—

MPC's seized by the GVN in raids on illegal money changers would be treated in the same manner as any other confiscated property. This headquarters has taken the position that the United States has no possessory interest in such certificates, which are technically worthless in unauthorized hands. Lacking any proprietary interest, we are without standing to demand that they be surrendered to the United States, except in the rare case in which they can be proven to have been stolen from an agency of the United States.

This statement is almost unbelievably naive. The DOD's argument is at best poor law, and at worst an intentional abdication of responsibility demonstrating wanton disregard for the economic realities of Vietnam. Any dollars seized by the GVN in raids on illegal money-changers should also be returned to the U.S. Government. There is no justification under present circumstances for the GVN acquiring foreign exchange in this manner to the detriment of the United States.

The black market in currency flourishes throughout the downtown section of Saigon. Certain stores are well-known fronts for illegal money changers and an American can hardly walk a block on the streets at night without being offered piasters in exchange for MPC's or dollars. A U.S. official stated that, in his opinion, the currency black market has the appearance of a well-regulated market, believed to be effectively controlled by a few large traders and importers who are probably Chinese.

Flight of capital is a major motivating factor in the currency black market and in many of the CIP-related illicit practices discussed previously. Some Vietnamese wish to establish a form of financial security abroad as insurance against the contingency of political upheaval or the erosion in value of the piaster through inflation. Corporations may wish to transfer funds abroad and reduce their holdings in Vietnam as a hedge against financial uncertainties.

One means of getting capital out of the country is to purchase dollars and MPC's on the black market. The dollars can be smuggled out and deposited in a bank account abroad. The MPC's can be used, in collusion with someone who has legitimate PX privileges, to purchase U.S. PX goods, but there is also the possibility that they will

be smuggled out of the country and exchanged covertly in such places as Hong Kong for hard currencies. The Treasury Department informed the subcommittee that it was unable to verify the existence of a market for MPC's in Hong Kong but other informed observers have alleged that a market does exist there. Another device is the direct conversion of MPC's into dollars in collusion with American personnel. American personnel departing Vietnam are allowed to exchange their MPC's into dollars prior to departure and a U.S. official reported early this year that he had received information that a serviceman had converted over \$8,000 in MPC's and, in another instance, a female civilian employee had exchanged over \$18,000 in MPC's prior to departure without being questioned. The same official recommended at that time that controls be instituted limiting the amount of MPC's that can be exchanged by departing U.S. personnel for dollars. Effective September 1, 1966, all U.S. personnel converting MPC's to dollars or dollar instruments are required to complete a form which will be kept on record and the amount of MPC's that can be so converted will be limited to the amount drawn by the purchaser during a 1-month period. Prior to the establishment of the above control mechanism this fall, loose and informal surveillance measures were in effect.

A final device which has been used for converting MPC's into capital abroad is the purchase by authorized American personnel in collusion with Vietnamese of postal money orders (PMO's) at U.S. postal facilities in Vietnam. A number of cases of suspected excess purchases of PMO's, most of them by civilian employees of U.S. contractors in Vietnam, were reported to the subcommittee. In one case, a civilian employee purchased \$42,000 of PMO's in one month. In November 1965 a new policy was instituted requiring purchasers of PMO's to fill out a detailed application form and to show identification. These forms are kept in a central file and purchases in excess of gross pay are investigated. The committee feels that there was an unnecessarily long delay between the recommendation, late in January, and the implementation, on September 1, of controls over the amount of MPC's that can be exchanged for dollars by departing personnel. In order to insure that this type of transaction and PMO's are eliminated as a source of capital flight and illegal profits, the controls that have been instituted will have to be applied in the same manner to civilian employees as to military personnel. This will require that a central record of the salaries of civilian personnel entitled to these privileges be maintained and checked against monthly purchases of PMO's and against conversions of MPC's to dollars.

The Department of Defense has also recently instituted a requirement that its contractors in Vietnam include a clause in employment contracts stating that "Termination for cause shall include * * * trading in currencies other than through official channels." Employers are encouraged to discipline or to dismiss employees under this clause for such violations as excess purchase of PMO's. The MAC/V Office-in-Charge of Construction is issued a memorandum stating that the employee has violated the regulations, that the American Embassy has been requested to invalidate the individual's passport, and that the employee is barred from future employment. Offenders are debarred from all military facilities in southeast Asia and debarment notices are

distributed "to all law enforcement agencies, including appropriate Pacific and sea commands."

Prior to April 13, 1966, there was no formal arrangement to prevent the reemployment of civilian contractor employees who had been discharged for misconduct in Vietnam. On that date, MAC/V began to maintain a central list of such employees. On June 6, 1966, a list of U.S.-citizen civilian contractor employees who have been discharged for misconduct in Vietnam was established at Fort Holabird, Md.

Deputy Secretary of Defense Cyrus Vance circulated a letter on June 28, 1966, asking that all DOD contracts with construction firms operating in Vietnam be reviewed to insure that a clause prohibiting the employment of past offenders is included. Those contracts not including this clause were to be amended immediately. Contractors are also required to notify U.S. officials in Vietnam when an employee has been discharged for misconduct. The applications for employment of all U.S. citizens are now funneled through a military officer in residence at the RMK office in San Bruno, Calif., and the BRJ office in Charlotte, N.C. These applications are checked against the central list at Fort Holabird. Non-U.S. personnel applying for top managerial positions are checked in the same manner. Other non-U.S. personnel applying for jobs are, for the most part, Filipinos and Koreans who are checked through a U.S. military office in Manila and the U.S. Embassy in Seoul.

Another means for Vietnamese to achieve a measure of financial security is the illegal purchase, in Vietnam, of gold that has been smuggled into the country. It is known that gold has been smuggled into Vietnam in quantity from Laos, where it can be imported legally in unlimited quantities. The total gold imports of Laos increased last year to over \$24 million and gold imports are expected to increase by 50 percent this year. Much of this gold is either brought across the Vietnamese border at remote points or smuggled through the airport at Saigon and sold at high prices to satisfy the demand for gold as a form of financial security in Vietnam. The dollars received in exchange for this gold can either be transferred from accounts held in foreign banks or paid directly, in which case the dollars are smuggled back into Laos.

All of the above transactions result in the loss of much-needed foreign exchange to the GVN and have some bearing and liability on the U.S. balance of payments. Officials of the U.S. Treasury Department informed the subcommittee that the estimated *official* balance-of-payments deficit resulting from U.S. operations in southeast Asia is \$750 million per year, or one-half of the total worldwide U.S. balance-of-payments deficit. *Unofficial* losses through covert transactions such as these undoubtedly account for additional losses of foreign exchange and should be of the greatest concern to the United States in view of our present balance-of-payments difficulties.

Economic Warfare

The Vietcong have for some time had an organization whose purpose is to deny economic resources to Vietnam. For example, the recent shortages of rice in Saigon and other cities have been ascribed, at least in part, to the success of the Vietcong in interdicting shipments of rice from the fertile Mekong delta area.

In September 1965 the U.S. mission in Saigon created the Economic Warfare Committee, composed of military and civilian representatives from all U.S. agencies, for the purpose of denying critical resources to the Vietcong, preventing the diversion of U.S.-financed goods to the Vietcong, and countering Vietcong efforts to disrupt the economy of Vietnam. In March 1966 the AID mission in Saigon established an Office of Special Projects, which provides AID representation on the U.S. mission's Economic Warfare Committee. The office has an authorized staff of six professionals in addition to seven auditors. The new head of the Office of Special Projects was also designated Chairman of the Economic Warfare Committee. In Washington, the Office of the Special Assistant for Commodity Analysis was established with an authorized staff of four professionals. The primary function of this office is to identify commodities particularly susceptible to diversion to the Vietcong and alert the mission in Saigon of their expected arrival or of the need for special measures.

The new Chairman of the Economic Warfare Committee placed an early priority on working in cooperation with GVN authorities to eliminate the major dealers in black-market currency in Saigon. He stated late in March of this year that "this illegal money market has taken on vast proportions within SVN. * * * Also, through this illicit trade, the Vietcong probably acquire needed revenues for its SVN and worldwide operations." Although coordinated action was agreed upon by the Economic Warfare Committee and the GVN and the date and time for simultaneous raids on several of the leading money changers in Saigon was established, the raids did not take place as planned because of prior independent action on the part of one of the investigative organizations within the U.S. complex.

One other example which illustrates the type of work done by the Economic Warfare Committee was brought to the staff's attention during its first visit to Saigon. In March of this year, the Economic Warfare Committee heard, through a local newspaper article, that surplus U.S. military property was being auctioned off in Saigon under conditions providing little or no assurance that it was not going directly into the hands of the Vietcong. Sales at scrap prices in the previous 9 months had been \$1.7 million in Saigon alone and the U.S. military maintains property disposal yards at three other locations in Vietnam. The photographs in exhibit 9 show some of the surplus property, much of it in fair to usable condition, which was on hand in the Saigon yard in late March. In a cable to Washington dated April 2, 1966, the Chairman of the Economic Warfare Committee pointed out that the Vietcong pay good prices even for scrap metal scavenged by peasants in combat areas after battles and that the Vietcong cottage industries have a fantastic capacity for making lethal weapons and spare parts out of seemingly worthless scrap items. As a result of recommendations made in this cable, the sale of certain military surplus items in Vietnam was prohibited and a system of end-user checks was established for items still allowed to be sold.

RECOMMENDATIONS

1. The Agency for International Development should put into effect, at the earliest possible date, its new regulation eliminating AID financing of agents' commissions on CIP transactions. If necessary, AID should revise completely its documentary forms and procedures governing bank payment to CIP suppliers and simplify the supporting regulations.

2. The Agency for International Development should extend the inspection of CIP-financed commodities in the country of origin prior to shipment. Inspection prior to shipment should be extended to most, if not all, CIP commodities, particularly those being shipped from third countries to Vietnam. Such inspection should include a check on the conformity of goods to specifications as well as verification that the quantity being shipped corresponds to the quantity paid for by AID. Inspection should take place at the last possible moment before the goods are loaded on ship or, ideally, when they are already in the hold.

3. The Agency for International Development should improve the speed and effectiveness of its procedures for suspending importers and suppliers who have been found guilty of violations of AID regulations and for suspending the shipment of goods that are under suspicion for any reason whatsoever. When there is good cause to believe that a particular importer or supplier has committed violations, provisional suspension should be employed until further investigation reveals the truth or falsity of the charges.

4. The U.S. AID mission in Saigon should accord high priority to obtaining the assent of the Government of Vietnam to the establishment of an escrow account against which U.S. claims for reimbursement arising from irregularities in commercial import transactions will be automatically collected.

5. The responsible elements of the U.S. mission in Saigon should accord high priority to the establishment, together with the Government of Vietnam, of a coordinated plan to eliminate or drastically curtail the black markets in currency and commodities.

6. Procedures limiting the amount of MPC's that can be exchanged for dollars by departing personnel and procedures limiting the purchase of U.S. PMO's should be applied to civilian employees under the same conditions that govern their application to military personnel.

7. The U.S. mission in Saigon should insist that any MPC's or dollars seized by the GVN in raids on illegal moneychangers be promptly returned to the U.S. Government.

V. USE AND CONTROL OF PIASTERS GENERATED BY U.S. PROGRAMS

The piasters generated by the U.S. commercial import program are deposited in a special account at the National Bank of Vietnam. These piasters are owned conditionally by the GVN subject to the joint control of the United States. Because of the joint control feature, this money is known as counterpart.

Additional piasters are generated by sales of surplus U.S. agricultural products to Vietnam under the provisions of Public Law 480. The piasters received for these sales are not technically counterpart, however, since they are U.S. owned, rather than jointly controlled, and are held in a U.S. treasury account.

Use of U.S.-Generated Local Currency

AID has estimated that total currency generated from commercial import financing and Public Law 480 financing in the current calendar year will be 26 billion piasters. This money will be expended for the following purposes:

1. Military budget support.—A total of 13.6 billion piasters will be used for support of the GVN military budget. Of this total, 8.2 billion piasters will come from counterpart and 5.4 billion piasters will come from Public Law 480 proceeds. In recent years, virtually all counterpart was used for military budget support but with the recent increase in the commercial import program and the consequent increase in the counterpart fund, plans have been formulated for major commitments of counterpart to nonmilitary uses both within and outside the regular GVN budget.

2. Nonmilitary support.—A total of 8.1 billion piasters will be used for nonmilitary purposes. Of this total, 3.4 billion piasters will be spent under the so-called American AID chapter, which covers the local currency costs of AID projects. Another 3 billion piasters have been attributed to the civil sector of the GVN budget and will be used within the budgets of various civil ministries. The use of counterpart for this purpose was initiated several months ago by the simple device of AID's agreeing to release funds for the ministerial budgets without earmarking the funds for particular projects and without any prior participation by AID in the formulation of the ministerial budgets. The remaining 1.7 billion piasters will be used for extra-budgetary support items which AID may feel required additional funds such as, for example, the refugee program of the GVN.

3. AID mission trust fund.—One billion piasters are used for local currency administrative costs of the AID mission.

4. Special trust fund.—In May of this year, the GVN agreed to establish a special trust fund of 1 billion piasters out of counterpart for the use of the AID mission. This money is to be used for support

of joint economic and social programs under the general guidelines of release agreements with the GVN. This fund will be used primarily for expediting construction, logistics operations, and employment of Vietnamese in circumstances where GVN procedures or regulations prevent prompt or flexible responses to urgent needs.

5. *Miscellaneous*.—The remaining 2.3 billion piasters of the total of 26 billion piasters generated by U.S. programs will be applied to the increased costs of AID projects and of the civil portion of the GVN budget resulting from the recent devaluation.

Control of Disbursements of U.S.-Generated Local Currency

Funds for support of the GVN military budget are committed on the basis of an annual project agreement between the United States and the GVN. The procedures for review and control of the use of these funds are fairly well established, as counterpart funds have been used for GVN military budget support for a number of years. MAC/V budget officers review the proposed GVN military budget each year and recommend specific items for counterpart support. During the year, expenditures of these funds are verified and new funds are released on a monthly basis. On occasion, withholding of monthly releases for military budget support has been used to achieve broad political objectives.

Funds in the AID mission trust fund and the special trust fund are expended and controlled by the United States. Of the remaining funds used for nonmilitary support, AID has stated that the United States exercises "quite explicit" control over the 3.4 billion piasters expended under the American aid chapter. This money is allocated to specific AID projects on the basis of project agreements between the United States and the GVN. The money is actually disbursed by the AID mission. The control exercised by the United States over expenditure of the 3 billion piasters attributed to the civil sector of the GVN budget is, however, virtually nonexistent. An official of AID testified, with respect to control of this expenditure, that—

it is not at all complete—in fact, it is only symbolic with respect to the 3 billion that we recently got their agreement to put in the civil budget. And the reason * * * is * * * until this year, we have put most counterpart, except for trust fund reservations, into the military budget and that budget is monitored by MAC/V. This year we have started putting more counterpart into the general civil budget.

The Moss Amendment: Counterpart Attributed to the GVN Civil Budget

The attribution of 3 billion counterpart piasters to the GVN civil budget is a new use of counterpart funds that was made possible this year by the greatly increased generation of counterpart under the commercial import program. As mentioned previously, in the past few years counterpart funds have been used largely for GVN military budget support.

The problem of lack of U.S. control over the expenditure of counterpart in support of the GVN civil budget was called to the subcom-

mittee's attention during its investigation. At some point the United States gave up altogether too much control over the counterpart funds with which we support the Vietnamese. We don't have much to say, once the commitment is made, as to the rate or the amounts which these funds are paid out or dispensed. In other words, if a project is going bad that we are committed to support in the Vietnamese budget, we have a difficult time stopping it, once we are committed to the budget.

The focus of criticism is that the present arrangement is not sufficiently flexible, that once counterpart is attributed to the GVN budget it is extremely difficult to change the thrust of some of the agreements that occur at the time of the budget.

The subcommittee was informed that the reason counterpart funds have recently been attributed to the GVN civil budget with no provision for either U.S. participation in the formulation of the budget, attribution of the funds to specific programs, or control of subsequent disbursements of funds committed, is that the GVN had not previously wanted to have the AID mission in the kind of detailed review of budget expenditures that is commonplace on the defense side.

In order to meet the problem, Chairman Moss introduced an amendment to the Foreign Assistance Act of 1966 which expresses clearly the congressional intent that greater U.S. control be exercised over the expenditure of counterpart in support of the GVN civil budget. The amendment was approved by the House on July 14, 1966, and subsequently accepted by the Senate in conference. It provides that the President of the United States or his representative must give written approval to the allocation of counterpart funds in support of the GVN civil budget *prior* to the final formulation of the budget. U.S. officials are thus required to participate to some extent in the formulation of the GVN civil budget, which was not done in the recent general attribution of 3 billion counterpart piasters to various civil ministries in support of the budgets of these ministries.

The committee feels that U.S. participation in the formulation of the GVN civil budget prior to the commitment of counterpart funds to it, which is now a requirement under the Moss amendment, *plus* the subsequent monitoring of expenditures and periodic control over the release of funds, are necessary to provide the kind of flexibility desired.

An AID spokesman in Washington stated that the establishment of the special trust fund achieved this purpose. The subcommittee does not believe that it has. The special trust fund provides additional money out of counterpart for the U.S. mission to spend as it may see fit on certain civil programs. It does *not* give the U.S. mission the power to change the thrust of agreements that occur at the time of the budget if some program is not turning out right, or if funds are not being used and we see need for them elsewhere. It gives the U.S. mission the ability to commit additional funds but it does not confer the power to control expenditures of counterpart committed to the GVN civil budget subsequent to the establishment of the commitment. This type of control is already exercised over counterpart funds committed to support of the GVN military budget and has been for a number of years. The same type of control over the release of U.S.-generated funds should be exercised on the civil side. This con-

trol need not be so detailed as to effectively hamper the expenditure of these funds by creating unnecessary delays and redtape. As Chairman Moss has stated on the floor of the House—

We are not attempting to deal with trivia, but instead with the very substantial items of reallocation which can occur.

Attempts have been made in the past to effect such reallocations.

While the committee fully appreciates the difficulty of achieving proper control over the expenditure of funds generated through U.S. assistance and, at the same time, not impinging upon the prerogatives of a sovereign government, nevertheless it believes that controls over the expenditure of counterpart for nonmilitary purposes should be at least as stringent as the controls which have long been exercised over the expenditure of counterpart for military purposes. The committee believes that there should be a constant review of the application of these funds to agreed projects in the budget, more flexibility and more leverage. Our partnership with the Vietnamese should go all the way. It should not stop at the point where they take over the counterpart for the goods we send in here. If AID feels that it cannot properly insist upon this type of control, the committee will recommend additional legislation to require it.

RECOMMENDATION

1. The U.S. mission in Saigon should take all necessary steps to insure that counterpart funds committed to support of the GVN civil budget are not only budgeted but also released under the same type of controls that are currently exercised over the budgeting and release of counterpart funds in support of the GVN military budget.

VI. AUDITS AND INSPECTIONS

The Foreign Operations and Government Information Subcommittee investigation disclosed that there had been a general abdication of responsibility for the audit and inspection of U.S. programs in Vietnam in recent years. Agency personnel responsible for auditing and inspecting military as well as economic assistance programs overseas had adopted the attitude "there's a war on in Vietnam so let's not rock the boat." Consequently, the extent of the external and internal audit and inspection effort in Vietnam ranged from nonexistent to barely minimal, despite the widespread charges of inefficiency, waste, and corruption in the AID program and related areas of the total U.S. program.

The Committee on Government Operations, under the rules of the House of Representatives, has responsibility for reviewing and ascertaining that appropriated funds are expended economically, efficiently, and properly for the purposes which the agencies had requested and Congress intended. In its constant and continuing surveillance over the expenditures for foreign operations, the subcommittee, because of its intense interest in and insistence on audits, became aware of the lack of audits and inspections being conducted in Vietnam by agencies and offices outside of Vietnam, and the inadequacy of the audits being conducted within the AID mission.

During the course of the investigation, the subcommittee met with appropriate officials of all of the agencies and offices having audit and inspection responsibilities for Vietnam. The subcommittee found that many of these agencies and offices had not conducted audits and inspections for extensive periods of time and had no plans to do so. It was obvious that many of the responsible officials made no attempt to identify and determine those areas where audit and inspection effort was required and could be effective. However, after meeting with the subcommittee and on the basis of those areas identified as being deficient and conducive to effective audit and inspection, appropriate officials of all affected agencies and offices took immediate action to initiate and expedite audits, comprehensive reviews, and inspections of the programs for which they are responsible.

The subcommittee's investigative findings and the increased audit and inspection activity of agencies and offices outside Vietnam and changes in audit and inspection procedures within the AID mission resulting from the subcommittee's concern over this management area are presented below.

Increased Audit and Inspection Activity of Agencies and Offices Outside Vietnam

Subcommittee investigation disclosed that little, if any, audit and inspection effort was being devoted in Vietnam to U.S. assistance programs by the General Accounting Office, and responsible offices within

AID, the Department of State, the Department of Defense, the Department of Agriculture, and the U.S. Information Agency.

As a result of the subcommittee's proddings, action was taken by all of these agencies. For example, a high-level GAO team was in Vietnam at the time of the staff's arrival in Vietnam in March 1966, and had completed an on-site survey for the purpose of determining GAO audit responsibilities in Vietnam and the manner in which they could best be discharged. The Inspector General for Foreign Assistance made a visit to Vietnam early in February 1966 and his Deputy and two staff members were in Vietnam at the time of the staff's investigative trip in March. The AID Controller and the Air Force Deputy for Inspection made visits to Vietnam in February 1966. Deputy Secretary of Defense Cyrus Vance arrived in Vietnam at the time of the staff's investigative trip to conduct an inspection tour of Vietnam, and AID/Washington, at the time of the staff's investigative trip, was conducting its first audit of the mission in 5 years.

Moreover, the decision of the Department of Defense to revise its policy with respect to internal audits within combat theaters is of primary importance. As the result of the subcommittee's inquiry on August 1, 1966, as to the current policy and practices of the Department with respect to internal audits within combat theaters, the Assistant Secretary of Defense for Manpower advised the subcommittee on August 5, 1966, that a policy directive was developed following the subcommittee's inquiry. The directive subjects all organizational components and operational levels to independent and comprehensive review and appraisal to the extent that the audit will not interfere with combat operations or obstruct U.S. purposes. Should regularly scheduled audits be temporarily suspended because of emergency situations, the situation will be reviewed at least every 6 months and normal audits will be resumed, if feasible, to the extent that it can be done without interfering with combat operations. At the request of the subcommittee, the Department will adopt a policy of notifying the House Committee on Government Operations when military audits are suspended. The new directive, in outlining the scope of audits within combat theaters, states that such audits will emphasize the adequacy and effectiveness of the support furnished combat forces and the controls in being to prevent diversion of equipment, supplies, or other resources.

The deficient conditions which existed and the corrective action taken by the above agencies during the subcommittee's investigation are presented below.

1. *General Accounting Office (GAO).*—Subcommittee investigation disclosed that the GAO had not been present in Vietnam since the spring of 1964. The last report of the GAO on U.S. economic assistance covered a period no later than 1962. During an executive session on February 3, 1966, the Director of the International Operations Division testified before the subcommittee that work in Vietnam was discontinued in 1964 because of (1) the question of the independent auditors' role under the prevailing war conditions, (2) the extent to which work could be performed in Vietnam that would offer prospects of practical results at least equal in value to other areas where there was a need for manpower, and (3) the adverse effect of the in-

creased danger in Vietnam on the morale of the Far East Branch staff and their families. As a result of previous persistent requests by the chairman of the subcommittee, however, the GAO departed from this position and initiated a survey in Washington of audit and inspection and other management control activities relating to Vietnam programs as a basis for appraising its audit responsibilities in Vietnam and the manner in which they could best be discharged. In March 1966, the new Comptroller General sent a team of four auditors to Vietnam to complete this survey.

On July 18, 1966, the Comptroller General, in reporting the results of the GAO survey to the Congress, stated that the survey was undertaken in consideration of (1) the importance of internal audit and management inspection functions as an essential but sometimes neglected element of management control, and (2) the continuing concern of the Congress with effective management control over foreign assistance programs. The survey and the report identified the more significant program areas, related them to the surveillance by the 15 principal audit and inspection agencies or offices having responsibility for the various segments of the program, and pointed out the areas in which more effective surveillance was needed. The Comptroller General concluded in his report that there is a particular need for increased surveillance of the operations involved in the receipt, distribution, and use of the huge quantities of commodities being imported into Vietnam under the economic assistance program, and audits and inspections of the billion-dollar military construction program which is conducive to waste because of the atmosphere of urgency in which the work is being performed.

On July 29, 1966, the Comptroller General testified before the subcommittee on his plans for continuing the work of the GAO in Vietnam and establishing a branch office in southeast Asia. This office will have management responsibility for all GAO work in the area, including surveillance of a resident audit staff in Vietnam.

On July 12, 1966, six auditors from the GAO Far East Branch in Honolulu arrived in Vietnam on temporary duty to begin the survey of the military construction program. The staff in Vietnam will be supplemented with personnel on temporary duty assignments pending the establishment and staffing of the permanent offices in southeast Asia.

Current plans for the establishment of the resident audit staff in Vietnam call for an initial nucleus of about six men in Saigon. The tours of duty will range from 12 to 18 months. The resident staff will be supplemented, as necessary, by auditors on temporary duty assignments of up to 6 months. The Comptroller General expressed his pleasure with the affirmative response he was getting from his employees to his request for volunteers for assignment in Vietnam on both a permanent and temporary basis. The Director of the International Division of GAO added, "Some of our best people are willing to go."

Arrangements are also underway for the establishment of the branch office in southeast Asia. The tour of duty in the branch office will be 2 years, with the possibility of temporary duty assignments of up to 6 months in Vietnam.

In connection with the establishment of permanent offices in south-east Asia, the chairman acknowledged the importance of this action in a statement to the Comptroller General during the hearings on July 29, 1966. He stated:

I want to emphasize the strong feeling I have in support of your statement that it is necessary to go into the field to do the most effective job. I know this subcommittee could never have become as familiar with the problems in Vietnam as it did, if it were not for the thorough hearings held in Saigon involving the appearance of the people actually responsible for the administration of the programs in Vietnam. I think it is extremely important that to the maximum extent possible the audit staff be on the scene.

The general abdication of responsibility by the audit and inspection agencies covering U.S. assistance programs in Vietnam raised the question—"Who has the responsibility for auditing and inspecting the audit and inspection agencies and offices in the Government?" Subcommittee investigation disclosed that the GAO is required, by law, not only to ascertain that the audit and inspection agencies of the Government are exercising their responsibilities, but to ascertain that they are being exercised proficiently and effectively.

It is the opinion of the committee, based on its review and evaluation of information provided by the GAO, that the GAO has been deficient in carrying out its statutory responsibility for auditing and reviewing the foreign operations activities of the responsible audit and inspection agencies. During the hearings held on July 19, the Comptroller General acknowledged this responsibility. In responding to a question by Congressman Reid on GAO's policy with regard to auditing the other audit and inspection agencies, the Comptroller General stated:

In the past, predominantly—the practice has been to refer to adequacy or inadequacy of internal audit only in relation to specific findings on matters which were the subject of a report. But if you look at our statute I think that we do have a clear responsibility. It is a matter that I have given a good deal of thought to since I have been with the GAO. It is my view that GAO in many instances can perhaps be most effective in appraising the agency's own audit capability, their machinery, the scope of their responsibility vested in the internal audit, the adequacy of staffing, some appraisal of the product of internal audit, and report these to the Congress.

2. AID/Washington internal audit staff.—The last audit in Vietnam was completed in the summer of 1961. An audit was started in February 1966, after AID's Assistant Administrator for the Far East testified before the subcommittee. The staff was advised by the audit supervisor in Vietnam that audits and reviews were scheduled several times since 1961 but they had been canceled repeatedly. The audit supervisor advised the staff that the audit coverage would be highly selective due to the size of the program. The audit will emphasize

high dollar programs, including a comprehensive review of the commercial import program and the local funds generated thereby.

3. The Inspector General for Foreign Assistance, Department of State (IGA).—The IGA has responsibility for reviewing the effectiveness of U.S. economic and military assistance programs and Peace Corps and Public Law 480 activities.

A review of the files by the subcommittee staff indicated that little had been done in Vietnam by the IGA in the past 2 years. The IGA made four inspection trips to Vietnam in fiscal year 1965, the time amounting to the equivalent of less than one-fifth of the time of one man in Vietnam on a full-time basis. The IGA made no inspections in Vietnam between February 2, 1965, and February 10, 1966. It was not until after the subcommittee initiated its investigation and consulted with the Inspector General that the IGA resumed its inspection activity. From February 10 to July 19, 1966, the number of inspection trips and the time of IGA personnel in Vietnam exceeded that of the entire fiscal year 1965. On July 19, 1966, the Inspector General stated:

The chairman and the subcommittee were, I believe, quite right in suggesting earlier this year that it would be worthwhile for our office to spend more of its time in Vietnam. We are doing so.

Subcommittee investigation also disclosed that the IGA prepares no formal reports at the close of an investigation. Neither is an annual report detailing accomplishments and results of investigations prepared. The results of investigations are reported informally either by letter or verbally. No consistent handling process is utilized. The subcommittee is of the opinion that a system of brief formal reports on the results of IGA inspections would serve as a more effective tool for personnel responsible for managing foreign assistance programs, congressional bodies, and other interested Government agencies.

4. Foreign Service Inspection Corps, Department of State (FSIC).—The Foreign Service Inspection Corps, under section 681 of the Foreign Service Act of 1946 is required to inspect "at least once every 2 years the work of the diplomatic and consular establishments of the United States." Subcommittee investigation disclosed that the FSIC had not been in Vietnam since 1961. Following the subcommittee's investigative trip to Vietnam, two teams of two inspectors each arrived in Vietnam on July 27, 1966, for 2 months to perform the inspection required by law.

5. Audit Program Staff, Department of State.—The most recent review made by the audit program staff was completed in August 1965. The review was limited to financial management and related operations of the U.S. Embassy in Saigon. Following the subcommittee's investigative trip to Vietnam, the Department of State advised the GAO on June 6, 1966, that its audit program staff was currently

planning to audit the Embassy operations in Saigon within the next 2 years.

6. The Defense Contract Audit Agency, Department of Defense (DCAA).—A resident audit staff of six auditors and one administrative man, was established in Vietnam in January 1966 to audit and review defense contracts. Prior to January, the work was performed by one resident Navy area auditor (March 1962 to June 1964) and by temporary Navy and DCAA auditors (July 1964 to December 1965). The examinations being performed at the time the subcommittee initiated its investigation were generally limited to examinations of the contractors' cost representations as shown on vouchers presented for payment. These voucher-type audits did not include management reviews or evaluations of contract performance or the broader control aspects of the billion-dollar construction program.

On August 1 and 5, 1966, the subcommittee heard testimony in executive session from the Assistant Secretary of Defense for Manpower and his aides. On August 1, Representative Porter Hardy, Jr., expressed fear that many of the current DCAA auditing efforts were so limited in their scope they were not really audits at all. The Assistant Secretary testified that while many full audits were not conducted in Vietnam, the management structure of DOD contained 713 people concerned with day-to-day oversight activities. In answer to Mr. Hardy's questions, however, the Assistant Secretary conceded these people were not auditors. He identified them as engineers, accountants, and inspectors. "But that is not an auditing structure and you know it as well as I do," Mr. Hardy said. " * * * they are not auditors in my book, and I don't think that is what they are there for." In pursuing this matter further, Mr. Reid and Mr. Hardy examined the Assistant Secretary on the extent to which DOD was conducting comprehensive and in-depth audit activities in Vietnam. The Assistant Secretary indicated that, in the supply field, 80 percent of the dollar value of materials purchased were subjected to audit. In response to this, the following exchange took place—

Mr. REID. Are you in a position to evaluate the commodity diversions, kickbacks, fraud, whether the volume has grown too large for the assigned task, whether it is reaching the areas it should promptly, the whole broad question of the effectiveness of what we are sending?

ASSISTANT SECRETARY. The auditing support activities * * * would check out the timeliness, responsiveness, and completeness of the supply actions up to the point of receipt at dockside. They would not be able to pick up the audit from that point forward.

Mr. HARDY. I think you said the Army Audit Agency has a present policy of covering 80 percent of the cycle * * *. One of the problems this subcommittee has been concerned with here would not be affected at all by these audits. If the materials went astray at dockside there would be no check on them. If there was poor performance on the part of the contractor there would be no check on it.

Other subcommittee members agreed with Mr. Hardy and Mr. Reid and pressed for major changes. As a result, the Assistant Secretary testified on August 5 that plans had been formulated to expand DCAA's new comprehensive audit program.

The testimony also disclosed that in addition to the permanent audit staff established in Vietnam the following significant changes were made in DCAA's audit plans and procedures during the subcommittee's investigation:

- The resident audit staff in Vietnam will be increased to 11 personnel by October 1966.
- In January 1966, the DCAA audit at the U.S. office of the largest major contractor in Vietnam was changed from a voucher-type audit of incurred costs to a review and surveillance of the procedures of the contractor.
- In April 1966, the DCAA audit in Vietnam was expanded to include a comprehensive review of the contractors' system and procedures to detect weaknesses in internal controls and administrative practices as well as voucher-type audits of costs.
- In June 1966, a branch office with an authorized staff of eight auditors and one stenographer was established in Bangkok. Seven auditors and the stenographer were on duty on August 5. The Bangkok branch will augment the Vietnam audit staff on a temporary duty basis, if necessary.

7. Military Assistance Program Auditing Division, Department of Defense.—The last audit programed for military assistance furnished to Vietnam was concluded in November 1960 and covered functional areas of development and implementation of the program. Since July 1962, the responsibility for auditing military assistance to Vietnam has been assigned to the Army Audit Agency.

The Assistant Secretary of Defense for Manpower advised the subcommittee on August 5 that the survey work to be initiated by the Army Audit Agency in Vietnam on September 15, 1966, will include developing plans for auditing the military assistance program for Vietnam and other free world forces.

8. The Army Audit Agency (AAA).—The Comptroller of the Army in fiscal year 1965 instructed the AAA to discontinue audit activity in Vietnam until specifically directed to continue. On August 2, the day after the Assistant Secretary of Defense for Manpower testified in executive session before the subcommittee, this instruction was rescinded and the Comptroller of the Army directed the AAA to prepare a detailed plan for audits in southeast Asia.

In addition, the AAA has initiated an audit survey for the purpose of developing a program to audit the Army's supply support system for Vietnam, including an evaluation of the effectiveness of supply management in Vietnam. In addition to survey work in the United States, survey work in Vietnam is planned to start about September 15, 1966. The audit verification work is scheduled to begin about October 15, 1966.

9. Auditor General of the Navy.—No audit work in Vietnam had been performed by the Navy since completion about September 1964

of audits of housekeeping activities of the headquarters support activity in Saigon, a Navy activity then furnishing administrative support to the Military Assistance Command in Vietnam.

Following the subcommittee's investigative trip to Vietnam, the Chief of Naval Operations, on May 23, 1966, requested a special audit in Vietnam. On August 5, the Assistant Secretary of Defense for Manpower advised the subcommittee that in addition to this special audit a preliminary survey of naval operations in Vietnam is being conducted to ascertain more specifically the audit requirements. This survey is to be followed by an extensive review of naval support operations in Vietnam in October 1966.

10. Air Force Auditor General (AFAG).—For the most part no audits of activities financed with Air Force appropriated funds were being performed by the resident audit staff located in the Philippines. Audits were limited mostly to activities financed with Air Force non-appropriated funds.

On August 5, the Assistant Secretary of Defense for Manpower advised the subcommittee that the AFAG in recognizing the need for the audit of appropriated funds in Vietnam requested in December 1965 that a five-man resident audit staff be established in Vietnam. The request was approved by the Secretary of Defense on August 25, 1966.

11. Army-Air Force Exchange Service.—The multimillion-dollar annual operation is scattered throughout Vietnam by means of sub-exchanges which are vulnerable to operational and management deficiencies.

On July 18, 1966, the GAO reported that Vietnam Regional Exchange audits have included periodic counts of inventories and checking of imprest funds by three internal auditors on duty on March 22, 1966, one of whom returned to the New York duty station on March 27, 1966. In view of the size of the program, the GAO was of the opinion that the adequacy and depth of coverage by the limited internal audit staff were questionable. The GAO also reported, however, that the Pacific Exchange Headquarters had planned to augment the Vietnam internal audit staff with two or three Philippine nationals and to conduct an audit in June or July 1966 of the operations of the Vietnam Regional Exchange.

On August 5, 1966, the Assistant Secretary of Defense for Manpower advised the subcommittee that the New York Headquarters of the Army-Air Force Exchange Service planned to send a group of four auditors to Vietnam in October 1966 to conduct an audit. The Pacific Headquarters of the Regional Exchange at Honolulu planned to send auditors to Vietnam in the early fall for the same purpose.

On September 15, 1966, the Department of Defense advised the subcommittee that the audit by the New York Headquarters had been moved up and the four auditors were already enroute to Vietnam. By January 1967, each exchange activity is to be audited at least once either by the New York Headquarters or the Pacific Exchange Headquarters.

12. Office of the Inspector General, Department of Agriculture (IG).—No work had been performed by the IG in Vietnam since 1964. In that year, an investigation was made in Vietnam of the receipt and disposition of \$74 million of surplus agricultural commodities sold to Vietnam under title I, Public Law 480, and a survey was made, in cooperation with the Department of State and AID, of procedures for handling \$102 million of commodities donated under Public Law 480.

On July 18, 1966, the GAO reported that the IG planned to continue its assist work with AID and to obtain additional personnel for overseas work in Vietnam. In view of the lack of firm audit and inspection plans and the subcommittee's observations as to the need for greater audit and inspection effort in Vietnam than was being provided by the IG under an arrangement whereby the Embassy called on the already overloaded AID mission audit staff to perform audits and inspections of Department of Agriculture programs, the chairman expressed his concern on the matter to the IG on August 17, 1966. He requested that the IG initiate (1) a comprehensive audit of programs under which agricultural commodities are shipped to Vietnam with first priority given to compliance and surveillance aspects, and (2) a review of problems relating to pilferage and diversion of such commodities to the Vietcong and the black market. On August 29, the Acting IG informed the chairman of action initiated by his office to satisfy the chairman's request (exhibit 2). In addition, the subcommittee was provided a copy of a vacancy announcement by Agriculture Credit/Co-op Advisers in the AID mission in Vietnam (exhibit 5). The announcement was made by AID in cooperation with the Department of Agriculture.

13. Office of the Inspector General (IG), U.S. Information Agency (USIA).—No inspections had been made by the IG of the operations of the Joint U.S. Public Affairs Office (JUSPAO), the local unit of the USIA in Vietnam, in 1965 and none were planned for 1966. On June 16, 1966, the Director of the USIA advised the GAO that while operating conditions were not appropriate for further inspection at that time of his agency in Vietnam an inspection and audit would be scheduled "as soon as conditions in the field make it appropriate."

In view of the subcommittee's jurisdiction over Government information matters and its regard for the extreme importance of the role of public affairs and information in accomplishing U.S. objectives in Vietnam, the chairman, in a letter to the Director of USIA on August 11, stressed the importance of audits and suggested that the IG review the activities and the financial and administrative operations of JUSPAO. The chairman was subsequently assured that an audit of JUSPAO would begin on October 15, 1966.

Changes in Audit Reporting Procedures and Audit Personnel Increases Within the AID Mission

Subcommittee investigation disclosed that the effectiveness of the internal audit staff within the AID mission had been diluted to the point that they were no longer functioning as an aid to management.

The employment of dilatory tactics by top management apparently for the purpose of preventing the issuance of audit reports and to avoid casting light on mission deficiencies, the lack of the degree of independence in internal auditing that is essential to objectivity, the shortage of personnel and the lack of trained and experienced personnel all played a part in the deficient and ineffective audit activities within the mission.

Subcommittee investigation disclosed that under the mission director who preceded the director at the time of the investigation, the mission audit branch issued 19 audit reports with an average of 7 personnel in fiscal year 1964 and 24 audit reports with an average of 9 personnel in fiscal year 1965. Under the mission director during our investigation, only three audit reports had been issued at the time of the subcommittee's investigative trip to Vietnam in May 1966, over 10 months after the beginning of the fiscal year, despite the fact that the number of auditors had increased to 17. The subcommittee was advised by responsible officials in the mission that a major factor contributing to the sharp decline in the number of audit reports issued in fiscal year 1966 was the lack of audit independence within the mission and the attitude of the director toward constructive criticism of mission operations.

In this connection, the subcommittee found that the mission audit staff did not have independence either organizationally or in its choice of the type and scope of audits to be performed. The mission's assistant director for financial management (the equivalent of a controller) at the time of the subcommittee's investigation was handpicked by the mission director and was directly responsible to the director for all of the activities assigned to his office. The chief auditor in turn was directly responsible to the assistant director for financial management.

In April 1966, the mission's chief auditor advised the subcommittee that under the previous AID director, several management-type audits as opposed to financial audits were performed. He indicated that the mission director that followed did not by his attitude seem favorably disposed to management audits. The chief auditor complained that he was not able to carry out his program for audits as originally scheduled for fiscal year 1966 because of frequent requests by the mission director and AID/Washington for routine and limited work of an investigative nature and limited financial audits. He also complained about the failure of the director to promptly review and authorize the issuance of audit reports, and the adverse effect of the director's dilatory tactics on the morale of the audit staff. The former controller of the AID mission who was the chief auditor's superior during most of fiscal year 1966, subsequently corroborated before the subcommittee the information obtained from the chief auditor.

In May 1966, the mission's assistant director for financial management testified before the subcommittee on the basic objectives of the audits and operational reviews conducted by his internal audit staff. He stated:

We review operations in order to determine whether or not we (the mission) are complying with the laws as passed by

Congress, whether we are complying with executive policy, whether we are complying with agency (AID) procedures.

Since only three audit reports had been issued in fiscal year 1966 at that time, he concurred that AID/Washington was not receiving sufficient information upon which to gage the effectiveness of the mission's administration of the program.

The mission's deputy director advised the subcommittee that the director would not entertain the thought of any wrongdoing or poor management in his mission. The deputy director stated:

My feeling was that he just would not countenance anybody saying anything detrimental about the program or about diversion or corruption that might exist in the program. * * * I think he is imbued with the idea if he were to reveal that anything is wrong in Vietnam, it would reflect poorly upon his career.

Concerning the effect of this attitude on the mission's audit function, the deputy director stated:

The audits of the materials, commodities, equipment coming in-country were discouraged, gentlemen. * * * The reports just got jammed at the director's desk—all the audit reports were stopped at the director's desk because he had issued a notice that he wanted to review and wanted to sign off on all of these reports, and therefore, they had not been issued.

In an attempt to verify the alleged attitude of the mission's director toward an effective internal audit program, the subcommittee selected and evaluated the draft report on the mission audit of approximately \$15 million of loan accounts receivable of the National Agriculture Credit Office (NACO) in Vietnam. This audit disclosed significant findings which were highly critical of the AID monitoring of the program. Only 33 percent of all of the outstanding amounts which were due in 1964 or prior years had been collected. The subcommittee selected this audit because it was significant, because the writing of the draft report was started in October 1965, because it was reviewed by the mission's director on February 5, 1966, and because it had not been issued at the time of the subcommittee's investigative trip to Vietnam in May 1966.

Although the NACO audit was given top priority by the previous director of the AID mission, mission auditors advised the subcommittee in May 1966 that the issuance of the final report had been delayed so it could be up dated to include more recent and more meaningful dollar figures. However, the subcommittee's review and analysis of the final report, issued on May 26, 1966, following the subcommittee's hearings, disclosed that there was virtually no substantive difference between the draft report and the final report. The basic deficiencies, conclusions, facts, and recommendations had not been changed.

Neither had the dollar figures been changed. The changes that were made were few in number and, in the subcommittee's opinion, superficial. These changes consisted primarily of changes in the form of the report, such as word changes and revisions not affecting the

meaning, and additional comments that action had been initiated on certain recommendations. It is the subcommittee's view that the insignificance of the changes raises serious doubt that they are the real reason for the mission's director delaying the issuance of the final report. Simply put, the report apparently was buried until the subcommittee demanded that something be done about it.

Congressman Helstoski closely questioned the Comptroller General of the United States on July 19, 1966, concerning the relationship between a mission director and his internal audit staff. The Comptroller General stated:

My own feeling is that generally the audit function will be more productive and serve its purpose to better advantage if audit reports are directed to the agency head. * * * I think he (the mission director) should have the opportunity to present comments along with it if he disagrees with it—but he should not have the veto.

Following the subcommittee's hearings in Vietnam, the mission director advised the subcommittee that issue dates for final reports had been assigned to the 16 draft reports and 11 audits in process at the time of the hearings. The final reports were to be issued between May 30 and August 10, 1966. In response to the subcommittee's followup inquiry, however, AID/Washington advised the subcommittee on August 29, 1966, that final reports had been issued on only 10 of the 24 audits, of which 8 were forwarded to and received by AID/Washington. Although the mission had adopted the practice of not making formal reports on audits where corrective action was taken while audits were in process or the audit did not produce findings essential to mission management, AID/Washington directed the mission to complete and issue reports on all audits and forward them to Washington.

The chief auditor, the former controller, and the deputy director emphasized the understaffing and inadequacies of the audit branch and their adverse effect on performing truly professional audit work. The chief auditor and the former controller advised that most of the auditors assigned in Vietnam were new to AID and were experienced primarily in financial type, rather than management type, audits. Although the chief auditor and the controller held sessions to teach and train inexperienced auditors in the techniques of management type audits, they felt their efforts were not very successful.

The personnel problem in the audit branch was further complicated by the language problem and recruiting by commercial firms in Vietnam. The need for auditors who speak Vietnamese has resulted in the hiring of untrained and inexperienced Vietnamese nationals in the audit branch. The chief auditor advised that reasonable intelligence and language fluency are the basis for hiring Vietnamese auditors. He also advised that the hiring by commercial firms of such personnel at higher salaries than the mission is paying has depleted the staff of Vietnamese nationals considerably and added to the personnel problem.

In an attempt to curtail the personnel inadequacies within the audit branch, the mission has been authorized an increase of from 21

to 29 U.S. auditors and from 29 to 51 local employees. Moreover, AID/Washington is directing the assignment of experienced U.S. auditors from within the Agency, as necessary.

The committee recognizes that certain functions and operations may be immune to continuing an effective audit and inspection under wartime conditions. It has not, however, accepted the concept that *all* functions and operations are immune to continuing an effective audit and inspection under wartime conditions, a concept which was generally adopted by most of the agencies and offices having responsibility for surveillance of U.S. economic and military assistance programs in Vietnam. The strongest possible management must be mustered in Vietnam. Auditing and inspection help to build that kind of management.

On the basis of its investigative findings, the subcommittee concluded that the General Accounting Office and the various audit and inspection offices within AID, the Department of State, the Department of Defense, the Department of Agriculture, and the U.S. Information Agency were negligent and passive in carrying out their responsibilities in Vietnam. As a result of the subcommittee's prodding, immediate action was taken by responsible agencies and offices located outside Vietnam to increase their audit and inspection activity and inject into the Vietnam program the degree of independent, constructive criticism that is essential to sound and effective management of any large-scale program. Moreover, the changes being implemented within the mission audit branch should result in tighter control and better management of the commercial import program and help in preventing some of the widespread abuses that have plagued the program and hampered U.S. objectives.

The subcommittee believes that in addition to the immediate changes which it prompted in the surveillance of U.S. programs in Vietnam, a major significant contribution, which will have far-reaching effects in the future, has been the explosion of the prevailing theory that management controls cannot be exercised and effective audit and inspection cannot be performed in times of war and hostility.

RECOMMENDATIONS

1. The GAO should establish a continuous presence in southeast Asia and the Department of State should approve immediately the necessary facilities.

2. The GAO should properly exercise its statutory responsibility for surveillance over audit and inspection agencies and offices by concentrating more of its effort on such operations.

3. The GAO should review the status and effectiveness of the specific audit and inspection programs initiated in Vietnam by responsible agencies during 1966 and submit a report on their findings to the committee by May 1, 1967.

4. The AID/Washington Internal Audit Staff should expand the scope of its audit to include a comprehensive coverage of the entire AID program in Vietnam.

5. The Inspector General should increase the frequency and coverage of his inspections to exercise his responsibilities more proficiently and effectively.

6. The Inspector General should develop a system which would require the preparation and distribution of brief formal reports on the results of his inspections.

7. Responsible audit inspection offices, in conducting their reviews, should also evaluate the guidance provided to the field by top management in Washington, the extent to which Washington is involved in the administration of field programs and its effectiveness, the adequacy of Washington's communication with the field, and Washington's overall surveillance of the program.

8. AID/Washington should devise formal procedures which provide the controllers and audit staffs of the missions with the degree of independence in organization and choice of audits that is essential to objectivity and effectiveness in the conduct of audits. Reports should be issued on all audits independent of the director's control and submitted to top management in Washington.

9. AID/Washington should assign only well-trained and experienced U.S. auditors to Vietnam and make every effort to employ Vietnamese personnel with accounting and auditing as well as bilingual qualifications.

VII. AID MISSION MANAGEMENT AND PERSONNEL PROBLEMS

The fact that the AID mission in Saigon employs more people than the Agency for International Development in Washington indicates the great magnitude of the management and personnel problems faced by the mission. The AID mission in Saigon currently has an authorized staff of approximately 1,300 direct-hire Americans, 1,900 Vietnamese, and 300 third-country nationals. In addition, there are more than 300 contract personnel and some 200 voluntary agency personnel who receive operational direction and varying degrees of administrative support from the mission. Excluding the latter group, this totals 3,800. AID/Washington has about 3,500 employees.

In the past year, the AID mission in Saigon has more than doubled in size. To a certain extent, of course, the expansion in the dollar value of the AID program in Vietnam during this period made an expansion of the AID mission staff inevitable. There is serious question, however, as to whether the additional personnel have been used in the proper places, whether the increased staff levels have been realistic or not, whether the mission is getting the caliber of people it needs, and whether organizational and management practices have kept pace with the program expansion.

The Herder Report

In November 1965, a management survey team was sent to Vietnam at the mission director's request to examine the entire organizational and management structure of the AID mission in Saigon and make recommendations for improvements. The report issued by this team in December—known as the Herder report—details many shortcomings in organization and personnel attitudes that have affected the efficiency of the operation of the AID mission in Saigon. The recommendations made in the Herder report led to a number of changes, including the complete restructuring of the AID mission. Exhibit 6 illustrates schematically the revised organizational structure of the mission.

The Herder team stated that "in the minds of both AID/W and mission personnel there has developed a psychology that there are no limits of funds or personnel for the Vietnam program." The "war psychology" sees only desirable goals and objectives without stopping to consider limiting factors such as funds, personnel, and logistic support. As an offshoot of this, the team noted a tendency on the part of mission management to request personnel increases without any real determination of whether they could be effectively utilized. In addition, the team criticized the failure of mission personnel to work well together, the lack of coordination between Washington and the mission, the growing proportion of personnel in the mission without previous AID experience, and the lack of a strong personnel policy

on the part of AID/Washington. In general, the team recommended with respect to staffing that every effort should be made to "settle down."

A second management survey team was sent to Saigon in January to follow up the recommendations made in the Herder report, draft a new organizations and functions manual for the mission, and develop several key procedural directives implementing recommendations made in the Herder report. The work of this team was completed on April 1, 1966.

Executive Staffing

The Herder team reported that—

the unusually rapid turnover of key executive personnel—four mission directors in 4 years, in addition to acting directors for sometimes extended periods—has not improved the sense of stability.

A new mission director was appointed in August, the fifth in less than 5 years.

During much of the period of the subcommittee's investigation, four of the key positions in the mission were either vacant or about to be vacant. The deputy director, who had served in Saigon for about 5 months, was sent to Bangkok in January of this year under an outward fiction that he was on a temporary duty assignment. He stayed there until June, when he resigned from the Agency. He was, in other words, officially the deputy director of the AID mission in Saigon from January to June even though, during that period, he was actually in Bangkok. Because of his disgust with the conduct of the program in Vietnam and the fact that his repeated recommendations for improvement had been consistently ignored, he had left Saigon at his own request. He testified to the subcommittee that during the time of his assignment in Saigon:

I did not receive any assignments * * * I could have been a permanent ornament there, gentlemen, except for my own initiated activity.

The statement of the deputy director, given with great candor to the subcommittee in Bangkok, constitutes a serious indictment of the then mission director. The committee is convinced there are too many instances in AID where personnel are bypassed because of the idiosyncrasies of high officials. We shall watch with great care the utilization of administrative personnel and call to the attention of the Congress any instances we encounter of failure to utilize talented and dedicated AID employees to their fullest capabilities.

The third and fourth ranking positions in the mission after the director and the deputy director are the associate director for field operations and the associate director for program and economic policy. From February until August of this year, the former position was filled in an "acting" capacity after the previous associate director had left to take another position. For almost 6 months, AID refused to give the acting associate director a permanent appointment and failed, in the alternative, to assign someone else to the position. The other

associate directorship was occupied, during the period of the subcommittee's investigation, by a man whose assignment in Saigon had expired and who expected to leave as soon as a replacement could be found. That replacement has still not been found and the position is not vacant today only because the incumbent finally agreed to extend his assignment for another indefinite period of time.

A fourth key position, the assistant director for technical services, was vacant from January until August of this year. This position was created in January as a result of recommendations made in the Herder report and its important responsibilities encompass supervision of the operations of all the mission's technical divisions—agriculture, education, industrial development, labor, public administration, and public works. For a period of more than half a year after its creation, this position was unfilled. Under no circumstances should the widespread vacancies in top positions which existed earlier this year be permitted to develop again. The lack of direction resulting from such a situation can have nothing but the most harmful effects on the efficiency of the mission.

Overall Staff Levels

The Herder team stated that it was—

gravely concerned with a tendency on the part of most of the managers in the mission to react to problem situations by requesting more and more personnel without any real consideration of whether they could be effectively utilized—without relating the number requested to basic program needs and objectives—and without a full consideration of whether they could be administratively supported.

The overall staff levels already authorized for the AID mission in Saigon should be more than sufficient to carry out the mission's duties if a high percentage of the positions are kept staffed with competent people and if a realistic allocation of staff is made within the various offices of the mission. In order to do this, top management will have to engage in a periodic examination of the goals and priorities of the mission and, when necessary, reallocate personnel and resources to meet new contingencies. A recent report stated that the mission is presently engaged in just such an evaluation of priorities, which has been undertaken because of criticism that the mission is attempting to sustain or initiate too many diverse projects at once.

The team also stated that certain offices in the mission, despite rapid increases in authorized overall staff levels, had remained grossly understaffed. It cited as an example the Program and Economic Policy Office, which is responsible for administering the CIP and which—

has been so understaffed that it has not been possible to fully discharge their day-to-day operating functions. There are, for example, 10 vacancies out of 19 approved positions in the Program Office.

The subcommittee observed that, despite the increases in authorized overall staff levels, staffing remained totally inadequate in some

areas and was unquestionably excessive in others. Congressman King pressed the deputy director of the AID mission on this point, at the hearing in Bangkok; and the deputy director stated that "in the auditing area, in the commodity import program area, there is inadequate staff."

The deliberate understaffing of the Commercial Import Division (CID) by past mission directors has been a prime factor contributing to the lack of control and mismanagement of the CID.

Since 1954, the CID has been consistently understaffed. At the time the subcommittee began its investigation, no more than five people had ever been assigned to the CID at any one time and three had been the average. As late as April 1965, only one person was serving in the CID with the responsibility for administering a program costing in excess of \$150 million. Thus, the CID, historically one of the smallest operational units in the AID mission, has at the same time been responsible for the largest dollar part of U.S. economic assistance to Vietnam.

The subcommittee was told by a reliable source who served in the CID early in 1965 that understaffing at that time was deliberate because the management philosophy of the mission director was to turn as much of the management control of the CIP as possible over to the GVN. In fact, this source stated that the director at that time had entertained the thought of completely doing away with the CID, even though the GVN had requested that AID personnel be assigned to its Ministry of National Economy to assist and advise on the conduct of the CIP.

Only after the subcommittee initiated its investigation was a substantial increase in the number of people assigned to the CID approved. On February 28, 1966, the mission asked AID/Washington to increase the authorized staff of the CID from 5 to 16 positions. This increase was subsequently authorized. But, at the time of the subcommittee's second investigative trip to Vietnam in May of this year, only 7 of the 16 positions had been filled. The need for more staff in the control and review areas of the program, both in Washington and in Saigon, has been repeatedly acknowledged by AID and other officials in the past 6 months and the committee hopes that this point will not require additional emphasis in the future.

As the Herder report pointed out, the responsibility for many of the excesses and deficiencies in the staffing of the AID mission in Saigon must be shared equally by the mission and AID/Washington. For example, the director of the AID mission testified that—

There was a telegram from the Agency that was asking whether they could assign people here without asking us. I cabled back saying that given the importance of Vietnam, and the necessity of having highly qualified people, that I would not agree to have people sent here to Vietnam without having their record reviewed, and have our specific approval for their assignment here.

The director subsequently testified that he, personally, approved many of these nominations. Other mission officials also exercise concurrences on new personnel. The responsibilities of the mission and of

the director are too great to allow time to be wasted in this kind of exercise. To take an obvious analogy, the United States would not have 300,000 troops in Vietnam today and the military would have little time for fighting if field commanders had to approve all the men that were being assigned to them and if General Westmoreland personally reviewed the "nominations." In addition, there is always the danger that a mission director might build a personal empire in this manner, thus creating major problems for any successor. AID/Washington should not have acquiesced in this policy. Concurrences must be strictly limited to senior staff and exercised only by the mission director.

Quality of Personnel

The ability and qualifications of the people AID is sending to Saigon is an important consideration independent of the problem of establishing proper overall staff levels. The Herder team reported that—

Insufficient attention is being paid to the need for qualified personnel as distinct from the quantity and early delivery time. A related consideration is the growing proportion of personnel without previous AID experience. Vietnam is an expensive training field.

The committee concurs fully with that quotation.

In the most important and by far the largest AID mission in the world, AID should endeavor, to the extent that it is possible, to assign only the most experienced and the most capable of its people. This is a fact that would seem so obvious it should not even need to be stated. Yet the Herder team found significant deficiencies in this respect in December of last year. At the time of its review, AID had a policy of not directing assignments for Vietnam. Since the initiation of the subcommittee's investigation, however, this policy has been reversed and AID career employees are now being given directed assignments to Vietnam. The subcommittee realizes that it may not, in all cases, be possible to fill key positions in Vietnam with men of demonstrated capability and years of AID experience but it believes that, in view of the overriding importance of Vietnam, AID should use its new policy of directed assignments to this end whenever possible.

This point should be emphasized because it would appear that the Herder team's finding of deficiencies in this area either was not widely enough disseminated within the Agency or was ignored in subsequent personnel actions. The Herder team stated quite specifically in December that—

there have been too many instances where people new to AID and the Government have been recruited and sent to Vietnam. An example is in the case of auditors in the Office of the Comptroller. The large majority of the 19 auditors there are on their first assignment with AID. Saigon should not be considered as a training post. The mission has neither the time nor the staff to administer training, and in the meantime important work suffers.

Despite this warning in December, the subcommittee was told 3 months later by the controller of AID, who had just returned from Saigon, that he had approved a new staffing pattern for the office of the mission comptroller in Saigon and that the staffing pattern established 11 new positions, 3 of which were trainees. The subcommittee also was informed in the course of its investigation that at least one of the assistant directors of the AID mission in Saigon had been sent out as a trainee several months prior to his appointment as assistant director. While the committee realizes the extent of the problems faced by AID in locating personnel who not only have the requisite qualifications but are willing to serve in Vietnam, nevertheless it believes that this one problem, perhaps as much as any other, is crucial to the effective operation of the mission.

Personnel Responsibilities of AID/Washington

One persistent theme that has run throughout the subcommittee's investigation of the AID program in Vietnam is the apparent lack of coordination between AID/Washington and the mission in Saigon.

Speaking about staffing problems, the Herder team reported that—

there is a perplexing lack of coordination between Washington and the mission * * * as to personnel requirements and recruitment estimates. This situation has been greatly exaggerated in recent months by frequent and substantial changes, proposed by both Washington and the field mission * * *. In many cases, requirements were determined in Washington without reference to the mission.

AID/Washington is responsible for recruiting personnel, assigning them to the AID mission in Saigon and, theoretically at least, for overall direction of the mission's personnel policies. As stated previously, the responsibility for many of the excesses and deficiencies in staffing of the AID mission must be shared by both the mission and AID/Washington.

In order to meet the greatly increased personnel needs of the mission in Saigon, AID/Washington initiated in October of last year a series of municipal recruitment campaigns throughout the United States. One-week recruitment drives have been held in a number of major cities—Chicago, Los Angeles, Boston, New Orleans, Houston, Dallas, Kansas City, and others—since that time and others are planned for the near future. The purpose of these drives has been to recruit experienced professional or technical advisers to meet AID's increased manpower requirements in Vietnam. AID stated in a memorandum to the subcommittee in June that—

It is readily apparent * * * that we have had considerable success in our recruitment efforts since we have placed into processing for employment some 358 candidates during the period from October 1965 to the present time from this technique (recruitment drives) alone.

A closer look at this figure, however, revealed that as of August, only a very small percentage of the candidates selected for processing had

actually entered on duty with the Agency. Asked to comment on this fact, an official of AID stated to the subcommittee:

I think there has not been sufficient strengthening of the processing staff to handle this volume of papers * * *. There is an acute shortage of security clearance people in Government to handle this volume of work * * *. In many cases, apart from that natural delay factor, the papers have bogged down on various desks.

The recruitment drive is an example of AID's enthusiasms out-running its administrative capabilities and illustrates the need for detailed advance consideration of *all* phases of a proposed operation before realistic goals can be set. The recruitment drive is, in the opinion of the committee, a step in the right direction—an imaginative approach to pressing and unprecedented problems. It should not be allowed to fail nor should its effectiveness be blunted by the lack of adequate administrative support.

Another policy for which AID/Washington is solely responsible is the length of personnel assignments to Vietnam. For the most part, AID personnel in Saigon now serve an 18-month tour of duty. There is a real question as to whether 18 months is a sufficient period of time to allow for a meaningful contribution when a man must also establish his family in another country, become accustomed to a new job, and then go through all the necessary motions prior to departure. Some contend that it takes a minimum of 6 months to settle down and learn a major job and that another 2 months or more are occupied largely with administrative details prior to departure, leaving less than a year for real accomplishment out of an 18-month assignment. While AID is obviously aware of these difficulties, apparently it feels that the hardships of an assignment to Vietnam—separation from family, personal danger, work demands, etc.—would make recruiting for assignments of longer than 18 months excessively difficult.

In addition, the inability of AID/Washington to provide answers to many of the subcommittee's questions was one of the factors which caused the subcommittee to undertake its investigative trip to Saigon in the first place.

In commenting on the inability of AID officials to provide satisfactory answers to questions by the subcommittee, Congressman Rumsfeld stated:

I want this record and you gentlemen to know how disappointed I was at the discussions in Vietnam with AID personnel. * * * Invariably the reason they [the questions] could not be answered was because of the lack of records, the lack of audits, the lack of procedures whereby this information would be available. And I got the feeling, as our hearings went on, that we could have, and in fact did get very similar answers here in Washington, namely that the information is not available. It was this thread that ran through the entire investigation that gave me a great deal of concern. * * * It is distressing for a subcommittee, and a member of a subcommittee, to be attempting to come to grips with these problems, and to be repeatedly told that necessary

and basic information is not available, that that individual cannot answer the questions.

RECOMMENDATIONS

1. AID should make every attempt to bring greater stability to the mission by eliminating the turnover of mission directors and top personnel. With respect to staffing in general, the AID mission should be made to "settle down."

2. The mission, as well as AID/Washington, should see to it that all personnel are permanently disabused of the "war psychology" identified in the Herder report. The Herder team recommended specifically that the director of the mission "endeavor to obtain an awareness throughout the mission of the need for a sense of financial responsibility in determining staff requirements." The committee endorses this recommendation wholeheartedly.

3. AID should accord top priority to keeping the key posts in the mission staffed at all times. If top personnel are found to be unsatisfactory for any reason, they should be promptly removed and just as promptly replaced.

4. AID should accord top priority to keeping the overall staffing of the mission close to authorized levels or, if this proves impossible, reduce the number of authorized positions to more realistic levels. The quality of personnel assigned to the mission as well as their number should be an integral consideration at all times. If necessary, AID should consider instituting additional incentives in order to obtain and hold the qualified people necessary to keep the mission fully staffed.

5. In line with the previous recommendation, AID should expedite the processing of applications received during its municipal recruiting drives.

6. The director of the AID mission should require that only the most senior officers being assigned to Saigon be approved by the mission before being sent out from Washington. The director himself should not become involved in approving the assignments of any but the few senior officers with whom he will be in constant contact. Virtually all of Washington's assignments should be made without the prior approval of the mission and accepted without question.

7. AID should make every attempt to assign only experienced personnel to the mission and refrain from creating positions for trainees or assigning trainees to Saigon.

VIII. THE PORT SITUATION IN VIETNAM

Port conditions are central to many of the problems the United States is facing in Vietnam today. Most of the economic assistance and the military troops and equipment the United States is sending to Vietnam are moved by sea. In the 11 months ending May 1966, 43 percent of all military cargo and about 90 percent of AID commercial cargo for Vietnam entered the country through the port of Saigon alone.

Vietnamese port capacity is the chief factor bearing on the amount of assistance—both military and economic—that the United States is physically capable of providing to Vietnam. Port capacity determines the amount of logistic support the United States can provide its troops in Vietnam and is therefore a major factor in the establishment of overall troop levels. Port capacity also limits the amount of economic assistance the United States can provide to Vietnam. The mere programming of a set level of commercial import assistance, for instance, would be useless as a counterinflationary measure if Vietnamese ports did not have the capacity to handle the goods programmed.

The port problem is not just one of expanding capacity but of maintaining adequate security as well. It has been recognized that security conditions in Vietnamese ports have been less than adequate in the past. While varying estimates have been made of the amount of goods diverted to the Vietcong and profiteers, it is generally agreed that much of the diversion that has taken place has occurred in the ports as the result of inadequate security conditions.

Substantial amounts of money and effort have gone into improving the capacity and security of Vietnamese ports in the past year and a half and measurable progress has been made. The further expansion of U.S. military and economic assistance, however, assures the continued existence of problems in this area for some time to come.

Port Conditions During the Early Phases of the Buildup

1. *Port operations.*—The port of Saigon, which at the beginning of the buildup was the only deep-draft port in Vietnam, was designed to handle only 150,000 tons of cargo per month. During the early phases of the buildup, it received most of the military cargo shipped to Vietnam and it continues to receive the great majority of commercial cargo. The port has deep-draft berths for only 10 ships and is located on the Saigon River, some 40 miles up a twisting channel from the South China Sea.

Given the sudden increase in U.S. shipping to Vietnam during the late spring and early summer of 1965, the physical limitations of the port of Saigon would have led to congestion even under ideal circum-

stances. Initially, although it was possible to unload some military cargoes on a round-the-clock basis, AID and commercial cargoes were worked only one shift a day and shortages of handling equipment, supervisory personnel, and operating and storage areas in the port served to increase the difficulty. The port was clogged with commercial goods which importers had either abandoned or had failed to pick up on time. At the time of the staff's visit to Saigon, military goods were cluttering up commercial warehouses while military warehouses were virtually empty.

The authority to control facilities and services in the port was long fragmented between six different GVN ministries. Jurisdictional disputes and problems of coordination between the ministries and U.S. officials responsible for the movement of U.S. goods undoubtedly contributed to the difficulties of port operation.

Antiquated labor practices in the port of Saigon further contributed to the problem. In October 1965, Mr. Thomas W. Gleason, the president of the International Longshoremen's Union, traveled to Vietnam at the request of AID for the purpose of studying labor practices and operations in the port of Saigon and recommending steps to improve the efficiency of cargo handling. Mr. Gleason reported the existence of a number of deficiencies in port operations and recommended, among other things, the establishment of a hiring hall and training programs for dockworkers, the standardization of work gangs and pay for laborers in the port, the registration of portworkers, and the issuance of security credentials to them. Mr. Gleason returned to Saigon in December and, in subsequent testimony before the House Subcommittee on Merchant Marine, expressed his concern over the failure of responsible officials to act on his previous recommendations. He noted, at that time, an apparent disagreement with the AID mission in Saigon on certain matters and he charged that a lack of coordination in unloading ships—

is costing the U.S. Government hundreds of thousands of dollars every day in detention or loss time with gangs standing by and getting paid because they are unable to maintain a steady gait.

He also reported that there continued to be a severe shortage of equipment in the port and that the port was not worked at more than 40 percent of capacity at any time.

All of these problems contributed to the congestion of ships in Vietnamese waters, which reached its peak in the month of November 1965 when 122 military-controlled ships alone were in the area, not to mention the many ships carrying AID and other commercial cargoes. Numerous instances were reported of ships waiting 50 and 60 days for a berth and one ship was reported to have waited 110 days. The demurrage costs of this congestion to the U.S. Government, which operates many of the ships under time charter, were enormous. The average daily cost of operating a ship is somewhere around \$4,000 to \$5,000 and it has been estimated that the cost of lost time has run as high as \$1 million and more a month.

2. Port security.—A basic security problem exists in the port of Saigon by virtue of its physical location. One entire bank of the 40-

mile channel leading up the Saigon River to the port is under the effective control of the Vietcong. In addition to the opportunities this provides for theft of goods from ships coming up the river to the port, there is constant danger of a complete blockage of the port of Saigon by the sinking of a ship in the narrow channel. This fact was brought home dramatically on August 23, 1966, when a U.S. ship, the *Baton Rouge Victory*, was in fact mined in the channel and the river was closed for some time to all but emergency shipping.

The need for improvement in port security conditions was evident early in the buildup. U.S. officials and informed observers who studied security conditions in the port of Saigon made widely varying estimates, ranging all the way from 5 percent to 40 percent, of the amount of goods that were being pilfered or otherwise diverted from the port. No one knows the true figure because of the lack of auditing and inspection. At the time of the staff's investigative trip to Saigon, security checks at the entrance to the commercial port area were virtually nonexistent and the river was crowded with a variety of bum boats and other craft plying back and forth under little apparent surveillance. The staff observed bales of U.S. AID cotton that had been split open on the shore and open storage areas with no apparent security protection.

Similarly, at the time of the subcommittee's hearings in Washington, officials of various Government agencies were still unable to give exact estimates of the amount of goods lost at portside. Congressman Reid, in questioning an official of DOD, elicited the following response—

Mr. REID. Do you have any knowledge about the degree of loss of U.S. supplies going through the Port of Saigon?

Mr. MORRIS. There have been a number of studies made and there is a very intense daily surveillance of this problem. I have no statistics upon which to draw.

While examining the Comptroller General on this matter, Congressman Reid received the following reply:

Mr. REID. Have you examined the the magnitude of the possible loss of goods flowing through the port? From what I have been told 20 to 25 percent of the materials and commodities flowing through this port either are misdirected, mishandled or otherwise fail to reach their destination.

Mr. STAATS. I do not know what the 25 percent refers to. I am not familiar with the 25-percent figure.

Mr. REID. This is a rough figure. There is enough indication from various sources in the Government and from people expert with this area to convince me that the loss is large. That is the reason why we have been pressing for significant improvements in port operations.

At the request of the AID mission, a U.S. official made a study early this year of, among other things, security conditions in the port of Saigon. His report detailed the existence of numerous practices which contributed to the loss of goods through the port and he cited a "reliable estimate" that "approximately 10 percent of the merchandise from the port of Saigon is pilfered, smuggled, diverted, and il-

legally appropriated." Among the practices he reported as contributing to this situation were: the lack of cooperation between GVN agencies operating in the port, the lack of authority for port officials to stop any uniformed person in the port area, the lack of authority for U.S. military police to search Vietnamese trucks hauling U.S. military cargo, the lack of a comprehensive system of identification for persons with legitimate business in the port, and the lack of control over the issuance of exit passes, which permitted truckers to drive out of the port without being stopped at the gate.

In November 1965, a physical security survey of the port of Saigon was undertaken at the request of the MAC/V provost marshal. This survey was completed in late January 1966 and it confirms the existence of the conditions reported in the customs report. The survey reported that "a large amount of U.S. military cargo had been stolen" from just about every conceivable place between the holds of arriving ships and military storage warehouses. The survey also reported that there was no military security office in the port area, that sufficient guards had not been provided for trucks hauling military cargo from the port, that control and accountability of transportation documents was inadequate, that fences and walls surrounding the port had been inadequately maintained, that illumination of pier areas at night was not adequate, and that control of port laborers was inadequate.

Much of this information was confirmed by the subcommittee through personal inspection and testimony both in Saigon and Washington. The subcommittee was told in Saigon, for example, that most U.S. PX and commissary goods are hauled from the port to military warehouses by several Vietnamese trucking firms under contract to the military. Although the specific terms of at least some of these contracts required the U.S. military to provide an armed rider on each truck and relieved the trucker of liability for loss of goods in case of failure to do so, the U.S. port security office had never had enough personnel to do this and the truckers, as a consequence, had never been held responsible for loss of goods between the port and the warehouses.

The demands created by the buildup created logistic problems of such enormity that apparently little thought was given, at least initially, to the maintenance of proper security measures. An official of the Department of Defense testified that—

* * * while other requirements were recognized it was a situation that did not lend itself to a carefully thought-out plan for security. We had to get the material through and this was the first effort.

Changes in Port Conditions During the Period of the Subcommittee's Investigation

1. Port operations.—The port of Saigon, although designed to handle only 150,000 tons of cargo a month, is currently operating at the level of 330,000 tons a month and the Department of Defense has estimated that port capacity will be increased to 450,000 tons a month within the next 6 months. This expansion in capacity has come about as a result of additional cargo handling equipment, increased port

facilities, and an improvement in labor and other practices in the port.

Some pressure has been taken off the port of Saigon by the expansion of existing facilities and the construction of new facilities at various coastal ports, primarily Danang, Qui Nhon, Nha Trang, and Cam Ranh Bay. The latter, one of the best natural ports in all of Asia, has received the bulk of the effort. The Cam Ranh Peninsula, which was little more than sand dunes and scrub grass 15 months ago, has been transformed into an enormous military logistics complex with 5 deep-draft berths capable of handling over 200,000 tons of cargo a month, a jet airfield, a large petroleum storage capacity, and an ammunition storage area. In addition, the U.S. military has given top priority to the construction of the Newport complex several miles upstream from Saigon. Newport will have four deep-draft berths and lighterage facilities. At the time of the subcommittee's first visit to Vietnam, it was estimated that 1 to 2 years would be required for the completion of Newport, but this estimate has been constantly revised as increasing priority was placed on the project.

Another major development has been the assignment to the military of responsibility for clearing AID project cargo and a limited number of CIP commodities through the port of Saigon. Plans are currently being made to extend military responsibility to other AID commercial import cargoes as well. Only general cargo and CIP cargo other than the few commodities currently being handled by the military remain outside U.S. military authority. Assigning responsibility for the movement of AID cargoes to the military has the double advantage of improving security and enabling cargo to be handled with greater efficiency and dispatch. This is possible only because the military has large areas of the port under its exclusive control and is able, to a certain extent, to operate outside the jurisdiction and many of the restrictions imposed upon commercial port operations by the GVN.

An official of the Department of Defense testified that the intermingling of commercial and military cargo in port warehouses, which the subcommittee observed in Saigon, has been reduced to less than 1 percent. The same official stated that "it is a problem that is being currently worked on and * * * it is the opinion of the theater that very soon it will be no problem whatsoever." He also informed the subcommittee that, in order to encourage importers to move their goods out of the port and reduce overcrowding in port warehouses, the GVN has recently issued a decree providing for the confiscation of goods left in the port more than 30 days. Although he testified that, in his opinion, the new decree will be more effectively enforced than similar decrees in the past, when asked whether past decrees have been enforced he replied that "they have not."

In June of this year, 10 ships from the National Defense Reserve Fleet were made available to AID for use in hauling AID-sponsored cargoes to Vietnam. In addition, as developed in testimony to the subcommittee, the Vietnamese Port Authority has recently been reorganized and placed under GVN military management. Increased authority has been given to the U.S. military for the handling of U.S. cargo and the equipment, resources, and facilities necessary to do this. Six U.S. customs advisers have been added to the staff of the AID mission and this group, among other duties, assists the GVN in improving customs administration.

Finally, a Department of Defense official testified that now "the labor situation at the port of Saigon is excellent." Both the National

Maritime Union and the International Longshoremen's Association have stationed representatives in Saigon and the president of the Longshoremen's Association recently stated that the labor situation in the port has been greatly improved since the time of his last visit in December. The Federal Maritime Administration has also opened an office in Saigon for the purpose of monitoring U.S. operations and providing advice and assistance.

At this writing, two high-level task forces are working on improvements in logistic support for the movement of AID cargoes. One of these is considering measures for increased control of AID cargoes and determining how best to utilize the 10 vessels recently made available for AID use. The second group is examining potential improvements in the entire AID logistics system, including the possibility of making greater use of military systems in support of AID civilian programs.

The improvements that have been made in port operations have not, by any means, succeeded in eliminating the congestion of ships in Vietnamese waters. Expanded facilities and improved operations have been accompanied by increased shipping—both commercial and military—and congestion remains a severe problem. By way of comparison, on March 9 of this year 17 ships were waiting at Cap St. Jacques, the holding area at the mouth of the Saigon River, for berths in the port of Saigon. On August 2 the number of ships had increased to 27. During the same period, the number of ships in the Saigon port had increased from 27 to 35. On August 2, one of the ships in the Saigon port had been in the area for 64 days with a mixed cargo of AID, commercial, and military goods. Another ship in port on that date had been on berth for 45 days and still had 10 percent of its cargo to discharge.

2 Port security.—Reports of inadequate security conditions in Vietnamese ports continue. Recently, for example, American newspapers reported the theft of "substantial quantities" of PX goods in the port of Nha Trang. Several employees of a U.S. barge company, which is operating in the port under contract with the U.S. military, were implicated in the diversion of goods and their subsequent sale in the black market.

A number of the recommendations made in the physical security survey and the customs report have been acted upon but security conditions in the port of Saigon are still far from ideal. By agreement with the GVN, the previous system of issuing exit passes to trucks moving out of the port has been completely revised. A port security office has been established and new transportation control documents have been instituted. Fences and walls surrounding the port have been repaired and new lighting has been installed. Increasing areas of the port of Saigon have been brought under the exclusive control of the U.S. military and this has to some extent alleviated problems inherent in the concurrent jurisdiction of six GVN ministries over various facets of port operation.

Much remains to be done, however. For example, the physical security survey recommended in January that stevedore companies be required "to submit a daily list, with location of daily work to be performed by stevedore personnel, to the port security officer." The

subcommittee was informed in August that action has not yet been completed on this recommendation, but "Vietnamese harbor police and U.S. provost marshal, Saigon port, are devising a system of identification of transient labor." They have been working on such a system since early May. It is now obvious that proper identification of port laborers is essential to the maintenance of adequate security in the port.

Port officials still do not have the authority to stop uniformed personnel in the port area. The Department of Defense has stated this "practice varies according to area and situation." U.S. military police still do not have the general authority to search Vietnamese trucks hauling U.S. military cargo. This authority exists only on U.S.-controlled property and the Department of Defense reported that "U.S. military policemen are presently not authorized to stop and search Vietnamese trucks hauling U.S. cargo outside of U.S.-controlled property." This practice limits severely the effectiveness of U.S. control over U.S.-financed goods, both commercial and military, in the commercial area of the port and outside the port area. The recommendation that this authority be obtained was originally put forth in the physical security survey and the committee feels that it is a useful and necessary step. Merely obtaining the authority to search trucks hauling U.S. cargo would be worthless, however, unless a systematic program was established to monitor the movement of U.S. cargo in the commercial area of the port and outside of the port.

The subcommittee was informed in Saigon that the port security office would require a complement of 225 noncommissioned officers assigned to truck convoy duty alone in order to provide an armed rider on each truck as required by the terms of certain of the contracts with Vietnamese truckers. The Department of Defense informed the subcommittee in May that—

a system of convoy and escort has been substituted in lieu of truck riders. Convoys of three to six trucks are escorted from port to warehouse areas by military police patrols and security guards. A request for 225 noncommissioned officers for duty as truck riders was initiated March 4, 1966.

The Department stated subsequently, in August, that "approximately 20 personnel are engaged in this activity (riding trucks) on an average day." An official of the Department of Defense testified at that time "current contracts, as of August 1, 1966, do not require U.S. riders for each truck." The applicable contracts no longer make the United States liable for failure to provide individual armed riders on every truck. However, the subcommittee feels that if 225 men were necessary to provide individual armed guards on every truck, 20 men are not sufficient to carry out the job, even under the convoy principle as presently employed.

Prior to August 1, 1966, there were six trucking contracts. *Three of these contracts did not have liability clauses* and were allowed to expire. Two of the remaining three contracts made the contractor liable only for losses due to "willful misconduct or lack of good faith of any of the contractor's managerial personnel." Since August 1, there have been only three trucking contracts. All three of the contracts have liability clauses and two of the three contracts still con-

tain the liability clause quoted above, making the contractor liable only for lack of good faith or willful misconduct. The other contract requires the contractor to—

indemnify the U.S. Government for any and all losses * * * arising from loss of or damage to any cargo * * * of any type furnished by the U.S. Government for movement by the contractor.

This places the primary responsibility for the loss of U.S. goods between the port and military warehouses where it belongs, squarely on the shoulders of the contractor. One contractor has already agreed to accept such responsibility and the other two should be required to do so.

RECOMMENDATIONS

1. U.S. officials should proceed rapidly with plans for extending military supervision and responsibility for the clearing of AID commercial import cargoes through the port of Saigon. The high-level task force that is presently examining this possibility should not limit its consideration to certain bulk commodities entering Vietnam under the CIP. The task force should also examine closely the possibility of extending military responsibility to *all* CIP cargoes entering Vietnam, despite difficulties that such a program might entail. The committee believes that the gains in security and efficiency to be derived from such an operation would be very significant.

2. U.S. officials should monitor closely the enforcement by the GVN of the new decree requiring importers to remove goods from the port within 30 days. The United States must insist upon effective enforcement of the new decree, which would greatly reduce the overcrowding of warehouses and storage areas in the port.

3. The military should take immediate steps to institute a system of identification for transient labor in the port.

4. The U.S. mission should obtain legal authority for the U.S. military to detain and search all trucks hauling U.S. cargo outside of areas of the port that are under military control.

5. U.S. authorities should increase the number of personnel assigned to the port security office for duty as truck riders.

6. The two existing trucking contracts holding contractors liable only for losses due to "willful misconduct or lack of good faith" should be renegotiated to make the contractors liable for losses on the indemnification principle of the third trucking contract presently in effect. The United States should phase out local trucking contracts for military goods and itself assume full responsibility for moving goods from the port to military warehouses.

7. The Government of the United States should maintain close surveillance over single management control efforts in the port of Saigon to make certain new procedures are effective. The committee intends to continue checking this matter to insure that this recommendation is carried out.

IX. THE CIVILIAN MEDICAL PROGRAM

Data on Urgency of Civilian Medical Needs

The civilian medical program for South Vietnam is based on a need for medical services for an indigent population of 10 million of South Vietnam's, 15 million people. Trained manpower, usable medical facilities and medical supplies for civilian uses in that country are in very short supply and the lack of technical and management know-how limits the advantages which result from the very few medical resources available. As a result, AID has found it necessary to undertake for fiscal year 1967, an unprecedented program of direct medical care for the civilian populace of South Vietnam, including an expansion of more conventional efforts to strengthen the health resources of that country.

The situation in South Vietnam is that there is just too much disease and too great a demand for medical services. Almost every disease known to man is present. Of greatest incidence are those diseases which are gastrointestinal, such as typhoid, paratyphoid, worms, and diarrhea. Respiratory diseases such as pneumonia and tuberculosis are rampant. When the population reaches 45 to 50 years of age, over 60 percent have tuberculosis. There is a general lack of vitamins B and C. Nutritional diseases are a major problem in low-food producing regions such as the highlands. Injuries from the war because of military actions by both friendly forces and the Vietcong impose a great demand for medical services. Accidents resulting from the many vehicles operating in the country are far higher than the country has ever experienced. Throughout the whole of South Vietnam there is too great a demand for civilian medical services so that the situation remains most serious by even the very low medical standards of underdeveloped countries. In addition, there is a great contrast between the medical services made available to the United States and the Vietnamese military man and the services which are available to the population in general.

The shortage of medical services in South Vietnam is not the usual type shortage of doctors. There are more doctors working in Vietnam today than it has ever had in its 4,000-year history. There are approximately 1,000 Vietnamese doctors. Approximately 700 of them however, are in the military. Of the remaining 300 doctors left to take care of the civilian population, about 100 are retired, in other fields such as politics, or are only nominally in medically related activities such as teaching. Another 100 doctors are exclusively in the private practice of medicine and take only patients who can afford to pay something for medical services. Only about 100 Vietnamese doctors work with the indigent population of South Vietnam. As General Humphreys, Chief of the USAID Public Health Division in Vietnam, informed the subcommittee, in response to a question from Congressman Reid, the ratio of doctors to patients is "abysmally small." He esti-

mated that there is "approximately 1 doctor per 100,000 people" and that "there are 400 bed hospitals with 1 doctor in Vietnam * * *." A similar situation exists with respect to other medical personnel such as nurses and public health workers. The availability of services is also based primarily in the more populated areas where Government security is best. This situation applies not only in the case of doctors who provide services to the paying public but also doctors who deal with the rest of the Vietnamese population. At hearings in Washington, Congressman Reid closely questioned AID witnesses on these matters. As pointed out on page 77, AID has undertaken a significant expansion of the civilian medical program. But, in examining AID officials at the hearings, Congressman Reid seriously questioned whether the United States was expanding the program as adequately or as rapidly as conditions warranted.

Mr. REID. I am glad that we are increasing our effort. But if I understand the testimony of General Humphreys, he was saying if we were to encourage the GVN to develop reasonable standards, we would need a major increase. What you are talking about is very modest, indeed, compared with the need * * *. We are talking about two-thirds of the hospitals being virtually totally inadequate, lacking power, water, and all the rest. We are talking about a very substantial patient load. The addition of 20 doctors or 100 nurses will not necessarily keep up with the increase in the patient load, which is going up, if I understand the figures correctly * * *. Given all of the endeavors of AID and others, how many new physicians would you add in the next 12 months?

Mr. POATS. Quite apart from the military civic action programs, which are, of course, part time—during the course of 1966, I would say there would be an increase of about 100-plus doctors, apart from the technicians and medics and nurses.

Mr. REID. If it is only an increase of 100, how can you say it is a major increase?

Mr. POATS. It is a 100-percent improvement. I say, as Dr. Humphreys has said, we are attempting to move Vietnam from the 18th century to perhaps the beginning of the 20th century.

Mr. REID. To put it another way and to be rather candid, at least 20,000 patients are receiving inadequate care. It is clear that because of the increase of hostilities, the number of patients is likely to go up rather than decrease. The United States does have a real responsibility. What you are saying is that we are not really going to tackle it. We have almost 20,000 people in inadequate facilities.

Mr. POATS. We are increasing the available medical service to the people of the provinces of Vietnam manyfold. We are increasing the availability of drugs and other equipment and capacity to service them manyfold. We are slow in getting on with the improvements of the physical facilities of the hospitals. This has been very frustrating.

Mr. REID. You are not even coming close to the need for doctors and nurses, as I understand the testimony * * *. I feel very strongly that the United States, traditionally, has had a responsibility in medical areas. I think our responsibility is to do everything that we possibly can to improve matters. I would certainly hope that we would expedite the rehabilitation of the 39 hospitals that are without adequate power and facilities. I would hope we would do everything to expedite the shipment of drugs. We should do everything possible to encourage the training of doctors and nurses in Vietnam. We should do everything possible, in my judgment, to encourage other nations in the world to send doctors for a reasonable tour, which should be longer than 2 months. I would hope that the tours would be for a year or two. I would also hope that we would do everything possible to help reduce and to give adequate care to the existing patient load. I certainly would urge that in connection with children we give consideration to flying them to areas where they can get treatment if there are not adequate facilities in their present areas * * *. I would further hope that we assist the GVN to the greatest extent possible in developing and improving their medical facilities and services.

Neighboring Thailand which has a population of 31.5 million people has over 3,500 doctors who work with the civilian population or a ratio of about 1 doctor to about 8,500 people. In order for the Vietnamese population to receive medical services on a population basis equal with Thailand, it would need about 1,500 additional doctors. In view of the current situation in South Vietnam in terms of the increased need for doctors in order to provide the minimum amount of medical care considered necessary for underdeveloped countries, it is estimated by AID that at least 4,000 Vietnamese civilian doctors would be needed or 1 Vietnamese doctor to 3,500 people. This is contrasted to the level of doctors to patient load in the United States of 1 doctor to 750 people.

The subcommittee was advised that the possibility of hiring doctors from other free world countries was considered by AID on several occasions in the past 3 years by special committees comprised of representatives from other agencies. It was concluded that a program of hiring doctors from other free world countries would tend to depress the voluntary response currently being received from such countries for medical teams. On this basis, the decision was made not to initiate such a hiring program. Foreign specialists, and doctors and nurses who left Cuba, have been hired, however, for service in South Vietnam.

There are 59 Government hospitals in South Vietnam, 7 of which are located in Saigon. In three Provinces there is nothing that even resembles a hospital. The hospitals, for the most part, are of old construction built in the 1800's and frequently are not only without running water but even water supplies. In general, they are of two-story concrete construction, without adequate electric power, without elevators, no latrines, no screens, no means of cooling, and the wiring cannot handle modern appliances. There are also 168 district dispensaries, 342 village dispensaries, and 209 maternities. At each of 2,500 villages and 6,000 hamlets, the Vietnam Ministry of Health is to have a health station.

Development of the Health Program

Prior to the summer of 1965, the civilian medical program for South Vietnam was small and oriented toward public health advisory services to the Ministry of Health. A limited amount of medical supplies were also being made available to the Government of Vietnam. In 1965, the United States agreed to support hospitals where there were surgical teams located from free world countries. At that time there were four American teams, four small Filipino teams, an Italian team, a New Zealand team, and an Australian team. These were the only civilian hospitals in Vietnam receiving support from the United States. Limited supplies were also being provided to support a rural health service in a number of provinces. At certain larger hospitals which are the traditional centers for medical care in Vietnam, in conjunction with the Vietnam Ministry of Health, a regional hospital system was planned. Free world specialty people were to be placed at these hospitals and expanded both in terms of doctors and nurses.

At the time of the visit of the subcommittee to South Vietnam, there were assigned a total of 340 United States and other free world medical people for work in South Vietnam in support of the Vietnamese Ministry of Health. About 140 of these people were from the United States of which about 100 were military personnel and about 30 were doctors from the volunteer doctors program. In addition to the United States, other free world representation included Australia, China, Iran, Italy, New Zealand, the Philippines, Switzerland, and contract Cuban refugees. There were also due about an additional 95 U.S. military personnel who will make up 21 medical teams, 6 of which were already operating in the field. These teams work directly under the operational control of the civilian medical program but are not considered part of the civilian medical program complement and are assigned to the Military Advisory Command. The total doctors available to South Vietnam through the civilian medical program both from the United States and other free world countries including military personnel, whose function concerns civilian medical services at the time of our visit, was set at 125, of which about 70 were from the United States.

In fiscal year 1965, AID purchases of drugs and pharmaceuticals for South Vietnam totaled about \$1.5 million. For fiscal year 1966 AID purchases were set at about \$6.5 million. Imports under the commodity import program by Vietnamese importers of drugs and pharmaceuticals were set at \$13.2 million in fiscal year 1965 and at \$21 million in fiscal year 1966. For calendar year 1966 the Government of Vietnam imports of drugs and pharmaceuticals is estimated to be about \$6 million.

The Vietnamese Ministry of Health is responsible for the distribution of drugs and pharmaceuticals throughout the country. Our medical mission operates in an advisory capacity only and provides the transport facilities as needed. Once the goods arrive they are wholly beyond U.S. control.

To relieve the great shortage of doctors in Vietnam, AID, in conjunction with the People to People Foundation, initiated by contract

a volunteer doctors program called Project Vietnam. Under this program, doctors were recruited and sent to Vietnam on a 60-day basis. They were paid only for their expenses and received no salary. Under this contract during the past year over 100 doctors were recruited. A new contract which will double the number of volunteers has been negotiated with the American Medical Association to take effect after the completion of the People to People Foundation contract. During the contract period, returning doctor volunteers criticized—both in the press and in national appearances on television—the conduct of the civilian medical program for Vietnam. In interviews, they cited the extreme lack of medical supplies plaguing the U.S. programs and the shocking conditions that exist in Vietnamese hospitals even by Asian standards.

Criticism of Various Program Aspects

In subcommittee meetings with the Assistant Director of USAID for Public Health in Vietnam, he stated that the criticism with respect to insufficient medical supplies is justified and valid. He said shortages become more critical at some places than others depending on patient load and the type of care being given. He said there are just insufficient medical supplies available to the user. He stated that the supply program in 1965 was inadequate to meet the changed conditions of increased hospital activities which resulted from more injuries, more displacement of people, and more disease. The shortages were due, he said, to the fact that there was a leadtime of 8 to 9 months, and in some instances more than 12 months from the preparation of purchase requests in Vietnam and the receipt of articles for distribution within the country. He said there is practically a total lack of knowledgeable Vietnamese manpower and a lack of capability to respond to emergencies. There is almost a complete lack of stock control capability. On the part of the Vietnamese, there is an outmoded procurement and issuance system which provides for requisitioning on a 6-month basis and if medical supplies run out, there is no provision for rerequisitioning. There is only a limited capacity for warehousing such supplies in Saigon and a complete lack of warehousing facilities outside of Saigon in the regions and provinces for breaking down and storing supplies.

At one point he said the interdiction of roads by the Vietcong put the distribution system at a complete standstill except by U.S. airlift. In such a circumstance the civilian medical program competes with the military for the priority movement of supplies including, frequently, commodities of food to locations such as in the highlands.

As recently as last fall, the U.S. mission had only one American responsible for developing medical requirements, advising the Vietnamese in the control and distribution of medical supplies within the country, and seeing to it that supplies were issued, stored, and requisitions filled as best they were able.

Our inquiry has shown also that communication between Vietnam and the Washington Far East Medical Branch of AID as well as the People to People Foundation was practically nonexistent. In the performance of the contract by the People to People Foundation

a serious misunderstanding developed with the Far East Health Branch. Charges of bad faith and a conflict resulted which handicapped the effective completion of the contract by the People to People Foundation. Only limited communications were noted, and there was no one assigned in Vietnam to coordinate the program other than the Assistant Director for Public Health in Vietnam who himself had only a very small staff. As a result, recruiting was done by the People to People Foundation with only a limited idea as to the type medical skills most needed. Doctors were arriving in Vietnam with no knowledge as to where they would ultimately be employed in the program. In spite of the difficulties that existed, the project is considered to be a success. Recruiting was far more successful than was anticipated originally and the effectiveness of the doctors was far better than might have been expected.

The Assistant Director of Public Health in Vietnam said he was satisfied with the program in spite of the fact that certain doctors did not work out and had to be sent back to the United States. He said the comments made as to conditions in hospitals where these physicians were assigned complaining about conditions of overcrowding, a lack of electric power, no water, a lack of supplies, and not enough trained personnel were basically true. He stated that considerable progress and effort was being made in view of the circumstances but that he certainly was aware of the situation. He claimed that all that could be done was being done. He said also that some conditions were not under his own immediate control since the free world physicians were responsible to their government and not under his direct supervision. He noted one hospital which was discussed in the press in which this was the case.

He cited the fact that overall he was the adviser to the Ministry of Health and that he had no authority to direct but could only suggest actions to be taken by the Ministry which could relieve certain critical situations. He said that ordinarily, unless a doctor specifically called to his attention a particularly serious need situation, he would not be even aware of it.

As a regular system of reporting, the Assistant Director for Public Health in Vietnam makes a weekly report to the mission director. A monthly summary of activities report is also made to the mission director, which may then be combined at the discretion of the director in the mission report to Washington. Only on a request basis does the Assistant Director for Public Health in Vietnam directly communicate with the Far East Health Branch Chief. This type of communication is completed only very irregularly and no special type reporting is involved.

Actions Taken Concerning the Civilian Medical Program

The civilian medical program has been considerably expanded, as is reflected in the growth of budgets, staff, and other personnel, to the level of a planned \$45 million program in the current fiscal year, of which \$32 million will consist of expenditures for drugs, medical equipment, and supplies, and \$13 million for salaries and contract costs. The AID direct-hire staff increased from 99 to 149 in the course of fiscal year 1966. In addition, there are 11 physicians, 10 paramedical,

and 10 medical equipment maintenance specialists under contract. AID also is supporting the work of 15 hospital teams furnished by other free world countries and more than 350 U.S. military physicians and enlisted medical technicians serving the civilian populace. This growth in the provincial health program has occurred largely in the past 12 months. About 80 percent of this effort is devoted to medical care of the people in the provinces, through provincial hospitals, district and village clinics and military dispensaries. This undertaking should serve U.S. political objectives of sustaining the will to resist Communist insurgency and establishes a pattern of responsiveness to the needs of the people by the Government of Vietnam.

Longer term institution building in the medical field also has been expanded. Technical and material assistance in developing a national health program which can carry on after the withdrawal of foreign doctors and technicians, including health education, urban sanitation, hospital rehabilitation and expansion, communicable disease control, malaria control, and specialized work in orthopedics and prosthetics is being provided. Recently AID contracted with the American Medical Association to provide medical educators for the Saigon University medical school. AID hopes to arrange a similar contract with the American Dental Association for the dental school. Nursing training is being expanded to produce 400 nurses annually.

The centerpiece of the direct care element of the program is the staffing, equipping, and supplying of 39 of the existing 59 governmental hospitals. More than \$40 million in supplies and equipment will be procured for these hospitals during fiscal year 1967. The rehabilitation of 10 of the hospitals has been completed. In addition, AID plans to supplement existing facilities with prefabricated sections at 14 other hospital sites in addition to those already rehabilitated. AID is also considering the best means of quickly expanding the facilities of all hospitals to meet the greatly increased patient loads. Construction has started on one of five regional medical supply depots. These depots are scheduled to be completed by the end of 1966. Twenty medical administrative-logistics experts have been sent to Vietnam to handle the support problems of the provincial program. Eight more are to depart, and 10 are starting processing for employment. The airlift capacity problem is under study.

The pilot volunteer physicians project did not provide for a field representative to assist in day-to-day administrative matters. The health staff did not have enough time to devote to these volunteers who arrive and depart in 16-man units every 2 weeks. Under the new arrangements, the contractor has sent a field representative to Saigon. The contract with the American Medical Association is in the amount of \$672,312 for the year. The contract provides for a 50-percent increase in the number of volunteer doctors that served during the original contract period with the People to People Health Foundation. The lack of advance knowledge of assignment has been one of the problems raised by doctor volunteers. The continuing fluidity of the situation in Vietnam makes it difficult to assure each volunteer of a firm predeparture assignment. The advice of the field representative will be sought on assignments. The volunteer physician program has been one of the most successful aspects of the civil-

ian health program in Vietnam. A number of volunteers have indicated an interest in returning. The patient load the doctor volunteers are handling is increasing and patients continue to come from many more areas than originally. In addition the Vietnamese Minister of Health and the assistant director for public health from the U.S. mission in Vietnam are planning a trip to the World Health Organization in Europe to seek more free world medical assistance.

In conclusion, the committee is of the opinion that civilian medical assistance can be a major factor in winning the hearts and minds of the people of Vietnam. It is of grave concern in view of the increases in funds for this program, that while commending the assistant director for public health in Vietnam, the Washington direction and administration of the program by the Far East Health Branch of AID appears ineffective and provides what seems to be only a limited contribution to improvement. There is still a considerable shortage of doctors and other medical personnel as well as of facilities. As was stated by Congressman Rumsfeld during our hearings, the level of U.S. assistance is not intended to duplicate U.S. medical standards in the civilian-medical program for South Vietnam. However, the committee believes that a dramatic improvement is necessary in medical facilities, including hospitals as well as medical personnel, drug supplies, the training of medical personnel, and increased participation by other countries in the program. This program is of primary importance in the nonmilitary activities of the United States in South Vietnam and should be so considered by the Agency.

RECOMMENDATIONS

1. AID should place greater emphasis on the civilian medical program in the overall U.S. effort. The United States should insist on a more active role in all aspects of this program in its relationship with the GVN.

2. Steps should be taken to increase the number of doctors to a level at least comparable to the normal peacetime complement of medical personnel for South Vietnam. This should be done also for other type medical personnel such as nurses and laboratory technicians in addition to expanding medical facilities.

3. Medical supply procedures should be strengthened and more controls placed in the hands of U.S. personnel in line with the U.S. commitment in this area.

4. More specific determinations should be made as to the types and volumes of pharmaceuticals, medical supplies, and equipment that should be imported.

5. Additional detailed information should be obtained on numbers of patients and facilities available for both control and decisionmaking purposes in Vietnam and in Washington.

6. AID should initiate between Vietnam and the Washington office of the Far East Health Branch a monthly reporting process, thoroughly detailing current supplies and facilities, as well as patient load, incidence of disease, treatments given, and other detail information which will provide Washington with accurate information on progress in the civilian medical program.

X. PACIFICATION PROGRAMS

The counterinsurgency effort in Vietnam involves a complex of programs which have been devised by the GVN and supported by the United States for the ultimate purpose of developing the willing cooperation of the people of Vietnam with their Government. These programs have been named revolutionary development programs of which the following are examples:

1. Cadre program.—A program to develop teams consisting of 59 highly trained specialists who are intended to enter a designated hamlet and share the privations and dangers of life in the hamlet while they work with the citizens to develop the defensive capacity of the hamlet, to identify and eliminate Vietcong infrastructure, elect a hamlet council, initiate self-help projects to meet local needs, reactivate land reform, and stimulate greater use of provincial and National Government technical services.

2. Chieu Hoi program.—An amnesty program designed to encourage defection from the Vietcong to the GVN.

3. Self-help program.—A program designed to begin at the lowest possible level the cooperation of the people with their Government, for mutual benefits. In most cases, a community-designed project is undertaken with the Government providing requisite materials and the people performing the labor.

4. Hamlet school program.—A program designed to create hamlet schools in each of the secure hamlets in order that Vietnamese children may have the opportunity to follow the first 3 years of their education in their home villages.

5. Montagnard affairs program.—A program to improve the rather primitive conditions which exist in the tribal villages of the central highlands and to increase the cooperation between this, the largest ethnic minority group in Vietnam, and the GVN.

6. Refugee relief program.—A program to provide emergency assistance to those who have been driven from their home villages by enemy activity and to facilitate their resettlement and their establishment of self-sufficiency at minimal subsistence levels. The emphasis is on resettlement to avoid the creation of self-perpetuating refugee centers.

7. Other similar programs.—Designed to have a high impact in the most rural and isolated communities, each specific program designed to accomplish a particular objective.

In the implementation and support of each of these programs, the several U.S. agencies are coordinated at the national level through the office of the Deputy Ambassador, and at the provincial level by the AID provincial representative. In the case of the cadre program, a Joint Revolutionary Development Cadre Office has been established within the AID Office of Field Operations. This is an interagency group composed of representatives of the various responsible U.S.

agencies in Vietnam and a representative of the GVN. The group is charged with national planning for the training, deployment, support, and utilization of the revolutionary development cadre. Inspection of cadre operations and evaluation of the effectiveness of the program is also a responsibility of this office.

Since the cadre program is perhaps the most significant of the revolutionary development programs, the subcommittee visited the National Training Center for Revolutionary Development Cadre at Vung Tau during its investigative trip to receive briefings from Vietnamese and U.S. officials, and to observe the training programs and the operation of the Center.

In addition to the programs mentioned above, there is also a need for the United States to assist the GVN in launching a significant land reform program. From the following exchange between Congressman Reid and an AID official, it may be seen that much more effort is needed in this area—

Mr. REID. Have you given much consideration to establishing a major land reform program?

Mr. POATS. We have given a great deal of attention to it. We have had a series of seminars with the best land reform experts we could find in the United States, particularly those who have some experience in southeast Asia. We have derived a number of questions from these discussions which we submitted to the mission. * * * As you know, there is a land reform program of many parts in existence now. If it were to be carried out vigorously, it would represent an enormous social change in Vietnam. It is not being carried out fully, largely because of a lack of staff—draftsmen, surveyors, title writers, and all the rest needed to do this kind of work. It is not being carried out in large part because the villages in which the uncommitted land is available are under Vietcong control, or not under secure government control. We cannot solve the shortage of management skills and limitations on security quickly to do a dramatic job.

The committee recognizes the extreme importance of the revolutionary development programs in accomplishing U.S. objectives in Vietnam, but purposely avoided making any recommendations until a number of recent changes can be studied and observed. The committee strongly feels that the pacification programs—and especially the cadre program—must be capable of meeting the rising expectations of the people. To do this, these programs must be (1) backed by meaningful economic and social progress for *all* of the people of South Vietnam, and (2) genuinely insulated from the pressures of politics. Legitimate aspirations, such as those of the rural populace, must be advanced before a solid feeling of nationhood can be expected to emerge. The committee plans to review the pacification programs in detail at an early date, with particular attention to actions taken toward the achievement of these goals.

XI. POST EXCHANGE OPERATIONS

Background Data on Post Exchange Difficulties

The U.S. forces in Vietnam in early 1965, consisted of approximately 23,000 troops engaged in advising the Armed Forces of the Republic of Vietnam. When the North Vietnamese Army and the Vietcong increased their forces and intensified their activities, U.S. forces were built up to 180,000 men by the end of 1965 with a supply need of 300,000 tons per month. By May of 1966, these forces were further expanded to a quarter of a million men. During the buildup period, the logistical support base was taxed to its limit. There were not enough dock or warehouse facilities to handle the need for supplies, which included post exchange items as well as ammunition, foodstuffs, and other necessary combat material. Ships were unloaded at a pace which required civilian trucking assistance and civilian warehouse facilities.

Exchange goods were moved from the dockside completely across the city of Saigon in open top, unguarded civilian vehicles to the various warehouses where they arrived and were unloaded without proper security. Movement of exchange merchandise within the country was a mammoth undertaking which required a repeat move in open, unguarded vehicles through the city of Saigon to the dockside for coastal shipment, or to Tan Son Nhut Air Force Base for air shipment to an exchange depot or branch outlet. Sales volume in the post exchanges increased from a monthly average of less than \$1 million prior to the buildup, to almost \$11 million a month in June 1966.

On April 13, 1965, as ground and air forces became dominant, the Joint Chiefs of Staff approved the establishment in Vietnam of the Army-Air Force Exchange Service effective on December 26, 1965. Prior to that date the Navy Exchange Service was responsible for all exchange operations in Vietnam. During the period April through December 1965 the Navy and the Army-Air Force Exchange Services formulated a plan for the phaseout of the Navy Exchange Service. The Navy Exchange Service procedures and records were different from those of the Army and the Air Force. An inventory had to be taken which was still underway at the time of the subcommittee visit.

During the transition period, there was a monsoon that lasted for 6 months, producing 77 inches of rainfall and winds from 50 to 65 miles an hour, which hampered the unloading of ships and flooded warehouses. There were not enough vehicles to move the supplies or enough reliable stevedores. As ships were unloaded, supplies were placed in 13 civilian warehouses scattered about the Saigon port. These conditions made control difficult. Some supplies remained in warehouses for overlong periods. There were losses through

pilferage from the docks, at warehouses, or from vehicles delivering items.

Details on Post Exchange Operations

The post exchange operation in Vietnam is substantial. There are 2 major post exchanges in Saigon and 17 regional exchanges. There are eight more planned at major headquarters. There are 186 officers and civilians occupied as professional post exchange personnel. About 1,500 Vietnamese are employed. At isolated small camps, post exchange supplies are handled by "imprest fund accounts" which provide \$3,000 in cash to local commanders to make purchases at exchanges and resell the items to the troops. There are 68 such accounts.

It should be noted that post exchange and commissary privileges are not confined to U.S. military personnel. Employees of civilian contractors, newspapermen, civilian Government employees, Koreans assigned to Vietnam, and others who hold identity cards have these privileges. However, not all nonmilitary personnel have unlimited exchange privileges. Those authorized to use post exchanges, commissaries, or messes must pay in scrip, known as military payment certificates. Civilians, whether Government or contractor employees or third country nationals entitled to post exchange and other U.S. facilities also must use military payment certificates.

Both Vietnamese local law and U.S. military regulations forbid the offering of post exchange supplies for resale. There have been some attempts by Vietnamese authorities to curb black-market sales of such supplies, but enforcement is difficult.

In April, Secretary of Defense Robert S. McNamara, in testimony before the Senate Foreign Relations Committee, stated that the post exchange and commissary supplies being brought into Vietnam averaged 9.2 pounds per man per day. This rate is excessive when compared with the 5-pound per man per day average normally expected in post exchange operations. The reason for this heavy tonnage was the large volume of liquor, beer, and soft drinks, being brought in amounting to 70 percent of the post exchange tonnage. Roughly a million cases of beer and a million cases of soft drinks were being imported each month. It was claimed the heavy consumption of beer and soft drinks is due to the tropical weather and the lack of potable water supplies.

The subcommittee was advised that the bulk of the liquor and beer, as well as soft drinks, are used by the clubs and messes. Enlisted men are not allowed to have liquor in their tents or barracks. They may, however, purchase bottled liquor at the post exchange for consumption off the premises. Officers not billeted in compounds or on posts may have liquor in their quarters, and officers of general or flag rank have a liquor allowance for official entertainment purposes. To a major extent, post exchange liquor has been finding its way into Saigon bars for sale. The subcommittee was told there were occasional raids by U.S. military personnel in an effort to recapture unauthorized whisky, but this requires cooperation on the part of the Government of Vietnam. This type of enforcement has not been effective in the committee's view.

The loss rate for post exchange items, based on recent estimates, was considered to be within 4 percent. The military expect that under the tighter controls being put into effect the loss rate will be less than 2 percent. According to Army exchange authorities, the worldwide loss rate for post exchange items averages 0.62 of 1 percent.

Black-Market Goods on "PX Alley"

With respect to "PX Alley" and the street displays of post exchange items noted during two trips of the subcommittee, military and civilian authorities contend that not all of these goods in Saigon are actually post exchange items or even U.S.-supplied goods. There is evidence some are very close imitations, made in Vietnam or Hong Kong, which are offered as U.S. made. There are, however, numerous items which clearly bear post exchange markings. Other post exchange items, without markings, are diverted even before delivery to the post exchange.

Other sources of merchandise than the military allegedly are businessmen, Filipinos employed by U.S. contractors in Vietnam, and French travelers who may be bringing in commercial items, such as cigarettes. These items find their way to the street vendors and cannot be readily distinguished from post exchange goods. There are also valid trade goods on which customs have been paid as well as smuggled goods which are being sold. So it is apparent that post exchanges are not the exclusive source of street vendor supplies.

Military authorities, citing the Korean experience, doubt that theft and pilferage can be completely stopped. It is still a continuing problem in Korea. In places like Thailand, where the United States is bringing in supplies, pilferage is also common.

The Navy pipeline was the cause of certain obvious excesses in post exchange shipments, because it was predicated upon consumption rates for military personnel and dependents, even though dependents had been removed from Vietnam. One of the examples publicized by the press was the reported sale of 30,000 cans of hair spray in 1 month, even though only 700 females were said to have post exchange privileges in Vietnam.

All military personnel and others who have identity cards are authorized to purchase in the retail commissary in Saigon as well as in the post exchange. Although there are no military dependents in Saigon, the commissary has done \$9.8 million worth of business in the last 15 months. There is no rationing of commissary items, but as a result of action by the ration control board, controls have been put on certain items as to the number that may be bought at any one time. These items include soap powders, fruit juices, dried fruit, meats, and coffee.

Actions Taken To Improve Controls of Post Exchange Supplies

As a result of reports in the press and efforts by the subcommittee, the Secretary of Defense has issued special instructions designed to help correct post exchange abuses. An Assistant Secretary of Defense has been designated to head the campaign and he has traveled to South Vietnam on a special inspection trip of post exchange matters.

The following significant measures have been taken to improve the post exchange operations in South Vietnam in order to control such supplies and prevent their diversion to the black market. These steps should result in the import of items consistent with the overall welfare of U.S. forces in the country.

1. The Army and Air Force Exchange Service is reviewing in detail the inventory of items currently being carried. The Navy Exchange Service stocked 3,196 items. These have been reduced to 2,229—an elimination of about 1,000 items. Most of the item decrease is in off-shore procurement, in large part from Japan.

2. Items such as radios and cameras will have their serial numbers recorded on purchase slips, which will be filled out and signed by the purchaser with his rank and serial number, so that all serial numbered items can be traced back to the individual purchaser. Nonrationed items less than \$10 each may be purchased for bona fide gift giving within certain restrictions.

3. Special arrangements will be made for sales of cosmetic and other female use items, such as hair spray and sanitary napkins. This type of item will not be ordered on the basis of demand or consumption, but will be related to the relatively low number of women such as civilian secretaries and nurses, who hold post exchange cards. Post exchange outlets for these items are to be established in the Embassy or U.S. AID mission which will be restricted to women purchasers. At other post exchanges there will be a shelf of items for women only. These items will not be rationed but their sale will be controlled.

4. The liquor and beer ration will be reduced further. Effective June 1, beer was rationed at the rate of three cases per man per month. Prior to that four cases per man per month were authorized. The liquor ration which includes wine and cordials has been reduced from six bottles per man per month on May 1 to three bottles per month. The post exchange ration for liquor will be eventually reduced to two bottles per man per month. The soft drink ration, now authorized at four cases per man per month, will not be reduced because of the climate and lack of potable water.

5. To make pilferage more difficult from docks or trucks, sheathing, straps and covers are being used as pallets. Goods are being shipped from U.S. depots in locked or closed containers rather than ordinary cartons. The military are trying Conex-type containers, made of plywood, to pack and ship post exchange supplies. The plywood containers will be used in Vietnam for lumber and will not be returned to the United States.

6. Military police or other military personnel head the convoys leaving the docks. These convoys consist of from three to five vehicles so that movements of all vehicles can be readily observed. Shipping documents accompany the vehicles to show what is in each shipment. A system of advance forwarding of shipping documents to the depot before the vehicle actually arrives is being planned to provide additional checks.

7. Efforts are being made to control the handling, moving, and storing of PX supplies to prevent loss or pilferage. Storage depots for post exchange supplies have been placed under military control and

made more secure. Supplies have been moved from the 13 scattered warehouses in the Saigon area to a single controlled military warehouse. All the post exchange depots have barbed wire and some are behind concrete walls. Not all items are stored under cover, but essential items that would be lost by exposure to weather are being placed under cover. Other exposed items will be covered with canvas. A round-the-clock guard is maintained and includes the use of Nung guards and sentry dogs.

8. A new directive was published restricting individuals and agencies granted exchange privileges. This directive clearly defines the categories of personnel authorized to use the exchanges and the extent of their privileges. As a result the civilian clientele was reduced by approximately 6,000 exchange users.

9. Plans are underway to establish a canning plant in South Vietnam. The tinplate and beverage base will be brought in and the water will be added locally. Local bottling of soft drinks and local canning of beer is also planned. This would substantially reduce the shipping requirements of post exchange supplies. Military authorities have stated that when soft drink and beer plants are established the tonnage of post exchange goods to Vietnam will be reduced by about 30 percent.

10. All post exchange supplies from U.S. depots are no longer routed exclusively to Saigon. Except for liquor and offshore items, which are off-loaded and transshipped from Saigon, post exchange supplies unitized or prepackaged in the United States, are placed on ships, and sent directly to one of five ports. As supplies come off a ship, they are moved from the port to a military warehouse, except when vehicles are not available. Post exchange supplies may still be temporarily stored in local civilian warehouses under guard, but movement out of these temporary locations now normally takes place within 24 hours. In Saigon where the bulk of pilferage takes place, there is a daily shake-down inspection of dockworkers to prevent theft.

11. A ration control board, established in December 1965, meets each month or when requested. Items that were discontinued by decision of the ration control board are brass-topped coffee tables and blankets. These were items in demand when dependents were allowed in Vietnam. Items no longer allowed in Vietnam which arrive due to earlier ordering will not be returned. As they are sold further purchases for inventory will not be made. The ration control board will continue to review items authorized for import by the exchanges.

12. New ration cards are being issued which show every single item that is rationed and the number sold to any one purchaser. If two watches a year per person are authorized, the ration card will show the number of such purchases made. There will be special exceptions for gifts, based on written statements of justification.

RECOMMENDATIONS

1. The committee, though commending the military with respect to steps already taken to improve post exchange operations in South Vietnam, recommends vigorous followthrough on corrective measures which have been outlined above. It recognizes that with possible

further increases in free world forces, a similar situation may arise as in the original buildup when supply and other facilities were heavily taxed. Better organization and planning should be injected into any expansion of post exchange shipments.

2. All supplies necessary to the morale and efficiency of our fighting forces in Vietnam should be made available consistent with overall U.S. interests in South Vietnam. However, proper controls should be a major consideration at all levels.

XII. MILITARY CONSTRUCTION PROGRAM

The Department of the Navy is presently engaged in supervising the construction of port facilities, depots, airfields, various buildings, and utility projects in South Vietnam for the Departments of the Army, Navy, and Air Force. Construction projects valued in excess of \$14 million are also being completed for the Department of State including the Agency for International Development. The contract for this construction program is currently set at \$780 million. Originally, the projected program total was set at \$960 million. It is the largest single construction contract that the Defense Department has negotiated and is with a consortium of contractors associated as a joint venture project comprised of Raymond, Morrison-Knudsen, Brown & Root, and J. A. Jones (RMK-BRJ). Raymond, Morrison-Knudsen began work on the contract in South Vietnam in 1962. With the buildup of U.S. forces in Vietnam starting in 1965, the joint venture was expanded to include Brown & Root and J. A. Jones. Under the terms of the contract, the consortium was directed to mobilize a construction capability which would have the capacity of completing about \$40 million of construction work monthly. This construction capability level has now been reached.

The contract is administered from Saigon, and four regional offices at the major worksites. It is a cost-plus-award-fee type wherein the Government agrees to reimburse the contractor for the expenses incurred in the purchase of materials, equipment, and labor, and for various services and operating costs. As each project is decided on a predetermined fee is negotiated as the projects are added to the contract. As the project volume increases, the negotiated fee percentage is reduced. Percentages to provide incentives to the contractor are available under the terms of the contract.

On August 9, 1966, the Department of the Navy advised the Secretary of Defense that for fiscal year 1967 additional funding of approximately \$200 million will be required to maintain the contractors' construction capability and to complete the projects currently assigned. The request is to be studied by the Office of the Secretary of Defense before final decisions are made.

In addition to the RMK-BRJ contract, another firm—Walter Kidde Constructors—has been awarded a contract for the construction of an airfield on the basis of a Government estimate of \$52 million. No other awards are anticipated either to Walter Kidde or to other contractors. The Department of Defense intends to continue its relationship with RMK-BRJ. It anticipates, however, assigning certain projects to military construction forces for completion and as new projects are needed. Equipment and materials in the amount of about \$100 million will be transferred to the construction forces from RMK-BRJ whose accounts with the Department of Defense will be adjusted accordingly.

The Defense Contract Audit Agency audits the construction operations of RMK-BRJ in Vietnam. In January of 1966, an audit group comprised of six professional auditors and one administrative individual was established. Prior to this, the audit work was performed by one resident Navy auditor and by assignment on a temporary basis of other personnel. Department of Defense personnel are at the construction sites in Vietnam working with contractor personnel on the various projects. As noted in chapter VI of our report, at the time the subcommittee initiated its work the audit function was limited to the examination of cost representations of the contractor as reflected by vouchers submitted for payment to the Department of Defense. At present, the Defense Contract Audit Agency is expanding the scope of its work into a more comprehensive audit program.

The Foreign Operations and Government Information Subcommittee, in its review of AID Vietnam operations, has only peripherally and on a very limited basis reviewed the military construction program of the Department of Defense in South Vietnam. It is apparent, however, that more extensive independent audit of these activities is necessary to adequately monitor contractor operations of the Department in South Vietnam, even though numerous Department of Defense personnel are involved in the day-to-day contractor functions. An independent review of the whole construction program is necessary in view of the many complexities that result from the war situation, the constantly changing priorities of the program based on military needs, and the overall problem of Washington control because of the distances involved.

The Foreign Operations and Government Information Subcommittee will continue its examination of audit activities relating to construction of all facilities for agencies under its jurisdiction.

RECOMMENDATION

1. The committee recommends that the General Accounting Office and appropriate committees of the Congress initiate and/or proceed with a close and continuous surveillance over expenditures in the vast military construction program for the purpose of determining the adequacy of current audits and of other checks to assure proper use of appropriated funds.

XIII. CONCLUSION

The Foreign Operations and Government Information Subcommittee began its investigation of the U.S. aid program in Vietnam in January of this year. Almost without exception, the officials contacted by the subcommittee at that time offered the same explanation for the lack of adequate inspection and review of the program in Vietnam during the past few years; namely, that the war prevented a normal program of inspection and review and, because of this, these activities were curtailed drastically. The subcommittee challenged this assumption vigorously and during the past 9 months there has been, as noted earlier, a significant increase in the activities of those offices responsible for reviewing the various phases of the U.S. economic and military assistance program in Vietnam.

The Agency for International Development has also taken significant steps to improve the quality and quantity of the information available to it and to the AID mission in Saigon—information that is an essential management tool for the proper conduct and review of the U.S. assistance program in Vietnam. The subcommittee was deeply concerned over apparent gaps in the knowledge of responsible officials, both in Washington and in Saigon, concerning crucial phases of the U.S. program. It was informed on numerous occasions that this vacuum was seriously hampering the administration of certain phases of the program, most notably commodity imports. While this apparent lack of knowledge was in some cases undoubtedly due to the fact that the persons being questioned were relatively new to their jobs, the subcommittee established that it was also due in other cases to the simple unavailability of the desired information because of inadequate recordkeeping and procedure.

The former deputy director of the AID mission stated some months ago:

I feel that the program is being carried out too enthusiastically, and with not enough practicality, with not enough discipline, with not enough accountability, and with less than what I consider to be adequate management * * * we wound up with a conglomeration of variegated programs covering every particular field, and it amounted to just an accumulation of the most creative thinking that people could contribute to the program, and it was not a disciplined program, coordinated and welded together.

The committee feels this is an admirably concise summary of the major defects that have hampered the efficient operation and management of the U.S. economic assistance program. But at the same time it wishes to commend AID for the many constructive steps it has taken in recent months to meet these problems.

We wish to reemphasize, however, the absolute need for a comprehensive and continuing evaluation of priorities and basic objectives in the U.S. economic assistance program for Vietnam. The subcommittee feels there has been, in the past, undue emphasis on the spending of dollars as a measure of achievement and that there is a far greater need for determining what is possible in objectives rather than merely committing dollars. The American taxpayer has a right to expect that the degree of economic progress realized in Vietnam is commensurate with the vast expansion of the U.S. program of economic assistance. U.S. officials must not hesitate to insist, when necessary, upon the kind of cooperation in the economic field which the GVN has already promised on numerous occasions, most notably at the Honolulu Conference in February of this year.

The committee has attempted throughout its investigation to be constructive in its comments and recommendations. As stated at the outset, we will follow with great interest every promised change in the program and any new innovations that may be undertaken. The committee commends the officials with whom it has dealt for the most open and complete cooperation. We hope this relationship can be maintained and, by working together, help to win the war and peace in Vietnam.

APPENDIX

EXHIBIT 1.—LETTER FROM ASSISTANT SECRETARY OF DEFENSE THOMAS D. MORRIS

AUGUST 17, 1966.

HON. JOHN E. MOSS,
Chairman, Subcommittee on Foreign Operations and Government Information, Committee on Government Operations, House of Representatives, Washington, D.C.

DEAR MR. MOSS: AS I stated during hearings on August 1 and 5, 1966, the Department of Defense is mindful of and grateful for the many constructive contributions made by your subcommittee in our joint effort to eliminate any adverse economic impact upon the Vietnamese people and the Government of that gallant nation, which might otherwise result from the presence of our forces in that country.

It is my earnest hope that the comprehensive exchange of information which took place in the course of the hearings will facilitate the continued close association between us which has proven so effective in assuring the orderly conduct of our affairs in the Republic of Vietnam. Accordingly, I want to be certain that you are fully apprised of specific actions undertaken by the Department which are of interest to the subcommittee. Newspaper articles published in the past few days have touched upon one aspect of our activities which did not receive detailed coverage in my formal statements of August 1 and 5, or in my oral testimony which followed. This was undoubtedly due to the fact that the issues concerned, while related to the subjects which your letter of July 11, 1966, asked that I cover, could not be taken up and discussed individually owing to the practical limitations on time available to the subcommittee for formal hearings.

Mr. Augliere and Mr. Cornish of the subcommittee staff, and senior members of our staff, have informally discussed these recent press releases. They relate to internal economic conditions in the Republic of Vietnam, and the steps thus far taken by the Department to lessen the inflationary impact of our presence upon the economy of that country. The measures we have taken which are of primary interest to the subcommittee, are designed to limit both the official and personal expenditure of Vietnamese piasters by the Department and its personnel in-country. Our prime objective is to avoid a massively increased internal demand for the available supply of goods and services produced within the Republic. As you are acutely aware, burgeoning demand generated by a rapid influx of U.S. personnel and facilities must not be allowed to so outstrip Vietnamese resources not offset by imports as to result in such price inflation and general disruption of the local way of life that our combat successes are undermined through impaired Vietnamese Government operations and popular discontent.

The goal of the DOD is to hold within acceptable limits the total piaster-expenditures that it funds, determines, and advises, while concurrently avoiding any reduction of military effectiveness through careful management of such piaster spending by joint commanders and their components. A variety of measures specifically tailored to reduce DOD piaster spending in the Republic of Vietnam have already been initiated (see outline at tab A), and others are in process of formulation. A fiscal control scheme monitored and enforced by the Joint Chiefs of Staff has been established, and is supported by a system of regular reports of actual and projected DOD-generated piaster spending (see outline at tab B).

I trust you will find these materials of interest and value in conducting the important work in which the subcommittee is now engaged. Let me again reiterate that your active inquiry into these areas, including your visit earlier this year to the Republic of Vietnam, and your joint efforts with the Defense staff, have contributed substantially to the constructive improvements which have been made and are continuing.

Sincerely,

THOMAS D. MORRIS.

TAB A

REDUCTION OF DOD PIASTER SPENDING IN VIETNAM

This summary deals only with measures initiated by the Department of Defense to hold within acceptable limits the total piaster expenditures in Vietnam which it funds, determines, and advises. The summary does not purport to cover other measures pertaining to certain import, fiscal, and monetary reforms which might conceivably be implemented by the government of the Republic of Vietnam. Neither does it purport to address larger questions relating to the degree and overall scope of controls which might properly be imposed upon the Vietnamese economy. Rather, it is confined to a listing of those actions which have been initiated or are being implemented by the Department in its own area of primary interest, within the framework of the overall economic program developed by the U.S. Government.

Percentage factors shown in parenthesis after each captioned item in the following summary represent the proportion of total projected savings the line item concerned is expected to yield in fiscal year 1967. (Note: total for item I is the sum of subitems (a) through (e).)

I. Reduction of personal expenditures by individuals (53 percent)

(a) *Increased post exchange sales (18 percent).*—Diversion to Armed Forces post exchange channels, of U.S. personnel individual expenditures on the civil economy for goods and services. To attain this objective, priority action is being taken to enlarge the range of products and services available through the post exchange system (without jeopardizing black-market control measures), improve and expand exchange physical facilities, expedite establishment of additional upcountry facilities, and other comparable measures.

(b) *Extend and liberalize out-of-country rest and recuperation program (13 percent).*—In fiscal year 1967, we are projecting a fourfold

increase in this program to provide a total of at least 250,000 individual R. & R. trips out of country. Aside from its primary importance as a morale factor, the program is expected to divert significant personal spending for recreation and relaxation purposes which would otherwise flow into the Vietnamese economy.

(c) *Increase personal savings incentives (10 percent).*—Diversion to personal savings of funds now expended on the civil economy for goods and services. The key legislative element essential to provision of an effective savings inducement for military personnel has been passed by the Congress and signed by the President (Public Law 89-538). That statute replaces the old soldiers deposits program with a new Uniformed Services Deposits System administered by the Secretary of Defense. Deposits under the new program will bear interest at the rate of 10 percent per annum as prescribed in Executive Order 11298, signed August 14, 1966 (individual interest-bearing deposits are limited to a maximum of \$10,000, and the privilege accrues only to members serving outside the United States, its territories, possessions, and Puerto Rico).

(d) *End private housing (4 percent).*—In May 1966, approximately 8,000 U.S. military and Federal civilian employees stationed in RVN in or near the larger cities were still required to obtain their own private housing on the economy due to lack of a sufficient number of U.S. Government owned or controlled billets. Expeditious relocation action is being taken, and will reduce or eliminate piaster rental expenditures on the civil economy by individual members.

(e) *Troop deployment pattern "automatic" effects (8 percent).*—A greater proportion of U.S. military personnel are being deployed to up-country locations than was the case heretofore. Individual piaster-spending patterns have displayed a direct relationship to the member's proximity to the marketplace. Personal piaster expenditures tend to diminish in inverse proportion to increased distance between the member's duty station and the larger urban markets with their ready supplies of goods and services.

II. Reduction of piaster expenditures funded by DOD from C. & M. resources (28 percent)

Measures designed to reduce C. & M. fund piaster expenditures include limitations on hiring of local nationals by military organizations; expeditious relocation to U.S. cantonments of DOD activities now housed in leased facilities on the economy; imposition upon DOD purchasing offices located in Vietnam, of procurement restrictions comparable to those imposed on other DOD procurement offices abroad for balance-of-payments control purposes; and related measures.

III. Reduction in DOD-funded piaster spending for construction (19 percent)

In-country procurement of construction materials has been progressively reduced, with the bulk of current procurement confined to rock and sand. Related measures to reduce local piaster spending are being implemented to include no new hires of local nationals, except for critical replacements; elimination of part-time employees; austere re-

view of facilities requirements looking toward elimination or consolidation wherever possible; consolidation of transport support, and shipment through Army facilities wherever possible; and related measures.

TABLE B

JCS-MONITORED SYSTEM OF REPORTING DOD PIASTER SPENDING
IN VIETNAM

By direction of the Secretary of Defense, the Joint Chiefs of Staff have recently established a system of regular reporting by COMUSMACV and component commands, through CINCPAC, to show actual DOD-generated piaster expenditures, as well as the piaster spending that is expected to result from obligations issued during given periods. The system is briefly outlined below. In addition, the JCS may establish supplementary reports, projections, and accounts which will further system objectives. It is emphasized that overall system objectives encompass all piaster spending that the DOD funds, determines, or advises, including piaster expenditures of--

- (a) The military departments;
- (b) All Defense agencies;
- (c) COMUSMACV;
- (d) Contractors of (a), (b), and (c) above;
- (e) Public law 480 and counterpart piaster funds spent in support of U.S. forces and that portion of the GVN military budget which is joint funded, the release of which any component of the DOD determines or advises (e.g., AIK);
- (f) Purchases of piasters with MPC by personnel, civilian or military, whose pay is funded by the DOD or its contractors; and
- (g) Piaster spending of third-country military forces.

So that the Secretary may be informed of the possible impact of rising wages and prices upon the piaster cost of the activities and factors listed above, the JCS has been directed to undertake establishment of an activities cost index, in collaboration with the Assistant Secretary of Defense (systems analysis).

The entire system has initially been predicated on a series of recurring reports concerning piaster payments and projections of piaster authorizations, including the following:

- (a) *Piaster purchases and balances*: Statement of beginning piaster balances, plus purchases of piasters from the USDO and commercial sources, less ending piaster balances, will reflect amounts of payments made during the period.
- (b) *Authorizations issued* that generate piaster payments directly by DOD in South Vietnam.
- (c) *Planned authorizations* that will generate piaster payments directly by the DOD in South Vietnam.
- (d) *Authorizations issued* by RMK-BRJ (the principal construction contractor) and his subcontractors.
- (e) *Planned authorizations* by RMK-BRJ and subcontractors.
- (f) *Authorizations issued* by DOD contractors other than RMK-BRJ and subcontractors.

(g) *Planned authorizations* by DOD contractors other than RMK-BRJ and subcontractors.

The periodic reporting scheme has been so devised as to allow comprehensive summarization and analysis on a quarterly basis, in addition to an effective monitoring capability at shorter intervals.

Much information regarding past piaster expenditures has already been gathered because of the continuing interest of the DOD in expenditures entering the international balance of payments. The more detailed reporting scheme pertaining to Vietnam will be further refined and formalized as time passes, in the interest of developing a management system which will provide maximum flexibility to OSD, JCS, and field activities in the implementation of the system and in the establishment of effective monitoring and control procedures.

(NOTE.—The initial results of the recently established JCS-monitored reporting scheme, discussed above, will not be available until approximately October 1, 1966.)

EXHIBIT 2.—LETTER FROM J. WILLIAM HOWELL, DEPARTMENT OF AGRICULTURE

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE INSPECTOR GENERAL,
Washington, D.C., August 29, 1966.

HON. JOHN E. MOSS,
Chairman, Foreign Operations and Government Information Subcommittee, Committee on Government Operations, Rayburn House Office Building, Washington, D.C.

DEAR MR. MOSS: This is in reply to your letter of August 17, in which you express concern over the lack of audit and inspection activities in Vietnam and comment generally on the importance of these activities to Federal programs. With respect to this Department's programs, you have requested that the Office of the Inspector General initiate actions with particular attention to the following:

1. A comprehensive audit of programs under which agricultural commodities are shipped to Vietnam with first priority given to compliance and surveillance aspects.
2. Review of problems relating to pilferage and diversion of such commodities to the Vietcong and black market.

We are pleased to inform you that we have initiated a preliminary survey to obtain and correlate, on a current basis, all pertinent information relating to the problem areas involved. Upon completion of the survey we will then proceed with an appropriate review of the handling and control of agricultural commodities shipped to Vietnam in line with the subcommittee's request.

We share your concern and appreciate very much having the benefit of your views on this very important matter. We assure you of our continued attention toward accomplishing the objectives set forth in your letter of August 17.

Sincerely yours,

J. WILLIAM HOWELL,
Acting Inspector General.

EXHIBIT 3.—LETTER FROM LEONARD H. MARKS, DIRECTOR OF U.S.
INFORMATION AGENCY

U.S. INFORMATION AGENCY,
Washington, August 15, 1966.

HON. JOHN E. MOSS,
*Chairman, Foreign Operations and Government Information Sub-
committee of the Committee on Government Operations, House
of Representatives.*

DEAR MR. CHAIRMAN: I have your letter of August 11, 1966, sug-
gesting an audit of the financial and administrative operations of
JUSPAO in Saigon and a review of the post's activities by the
Inspector General.

I want you to know that I welcome these suggestions. Prior to the
receipt of your letter, I had discussed with the Inspector General plans
for his visit to Saigon before the end of the year. In addition, our
Auditing Division has been instructed to undertake a financial and
administrative review prior to the end of this year.

I also would like you to know that during the past year, we have
carefully scrutinized and reviewed the operations of USIS Saigon
in the following manner:

(1) I visited Saigon for several days in February 1966, and
conferred with the chief staff members.

(2) On that trip, I was accompanied by Mr. John Chancellor,
Assistant Director of Broadcasting Service, who reviewed in de-
tail the functions of our radio staff.

(3) Two representatives from the Office of Administration have
been to Saigon and have given me a personal report on the admin-
istrative activities of that post.

(4) Mr. Lloyd Wright, Assistant Director of Press and Publi-
cations Service, has just concluded a visit for the purpose of check-
ing on the printing and publications efforts.

(5) Mr. Paul McNichol, Assistant Director of Security, has
recently returned after an inspection trip, during which he re-
viewed all security precautions.

(6) Mr. Daniel Oleksiw, Assistant Director of the Far East,
recently completed a review of current operations at the post.

In addition, I am asking Mr. George Stevens, Assistant Director
of Motion Picture and Television Service, to visit Saigon within the
next 60 days to review the film program being conducted. Before the
end of the year, Mr. Ben Posner, Assistant Director of Administration,
will also be sent to Saigon to make plans for the financial audit and
review with the executive officer the administration of the post.

In addition to the above personnel of the Agency, I have enlisted
the assistance of outside experts. In September 1965 I requested Mr.
Frank Stanton, president of Columbia Broadcasting System and

Chairman of the U.S. Advisory Commission on Information; Mr. Palmer Hoyt, editor of the Denver Post; and Mr. Frank Starzel, formerly head of the Associated Press (now retired), to visit Vietnam and report to me on the manner in which we were now carrying out our responsibility for disseminating news and carrying on psychological warfare operations. They were accompanied by Mr. Robert Akers, Deputy Director of the Agency, and Mr. Hewson Ryan, Associate Director for Policy.

From the foregoing, you can see that I am mindful of the need to review periodically the work of USIS Saigon and that I intend to continue this type of inspection.

When the audit team is dispatched and the Inspector General completes his plans for the inspection, I will advise you further.

Sincerely,

LEONARD H. MARKS,
Director.

EXHIBIT 4.—LETTER FROM J. H. EDWARDS, DEPUTY DIRECTOR, U.S.
AID MISSION/SAIGON

NOVEMBER 9, 1965.

Mr. RUTHERFORD M. POATS,
Assistant Administrator, Bureau for Far East, Agency for International Development, Washington, D.C.

DEAR RUD: At least once a week I have written to you a long diatribe on the problems created by the hasty and emotional approach to assistance to Vietnam. Fortunately so far I have recovered enough self-control to destroy these prior to mailing. Suffice it to say that I don't like, nor approve, what we are doing here. It is at the same time both unconscious and unconscionable. Let me only make these comments without the lyrics:

1. The 1966 program represents the unfettered dreams of each division chief without later meaningful and tailored review.
2. This program was dreamed up under the illusion that all Government agencies in Washington are committed to massive expenditures without any restraint or accountability.
3. There is no mechanism for control, audit, or analysis of costs, input, or utilization.
4. Attempts to instill discipline into the U.S. efforts are not tolerated or yet entertained.
5. There is widespread rumor and hint of diversion and corruption with no recognition of its possible presence.
6. Everyone is agreed that the effort is excessive and thus prone to widescale mishandling, but everyone reacts to even hints of need by all-out requests for more resources.
7. Specific programs are vastly overfunded; i.e., PSD, PHD, CIP, Refugee Coordination, Prov Ops but the excuse is AID/W wants it this way.
8. Inflation continues and the economy weakens, and the complaints mount publicly while our answer is to import more commodities to sop up extra money.
9. There is no restraint on the money supply.
10. There is no restraint on the tremendous budget deficit.
11. There is no effective collection of duties, taxes, or other GVN revenues.
12. The exchange rate allowing imports at 60 to 73 piasters to \$1 encourages both imports and diversion of supplies.

Rud, I could go on for days with the absence of reasonable economic planning and implementation in this activity.

What is needed—

1. A hard-nosed AID/W approach to determine that we assist instead of abetting.
2. Procedures and systems to insure our commodities arrive here and are used properly.

3. Sound fiscal advice to the GVN and not pap.
4. A realistic exchange rate and control of the U.S. military to prevent U.S. smuggling and financial finagling.
5. A reduction of both personnel and program content to realistic and attainable levels. Recent State, DOD, AID message hints and nudges at this but no forceful measure.
6. A carefully devised and executed plan to combat profiteering and reexport of supplies.
7. Insistence on and guidance to prevent internal budget deficits.
8. Some control over the GVN use of foreign exchange.
9. Strong measures to add quality to our present activities and reduce quantity of men, money, and materials.
10. Reexamine some present misguided programs to get them on the track.

* * * I think more effective personnel, AID/W support, and mature programming is an urgent necessity. This is written without clearance and without knowledge of other mission management. I believe it represents, however, the views of a substantial number of our people. I call this to your attention for whatever reaction you think is warranted. My intent is to help the situation and not further complicate issues. This situation is too vital to U.S. affairs to afford anything less than our best effort. Regret my inability to be more useful to this type of U.S. assistance program.

Sincerely,

J. H. EDWARDS,
Deputy Director, U.S. AID Mission/Saigon.

**EXHIBIT 5.—VACANCY ANNOUNCEMENT FOR AGRICULTURE CREDIT/
CO-OP ADVISER**

**Department of State, Agency for International Development, in
cooperation with the U.S. Department of Agriculture**

For service with the Agriculture Division, U.S. Operations Mission, Vietnam. Base salary will depend upon the qualifications of the individual, the individual's immediately previous professional earnings, and related matters. However, the expected range is approximately \$7,500 to \$15,000 per year plus overseas differential, housing allowance and other benefits.

There is an immediate need for advisers who are qualified for the position which is described below.

GENERAL STATEMENT

Agriculture is extremely important in the total development effort in Vietnam. It plays a key role in the Vietnamese people's struggle against Communist insurgency.

The outcome of the struggle in Vietnam depends largely upon the effectiveness with which the Vietnamese, with the cooperation of the United States and other countries, can cope with the problem of building cohesion within the rural area and meeting the basic needs of the people.

DUTIES

Functions are to be performed under the general supervision and guidance of the senior agriculture staff of the U.S. operations mission. These functions include the following:

The adviser will be responsible for the development and guidance of credit and cooperatives activities on a regional basis. The adviser must be mature with a sound background of subject education and experience. The adviser will be responsible for motivating Vietnamese provincial and regional credit and cooperative agencies and stimulating the organization and successful management of new cooperatives and farmers associations. He will be responsible for assisting in country program planning and guidance.

The regional credit/co-op adviser will counsel with and adjust the GVN regional and provincial supervisors and chiefs of credit (NACO), and the cooperatives/farmers associations, and the presidents/managers of cooperatives/farmers associations, and the president/managers of cooperatives/farmers association in his region, as follows:

1. In planning, organizing, and conducting training programs in cooperative management and auxiliary practices, including the use of credit, and developing an effective NACO credit-servicing program.

2. In planning and stimulating cooperative marketing both locally and to urban centers.

3. In planning and stimulating developments in supportive cooperative credit activities as: warehousing, transportation, processing and allied small industries; and a working public relationship with competitive individual private enterprises.

4. In the selection, training, work, and recognition of local people to fill the operational needs in cooperatives and credit functions.

5. In carrying out the programs and policies of the GVN national offices, the USAID and the cooperative agencies.

The regional credit/co-op adviser will serve as the principal adviser/interpreter in his field to the USAID regional director.

QUALIFICATIONS

1. A BS in agricultural economics, including some cooperative and credit, is highly desirable, and a minimum of 5 years cooperative management practice or farm credit administration.

2. Desirable to have had 2 or more years similar type overseas experience.

3. Should be healthy, vigorous, emotionally stable, and willing to travel intensively.

HOW TO APPLY

Correspondence about the above positions should be addressed to the Far East Bureau, Recruitment Branch, room 321, SA-1, Agency for International Development, Washington, D.C. 20523, and be accompanied by a detailed employment résumé or a completed form 57 (application for Federal employment).

Collect calls about these positions will be accepted by Mr. Danny Whitfield, or Mr. Paul Belanga on DUDley 3-7367, Area Code 202 (Washington, D.C.).

EXHIBIT 7.—LETTER FROM WILLIAM S. GAUD, DEPUTY ADMINISTRATOR,
AGENCY FOR INTERNATIONAL DEVELOPMENT

DEPARTMENT OF STATE,
AGENCY FOR INTERNATIONAL DEVELOPMENT,
Washington, D.C., July 19, 1966.

HON. JOHN E. MOSS,
*Chairman, Foreign Operations and Government Information Sub-
committee, House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your letter of July 8, 1966, in which you refer to a CBS telecast reporting the capture of a Vietcong base. The CBS news report refers to a Vietcong base in Binh Dong Province captured as a result of Operation El Paso II. This military operation was initiated on June 2. Captured material has been seized throughout the whole campaign but the bulk was captured between June 23 and 25.

The military member of the Saigon Economic Warfare Committee visited the area to examine material seized on June 24. Further data were obtained from records of the operations unit and from the Chief of the Current Intelligence Indications Branch of Operation El Paso II. Portions of the Vietcong base sites could not be visited because of combat engagements and the information which follows is limited to this extent.

Some of the captured material was of Vietnamese origin. Information on the presumably imported items is not yet complete, and U.S. military officials in Saigon have been requested to provide, if possible, further identification on the seized flour, sardines, rice, oil, kerosene cans, and sheet metal.

The captured items are as follows:

Rice: 1,522.5 tons.
Sheet metal: 5,400 sheets.
Dried fish: 16.5 tons.
Flour: 1,350 pounds.
Tea: 300 pounds.
Kerosene: 1,000 gallons.
Sardines: 1,000 cans.
Oil: 550 gallons.
Aluminum pans: 1,000.
7-horsepower motors: 2.
Assault rifle: 1.

We are providing the following information concerning the apparent source of some of these items.

The assault rifle is of North Korean origin.

Some rice was found in bags with India markings and some in bags with Saigon markings. The India marked bags were dated 1964-65. Since rice bags are reused repeatedly in Vietnam, those with India markings could either represent domestically produced rice in reused bags or illegally imported rice stocked by the Vietcong in 1964-65.

Rice has never been imported from India through legal commercial channels. The rice in bags identified with Saigon markings may be new or old, and may be of local origin. The enemy could have purchased some or all of this rice from the numerous retail outlets in the country, or could have smuggled it from Cambodia.

As for the metal sheets, some were still in paper wrappings bearing U.S. labels when captured. There is no way to know whether or not they were financed by AID, since the U.S. military forces have shipped and are shipping sheet steel to Vietnam. If the steel was AID financed, it would move through one or more of the 140 authorized iron and steel importers, most of whom do business in Saigon, to retailers for resale on the open market. There are an estimated 1,000 to 2,000 steel retailers in Vietnam, 200 of whom are in Saigon.

Kerosene is imported in bulk by three oil companies, Caltex, Esso, and Shell; presumably all such imports are AID financed. These imports are distributed through commercial channels to nearly every province, district, village, and hamlet in Vietnam. Containers are made locally. With respect to most commodities in Vietcong caches, it is often difficult to ascertain whether they were acquired by hijacking, military action, purchase, or collusive diversion.

Several measures are being taken in Vietnam to reduce enemy access to imported as well as domestic resources; many of these are being strengthened and new measures are being instituted. Resources control check points are being tightened, as evidenced by the large and growing volume of commodity seizures by the national police. A new measure is the recently instituted waterways resources control whose operations will be greatly expanded. In addition, the U.S. AID mission is continuously checking importers and retailers in attempting to identify channels which might be used by the Vietcong. The recently organized customs advisory group examines cargoes and inspects arrival documents to deter pilferage or diversion of supplies en route to or in the ports of Vietnam. Finally, studies are being made on strategic commodity sectors with a view toward improving controls.

I am sure you recognize the limitations of resource control measures in Vietnam where there are no battle lines and large parts of the country subject to very limited or rapidly shifting government control. We are, nevertheless, continuing to try tightening the net in every practical way.

Sincerely yours,

WILLIAM S. GAUD,
Deputy Administrator.

EXHIBIT 8

Five of the ninety photographs taken by the committee in "PX Alley" in Saigon on April 2, 1966. The first photograph shows the entire length of the street with individual stalls lining the sidewalks on both sides. The other photographs show different types of U.S. goods on sale at various stands in the street. Clearly visible are U.S. Army K rations, radios, soap, hair spray, razor blades, styrofoam ice coolers, cigarettes, and a variety of other PX goods. In the last picture, the PX dollar price is clearly visible on a rayon blanket.





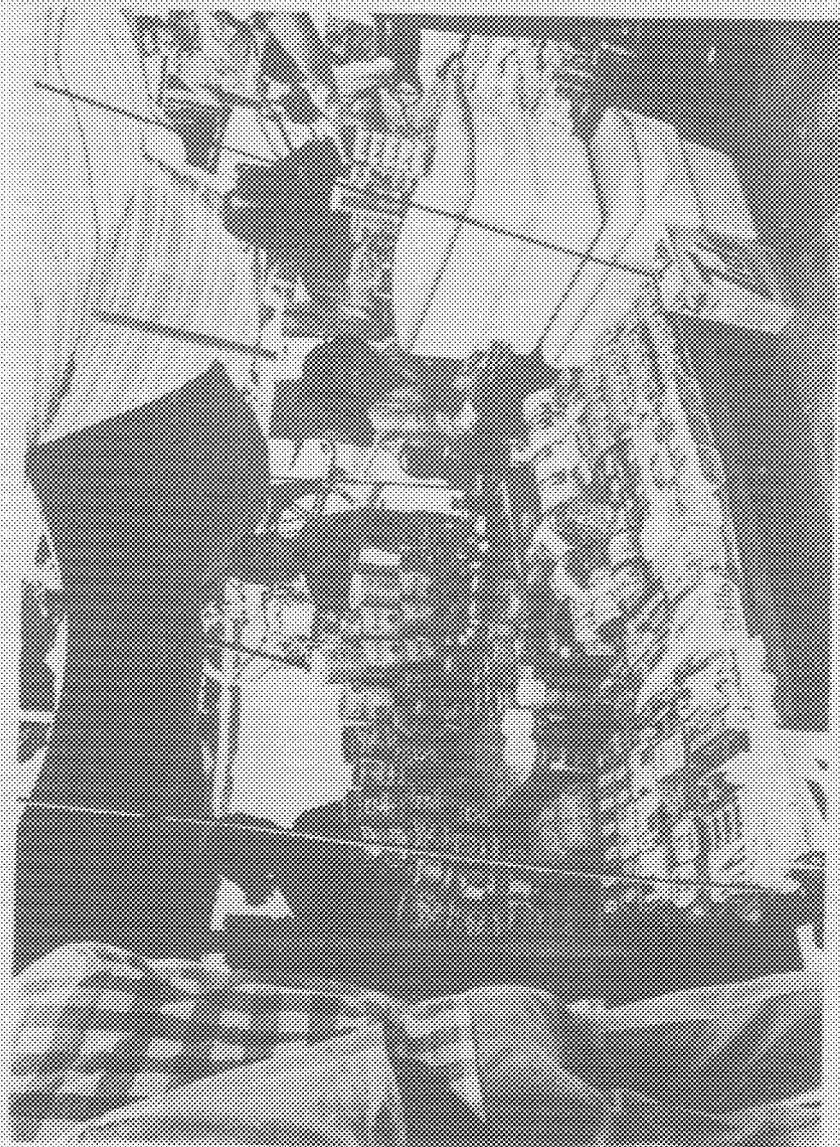
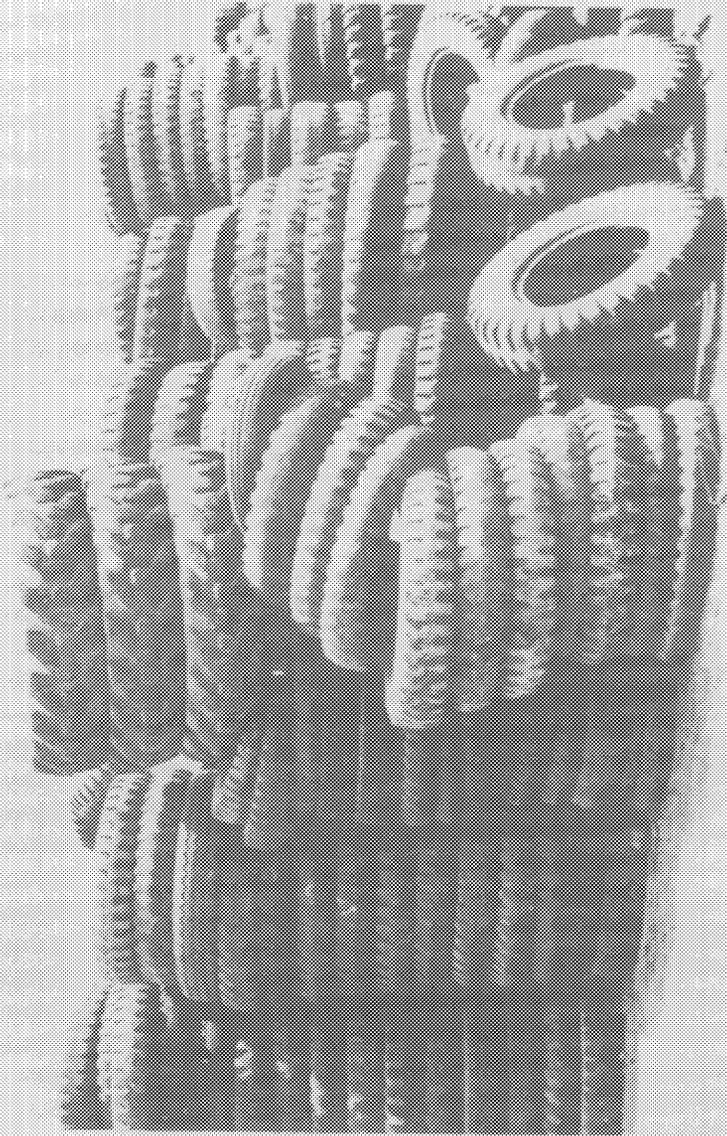






EXHIBIT 9

Photographs showing truck tires and spools of telephone wire available at the U.S. military surplus property disposal yard in Saigon. The photographs were taken early in April this year.



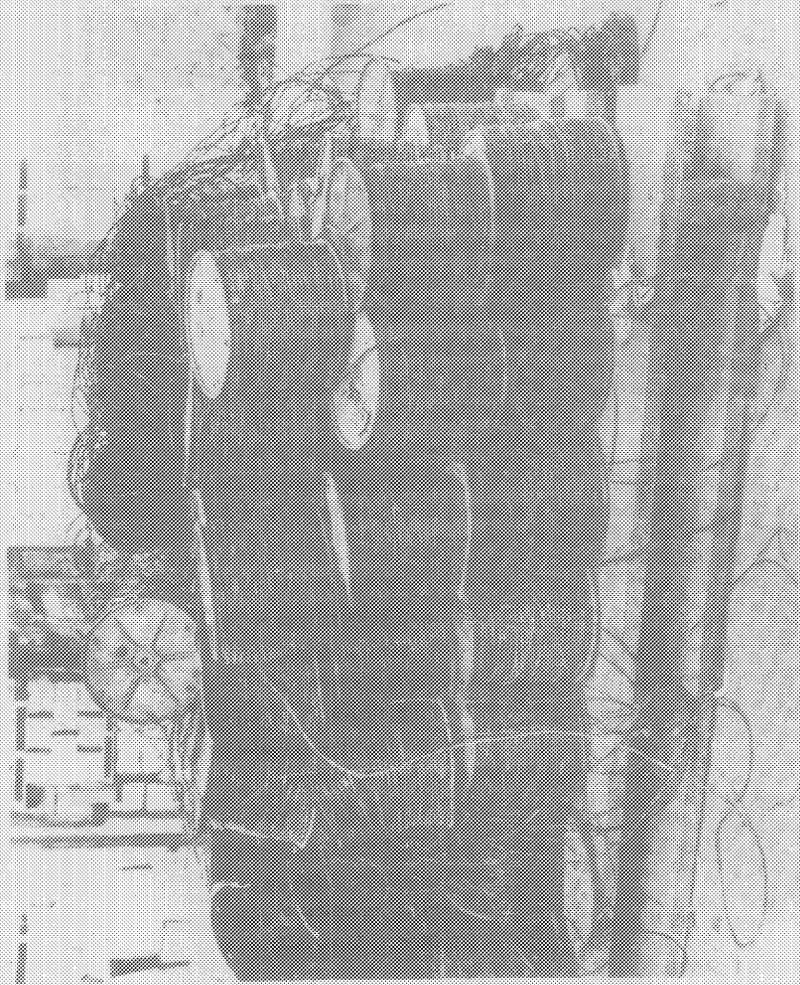


EXHIBIT 10.—A COLUMBIA BROADCASTING SYSTEM TELEVISION INTERVIEW IN VIETNAM, SHOWN JULY 22, 1966, ON THE WALTER CRONKITE SHOW, AND SUBSEQUENT COMMENTS IN A LETTER FROM RUTHERFORD M. POATS, ASSISTANT AID ADMINISTRATOR, FAR EAST

REPORTER. This is Qui Nhon, a port in central Vietnam through which every month \$5 million in American civilian aid comes to South Vietnam. Qui Nhon was in Bien D'ien Province. Mr. Roger Darling, who has spent 4 years in South Vietnam, 2 as a U.S. Vice Consul in Saigon—the last 14 months in this area—is American province representative for Bien Dien. Mr. Darling, do you think that the aid that's coming through here now is reaching the people it's supposed to and is being properly administered?

DARLING. Not in all cases. There are a number of items lost here in the port area, to pilferage and other objectionable practices, but primarily it's the sad truth—a lot of goods are lost by corrupt officials siphoning out these items. Now let's be very frank. A number of the officials who are working in these provinces are not entirely honest. They're corrupt individuals. Our adviser comes in and starts working with these people and in a month or two it begins to emerge. He recognizes what's happening—they're padding the payroll, perhaps they're stealing our supplies and they expect him to more or less cover this up. He has an opportunity at this point to either report honestly down the line what's happening and perhaps remedy the matter, or to kind of hedge in his report and say the man's not too bad—when in fact he's really a crook.

REPORTER. About how much would you say was lost?

DARLING. I think a fair and accurate estimate would be between 10 and 20 percent of the goods that arrive in here will never get to the project for which they are intended.

REPORTER. Well, what would you recommend to improve the situation?

DARLING. Well, first of all I think AID is trying to do too much. They should try to focus on four or five priority activities and abandon the rest. Among these I would suggest agriculture, education, health, and the training of provincial officials. Now the second item I would do would be to reduce the U.S. AID staff in Saigon. They're too big and they generate too much paperwork which overwhelms us here in the provinces, and every office down there is requiring reports from this team up here. The other recommendations I would make would be to push more on the Vietnamese to do their part in this program. I would continually do less and less for them, forcing them to do the things that they have to do to develop their own institutions.

REPORTER. Tell me, does any of this that you're telling me now get into your reports to Saigon?

DARLING. It does in mine, but not everybody's. I think there are a good many advisers in this country who are not really advisers, and I believe this comes out of fear. First of all the American adviser has a counterpart, a Vietnamese on the same level in his field of work. He wants to get along with this man. He is to advise him and the general feeling in the American community here is that if he starts arguing with this man or pointing out his weaknesses or otherwise giving him a hard time, he's not getting along and his usefulness is finished. There is of course the fear of getting a good efficiency report, and the American fairplay comes into the matter. But the important thing is that a lot of hedging goes on. And I personally feel that the people in Saigon and up the line aren't getting as clear a picture as they might of what's going on out here. I think it's time we called a spade a spade, because to my way of thinking a little time spent with your counterpart will encourage helpful discussion and generate some good ideas and perhaps urge him off dead center to do something, and that's what we're here for.

DEPARTMENT OF STATE,
AGENCY FOR INTERNATIONAL DEVELOPMENT,
Washington, D.C., August 29, 1966.

HON. JOHN E. MOSS,
Chairman, Foreign Operations and Government Information Subcommittee, House of Representatives, Washington, D.C.

DEAR CHAIRMAN MOSS: As you requested, I have looked into issues raised by AID Provincial Representative Roger Darling in a CBS-TV interview broadcast on July 22. He criticized the performance and honesty of some Vietnamese local officials, complained of excessive numbers of AID projects and reporting requirements and advocated pressure on the Vietnamese to assume more responsibility for their own salvation. He said some field representatives do not speak up forcefully enough on these issues.

I know Roger Darling and value his suggestions. I believe his views are quite close to our present doctrine. In the CBS-TV statements, he was expressing in too broad generalizations the frustrations common to many working out in the field—too many bright ideas from headquarters, too many demands for reports, too much expected of a few American advisers in a province managed by young (often inexperienced, sometimes indifferent, or dishonest) Vietnamese officers. We also receive many reports from other provincial representatives praising the dynamic leadership of Vietnamese provincial and district chiefs, with whom they work, and in those cases the demand usually is for more aid, more support for additional projects.

Some provreps advocate AID's staffing much of the job we expect the Vietnamese local governments to accomplish. Darling seems to suggest the opposite. My view is that the important achievement is to get the Vietnamese Government to fulfill its citizens' expectations and involve the people in community and nationbuilding.

We are constantly fighting the temptation to yield to special enthusiasms and add more projects. We agree that we should stick to

the basic essentials of stimulating local initiative and responsibility and helping local government and cadre teams carry out simple projects, preferably of a self-help type, in health, education, and agriculture. However, our political and military interests require local action by Vietnamese and U.S. civilian representatives in such activities as the Chieu Hoi defector program, youth work, refugee relief and resettlement, land reform, administrative training, police and other nonmilitary security force employment, etc. If AID does not act in these fields, some other U.S. organization must.

Neither proliferation of activities nor the poor performance of local officials about which Darling complains has prevented substantial achievement in the basic fields. In the first half of this year, 865 self-help projects involving AID commodities have been completed in the villages and hamlets.

In the agriculture field, AID-provided fertilizer was used on close to 2 million acres of land and contributed to increasing farm income by an estimated 1.5 billion piasters in 1965 and 1966. Distribution of improved seeds is estimated to have sent crop yields up by 20 percent or more during this period. In fiscal year 1966, 78,000 acres were newly irrigated and 60,000 acres reclaimed as a result of AID programs. Over 300,000 acres have benefited from water and irrigation control since 1962. Also in fiscal year 1966, 35,000 Vietnamese received approximately \$5.8 million of credit from agricultural credit institutions to which we made substantial contributions. In the last 3 years hog production has increased from 1,694,000 to 3 million and the average market weight from 130 to 220 pounds.

In education, under the fiscal year 1966 program some 2,300 classrooms were completed. The total completed with our assistance is now over 8,000. Over 2 million elementary school textbooks were distributed in fiscal year 1966 bringing the total up to almost 6.8 million. Over 7,000 Vietnamese teachers have completed courses in AID-assisted teacher training schools since the beginning of the program.

Under the health program over 12 million inoculations had been given with AID-supplied vaccine by the end of 1965. Forty-five hundred new health subcenters were developed and stocked in rural areas in the past 3 years. Malaria incidence has been reduced from 7.2 percent in 1958 to 1.57 percent.

These are sample indications that the goods are getting through to the people, and much good work is being done by the Vietnamese.

We are not indifferent to corruption or diversion of AID goods. One of the main purposes of our field staff and of the U.S. military advisers at the district level who work as part of our civil effort is to assure that the U.S. aid commodities are used as intended, for the benefit of the people. Where misuse of our assistance is found, we report the matter to the proper Vietnamese authorities and ask for disciplinary action. In one case, we suspended all aid to a province until the problems were corrected. Within staff capabilities, we conduct end-use audits in the provinces. The mission now is planning a comprehensive audit survey which will include visits to all provinces and examination of procedures and controls in the field.

We could reduce misuse or inefficient use of AID commodities if we moved in enough Americans and managed the jobs ourselves. Clearly this would not be the way to build responsive and responsible Vietnamese local government or to win the commitment of the people to the work of their own government.

Apart from audit and inspection, our basic approach is to work with and nurture the best leadership available, demonstrate by example American standards of public service, and constantly press the Vietnamese higher authorities to enforce the law and assign good people to serve in district and provincial governments.

I hope these comments have responded to the questions which concerned you.

Sincerely yours,

RUTHERFORD M. POATS,
Assistant Administrator, Far East.

GLOSSARY

AAA—Army Audit Agency.
ADP—Automatic data processing.
AFAG—Air Force Auditor General.
AID—Agency for International Development.
AIK—Aid-in-kind.
AMA—American Medical Association.
C. & M.—Construction and maintenance.
CBS—Columbia Broadcasting System.
CID—Commercial Import Division.
CINCPAC—Commander in chief, Pacific.
CIP—Commercial (commodity) import program.
COMUSMACV—Commander, U.S. Military Assistance Command Vietnam.
DCAA—Defense Contract Audit Agency.
DOD—Department of Defense.
FSIC—Foreign Service Inspection Corps.
GAO—General Accounting Office.
GSA—General Services Administration.
GVN—Government of (South) Vietnam.
IG—Office of the Inspector General.
IGA—Inspector General for Foreign Assistance.
IMF—International Monetary Fund.
JCS—Joint Chiefs of Staff.
JUSPAO—Joint U.S. Public Affairs Office.
MAC/V—U.S. Military Assistance Command/Vietnam.
MIS—Management inspection staff.
MPC—Military payment certificate.
NACO—National Agricultural Credit Office.
OSB—Office of Small Business.
OSD—Office of Secretary of Defense.
PHD—Public Health Division.
PMO—Postal money order.
POL—Petroleum, oil, and lubricants.
PSD—Public Safety Division.
PX—Post exchange.
RMK-BRJ—Raymond, Morrison-Knudsen, Brown & Root, and J. A. Jones.
SVN—South Vietnam.
TNT—Trinitrotoluene.
USDO—U.S. disbursing officer.
USIA—U.S. Information Agency.
USIS—U.S. Information Service.

ADDITIONAL VIEWS OF HON. DONALD RUMSFELD AND HON. ROBERT DOLE

INTRODUCTION

The undersigned concur in the facts developed and support the recommendations set forth in the committee report. Because legislative aspects of U.S. involvement in southeast Asia fall within the jurisdictions of several committees of the House, the committee report properly is limited to the areas of jurisdiction of the House Committee on Government Operations. The following comments are a result of the fact that the findings and recommendations of the committee and, indeed, the success of the U.S. economic and military assistance programs in southeast Asia, must be considered in a broader context.

FINDINGS

The committee report points up glaring deficiencies which were found to exist in many aspects of the various U.S. nonmilitary activities in South Vietnam. They include:

A shocking absence of adequate inspection and review by AID in administering the commodity import program and other assistance activities.

AID's failure to conduct even the minimal number of audits necessary to ascertain the effectiveness of present levels of assistance.

The General Accounting Office, the various military accounting agencies, the Departments of State and Agriculture, the U.S. Information Agency, and the Post Exchange Services have either failed to conduct audits and reviews in Vietnam or have done so only on a limited and haphazard basis.

AID officials in Vietnam have held up the initiation and the completion of necessary audits on AID's operations in that country.

Some functions of the assistance programs are overstaffed, while others are seriously undermanned.

The high turnover and lack of training and experience of some personnel have resulted in serious deficiencies.

The United States has failed to establish the necessary leverage with respect to the joint United States-South Vietnamese effort especially since the dramatic change in the U.S. commitment since 1964.

AID and the other U.S. agencies have failed to staff programs in Vietnam with personnel having adequate language ability.

Port operations in Vietnam have been disorganized with the result that substantial numbers of ships have had to wait for long periods before unloading cargoes.

Disorganization in port operations has resulted in the diversion, theft, and spoilage of large amounts of cargo.

Too little emphasis has been placed on civilian medical assistance.

The result of these deficiencies in operations in Vietnam has been that the U.S. economic assistance programs have failed to appreciably assist the Vietnamese in developing a more stable and secure society.

The committee report states in its conclusions as follows:

The American taxpayer has a right to expect that the degree of economic progress realized in Vietnam is commensurate with the vast expansion of the U.S. program of economic assistance. U.S. officials must not hesitate to insist, when necessary, upon the kind of cooperation in the economic field which the GVN has already promised on numerous occasions, most notably at the Honolulu Conference in February of this year.

The findings, conclusions, and recommendations of the committee report, while valid and important—and which will undoubtedly result in savings to the American taxpayer—do not touch the broader problem.

THE PROBLEM

The United States has committed billions of dollars and hundreds of thousands of military and civilian personnel to Vietnam. Thousands of lives have been lost and additional heavy losses can be expected. Equally important, precious time has been lost. Unless we can advance the economic, political, and social development of Vietnam, any military success will be limited and of little lasting value.

Twelve years have elapsed since we began contributing economic assistance and manpower to South Vietnam. Yet, that nation continues to face political instability, lack a sense of nationhood, and to suffer social, religious, and regional factionalism and severe economic dislocations. Inflation continues to mount, medical care remains inadequate, land reform is virtually nonexistent, agricultural and education advances are minimal, and the development of an honest, capable, and responsible civil service has hardly begun. Communist military activities in Vietnam continue, land areas under dispute remain at a high and relatively constant level, acts of terrorism occur daily, even in supposedly secure areas.

The nature of the struggle in southeast Asia is relatively new. One seldom sees large armies massed along a well-defined front. The pressures being exerted by the Vietnamese Communists to undermine the South Vietnamese Government are more subtle, but no less effective. The well-disciplined and flexible tactics of the Vietnamese Communists, the highly developed infrastructure, the access to nearby sanctuaries, the absence of a language capability on the part of U.S. personnel, the shortage of Vietnamese military and civil leadership, and the tragic scars on the Vietnamese people after decades of war, all have made the task more difficult.

It is anticipated by the administration that with the dramatic military buildup, the United States can gain a measure of military success.

But it must be realized that such success will be only temporary, lacking considerably greater progress in the nonmilitary aspects of the problems in South Vietnam. Surely the gravest problem facing the United States and the Government of South Vietnam is the almost total lack of success on the nonmilitary side of the effort. All could be wasted unless the political instability, religious and regional differences, and the severe economic difficulties are remedied.

CONCLUSION

Recognizing the difficulties, the fact remains that lacking success in meeting the economic, social and political problems, the U.S. effort, with thousands dead and billions spent and precious time lost, could be completely wasted.

If there is a single lesson to be drawn thus far from our experience in South Vietnam, it is that the United States, and, indeed, the free world, have failed thus far to develop strategies, programs and techniques to meet the Communist pressures which exist in southeast Asia and elsewhere in the world, point to point, early.

We have failed to develop the capability to assist a nation requesting our aid in developing political, economic, and social stability. We have found that the today crude, World War II type responses to these new and more subtle pressures are inadequate, often ineffective, and frequently inapplicable. Without political and economic stability, without a sense of nationhood, without the forms of citizen action and responsibility, which we in this country take for granted and which have been the source of our progress, the South Vietnamese people will be unable to retain any measure of freedom which the United States might be able to help them achieve.

While the committee report points out specific shortcomings in the administration and audit of current programs, it fails to point out that a complete review of U.S. policies and programs with respect to the nonmilitary side of the effort must be undertaken if we are to reverse this trend.

It is essential, therefore, that the United States establish policies and priorities which will meet the political, social, and economic situation as it exists. It is also essential that the United States develop the necessary management tools and administrative skills to carry out such policies and programs effectively.

The committee investigation pointed up serious problems relating to the administration of programs of the United States in South Vietnam. The administration has demonstrated a willingness, although belatedly, to undertake necessary changes to implement many of the recommendations made in the report. But this is not enough. The administration has failed thus far to undertake a broader reevaluation of our policies and approaches. No matter how efficiently the present policies are administered, the real problem is the development, by the United States, preferably working in cooperation with other free nations rather than alone or almost alone as at present, of programs and techniques and approaches more suitable to meeting the pressures as they exist in Vietnam.

DONALD RUMSFELD.
ROBERT DOLE.

ADDITIONAL VIEWS OF HON. OGDEN R. REID

If the promise of social and economic change in the villages and hamlets of South Vietnam is to be realized, greater emphasis must be placed on reform by the Saigon government.

Meaningful land and education reform will come only if there is more of a basic commitment to change, beginning with the recognition by the Saigon establishment and the mandarins that the relative status quo must yield to the needs of the future.

Significant land reform is essential if the people of the rural areas—comprising about 80 percent of the population of South Vietnam—are to have a sense of participation in their future. Reportedly, up to 2 million acres—some expropriated by the French—have yet to be distributed. Unless there is a major land reform, many peasants will continue to lack faith in their future and confidence in government.

Secondly, greater efforts must be made by the South Vietnamese in education, at all levels, but especially at the high school and university level. Without a baccalaureate or double baccalaureate degree, many South Vietnamese, especially those in rural areas, are virtually denied the opportunity to serve in the government or in the officer ranks of the military service.

Thirdly, the United States must strive harder to assist the Government of South Vietnam in training a capable and responsible civil service. All too frequently, inefficiency and instances of corruption have been present. Representatives of the merchant and land owning families are entrenched in various strata of this bureaucracy. Under present circumstances, their position is so solidified that even after the cessation of military hostilities, they may be able to perpetuate their control. If this is permitted to happen and if inefficiency and corruption are not overcome at the province and district level as well as in Saigon, the Vietnamese population will have little opportunity to raise their standard of living.

Lastly, while the forward military strategy has helped to keep main force units off balance, greater emphasis should be placed on "secure and hold operations," perhaps not dissimilar to the tactics employed in the Greek war against Communist guerrillas. Rural pacification and reconstruction programs will be less than meaningful without security and less than viable without major reforms to back them up.

Rigorous reform in these and other areas by the South Vietnamese Government is important if the United States is to succeed in assisting the Vietnamese people to meet the revolution of rising expectations—which to many is almost a "lost revolution." It is questionable whether half measures will succeed—a much higher priority to genuine reform and commitment to action appears essential.

OGDEN REID.

ADDITIONAL VIEWS OF HON. JOHN E. MOSS, CHAIRMAN,
FOREIGN OPERATIONS AND GOVERNMENT INFORMATION
SUBCOMMITTEE

I subscribe and concur thoroughly with the comments expressed by Congressman Ogden Reid.

However, a careful review of the additional views of Congressmen Rumsfeld and Dole clearly indicates that all matters covered in those views are merely a restatement of findings in the report which was adopted with but one dissenting vote by the Committee on Government Operations. They add in no constructive way to the recommendations made by the committee. It is obvious also that no issue is taken with the diligence of the investigation.

The committee will continue to maintain the closest of surveillance over all programs within its jurisdiction to make certain there is full implementation of corrective measures. It is my hope that this effort can be a bipartisan one—although I must confess disquiet over the negative tenor of the additional views of my colleagues, Mr. Rumsfeld and Mr. Dole.

JOHN E. MOSS.

