

COMMENTS BY THE DEPARTMENT OF STATE AND ICA  
ON THE  
REPORT OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS  
"UNITED STATES AID OPERATIONS IN LAOS"

June 15, 1959

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Introduction

The Report of the House Committee on Government Operations, "United States Aid Operations in Laos" reviews various aspects of the Mutual Security program in Laos, sets forth various conclusions, and makes several recommendations. The Department of State and ICA have noted each of the recommendations made in the Report, some of which represent existing policy or practice. They are studying them with a view to taking appropriate action.

We are aware that there have been shortcomings in some projects and procedures in the Mutual Security program carried out in Laos, and it is our resolve to correct past deficiencies and to improve future administration to the best of our abilities. To this end we welcome constructive criticism and appreciate the assistance rendered by the Committee in focusing attention on areas where improvements can be made. This does not mean to say that we concur in all the conclusions of the Committee or that activities which have given rise to some of these conclusions were not proper and justifiable, in our opinion, within the framework of larger objectives of the vital Mutual Security program.

The Report focuses on areas of alleged administrative deficiency. This is an inevitable consequence of the House Foreign Operations and Monetary Affairs Subcommittee function to review the efficiency and economy of foreign aid operations. The Report states that the Subcommittee "does not concern itself with the policy of the Foreign Aid Program". As a consequence, the Report cannot be, nor does it purport to be, a balanced review of the full nature of the Mutual Security program in Laos, the validity of its objectives, and its efficacy in achieving those objectives. This is important to bear in mind, because despite the deficiencies and shortcomings in the administration of the program in Laos, its major objectives have been and are being achieved with signal success.

These objectives are to assist the Lao (1) in keeping the Communists from taking over Laos, (2) in strengthening their association with the free world, and (3) in developing and maintaining a stable and independent government, willing and able to resist Communist aggression or subversion. Speaking of the policy aspects of the Mutual Security program in Laos, Assistant Secretary of State Walter S. Robertson testified before the Subcommittee:

"In my opinion the prospects for that country have clearly improved in the past year and our policy objectives have been furthered. These favorable developments are the result of a considerable effort on the part of the patriotic leaders of Laos, an effort that could not have been attempted with any chance of success without the material support of our Mutual Security Program.

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continuation is a necessity if Laos is to remain free and independent and strong enough to resist the pressures from its Communist neighbors." (Underscoring supplied)

Congressman Walter H. Judd, in a speech before the House of Representatives on June 3, 1959, stated:

"Mr. Speaker, during the past few months the newspapers and congressional hearings have resounded with charges of mismanagement and bungling in our mutual security program in Laos. The impression has been left that the program is a costly failure. Nothing could be further from the truth. As I stated during debate on the mutual security program a year ago and as Assistant Secretary of State Robertson testified eloquently before the Foreign Affairs Committee in its recent hearings on the program, we have succeeded in what we set out to do; we have preserved the independence and freedom of this little country dangerously threatened by Communist forces and infiltration along its 600-mile border with Communist China and Communist Vietnam.

"The fact is that American diplomats and American aid personnel have successfully fought one of the most difficult and bitter battles in the cold war against almost impossible odds and, so far, have won.

"It is important that Members of the Congress should understand and appreciate the achievement which these hard-working people, living and working under the most primitive conditions have made."

REVIEW OF CONCLUSIONS LISTED IN REPORT

Conclusion (1)

Giving Laos more foreign aid than its economy could absorb, hindered rather than helped the accomplishment of the objectives of the Mutual Security Program.

Comment

It is true that, in the first years of the program, more aid dollars were made available to Laos than were required for imported commodities to meet the essential needs of the economy. The decision to give aid at the level then provided was based, in part, on the necessity to provide kip (Lao currency) in the amount required to finance the cost of the army. Moreover, experience in other countries has shown that the levels of government spending for military support and other purposes, not covered by revenues, may be expected to result in a demand for commodity imports reasonably commensurate in value with this government spending. When, after some experience, it appeared that such was not going to be the case in Laos, the U. S. explored ways of reducing the aid level without jeopardizing Mutual Security objectives. A sharp reduction in the amount of new aid took place in Fiscal Year 1958; and, with the U.S.-urged, Lao monetary reform of October 1958, a still further reduction was achieved in Fiscal Year 1959.

Whether giving Laos more aid in the past than its economy could absorb hindered the accomplishment of the aid program's objectives would be difficult either to affirm or to refute. The significant fact is that the major objectives of the Mutual Security Program in relation to Laos have thus far been, and are being, achieved. These objectives are to assist the Lao in keeping the communists from taking over Laos, in strengthening their association with the free world and in developing and maintaining a stable and independent government, willing and able to resist Communist aggression or subversion.

Conclusion (2)

Excessive cash grants forced money into the Lao economy at a faster rate than it possibly could be absorbed, causing:

(a) An excessive Laotian Government foreign exchange reserve, reaching at one point \$40 million, equal to a year's aid.

(b) Inflation, doubling the cost of living from 1953 to 1958.

(c) Profiteering through import licenses and false invoices which made possible the purchase of U.S. cash grant dollars for 35 kip. Those dollars could be resold in the free market for as much as 110 kip.

Comment

One consequence of giving cash grant dollars at a faster rate than required for essential imports, as the report accurately points out, was that the foreign exchange reserves of Laos gradually rose over a period of three and a half years to nearly \$40 million. By this very token, however, whatever "excess" there may have been was not forced into the economy. Subsequently about half of this reserve was drawn down in helping the country adjust to the impact of monetary reform. Had there not been such a reserve, more United States aid at this time almost certainly would have been required to help absorb that impact.

With respect to the amount of inflation that occurred, it is noted that the report refers to the period from 1953 to 1958. This includes the two war years of 1953 and 1954, before cash grants under this program had begun. Taking the period during which this aid actually was given (1955-1958), the rise in prices was about half that mentioned in the report. The striking thing in this connection, however, is not that there has been inflation, but that it was so modest. Certainly, without aid in very substantial amounts, extremely damaging inflation would have occurred, as it has occurred in other countries under similar circumstances.

The statement that profiteering through import licenses and false invoices made possible the purchase of U.S. cash grant dollars for 35 kip per dollar needs clarification. Profiteering provided some of the kip used in purchasing dollars, but it was not responsible for the rate itself. As the report points out, and as U.S. officials responsible for the program themselves came clearly to recognize, this unrealistic exchange rate was the fundamental cause of the abuses which appeared. To correct it, a monetary reform was ultimately introduced after much urging from U. S. officials. Under it the official rate was changed from 35 to 80 kip per U.S. dollar.

Conclusion (3)

Much of the overspending is the direct result of a determination to maintain a 25,000-man Lao Army.

Determination of "force objectives" (the level or the number of troops needed for the security contemplated by the Mutual Security Program) has always been considered a military decision for the Joint Chiefs of Staff and the Department of Defense.

In Laos, however, the decision to support a 25,000-man army with U.S. aid funds was made by the Department of State, despite contrary recommendations by the Joint Chiefs of Staff. This was a political decision in a military field. There is no evidence that it was essential to support a 25,000-man army. In fact, significant military opinion has suggested a force of 12,000 to 15,000.

Comments

Current U. S. policy is to support a maximum of 25,000 troops and, in the opinion of the Executive Branch, this level should be maintained until the internal and external security threat permits a reduction. When the U. S. in January, 1955 took over primary responsibility for support of the Lao armed forces, there existed a Lao army of about 30,000 which had been earlier maintained by the French. At that time our diplomatic mission in Vientiane, after consultation with the MAAG in Saigon, suggested a force level of slightly under 25,000. The small Lao National Army is, of course, not a purely military organization in the traditional sense. It has important missions for the maintenance of internal security, and the definition of these missions would certainly require a political judgment. Subsequent events have justified from a military as well as a political standpoint the determination of the force level recommended in 1955.

Conclusion (4)

A basic difficulty - undermining the success of the aid program in many ways and giving rise to the evils of speculation, profiteering and corruption - was the artificial, unrealistic "official" rate of exchange of 35 kip to the dollar, whereas the free market rate soared as high as 110 to \$1. It took the Department of State and ICA four years to overcome this difficulty.

Comment

Nearly four years did elapse from the time the aid program began to the time when a monetary reform plan was put into effect and the exchange rate raised from 35 to 80 kip per U.S. dollar. At the beginning of this period the lower rate was in effect in all the three countries of Indo-China (Vietnam, Cambodia and Laos), and no reason was seen seriously to question it.

Later, when, as a result of subsequent developments, the rate became seriously out of line, it was not easy to determine from a technical point of view what the best solution would be, nor to agree with the Lao Government on a solution. Internal political and military conditions further complicated the problem. Laos was a divided country with two northern provinces held by the Pathet Lao. The Royal Army was engaged in fighting the Pathet Lao forces. With fears of a disastrous settlement with the Pathet Lao, when coalition first seemed imminent in late 1956, the free market rate for kip dropped from around 75 kip per dollar to 100 kip per dollar. Progress that had been made toward more effective controls was reversed, and the incentive for excessive and illegal profits became overwhelming. This corruption dramatized the need for monetary reform and set the stage for negotiations to this end which were initiated in October 1957. The fear by many responsible Lao that prices would rise, especially since that had been true following the 1953 devaluation, and the opposition to reform by those profiting from the exchange rate, or believing that Laos' sovereignty was being offended by U. S. urgings for monetary reform delayed the Royal Government's decision to institute the reform. It was only after the elections of May 1958 that Lao leaders accepted the necessity for monetary reform. Once the decision was made and a government strong enough to carry out reform measures was established, the Government moved relatively quickly in setting a new realistic rate.

Conclusion (5)

The concentration of the benefits of the aid program to the area around Vientiane and other centers of population, and the enrichment of, and speculation by, Lao merchants and public officials which attended the aid program, tended to lend credence to the Communist allegation that the Royal Lao Government was "corrupt" and "indifferent" to the needs of the people.

Comment

Communist propaganda did attempt to capitalize on reported misuse of aid funds and on reports that relatively few people profited from the aid program. It also is true that in the earliest days of the program the benefits from U.S. aid were to be seen largely in the principal population centers to which the major part of the aid arrivals were destined. Many of the ordinary people, even in these centers, were not aware of the importance to them personally of having an adequate supply of the very consumer goods, brought in under the aid program, which they were buying; nor were they aware of what the consequences would have been had there not been such goods and had rampant inflation taken over.

As the aid program has developed, however, its benefits have been spreading over a wider and wider area. By the end of the current year, in a program which began in 1957, spraying to control malaria will have protected 700,000 persons against this disease all over the country. Yaws, a contagious disease of the skin, has been virtually eradicated in all of Laos. The number of villages getting primary schools and teachers is rapidly increasing with U.S. help. The programs, Civic Action and Operation Brotherhood, have brought medical care to many villagers in remote areas and helped to mobilize self-help efforts behind locally useful projects in rural communities in many parts of Laos. An expanded effort in a coordinated rural program is now getting under way providing assistance to efforts of the rural people in digging wells, building school houses, constructing feeder roads, improving their agriculture, and establishing better market places.

### Conclusion (6)

Neither the first Director of the U. S. Operations Mission (USOM), Carter dePaul, nor his successor, Carl B. Robbins, showed any clear awareness of the problems that confronted the program or any expertness in meeting them. The first evaluation group that ICA/Washington sent into Laos (the Sessions Group) made a report of which the main thrust was that the Director should be replaced, but this did not occur for 14 months, and then only by transfer tantamount to promotion. Robbins has stated that his mission was to "clean up the mess", but there is little indication that he did so.

### Comment

The difficulties attending the initiation of the U.S. aid program in Laos were enormous. This small, remote, landlocked country, which is one of the poorest and most underdeveloped in the world, had only just obtained its precarious independence. A rival, Communist-dominated government, sustained by hostile, overwhelmingly powerful Communist neighbors to the north, was implanted within the national boundaries and was engaging the legally constituted Royal Government in both open armed attack and widespread internal subversion. Executive, legislative, judicial, and financial experience and institutions were pathetically lacking. The vast majority of the population, barely eking out a minimal existence in primitive subsistence agriculture, debilitated by low dietary standards and centuries of endemic diseases, and less than 15 percent literate, did not even possess a well-defined national consciousness.

Field communications sent to ICA/Washington during this period repeatedly revealed the acute awareness of Carter dePaul, the first USOM Director, of the fundamental problems confronting the program and his efforts to cope with them effectively. Mr. dePaul faced exceptionally difficult tasks as well as personal hardships with fortitude and skill. ICA carefully reviewed his performance during his tour of duty, particularly in the light of the critical review of the Mission program prepared for ICA by an ICA evaluation team (the Sessions Group). The considered decision made by ICA was that Mr. dePaul was performing with credit and that his continued service in Laos at that time was necessary and in the best U.S. interests. Mr. Carl B. Robbins, who succeeded Mr. dePaul, remained in that position for only about six months, and he was in turn succeeded by Mr. Daly C. Lavergne, the present Director, under whom many substantial improvements have been made on foundations first established under Mr. dePaul in the face of extreme difficulties.

Conclusion (7)

Edward T. McNamara, Public Works and Industry Officer, accepted bribes totalling at least \$13,000 from Willis H. Bird and Gerald A. Peabody of the Universal Construction Company in return for helping them secure lucrative contracts and overlooking deficiencies in their performance.

Comments

Mr. McNamara, a former employee, admitted the foregoing facts to the Subcommittee after giving the Subcommittee contrary sworn testimony. ICA has been very deeply concerned by these admissions and has referred the matter to the Department of Justice for appropriate action. All other instances where questions as to the propriety of actions by ICA personnel have been raised in the hearings before the Subcommittee are likewise being thoroughly investigated.

It is perhaps worth noting that the former employee here involved was not employed by ICA prior to his assignment in Laos and that he resigned from ICA at the conclusion of this assignment two years later. It should also be noted that ICA was investigating this situation itself even though the person involved was no longer employed by ICA. When he refused to furnish financial data including bank records, ICA's Office of Personnel Security and Integrity, lacking subpoena power, suggested to a Subcommittee staff investigator that he might be able to obtain these data with the Subcommittee's subpoena power.

Instances of conduct like Mr. McNamara's have been rare in the long course of ICA operations throughout the world. As Mr. Saccio, Acting Director of ICA, stated to the press upon learning of this matter, a case like this ". . . has been the extreme exception and is a disservice to the corps of ICA employees who over a period of 11 years in operations in more than 60 countries have built up a record of dedication and honesty in which all Americans can take pride."

Conclusion (8)

William E. Kirby, area transportation adviser, aided by dePaul's circumvention of ICA regulations, was instrumental in securing the award of a contract, for the supply of ferry barges, to the Hong Kong Transportation Company. Shortly thereafter, he was employed by its affiliate, Pacific Islands Shipbuilding Company. While the contract was being negotiated, he was the recipient of \$500 from the Hong Kong Transportation Company which has not been satisfactorily explained.

Comments

No evidence has been produced by the Subcommittee nor received from any other source indicating that Mr. Kirby's subsequent employment with Pacific Islands Shipbuilding Co., was in any way brought about by the performance of his duties for ICA as advisor in the award of the contract for the supply of ferry barges to the Hong Kong Transportation Co.

With respect to his receipt of \$500 from the Hong Kong Transportation Co., the following facts are offered to supplement the Report:

Mr. Kirby's receipt of the \$500 was disclosed at a public hearing of the Subcommittee without further explanation indicating its impropriety. This disclosure was published in the press. Immediately thereupon, Mr. J. H. Vaughan, Managing Director of the Hong Kong Transportation Co., sent a cable to the Subcommittee stating that testimony to the Subcommittee could imply that improper transactions with Kirby had resulted in the award of the ferry barges and adding: "WE URGENTLY REQUEST THAT UNITED STATES CONSULATE GENERAL IN HONGKONG BE INSTRUCTED TO CONDUCT AN IMMEDIATE AND FULL INVESTIGATION OF EVERY ASPECT OF THIS MATTER TO THIS END I HAVE TODAY INSTRUCTED MR KIRBY NOW IN INDIA TO RETURN TO HONGKONG IMMEDIATELY TO PLACE HIMSELF AT THE FULL DISPOSAL OF THE INVESTIGATION WE EARNESTLY SEEK." The Subcommittee replied by cable to Mr. Vaughan stating that the U. S. Consul General was not authorized or prepared to make the investigation for the U. S. Congress, and extended an invitation to Mr. Vaughan and Mr. Kirby to appear in Washington before the Subcommittee at their own expense at a mutually agreeable time within the next 15 days, provided they brought with them all company and personal records, documents and correspondence including financial records of the many types outlined in the cable, from January 1, 1951, to date.

ICA is conducting a full investigation of Mr. Kirby's activities as an ICA employee and especially of his relations with the Hong Kong Transportation Co., and its affiliates during the time of his employment by ICA. This investigation includes a full review of his financial dealings. For this purpose, Mr. Kirby has voluntarily made available his banking and financial records.

Conclusion (9)

Brig. Gen. Lacey V. Murrow, USArmy (Ret.), head of the engineering firm of Transportation Consultants, Inc., was under retainer to Vinnell at the same time that he was employed by ICA in Laos as an engineering consultant for the purpose of assisting in the selection of construction projects. During this period Vinnell Co. was seeking to obtain contracts with ICA in Laos.

Comments

The Report itself asserts ". . . the Subcommittee wishes to state at this point that it has not seen any evidence that improper influences were actually exerted in this case to the advantage of Vinnell Co. or the detriment of the Government."

Conclusion (10)

(a) General Murrow discussed frankly this employment and retainer situation with the subcommittee. However, A. S. Vinnell, President, and Frank S. McNamara, Vice President, of Vinnell Co., misinformed the subcommittee under oath concerning their relationship with Murrow.

(b) After an allegation that a conflict of interest situation existed in the Vinnell-Murrow relationship, ICA's Office of Personnel Security and Integrity contacted Vinnell Co. by long distance telephone in California, and also made a single, perfunctory, fruitless inquiry in Bangkok. They received from Vinnell a denial that any contract relationship with Murrow existed for the period in question. Accurate information concerning the relationship might have been secured from Murrow's office, located only a block or two away from ICA headquarters in Washington.

Comments

ICA's Office of Personnel Security and Integrity made more extensive inquiries into the above matter than indicated in the above statement. The Subcommittee made its own investigation followed by intensive examination of the principals and others in Subcommittee hearings. The Report indicates that there is no evidence that improper influences were exerted in this case to the advantage of The Vinnell Co. or the detriment of the Government.

Conclusion (11)

Norman McKay, an employee of Transportation Consultants, Inc., acting as consultant to the USOM, was instrumental in securing the award to Universal Construction Company of a contract to construct a ferry ramp in Laos. Shortly thereafter, he went to work for Universal as project manager.

Comments

Mr. McKay, an employee of one private contractor took a job with another private contractor. Although both contractors performed services under ICA-financed contracts, it should be pointed out that Mr. McKay was not a U.S. Government employee and would not have been subject to statutes or regulations governing the conduct of U. S. Government employees had he acted in contravention of them. We have no evidence from the Subcommittee or any other source indicating that Mr. McKay negotiated for a job with Universal while working on the ferry ramp project, or that his subsequent employment with Universal had any connection with his role in this project, or, in general, that he was guilty of any wrongful conduct of any sort.

Conclusion (12)

(a) Carter dePaul, former USOM Director, sold his 1947 Cadillac upon his departure from Laos to Gerald A. Peabody, head of Universal at an inflated price. Uncontroverted evidence indicates the vehicle was at that time inoperable, and that shortly thereafter it was cut up and the pieces dropped down an abandoned well. In the interim, it had stood rusting in front of Universal's main office, where it was the subject of scornful amusement by Lao and Americans alike.

(b) In order to convert the proceeds of his sale to Peabody (the sales price was in kip), he presented false information to the Embassy as to the original cost of the car to him; of \$2000 claimed, it is doubtful that more than \$1250 can be supported.

(c) Asked to explain the false information he had submitted in his official claim, he presented misleading and conflicting testimony to the Subcommittee under oath.

Comments

Several weeks ago, when the Subcommittee in its hearings manifested an interest in the above subject, Mr. Carter dePaul requested ICA to make a full review of this matter as well as a complete review of his financial affairs during the period of his association with the foreign aid program. This review is now in process.

Mr. dePaul appeared several times before the Subcommittee and its staff to explain the sale of his auto. He presented the Subcommittee with his financial and business records and correspondence dealing with this matter and has stated that the vehicle was operable at the time of sale. The sale of his car and the conversion of the local currency proceeds into dollars were fully disclosed and the facts registered with the U. S. Embassy in Laos at the time in question.

### Conclusion (13)

ICA/Washington was the recipient of continuing information from reliable sources - including GAO, end-use auditor Haynes Miller, contract management expert Howell, ICA auditor Edward Burns, a team from ICA's Office of Evaluation, and the Sessions group - concerning the major problems plaguing the Lao program, alleged improprieties, and suitable corrective measures. No significant remedial action was taken.

### Comments

The problems described and remedial measures proposed in the various investigative reports cited cover too wide a field to be treated in full detail here. We completely disagree, however, with the assertion that no significant remedial action was taken with reference to problems covered by the reports. The Report describes the activities and recommendations of these various groups, and we submit the following additional comments with respect to them:

#### The Howell Group

The reports and recommendations of the Howell group always were, and have continued to be, of the greatest interest and concern to ICA. Reports received in the field were carefully studied by all appropriate Mission officers. Discussions designed to lead to all possible improvement in the conditions described in the reports were held on a regular basis between responsible Mission personnel and members of the Howell group. The reports submitted to Washington were received initially by the Public Administration Division which carefully reviewed them, distributed copies to all appropriate ICA offices for any further action required, and arranged meetings between Mr. Howell and various ICA staff members. The records of various functional ICA offices reveal evidence of some type of ICA action related to the Howell group operations several times monthly, from the inception of the contract with the Howell group to its conclusion.

#### Sessions Group

The "Sessions Report" was carefully reviewed both in ICA/Washington and in the U. S. Operations Mission (USOM) in Laos. Action was taken to carry out those recommendations in the report which were accepted as desirable. It was not possible, for many practical administrative and policy reasons, to put all of the recommendations into effect.

#### Miller Reports

Mr. Miller prepared 20 audit reports on various phases of the Lao program. The audits were directed at administrative deficiencies in the Lao Government and irregularities in respect to suppliers and contractors who were financed

directly or indirectly through the Mutual Security Program. Responsible USOM officials discussed Mr. Miller's views with him. His reports were reviewed by the USOM Controller and Mission staff and were subsequently officially issued with copies transmitted to ICA/Washington. ICA regulations assign responsibility to the USOM for correcting irregularities identified in USOM audit reports. The USOM did take such actions as it considered appropriate to remedy the situations disclosed by Mr. Miller. Many of the irregularities pointed out by Mr. Miller were not within the competence of the USOM to correct by direct action, e.g., administrative deficiencies in the Lao Government. Others, involving allegations of fraud, were not matters upon which the USOM could act without proof of fraud. Reports by Mr. Miller alleging fraud were submitted to the ICA Regional Inspector on the eve of Mr. Miller's departure to the United States. The Regional Inspector took such investigative action as to him appeared appropriate, including the referral of the reports to ICA/Washington in order that they might be reviewed by ICA with Mr. Miller upon his arrival in Washington for the purpose of developing further specific facts needed to initiate an investigation.

ICA/Washington also took action based upon Mr. Miller's reports. For example, because of certain irregularities, ICA made a demand upon the Lao Government for \$163,000 expended by ICA to finance the transactions involving the irregularities. ICA also secured redress from a supplier who had furnished unsatisfactory equipment.

Furthermore, when Mr. Miller returned to the United States he was interviewed at length by responsible officials of the ICA Controller's Office on his audit findings, and by officials of ICA's Office of Personnel Security and Integrity with respect to his allegations of fraud and corruption. His recommendations and charges were carefully considered in ICA and resulted directly in the ICA action of sending a special auditor, Mr. Edward J. Burns, out to Laos to make a full audit of all transactions concerning the Universal Construction Company.

#### General Accounting Office Reports

It is undeviating ICA practice to give serious consideration to every recommendation made in a report from the General Accounting Office. These reports are helpful to this agency in spot-lighting areas of weakness and ICA welcomes the constructive criticisms offered for the purpose of improving administrative practices and procedures.

#### ICA's Office of Evaluation Report

Recommendations made in Evaluation Reports, which are prepared especially for the Director of ICA, are always carefully reviewed by the Director and his top executive staff and such action is taken on them as in the Director's judgment is appropriate.

Burns Audit

ICA took sweeping action on the basis of the Burns audit of the transactions of the Universal Construction Company, namely, the issuance of directions to the USOM not to award additional contracts to Universal, to suspend payments under existing contracts pending determination of claims that might exist against Universal, and to make claims for reimbursement against Universal in those instances where evidence of overpayment and inadequate or non-performance are substantiated. This has been followed by investigations by the ICA Office of Personnel Security and Integrity which are continuing.

### Conclusion (14)

In the light of all the evidence available, the conclusion is inescapable that Haynes Miller was "railroaded" out of Laos because he was close to discovering the truth about Universal, its bribes, its virtual monopoly of U.S. aid construction projects in Laos, and its woefully inadequate performance. The prime mover in ousting Miller was USOM Director Carl Robbins, acting on the basis of his confidence in Edward T. McNamara and the USOM Controller Harry Harting. Ambassador Parsons abetted this removal and lent it the color of his name and office.

### Comment

Action was taken to return Mr. Haynes Miller to the U. S. on the initiative of the Mission Director in Laos. Mr. Miller's general attitude and conduct had demonstrated his failure to adjust to the requirements for successful execution of his responsibilities in Laos. Mr. Miller had looked into a number of matters which were outside the immediate field of his functions. Also, Mr. Miller had alienated some U. S. and host country officials by the manner in which he conducted his investigative activities and by the extreme and sometimes exaggerated allegations he had made.

Subsequent review of the charges made by Mr. Miller disclosed that there might be a factual basis for some of his charges and these were subsequently investigated thoroughly. Pending a full investigation of Mr. Miller's charges, he was put on duty in the Controller's office in Washington.

Despite Mr. Miller's failure to adjust to the requirements for successful execution of his responsibilities in Laos, ICA did not feel that this failure necessarily indicated that he would not be able to function adequately at another post. ICA, therefore, offered him another position overseas at a comparable salary and grade. He declined this offer.

The Ambassador did not influence the resignation of Mr. Miller in Laos but, in response to a Department of State inquiry after the event, simply confirmed that Miller had resigned some days previously.

We do not consider that the facts justify the assertion that Mr. Miller was "railroaded" out of Laos. His departure from Laos cannot be properly ascribed to "disclosing the truth" about Universal operations. All his charges including those concerning Universal have been the subject of thorough ICA review and investigation which is continuing down to the present time.

Conclusion (15)

In the light of all the evidence available, including documentation of the Lao Government's request for the continuation of the contract, the conclusion is inescapable that the Howell group was eased out of Laos because they were insisting that the U. S. aid program be subjected to proper controls. Under proper controls, improper activities would have become much more difficult.

Comment

The Howell contract expired by its terms on June 30, 1958. The principal task for which the Howell group was engaged was to advise the Lao Government on procurement and import problems and connected problems of foreign trade. The basic cause of these problems was the unrealistic exchange rate and the discrepancy between it and the free market rate. This was recognized by ICA/Washington, the Mission, the Howell group, and all other competent observers. By June of 1958 it was apparent that our discussions with the Lao Government, leading to necessary monetary reform, were approaching a favorable conclusion. This reform was introduced a few months later. It ended the need for the types of controls earlier required and also resolved the main problems the Howell group had been employed to deal with.

We do not consider that the facts justify the assertion that the Howell group was "eased out" of Laos.

Conclusion (16)

As an instance of the lack of executive ability and informed alertness of USOM Director Carl Robbins, special note should be taken that, when asked to name a deputy, he made two nominations: Edward T. McNamara and William E. Kirby.

Comment

Mr. Robbins served as USOM Director for only six months before leaving ICA. This was his initial and only employment with ICA. While in Laos, he did, on his own initiative, make the nominations for deputy described above. Neither nomination was approved by ICA and both Mr. McNamara and Mr. Kirby terminated their employment shortly thereafter at the expiration of their respective tours of duty.

Conclusion (17)

A costly aid project for training, equipping, and advising the national police force of Laos so as to provide internal security and simple law and order has been operating for more than 3 years. Although ICA sought to convince the Subcommittee otherwise, there is no evidence to contradict numerous official reports from Laos that the project's objective is not near attainment. It is fortunate that by nature the Lao seem to be a peaceable people not inclined to criminal behavior.

Comment

ICA does not consider that it has ascribed unwarranted progress to this program. We agree that the objectives of this program have not been fully accomplished and that we have not overcome all of the deficiencies in the forces being assisted. We do not contend that police operations in Laos have attained American standards or standards essential for conditions existing in Laos. Much remains to be done, particularly in the areas of training additional members of the police force and of advancing skills in the maintenance of equipment.

ICA does believe that substantial progress has been made, however, and that, particularly in the period since June 1958, such progress has been steady and continuous. A qualified U.S. staff of police advisors has been recruited and assigned to the USOM; Lao police officials now are accepting technical advice and guidance from this staff; a police training school has been opened and is in operation; additional members of the Lao police have been given specialized police training in third countries and more such training is planned.

The Report quotes statements from monthly reports of the USOM Public Safety Officer in Laos during a time when, in our judgment, the program was at a low ebb. Later USOM reports reflect the current situation together with the progress which has been made in the program.

We agree with the observation in the Report that it is fortunate that the Lao, by nature, are a peaceable people, not inclined to criminal behavior. However, the control of routine crime has never been a major objective of the Public Safety Program in Laos. Communist subversion does remain a threat and it is the U.S. aim to assist Laos to establish and maintain a strong, well-trained police force to help counter that threat.

Conclusion (18)

ICA/Washington took more than eighteen months to negotiate a final signed contract for highway engineering services (with Vinnell). There was a period of 4 months of total inaction by ICA's Area Operations Division. As a result:

(a) Control of the road program passed from ICA/Washington to USOM/Laos.

(b) Officials of the USOM assisted and encouraged the development by the Universal Construction Company of a virtual monopoly of U. S.-financed construction projects in Laos.

(c) Universal, through the bribery of McNamara and the failure of other USOM/Laos officials to perform properly was able to secure payments totalling over \$1.6 million dollars for performance that was inadequate and did little to enhance the economy of Laos or the prestige of the United States.

Comment

ICA agrees that the administration of the Highway program left much to be desired. The Subcommittee, after making an intensive review of this program has outlined its many deficiencies. Many of these are attributable, as the Report points out, to the failure in the administration of this program to conform to regular ICA contracting and programming procedures. There are extenuating circumstances which could be described to explain some of these departures from standard procedures, but that does not alter the fact that they resulted in deficient administration. It is interesting to observe that deficiencies attributable to actions outside the purview of standard procedures are, of course, not typical of normal ICA operations which comply with standard procedures. The facts disclosed in this Report emphasize the soundness of ICA's present policy of limiting to the maximum extent practicable exceptions to standard procedures.

Steps have been taken by ICA to guard against a repetition of past faults in administration characterizing the Lao highway program and to improve administrative practices.

Conclusion (19)

USOM Director Carter dePaul violated ICA contract regulations in several important respects, particularly in relation to the Universal contracts. His actions included -

(a) Writing two contracts for a single job, in order to evade the rule that a USOM/Director cannot write a contract for more than \$25,000 without ICA/Washington approval.

(b) Writing contracts with inadequate specifications; one contract included a provision that the contractor (Universal) was not required to complete any work under the contract.

(c) On at least one occasion, completely reversing the usual order of procedure: the work was started first; the contract came next; later (with the contract already signed) invitations to bid were issued; and finally ICA/Washington authorization (which should have preceded all other steps) was obtained.

Comment

These statements all appear to be related to the Highway Program, (See conclusion 18).

Conclusion (20)

ICA/Washington and, in particular, its Office of Personnel Security and Integrity, have failed to investigate promptly and diligently charges of improprieties brought to their attention, even charges made by ICA's own personnel.

Comment

We cannot agree that ICA/Washington, and particularly its Office of Personnel Security and Integrity, has failed to investigate promptly and diligently charges of improprieties brought to its attention. This is a sweeping conclusion based on a few cases which the Subcommittee, in the light of results of its inquiries, felt should have been given further and more expeditious attention by ICA. It fails to take into account the size of the ICA inspection staff, its world-wide responsibilities, and its demonstrable accomplishments in Laos and other areas of the world.

Conclusion (21)

Laotian Army pay raises in 1955 and 1959 have added \$3.8 million annually to the cost of the U. S. aid program in Laos. The 1955 raise has already cost the U.S. taxpayer \$10 million to date. Justifications, if any exist for these raises, are not clear. In both cases, approval by the Department of State was given after the fact and then largely to avoid embarrassment because of unauthorized commitments made at the Mission level.

Comment

The Report at another place points out that inflation in Laos doubled the cost of living between 1953 and 1958. Here it states that justification for Lao Army pay raises in 1955 and 1959 is unclear. Pay raises following periods of inflation would not appear to be a phenomenon peculiar to Laos. It would be possible to estimate the annual cost of the pay raise at \$3.8 million; however, this would not reflect the 1958 devaluation of the Lao currency from 35 kip to 80 kip per dollar.

Conclusion (22)

ICA officials have sought to excuse deficiencies and maladministration in the aid program in Laos after they have been demonstrated, with the assertion that our aid program, however poorly administered, has saved Laos from going Communist. This assertion is purely speculative, and can be neither proved nor disproved. The subcommittee rejects the reasoning of ICA officials, and, on the evidence, believes that a lesser sum of money more efficiently administered would have been far more effective in achieving economic and political stability in Laos, and in increasing its capacity to reject Communist military aggression or political subversion.

Comment

The considered opinion of the most responsible executive officials with responsibilities in this area is that the Mutual Security Program has been the basic factor in saving Laos for the free world. For example, Assistant Secretary of State Robertson in testimony before the House Foreign Affairs Committee has stated:

"There isn't anyone who can say that if we hadn't continued this program, despite all of the things which went wrong with it, that Laos wouldn't have been taken over by the Communists. The only financial support they had in resisting the Communists was that of the United States. And so, even though it is a program that was abused and maladministered in many ways, we are not on the defensive about it. Rather, I think it is one to which we can point with pride because, despite everything that went wrong with it, it has achieved our objective of keeping Laos independent. If we hadn't kept it up you would now have the long finger of Communist infiltration pointed right into the heart of southeast Asia. Look at the map and look at the location of Laos. This is a case where the program has achieved its objective." (Under-scoring supplied)

ICA officials are not seeking to excuse deficiencies and maladministration in the aid program in Laos. Indeed, ICA has sought to remedy the very deficiencies and maladministration pointed out in the Report. The Mission staff has been strengthened. Increased emphasis has been given to careful planning and the operation of control mechanisms. A currency reform has been achieved which eliminates conditions which generated abuses and irregularities in the import of commodities and the use of foreign exchange funds. As in all human endeavors, further improvements are unquestionably possible, and we are striving continually to institute them to the best of our abilities. But the admission of past shortcomings in administration cannot disqualify us from asserting an uncontrovertible fact, namely, that the Mutual Security program has succeeded and is succeeding in its basic and vital objective of assisting Laos to remain a member of the free world community of nations.

COMMENTS ON ADDITIONAL TOPICS IN THE COMMITTEE REPORT

Following its recommendations and conclusions, the Report goes into somewhat greater detail on certain aspects of the Laos program. Most of the topics treated have been commented upon above in our response to the Committee's recommendations and conclusions.

In a few instances, however, the Report touches on new matters. Below are our comments on these additional materials.

Housing for Mission Personnel

The Howell group was brought into Laos under an ICA-financed contract to advise the Lao Government on problems of foreign trade procurement and import controls. As part of this function, various members of the group, at various times, acted in an advisory capacity to the CNIE (the Lao Government body charged with reviewing applications for import licenses). Mr. Manley was acting in this capacity during the period in question.

The subject of Mission housing was unrelated to the duties of the Howell group. Accordingly, Mr. Manley, in presenting the Angelou-General Engineering housing proposal, was acting only in an individual capacity, not in his capacity as a member of the Howell group or advisor to the Lao Government.

The USOM signed a contract for housing with the Thai Technical Services Company of Bangkok (TTS). This company was chosen because its proposal was both the cheapest and the most expeditious of those received. Housing proposals from other interested contractors were carefully considered before the decision to choose TTS.

The agreement with TTS called for the construction by them of 16 two-bedroom houses and 9 three-bedroom houses at monthly rentals of \$205.00 and \$265.00, respectively, for a four-year period, following which the USOM had the option of continuing occupancy for an additional five years at a monthly rental of \$20.00 per house. The proposal by TTS was the only one which included maintenance and a resident superintendent at the expense of the contractor for the initial four-year period. The agreement called for the first house to be completed within 60 days of the signing, with additional houses to be completed weekly thereafter. Speed was important since some of the American personnel still were living in tents at this time; the TTS proposal offered the swiftest completion time of the proposals received.

One other factor weighed heavily in the Mission's decision to select this proposal. The type of construction used by this contractor offered the possibility of using the proposed construction for Mission housing as a pilot project to introduce a new industry into the Lao economy, adapted to the use of indigenous materials and simple fabricating techniques.

Before signing this agreement, the USOM determined that TTS had performed satisfactorily for USOM/Thailand in Bangkok. Later, the Sverdrup and Parcel Engineering Co. stated in a housing survey report prepared for USOM/Laos: "... we have reviewed the designs by Thai Technical Services of the prefabricated type buildings and have inspected similar buildings erected by this company in Bangkok and see no reason why this project, if properly executed and provided with adequate utilities, should not provide satisfactory residences for U. S. personnel."

One further point should be made with respect to this contract. USOM/Laos was not "buying" houses. This was an agreement to rent, under the terms stated, upon completion of the buildings to the Mission's satisfaction. Since the company failed financially (due to overextension of its resources on other operations, not connected with the USOM or ICA) prior to completion of any houses, ICA paid nothing for the work they did perform.

With respect to Mr. Manley's role, and his recommendations that the CNIE reject the application of TTS for an import license for materials to be used on the contemplated Mission housing, he was acting within the scope of his duties as advisor to CNIE in challenging deficiencies in the application, such as lack of unit prices and the disparity in foreign currency required between this application and that of Angelou. However, his thoughts as to the soundness of the project, its proposed location, and the ability of the applicants to carry out the contract they already had signed with USOM/Laos, were irrelevant to any official functions he was called upon to perform.

The USOM reviewed the license application, taking account of Mr. Manley's recommendations. They were of the opinion that the application contained sufficient information to determine the reasonableness of the amount requested; they also came to the conclusion that the other "irregularities" were not such as preclude approval of the application. The USOM observer so advised the CNIE which subsequently issued the license.

With reference to the urging of Mr. Robbins by Mr. dePaul to sign the contract for the repair and completion of these houses, while Mr. dePaul did urge that Mr. Robbins consider the matter favorably, he did not press Mr. Robbins actually to sign a contract at that meeting. In fact no document existed ready for signature. Also Mr. Robbins was not yet acting as Mission Director and therefore had no authority to sign a contract at that time.

As to Mr. Robbins' remark referring to an "economic nightmare", these houses are being completed by a private contractor at the present time. Eighteen now are occupied by American personnel on a rental basis, and the contractor is completing the remaining ones.

The 12 houses referred to are located within the USOM compound and are part of a 16 house project constructed by the Lao Government in 1955 under a Project Agreement which provided local currency (counterpart) financing of the project. The Government of Laos failed to complete the drainage system for the site which was later installed by the USOM. These houses cost the local currency equivalent of less than \$20,000 for each of the 12 two-bedroom houses, and \$28,000 for each of four four-bedroom houses. Prior to construction the Ministry of Public Works checked and certified that these costs compared favorably with the official prevailing price lists in effect at that time. It must be remembered, due to the economic isolation of Laos at that time, local costs were exorbitant: a ton of cement sold for \$200.00 in Vientiane as against \$25.00 in Bangkok; a kilowatt of electricity cost \$.30.

At present the monthly cost of maintenance of these houses is estimated at \$15.00 per house, exclusive of utility costs.

There is no basis whatsoever for Mr. Robbins' statement that the residents of the USOM compounds were reduced to using boats on the compound during the rainy season. Unquestionably, the use of overshoes or boots during the rainy season was and continues to be desirable throughout the city of Vientiane, which is subject to flooding because of inadequate sewerage and the intensity of monsoon rains from April to October.

### Operation Mekong

As the Report points out, the Mekong River crossing at Thadeua was, from the beginning of the Laos program, a matter of great importance and urgency due to the fact that it constituted a vital link in the lifeline of supply to Laos from the outside world. A number of unsuccessful early attempts were made to deal with the situation: a small truck ferry was provided by the French Army but proved inadequate; procurement action for ferry craft was initiated in May 1955 but required further detail for implementation. The entire problem was complicated and retarded by the necessity for a whole complex of interdependent activities - extending a railhead, constructing new ramps on both sides of the river, establishing customs and storage facilities, etc., - involving two countries (Laos and Thailand) through two USOMs. The initial urgency of the project progressively increased.

Ferry procurement was initiated on an emergency basis as soon as all related elements had been satisfactorily coordinated. The required barges and tugs had to be shipped in sections by rail to the crossing and assembled and put into operation at the site. It was also necessary for the contractor to provide personnel for initial operations and on-the-job training during an extensive period. It is misleading to imply that the Mission desired to prevent American firms from bidding on this job. The Mission simply believed that a "package" of fabrication plus on-the-site services could be supplied most quickly and cheaply from a contractor in the area. Sources not only in Hong Kong but also in other area points were surveyed.

It is true that Messrs. McNamara and Kirby, together with representatives of the independent engineering firm which had drawn up the ferry specifications, participated, in their official capacities, in the choice of a contractor. ICA is presently working with the Department of Justice in investigating any evidence of actions resulting from improper motives in this connection.

ICA technical transportation experts believe that the method of ferry procurement used in this case resulted in substantial savings of U. S. aid funds. Furthermore, it should be noted that the project was effectively implemented and has, in operation, proved to be an outstanding success.

### Operation Booster Shot

The Report suggests both that Operation Booster Shot was the first village aid program undertaken in Laos and that, once this project had been completed, "...the lessons which should have been learned [from it] were promptly forgotten" and all such activity was abandoned. The record proves that quite the reverse is true.

As an examination of recommendations from the field from the very beginning of the Laos program in January 1955 will show, it was recognized early that village aid activities presented one of the most promising areas for ICA assistance in Laos. Pursuant to this belief, one of the earliest projects initiated was Emergency Famine Relief (Project No. 39-82-019), which, through an airlift operation, supplied selected remote regions of Laos with sufficient amounts of rice to meet minimum needs during a period of severe rice shortage.

Also during 1955 various other experimental approaches were utilized to establish rural self-help activities on a permanent, long-run basis. The first of these was the Village Improvement Project (No. 39-81-023), which had as its objective the training of a number of young Lao men as multi-purpose village workers to attempt, in a small number of villages, to discover solutions to basic village problems in agriculture, education, and health and sanitation. The next fiscal year this project was merged into the Village Development Field Service Project (No. 39-81-041), which placed six suitably trained U.S. Community Development Specialists in six provincial capitals to gather information on the basis of which intensified rural self-help activities could be founded and to initiate such activities as were practicable on a limited scale. This project continued through FY (fiscal year) 1958 during which, as the result of interest in village and rural development stimulated among both local and national officials and leaders, a special Commission for Rural Affairs was established by the Lao Government.

In FY 1959, the two previously described efforts were merged into the Rural Self-Help Project (No. 39-81-041). Under this project technical advice and commodities are provided for small scale activities in the countryside to assist the Lao Government in focusing the efforts of appropriate national ministries and services, local leaders, village officials and villagers themselves on efforts through which, by their own activities, they may contribute to the unified development of the nation. The estimated cumulative cost of these three projects through FY 1959 is \$512,000 plus counterpart local currency funds equivalent to \$481,000.

As a closely related activity utilizing a still different approach, the Xieng Khouang Development Project (No. 39-81-024) was initiated in FY 1956. Under this, a group of trained U.S. technicians have developed a village demonstration project in the Xieng Khouang Plain. In cooperation

with the villagers, we have attempted to show the desirable results of improvements in farming methods, health and sanitation, education, minor construction and community organization. The estimated cumulative cost of this project through 1959 is \$263,000 plus \$77,000 equivalent in counterpart local currency funds.

Finally, in FY 1957 we initiated two projects both of which were purposefully directed at counter-Pathet Lao subversion activities. These formed the basis of experience upon which Operation Booster Shot was based one year later. The first of these was Civic Action (No. 39-81-053), which undertook a rural leadership, development and information program to disseminate information on the nation and the government to all citizens, to stimulate civic awareness, and to explain, encourage and assist self-help local improvements of all sorts. The estimated cumulative cost of this project through FY 1959 is \$538,000 plus \$1,625,000 equivalent in counterpart local currency funds.

The second of these projects, Operation Brotherhood (No. 39-82-062), is carried on in joint sponsorship with the Philippine and Lao Junior Chambers of Commerce. Through the provision of six to eight Filipino teams of doctors and nurses, this activity brings basic medical services to remote rural areas where they would not otherwise be available. It also provides demonstrations and training in basic medical skills and care to village people so that results will not be lost once the teams have completed their work. The estimated cumulative cost of this project through FY 1959 is \$613,000 plus counterpart local currency funds equivalent to \$334,000.

Continuing Nature of Deficiencies

The Report lists a series of "deficiencies" and characterizes them as "recurring" in various aid countries. Each of these is discussed below. While instances to support these charges of deficiency may be found in several countries, they are exceptional, rather than typical, of the administration of the Mutual Security Program. Many of them arise out of difficulties inherent in the planning and execution of such a program - difficulties common to many countries and especially underdeveloped ones. But the question is not whether we wish to administer an assistance program in countries whose economies are disrupted - or whose political systems are weak - or whose finances are chaotic - or whose public ethical standards differ from those we are accustomed to. Quite often, these shortcomings are the fundamental reasons which compel Special Assistance or Defense Support.

1. A lack of adequate advance planning on country programs and specific projects.

The careful planning of country programs is a subject of continuing serious concern to the Department of State and ICA. Over the past two years, very substantial improvement in programming has been effected world-wide as the result of new procedures, which are still being refined. Whether planning as now being done is adequate in each case is a matter of judgment in which individuals may differ. However, ICA is constantly striving to refine and improve program planning to the highest level possible.

Also, with respect to the planning of specific projects, substantial progress has been made during the last two years. We are fully aware of projects which have been undertaken or implemented in the past without the detailed advanced planning which is normally desirable, but these have generally been projects where such action has been taken in order to accelerate or maximize the impact of the assistance granted in order to achieve a fuller realization of the objectives of the Mutual Security Program. Such projects are, however, the exception rather than the rule. Furthermore, under Section 517 of the Mutual Security Act enacted by the Congress last year adequate advance planning is now a statutory necessity. ICA has taken steps to implement this new provision fully. Furthermore, ICA has recently inaugurated new procedures, effective July 1, 1959, to synchronize the obligation of funds for projects with the specific implementation orders designed to carry them out, thus installing a further guarantee of adequate advance planning.

2. The absence of any clear and complete explanation of how the level of aid for any country has been determined; i.e., why a particular country program is to cost X dollars, instead of some other amount.

Congress has amended the Mutual Security Act to include Section 537(f) requiring the Executive Branch, commencing with the presentation for Fiscal Year 1960, to submit ". . . detailed explanation of the method by which the proposed programs for each country have been arrived at . . ." The Executive Branch has complied with this provision by (1) including in the World-Wide Summary Presentation Book a special section entitled "Methods of Programming" which spells out in considerable detail for both Military and Non-Military Programs the methods used for developing the assistance requirements; (2) including in the narrative statements for each country the "significant factors" considered in arriving at the proposed programs. In addition, for all Special Assistance and Defense Support country programs, summary statements of the computation have been incorporated as of May 1, 1959, in the Fiscal Year 1960 World-Wide Summary Presentation Book; and (3) testifying before the House Foreign Affairs Committee in full explanation of the process by demonstrating in comprehensive detail and at great length the application of these procedures to one individual complex country program, together with an offer to do the same for any country requested by the Committee.

3. Defective standards and procedures for the award and administration of contracts.

Particularly as a result of recent actions taken by ICA, it is believed that there are clear criteria for award and administration of ICA-financed contracts. Further actions are in process.

In 1950, a directive (PMCD No. 35) was issued which prescribed standards and procedures for the selection of contractors and set forth standards for certain basic terms of contracts. As the character and emphasis of the program changed in succeeding years, bringing an increase in the number and complexity of contracts, and as the agency gained experience in contracting, it became advisable to prepare more comprehensive regulations setting forth more fully the procedures and standards of the agency with regard to contracts. In October 1958 the agency completed, and issued as an internal working document, a regulation superseding PMCD No. 35. The document was issued on this basis in order to allow a trial period of operation, and is being used fully by the agency in its contracting activities. The regulation is now to be reviewed and revised to incorporate the results of our experience during the trial period, and then will be finally issued.

In addition, ICA Policy Directive No. 12, dated August 1, 1958, established revised policies and procedures to be followed for selecting firms to perform architectural and engineering services, and sets forth criteria for the selection of such firms.

4. Lack of effective procedures to prevent conflicts of interest or other improper activities of ICA employees; that this can actually lead to fraud and corruption has been adequately demonstrated by our findings in Laos.

ICA has effective internal regulations governing its employees with respect to conflict of interest which go beyond U. S. statutory requirements in prohibiting employee activities which involve or could lead to conflicts of interest. Every case involving a possible conflict of interests or other evidence of improper activity relating to an employee which is brought to the attention of Agency officials is thoroughly investigated by its Office of Personnel Security and Integrity, and appropriate disciplinary action is taken where circumstances indicate that such action is warranted.

ICA internal procedures presently require that all appointees receive a copy of the regulations relating to conflict of interest and acknowledge that they have read and fully understand the restrictions relating to private business activities. In addition, in order to remind personnel of the importance ICA attaches to this matter, periodic notices are sent to its employees overseas and in Washington requesting that they review the regulation relating to conflict of interest.

With respect to post-ICA employment, ICA regulations have for some time provided, "no ICA employee shall discuss future employment by any person or organization outside the Government with whom he is currently transacting business on behalf of the Agency or who is affected by the performance of his official duties." In addition, within the past year ICA has inserted a provision in all of its contracts requiring that the contractor warrant that since the start of negotiations he has not discussed the possibility of employment with any ICA employee who is engaged in any activity relating to the proposed contract. With respect to ex-employees whose activities in violation of agency regulations become known after termination of their employment, the Agency has no means of effective action against such employees. If the ex-employee's activities are violative of penal statutes, ICA can and does refer the matter to the Department of Justice for appropriate action.

5. Lack of adequate control over expenditures of both dollars and local currency.

In our opinion, the history of the foreign aid program over the past several years contradicts this charge. For the great majority of cases controls over expenditures of both Mutual Security dollars and local currencies have been not only adequate but strict. We believe the foregoing charge is drawn primarily from certain unhappy experiences where an aid country has received dollar assistance in the form of cash grants. But cash grant assistance has been limited to a few countries where peculiar circumstances dictated this method of achieving Mutual Security objectives. Laos is such a country.

The vast bulk of dollar assistance to aid countries is provided through ICA issuances of procurement authorizations, valid only for expressly described commodities or services and useable only in accordance with strict agency regulations. The dollars are customarily retained by ICA to reimburse the suppliers of commodities and services, through U.S. commercial banks. They are not relinquished to the aid country.

Dollar cash grants made to the government of an aid country, on the other hand, become the property of that government. This was true of Laos. However, a formal agreement between the U. S. and the Government of Laos (July 6, 1955) stipulated that dollars would be used only as agreed upon between the two governments. In breach of this agreement the Lao Government in December 1956 and October 1957 drew upon the cash grant dollars to finance imports which had not been approved by U.S. officials. The U.S. Government objected to such actions and suspended the flow of aid in each case, permitting it to be resumed only after clear understandings had been worked out with the Lao Government. The breakdown of controls in those cases was not the consequence of any administrative failure on the part of ICA. In the normal situations where import procedures agreed upon between the U.S. and Laos were followed, all import license applications were screened. As a result of the efforts of the ICA-financed Howell contract group and USOM participation in the Lao import-export control commission, about three-fourths of the applications screened were disapproved.

Local currency may be of two types, (a) the proceeds from a sale by the U.S. Government of surplus agricultural or other commodities, in which case the currency is the property of the U.S., and is placed in the account of the U.S. Disbursing Officer, subject to his customary strict controls, and (2) counterpart which is deposited by the aid country in an account in its own name but subject, through formal agreements with the Government of the U.S., to use only for purposes agreed to by appropriate U.S. officials. As in other countries, a counterpart control system has been in effect in Laos since the earliest days of the aid program. Under this control system USOM officials give affirmative approval of monthly counterpart releases based upon their intimate working knowledge of the specific project activities in progress and their review of past expenditures for these

projects. On certain occasions, and based upon the recommendations of the U.S. officials concerned, releases of counterpart to defray expenses on specific projects have been withheld until certain recommended actions were taken by the Lao government. The USOM Controller is currently reviewing methods for further tightening controls and refining counterpart release criteria so that the USOM may exercise an even more complete supervision over the expenditure of counterpart funds and their budgeting by the Lao Government. To promote the orderly administration of counterpart funds, the USOM has requested the Lao Government to close all FY 1957 and prior year projects and to refund to the counterpart account all unexpended balances. Audit procedures are also being reviewed by the USOM Controller for the purpose of improving them wherever possible.

6. Inadequate end-use checking; i.e., lack of controls sufficient to insure that expenditures are actually made for declared purposes, and that items procured under the aid program have in fact been put to use as intended.

ICA agrees that end-use activity in Laos has been limited in scope and covered only a minor portion of the commodities involved in the import program. The basic reasons for this deficiency have been (a) inadequate staffing of the USOM Controller's Office and (b) the attitude of the Lao Government on end-use audit observations of the utilization of aid funds.

The Lao Government has been unwilling to permit the utilization of third country nationals for audits and end-use investigations. To overcome this difficulty in some measure ICA has approved USOM requests to increase the American staff assigned to audit functions. In addition, the USOM has succeeded lately in engendering a more cooperative attitude on the part of the Lao Government in permitting examination of records for audit purposes.

It is felt that these developments will facilitate and improve end-use checking activities in Laos.

We cannot agree that end-use checking has been inadequate in the administration of the Mutual Security Program as a whole. Of course, greater numbers of personnel could be assigned to this function. But funds for payment of personnel salaries must be apportioned, among all types of personnel required to administer the Mutual Security program. ICA has made the apportionment, through its staffing pattern, which in its considered judgment is most desirable for successfully carrying out the program.

7. Excessive use of cash grants of dollar aid, with corresponding under-use of aid in kind.

It has been, and continues to be, ICA policy to utilize Mutual Security funds for the provision of goods and services and to minimize the use of cash grant type of assistance.

The device of cash grants, indeed, has been and is employed in very few of ICA's country programs throughout the world and is resorted to only in exceptional instances where it is determined that exclusive reliance on standard techniques will not result in the achievement of U.S. objectives. Laos was and continues to be one such notable instance.

At the outset of the U. S. aid program in Laos, sizeable amounts of local currency were immediately required to meet the U.S.-assumed responsibility for providing support of the entire military budget. The only method by which such local currency could be quickly obtained was through cash grants. It was expected at that time that the subsequent level of cash grant assistance could be progressively reduced through building up a pipeline of commodity aid. This expectation did not prove susceptible of full realization despite efforts to achieve it.

8. Inadequate controls over commodity import programs.

We do not agree that inadequate controls over commodity import programs are characteristic of ICA's operations world-wide. In most countries the Procurement Authorization system is utilized and it operates to impose strict controls on the use of Mutual Security funds to finance commodity imports. It confines the use of Mutual Security funds to the import of designated commodities in designated quantities. Together with end-use checks and audits to check details of specific transactions, the Procurement Authorization system for dispensing assistance clearly establishes adequate controls over commodity import programs.

We agree with the Subcommittee's finding, on the other hand, that in Laos commodity import controls were deficient in several respects during the period under investigation. There were inadequate numbers of auditors and end-use investigators, due partially to general difficulties encountered in recruiting U.S. staff for duty in Laos. Also, there was some resistance on the part of the newly-independent Lao Government to audits or similar activities which were felt to be an infringement of their recently-gained sovereignty. The unrealistic exchange rate at which goods could be brought into the economy and the great divergence between that rate and the free market rate made illegal re-export almost irresistible to some Lao. This diversion of commodity imports proved almost impossible to prevent in sparsely settled Laos with its long, unprotected borders and its new and inexperienced customs controls.

ICA was aware of these difficulties and of the deficiencies in its own operations: set-up which required action in order to get at the primary troubles. And ICA was not inactive. Pursuant to a Mission request of March 1955, the Howell group was hired expressly to advise the Lao Government on import controls and related matters. Numerous internal audits and studies were made; many of the resulting recommendations bearing on this problem were put into effect. Gradually the Lao Government was brought to understand the necessity for audits, etc. Most important of all the monetary reform of October 1958 removed the incentive for abuses which had previously characterized the commodity import program.

9. Poor coordination among departments, between field Missions and Washington, and among various ICA divisions in Washington.

If the above statement is meant to describe a general situation, we cannot concur. If it is intended to describe the Subcommittee's reaction to isolated instances, we agree that there have been occasions when coordination could have been improved.

In every large organization coordination of the activities of its various parts is a continuous problem and it is especially so where parts of the organization are located at widely separated points in the world and where the need occasionally exists for speedy implementation of particular projects. ICA constantly strives to achieve the best and most comprehensive coordination obtainable, and where procedures do not produce a desired coordination, they are revised. It is our opinion that coordination is generally good. Indeed, if it weren't so, the program would not operate at all. There are, of course, specific instances where coordination becomes faulty, and it is these cases which capture attention rather than the routine cases where coordination is smoothly effected.

10. General failure of the executive branch to take remedial action based upon factually supported criticisms, even when those criticisms stem from executive employees whose jobs entail the specific function of evaluation.

This sweeping charge, in our opinion, conflicts with the facts. We believe that the Executive Branch generally does take remedial action to meet factually supported criticisms.

The Report with the benefit of hindsight and intensive investigation years after the fact discloses instances where remedial action to meet criticisms should have been more prompt. But it must be clear to all that the mere voicing of a criticism is not always a signal for automatic action. There are cases where the factual basis for the criticism must be examined further and if confirmed, the choice of remedies must be considered.

With respect to ICA operations during the period Fiscal Year 1956-1958, the internal audit staff of ICA completed 50 USOM and ICA/Washington audits, which included 1,113 audit recommendations. Of these recommendations, action has been completed on 1,074 which resulted in substantive improvements in ICA operations and in correction of numerous deficiencies in financial and management practices and program implementation. Action is in process on 32 recommendations and 7 others have been withdrawn. From July 1958 to May 31, 1959, 23 additional internal audits have been made resulting in 307 recommendations. Of these, action has been completed on 115 recommendations with 192 still open. ICA will continue to carry out internal audits of this type.

In the case of Laos an internal audit was made and published on August 29, 1957. It included 38 recommendations. Satisfactory action has been taken on all but four of these and parts of two others.

ICA's Office of Evaluation continually reports to the Director on its review of ICA operations. Significant changes and improvements have resulted from the recommendations of this office.

For comments applicable to the following sections of the Committee Report, see referenced pages of this paper:

<u>Section of Committee Report</u>	<u>Page [this paper]</u>
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