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MILITARY CONSTRUCTION APPROPRIATIONS FOR 1967

GOVERNMENT

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

EIGHTY-NINTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON MILITARY CONSTRUCTION APPROPRIATIONS

ROBERT L. F. SIKES, Florida, *Chairman*

JOHN J. McFALL, California
EDWARD J. PATTEN, New Jersey
CLARENCE D. LONG, Maryland

ELFORD A. CEDERBERG, Michigan
CHARLES R. JONAS, North Carolina

FRANK SANDERS, *Staff Assistant to the Subcommittee*

PART 3

Additional Testimony on Construction in Southeast Asia

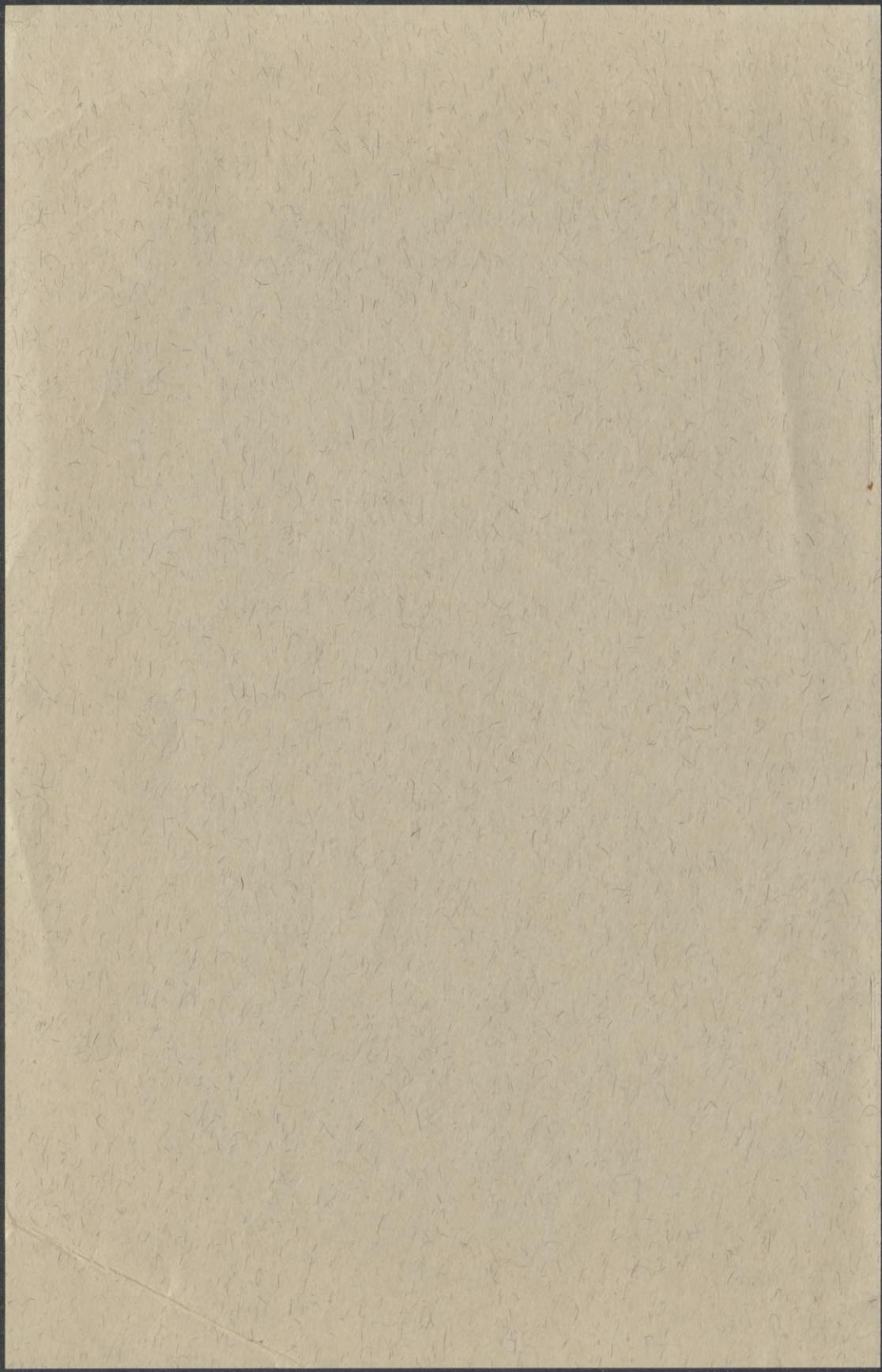
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WASHINGTON : 1966

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¹ Elected to the committee Mar. 8, 1966.

MILITARY CONSTRUCTION APPROPRIATIONS FOR 1967

TUESDAY, AUGUST 30, 1966.

CONSTRUCTION IN SOUTHEAST ASIA

WITNESSES

OFFICE OF THE SECRETARY OF DEFENSE

EDWARD J. SHERIDAN, DEPUTY ASSISTANT SECRETARY OF DEFENSE (PROPERTIES AND INSTALLATIONS)
BRIG. GEN. CHARLES C. NOBLE, U.S. ARMY, STAFF DIRECTOR, SOUTHEAST ASIA CONSTRUCTION DIVISION, OFFICE OF THE DEPUTY ASSISTANT SECRETARY OF DEFENSE (PROPERTIES AND INSTALLATIONS)
BRIG. GEN. DANIEL A. RAYMOND, U.S. ARMY, DIRECTOR OF CONSTRUCTION, U.S. MILITARY ASSISTANCE COMMAND, VIETNAM
MAYNARD B. WOODBURY, DIRECTOR, INTERNAL AUDIT SYSTEMS DIVISION, OFFICE OF DEPUTY ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)
WILLIAM B. PETTY, DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

DEPARTMENT OF THE ARMY

BRIG. GEN. ANDREW P. ROLLINS, JR., U.S. ARMY, DEPUTY DIRECTOR OF MILITARY CONSTRUCTION, OCE
COL. CLIFFORD H. CHAMBERLAIN, U.S. ARMY, ASSISTANT DIRECTOR OF MILITARY CONSTRUCTION, OCE

DEPARTMENT OF THE NAVY

REAR ADM. W. M. ENGER, U.S. NAVY, DEPUTY COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND
CAPT. F. M. LALOR, U.S. NAVY, ASSISTANT COMMANDER FOR CONSTRUCTION, NAVAL FACILITIES ENGINEERING COMMAND

DEPARTMENT OF THE AIR FORCE

LEWIS E. TURNER, DEPUTY ASSISTANT SECRETARY (INSTALLATIONS), OFFICE OF THE ASSISTANT SECRETARY OF THE AIR FORCE (INSTALLATIONS AND LOGISTICS)
BRIG. GEN. GUY F. GODDARD, U.S. AIR FORCE, DEPUTY DIRECTOR OF CIVIL ENGINEERING FOR CONSTRUCTION, HEADQUARTERS, U.S. AIR FORCE
COL. B. J. MCGARVEY, U.S. AIR FORCE, CIVIL ENGINEERING DIRECTORATE, HEADQUARTERS, USAF

Mr. SIKES. Gentlemen, the committee will come to order.

We welcome the opportunity to discuss this morning the present status and future prospects of the military construction program in Southeast Asia.

We are honored to have with us Mr. Bow, the ranking Republican member of the Appropriations Committee and Mr. Lipscombe the ranking Republican member of the Defense Subcommittee on Appropriations.

We want to discuss with you, Mr. Secretary, the progress of the construction program in Vietnam and Southeast Asia. We want to know something about your problems.

STATUS OF PROJECTS DEFERRED IN FISCAL YEAR 1966 PROGRAM

Before we get into that, Secretary Sheridan, let me ask whether there is any further information now available on the status of the projects deferred in the fiscal year 1966 program? There is apprehension in Congress that most of those projects will be allowed to die on the vine. In some parts of the country the cost of construction is going up at the rate of 1 percent a month. Whatever effect the Secretary of Defense might have hoped to gain initially by deferrals certainly is being offset by a lack of availability of needed facilities. Hoped for savings are being dissipated by rapid increases in the ultimate cost of the projects. I am quite concerned about it.

These are projects which sorely are needed and were funded only after most careful examination. It is now time for the markup on the successor construction bill. We have yet to be informed of the disposition of a significant part of last year's bill and this committee is not pleased by such a situation. Is there any new policy on deferred projects? Are we going to build them? What is to happen?

Mr. SHERIDAN. The policy we have on deferred projects, Mr. Chairman, is that these are all solid projects, as solid now as they were when they were authorized and money was appropriated for them. The deferral is a temporary matter. The money to finance those projects has been held in reserve. It has not been used. The intention is, at the proper time, to proceed with the execution of the projects.

Mr. SIKES. What is the proper time and who will determine the proper time? I was at Eglin Air Force Base over the weekend. There I was shown several warehouses full of air-conditioning equipment, crated, just as it had arrived from the factory. It had been there for months. That air-conditioning equipment was intended to go into airmen's dormitories. Those airmen are sweating out a summer during which they might have had air-conditioning had that project not been deferred, and the equipment is there, bought, paid for, and idle. The money for installation is available and cannot be used elsewhere. This is one of many examples. Who gains in this kind of situation? What is the point of holding back on construction?

Mr. SHERIDAN. We will look into that particular case, Mr. Chairman.

Mr. SIKES. I do not want to make an issue of one case. I am using this as one example of the bad effects of this deferral order. I think the total amount of deferred projects in the overall scheme of the national economy is so infinitesimal that it does not make much sense to continue to hold these deferrals back. Will you please convey my respects to those in authority who are holding back these needed projects, and tell them that is the way this committee feels about it?

Mr. SHERIDAN. Yes, sir.

Mr. SIKES. Will you tell us now what you are going to do about releasing the projects for construction?

Mr. SHERIDAN. The decision on the release of projects is made by the Secretary or the Deputy Secretary of Defense based upon a request from the military departments for the release of a specific project. Some have been released.

Mr. SIKES. How many; a half dozen or so?

Mr. SHERIDAN. A half dozen or so.

INCREASE IN CONSTRUCTION COST INDEXES

Mr. CEDERBERG. What has been the increase in the cost index since these projects were deferred?

Mr. SHERIDAN. I do not know that figure exactly. Admiral Enger might know.

Mr. CEDERBERG. You have a lot of experts here. Someone ought to know.

Captain LALOR. We can supply that.

Mr. CEDERBERG. You may guess at it and correct the record later.

Mr. SIKES. Some people estimate it has gone up 1 percent a month in certain areas; less in others.

Captain LALOR. We project 4 in our cost estimating of these projects within the time frame of execution. My guess would be a country-wide average somewhere around 5 to 8 percent; something like that.

Mr. CEDERBERG. You may correct it for the record. Out of a \$600 million deferral then, we are talking about a minimum of \$30 million in extra costs that have taken place since these projects were deferred. We could build some pretty substantial barracks complexes for \$30 million. This is the minimum figure you gave.

INFLATION IN CONSTRUCTION INDUSTRY

Mr. LONG. To what extent has the decision to defer been to ease the inflationary pressure? There is inflationary pressure in the construction industry, with shortages of all kinds of materials. The gentleman is quite right that deferring these things may in one sense raise the ultimate cost of those projects. But I am wondering to what extent deferring them, may open up bottlenecks in the construction industry and therefore keep down the present cost of many of the projects that we are going ahead with. Do I make myself clear?

Mr. SHERIDAN. That is possible.

Mr. LONG. Is that part of your purpose, or are you looking at it from other points of view?

Mr. SHERIDAN. That is part of the purpose.

Mr. SIKES. I think the amount involved is so small in keeping with the overall economic picture, that it is infinitesimal.

Mr. CEDERBERG. You are not telling us because you deferred the \$600 million worth of construction projects this reduced or at least held the line on the cost of other projects?

Mr. SHERIDAN. It could.

Mr. CEDERBERG. In fact, the cost of construction has still gone up a minimum of 5 percent. Are you saying if you had not deferred these projects it would have gone up more than that?

Mr. SHERIDAN. That is possible.

Mr. CEDERBERG. You are figuring \$600 million against the total construction throughout the country of several billions of dollars. I do not see how it could be that significant.

Mr. SHERIDAN. I think, Mr. Cederberg, the \$600 million has to be looked at as part of a \$1.1 billion program.

Mr. CEDERBERG. When your contractors go to bid, they bid on civilian work, they bid on all kinds of work. You have to take in the total construction picture throughout the country, not only the military construction part of it.

Mr. LONG. I have heard rumors that there are all sorts of bottlenecks in certain types of construction materials, real shortages, partly due to Vietnam, and so on. Of course, it could be conceivable that this would ease the pressure there, but I do not think we have really been told whether this is a fact.

INADEQUATE FACILITIES FOR TRAINEES

Mr. CEDERBERG. I do not want to prolong this discussion, but there is another factor here. Since these projects were deferred, the draft calls have gone up substantially. The housing for personnel at some of our training locations are becoming quite critical. A lot of people are living in, shall we say, substandard barracks, and so forth.

Mr. SIKES. And in tents.

Mr. CEDERBERG. You are going to take a great many additional people. I am not quarreling with the decision. There might be some difference of opinion. You will have 40,000 men that you are going to put in school, as I understand it, and you have to find accommodations for these people. His deferral of projects, which are obviously needed to house these people and for many other valid requirements, I think it is going to cost the Government a lot more money in the long run.

COMPARISON OF PROJECTS IN FISCAL YEAR 1967 PROGRAM WITH DEFERRED PROJECTS

Mr. JONAS. Mr. Sheridan, can you tell the committee that every item in your new funding program for 1967 has been checked against the deferral list and that every item in the new program has higher priority than the items on the deferred list?

Mr. SHERIDAN. No, sir; I could not tell the committee that.

Mr. JONAS. How can we go ahead and fund additional projects, some of which are similar to those deferred, when you have on the shelf \$600 million worth of deferred items? Do you not see what position that puts us in? How can we go on the floor and defend that when we are not able to tell the Members of the House we do have some deferred items but not a single one of them is of a higher priority than the new program we are seeking to fund?

Mr. SHERIDAN. I did not say not a single one was of a higher priority. I was answering the question that all of them are not of a higher priority.

Mr. JONAS. Are any of them?

Mr. SHERIDAN. There could be. I am not familiar with any comparison which has been made between the two programs.

Mr. JONAS. When the new program was formulated, then, it was not checked against the deferred list?

Mr. SHERIDAN. It was checked against the deferred list and was found still to be required, the same as the deferred items are still required.

Mr. JONAS. But you are not willing to tell us that the new ones are of a higher priority than those on the deferred list? Or are they just equal?

Mr. SHERIDAN. Some of them may be.

Mr. JONAS. That does not give us much concrete evidence to go on. I do not know where we are.

Mr. LONG. Pursuing that very interesting question, I am wondering why such a study has not been made.

DISPOSITION OF DEFERRED PROJECTS

Mr. SHERIDAN. It is being made, but it is not complete.

Mr. SIKES. Are you in position this morning to give us any additional information or to tell us anything positive about deferred projects and what will be done with them? You have told us nothing.

Mr. SHERIDAN. It is still under study, Mr. Chairman.

Mr. SIKES. Study is a bad word up here. I think we must have a hearing before long to try to find out what is going to be done about these projects. Are they going to be allowed to die on the vine? Are you going to build a few and drop the rest? The committee needs to know more about your plans. Will you alert those in authority that we will hold a hearing reasonably soon to learn what the policy is, if there is a definite policy, on deferred projects?

Mr. SHERIDAN. Yes, sir. I would like to assure you they will not be allowed to die on the vine. That is the present intention.

(Off the record.)

(NOTE: Additional information may be found on p. 12.)

CONSTRUCTION IN VIETNAM

Mr. SIKES. We are seeking to determine as nearly as we can the status of the construction program in Vietnam. Very great strides have been made. I know there have been difficulties. Undoubtedly mistakes have been made. Some things have not been done which could have helped the program. It has been very costly. Yet I think when all is said and done, it will be found that this has been one of the outstanding accomplishments of all time. This construction was done at the end of a 10,000-mile supply line, halfway around the world. We have built base facilities and ports to accommodate the logistics requirements of a very large modern Army, Navy, and Air Force. With American ingenuity we have been able to go into this area where there were almost no facilities and very few materials available and do, within a comparatively limited time, the colossal job that has been accomplished. I am sure it can be said this has been an outstanding accomplishment despite any shortcomings which may be attributed to the program. Although I may be critical about aspects of it, I want the record to stand that I appreciate the amazing effort which has been made in Vietnam by the construction forces that have been employed there, civilian and military.

The morning press is full of speculation about what is to happen to construction in Vietnam. One headline says, "U.S. Military Expected To Assume Vietnam Construction Program." Another one says, "Vietnam Building Curtailed by the United States. Pentagon Decides To Review Program of Consortium." If there are changes in prospect for our construction program, this committee would like to know what they are.

So, Mr. Sheridan, I hope you will tell us, first, what the situation is on construction; and then, as nearly as you can, tell us exactly what is planned out there for the future. You may proceed.

Mr. SHERIDAN. Thank you, Mr. Chairman.

STATEMENT OF THE DEPUTY ASSISTANT SECRETARY OF DEFENSE
(PROPERTIES AND INSTALLATIONS)

Mr. Chairman, members of the committee, it was in September 1965, just 1 year ago next month, that we first appeared before your committee to report on our construction programs in support of military operations in southeast Asia. At that time we were concerned mainly with our plans for providing facilities to meet the then scheduled deployments and the problems associated with building up our construction assets and capability. Today, we have mobilized in South Vietnam, 10,000 miles away, a solid construction capability that is completing construction of essential ports, airfields, and logistical facilities at a much more rapid rate and on a much larger scale than was even thought of at this time last year.

We welcome this opportunity to appear before your committee today to tell you of our progress. Without your sympathetic understanding and support over the past year, our achievements would not have been possible.

Since September 1965, the number of U.S. personnel deployed to South Vietnam has increased from less than 100,000 to over 300,000. South Vietnam is not a Europe with large, existing facility complexes; nearly all the facilities required by our military units have had to be provided, in most cases, under the most difficult conditions. The construction program has met this challenge and has kept pace with the growing demands. In 1 year the number of military construction battalions increased from 5 to 23, and the number of civilian construction employees increased from 13,000 to over 50,000. New waterfront piers, runways, and warehouse and maintenance facilities are now in use and more are being completed each month. The value of military construction placed at the end of July 1966 was estimated at \$138 million, according to the MACV construction status report. General Westmoreland reports that all facilities critical to his mission have been and are continuing to be completed on time. We still have a long way to go, but with the past year's record of accomplishment, we are now confident of the future.

Much of the responsibility for the accomplishments of the past year goes to the officers that are with me today. In May, Major General Dunn, then a brigadier general and director of construction on General Westmoreland's staff, appeared before this committee. He is now

General Westmoreland's J-4 and has been replaced by his former deputy, Brigadier General Raymond. General Raymond is here to give you his report on the South Vietnam construction program. We propose to follow his presentation with a series of slides that will show the actual progress that has been made. Rear Admiral Enger, Acting Commander, Naval Facilities Engineering Command, is also representing that command with its important contract construction responsibility.

Brigadier General Noble of my staff, who is responsible in our office for management of the southeast Asia construction program, is with me. Also with me are Brigadier General Rollins of the Army, and Mr. Lewis Turner and Brigadier General Goddard of the Air Force. These gentlemen are all prepared to answer your questions on their programs and progress.

You have indicated an interest in learning more of our audit procedures. Mr. Woodbury, Director of Internal Audit Systems Division, OSD (Comptroller), is prepared to discuss the general aspects of auditing by the Defense Department, as well as to discuss internal audit procedure on military construction in South Vietnam; and Mr. Petty, Director, Defense Contract Audit Agency, is here to report on contract auditing in South Vietnam. Colonel McGarvey of the Air Force Civil Engineering Directorate has prepared a presentation on the Air Force "turn key" airbase construction project at Tuy Hoa.

Mr. Chairman, this concludes my statement. If acceptable to you, it is proposed that we first hear General Raymond's report on our construction progress in Vietnam and view the slides and, then with your permission, we proceed with the presentations of Mr. Woodbury, Mr. Petty, and Colonel McGarvey, in that order. In addition, if time permits and it is agreeable to the committee, we have about a 25-minute movie showing construction workers in action in South Vietnam.

Mr. SIKES. Thank you very much, Mr. Sheridan.

(Off the record.)

Mr. SIKES. General Raymond, we are very glad that you can be with us to give us a firsthand account of the construction program in Vietnam. You are fresh from the theater and you understand its problems. Would you proceed, please.

STATEMENT OF THE DIRECTOR OF CONSTRUCTION, U.S. MILITARY ASSISTANCE COMMAND, VIETNAM

General RAYMOND. Mr. Chairman and gentlemen, it is a pleasure to be here with you this morning.

I am the Director of Construction, Military Assistance Command, Vietnam. I am happy to have this opportunity to brief you on construction activities in Vietnam.

To begin with—there are a few parameters that may help put the construction program in focus:

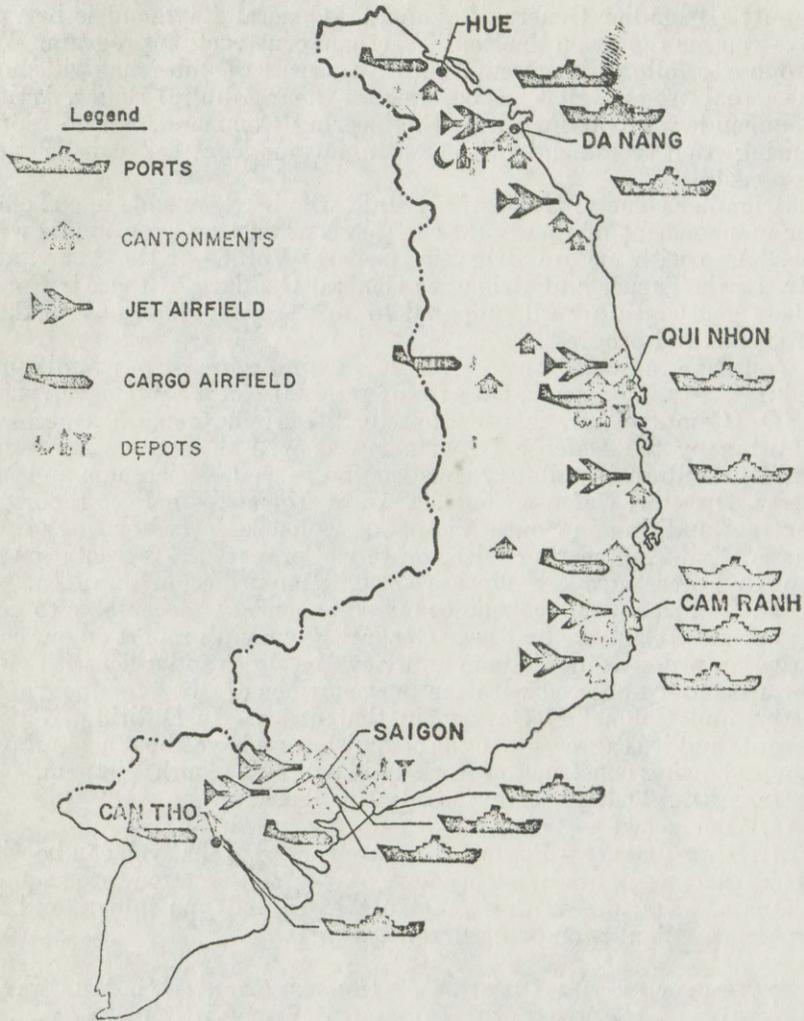
The program has just recently passed its first birthday.

It is presently funded in excess of \$800 million.

There are at present some 51,000 civilians and 18,000 military personnel directly involved in it.

This calendar year it will require an estimated 1.7 million tons of materials.

A quick look at the total program is shown on this chart:



Major facility locations are shown as they now exist or are planned.

There are 10 ports of various size and in various stages of development from Hue in the north to Can Tho in the south.

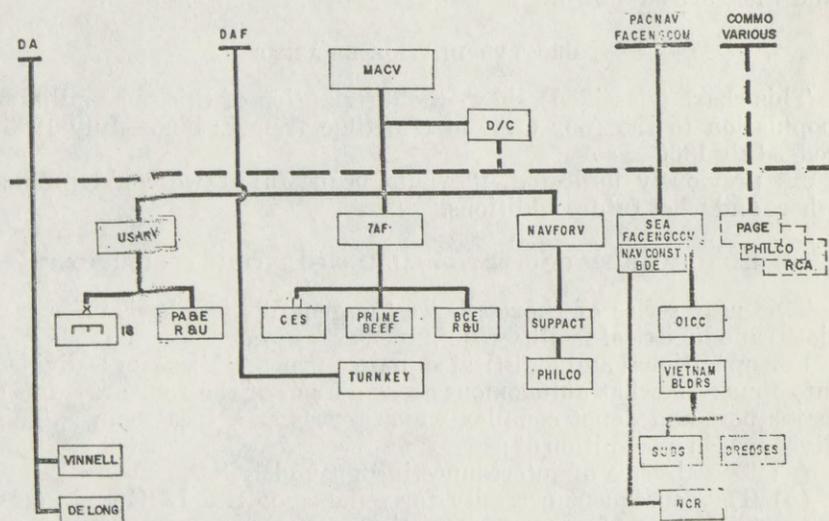
Logistical or tactical airbases are being constructed or improved at 24 locations.

Primary logistic depots are underway at Danang, Qui Nhon, Cam Ranh, and Saigon.

Brigade or equivalent cantonments are being provided at 40 different locations.

ORGANIZATION FOR CONSTRUCTION IN VIETNAM

This chart shows what might be termed the organization for construction in RVN:

ORGANIZATION FOR CONSTRUCTION, RVN

Essentially, it is a portrayal of all the principal agencies involved in construction in Vietnam—and therefore the agencies whose construction activities are coordinated, integrated, and directed to varying degrees by the Director of Construction.

On the left is U.S. Army Vietnam—the 18th Engineer Brigade and P.A. & E., which handles R. & U., are its principal construction elements. Additionally, the Department of the Army has under contract the DeLong Corp. for the furnishing, installation and maintenance of DeLong piers—and the Vinnell Corp. for Construction, operation, and maintenance of electrical power systems—including operation of the 11 T-2 tankers.

Next, in red, are shown the Air Force construction agencies—the civil engineering squadrons, commonly called “red horse”—the prime beef teams—the base civil engineer forces—and the turnkey contractor who is now mobilizing at Tuy Hoa for the construction of an airbase.

The blue indicates the naval forces, whose inhouse capability consists of public work activities in Danang and Saigon, with Philco as contractor.

The green are the elements under the Navy Facilities Engineering Command—The CB brigade, and the OICC with his CPAF contractor and related activities.

Finally, on the right are indicated several communications contractors; generally, they operate under turnkey contracts with such agencies as Stratcom, and they often require construction support from our resources.

Next, I'd like to move on to the basis of requirements for construction in Vietnam.

This chart (classified) shows the strength for which facilities are or will be required in Vietnam. The absence of specific strengths beyond the current time frame points up a major difficulty in programming facilities. We are aware that there will be increases, but how much and when are unknown.

GROSS POPULATION BY AREAS

This chart (classified) shows the distribution of this same military population to the four CTZ in two time frames: blue—July 1965; red—July 1966.

As previously indicated, it would be useful if we could predict where and what future additions.

GEOGRAPHICAL BASIS OF OPERATIONAL AND LOGISTICAL REQUIREMENTS

This next series of charts shows the geographical basis of operational and logistical facility requirements.

For operational and logistical support purposes, Vietnam is divided into four somewhat autonomous areas. Each of the four areas has a major port and depot complex which serves as a focal point. This division is in recognition of:

- (a) The absence of interconnecting ground LOC.
- (b) The consequent necessity for reliance on Sea LOC and ports.
- (c) Time-space factors for logistic support.

During the past year a very small logistical base capable of supporting about 25,000 U.S. troops has been expanded to one that is presently supporting some 300,000 U.S. and free world forces.

FIRST CORPS

This is a blowup of the ICTZ (classified).

The Danang complex supports combat operations of some ——— combat troops and ——— combat support troops (both U.S. and free world forces), as well as ——— service support troops. Combat troops include maneuver battalions, TF squadrons and naval elements engaged in coastal patrol (Market Time) and river patrol (Game Warden). Combat support includes such duties as artillery, engineer, signal, and helicopter. Service troops include those assigned to supply and maintenance units above battalion level. Base cantonments to accommodate troop dispositions are shown. Note the general requirement to place combat, combat support and service elements together.

Major logistical and support facilities include:

1. Deep-water port (Danang).
2. Depot at Danang.
3. Two LST ports, at Chu Lai and Hue, whose cargo is back-hauled from Danang.
4. Two jet airfields at Danang and Chu Lai.
5. One airfield ——— at Hue.

The associated construction costs in the complex, estimated through the 1966 supplemental appropriation are as shown. As control of the complex becomes more general, there will be significant construction requirements to improve the existing road net.

II CORPS QUI NHON

This is the same picture of the II CTZ (classified) area supported from Qui Nhon.

The Qui Nhon complex supports combat operations of ——— combat troops (including ——— ROK) and ——— combat support troops (including ——— ROK) as well as service support elements numbering ——— combat figures include some ——— naval personnel engaged in coastal patrol and harbor defense. These are part of the Market Time operation. Again cantonments are arranged so that all functional elements (combat, combat support, and service) are grouped together in the field.

Major logistical and support facilities include:

1. Deep-water port at Qui Nhon.
2. Depot at Qui Nhon.
3. The LST port at Tuy Hoa is erroneously shown—belongs CRB.
4. Two jet airfields at Phu Cat and Tuy Hoa—these airfields are just getting underway and no units are assigned.
5. Five ——— airfields at Kontum, Pleiku, Cheo Reo, Qui Nhon, and An Khe.
6. Market Time facilities at Qui Nhon.

The associated construction costs in the complex estimated through the 1966 supplemental appropriation are as shown. Again extended control of the area will call for major construction effort on an expanded LOC.

II CORPS CAM RANH BAY

The Cam Ranh Bay complex (chart is classified) supports combat operations of ——— combat troops (including ——— ROK) and ——— combat support troops (including ——— ROK), as well as ——— service support troops on a direct basis, and, in addition, provides general support backup of the entire theater. These figures include ——— naval personnel supporting Market Time, harbor defense, and naval air facility. Cantonments are again shown.

The major logistical and support facilities include:

1. Deep water port at Cam Ranh.
2. Depot at Cam Ranh.
3. Two LST ports at Nha Trang and Phan Rang (plus Tuy Hoa).
4. Two jet airfields at Cam Ranh Bay and Phan Rang.
5. Six other airstrips.
6. Market Time facilities.

The associated construction programed through the 1966 supplement are as shown. The anticipated construction effort (with tenant costs) for LOC improvement will be substantial as the area is brought under control.

III-IV CORPS

The Saigon complex (chart is classified) supports combat operations of ——— combat troops (including ——— FWMAF) and ——— FWMAF) combat support troops as well as ——— service support troops. Operations include Market Time and Game Warden (river patrol). Cantonments again follow established pattern.

Mr. SIKES. Do the Filipinos have a full battalion there now?

General RAYMOND. I am not sure. It is just an advance party.

Mr. SIKES. I saw a report of an advance party of 100. When do you expect they will have their full 2,000-man force in there?

General RAYMOND. I am not certain of that.

Mr. SIKES. Please supply that information for the record.

(The information was classified and was supplied to the committee.)

General RAYMOND. The major logistical and support facilities include:

1. Deepwater port (Saigon incl. Newport).
2. Depot at Saigon.
3. Ports, LST (Vung Tau) and Can Tho.
4. Two jet airfields (Tan Son Nhut and Bien Hoa).
5. Eight other airstrips.
6. Market Time and Game Warden facilities.

The programmed construction costs through 1966 supplemental are as shown. As in the other areas, a considerable construction effort will be required on LOC improvement, as additional area is brought under control.

Mr. LONG. Would you tell me what you mean by "Game Warden?"

General RAYMOND. "Game Warden" is the code name of an operation which is basically that of river patrol. "Market Time" is the same operation by the Navy, which patrols the coast. It is a combination of water and sea.

REORGANIZATION PROGRAM

Now, as to the matter of defining our programs.

Through the October 1965 funding, our program was based on the peacetime orderly process of requesting approval of specific line items—a hospital here, a pier there, a runway somewhere else, and so on.

This system wasn't responsive to our needs. It lacked the flexibility to cope with only partially defined needs—to meet changing requirements; to start new projects; to revise scopes; to relocate facilities; and to meet contingencies.

This matter was broached to Secretary of Defense during his visit to Vietnam last November. We suggested a new basis for facility programing—the use of the following broad categories on a Vietnam-wide basis.

FUNCTIONAL FACILITY CATEGORY GROUPS

- 1 Cantonments.
- 2 Airfield pavements.
- 3 Airfield support complex.
- 4 Communication facilities.
- 5 Port facilities.
- 6 Liquid fuel storage.
- 7 Maintenance buildings.
- 8 Ammunition storage.
- 9 Cold storage.
- 10 Warehouse storage.
- 11 Shed storage.
- 12 Open storage depot.
- 13 Hospitals.
- 14 Administration buildings.
- 15 LOC improvements.

This suggestion was approved and made applicable to the new fiscal year 1966 supplemental funds, and retroactively to the 1965 supplemental and 1966 addendum funds as well—or some 87 percent of all funds available.

We have been using this flexible system for just over 5 months now and it has lived up to our expectations. It does provide the flexibility we need, and we hope to continue it.

We have problems in program definition.

We recognize the desirability of a precisely defined program on a long leadtime basis—specifically with the what, where, and the why nailed down. However, precise program definition is inherently difficult in this situation for the basic reason that the program supports a dynamic rather than a static situation—and is therefore constantly changing. Here are some of the factors which make definition difficult:

PROBLEM AREAS

Changing requirements.

Logistic factor differences.

Cost distribution.

Cost estimates.

Base data availability.

Future requirement definition.

Operational plans.

Structuring.

1. *The changing basis of requirements.*—New requirements are continually generated, some on very short notice; for example, the decision to accelerate the displacement of units and activities from Saigon generated significant requirements in the Long Binh area. Vung Ro Port, Hue Port, locations for 4th and 9th, next airfield. (Dong Ha, Binh Thuy, Quang Tri.)

2. *Differences in logistics factors.*—The components do not use the same logistics planning factors; for example, class I and class V differ for all. This problem is being pursued. But back-up systems are different, for example, Army uses offshore, Marines don't.

3. *High rate of contractor-fixed cost.*—Distribution base costs for contractor equipment, camps, mobilization, depots, and so forth, are fixed and high. How much a total program they will be distributed over is not known. How long they will go on is not known. We do know that the contractor is significantly overmobilized for only the present level of funding. Has major impact on scope which can be funded. Now, and as a corollary, how much in follow-on.

4. *Imprecise cost estimating.*—Since most construction is starting before design is complete, or even all site conditions known, cost estimates are not well defined. Case in point is Newport.

We originally estimated the cost of that on the basis that we could go in and put in a sheet pile bulkhead and put fill behind it, using hydraulic fill. We subsequently found the river bottom would not support the sheet pile bulkhead, and we had to use an extensive pile

foundation to support the wharf. We also found there was no material which could be dredged for fill. So, we are having to truck-haul it in there from about 10 miles away.

Mr. SIKES. What does that do to the cost? Is it double or more?

General RAYMOND. It would come closer to trebling it, sir.

In Saigon, on swamp, no hydraulic fill, no bulkhead makes it difficult to predict how far funds will go, and what scope we can fund.

5. *Base data availability.*—To determine what we need, we must know what we have. We use many kinds of facilities, some temporary and some more or less permanent, for example, private and Government leases in lieu of cantonments, Government port facilities, commercial oil storage—and we have a real mixture of U.S.-produced facilities which we use in varying degrees, for example, O. & M.-produced, self-help-produced, MAP-produced but now U.S.-used, and Milcon, and the mix is constantly changing. This conglomeration makes for difficulties in defining a starting point.

6. *Definition of future requirements.*—Many are based on personnel strengths. We develop requirements and plan on this basis. These, as you know, change and can differ considerably when translated into ultimate deployments.

7. *Changing operational plans.*—Changing operational plans and contingencies pose hard-to-pin-down requirement quandaries such as:

(a) How many C-130 airfields must we plan for; or

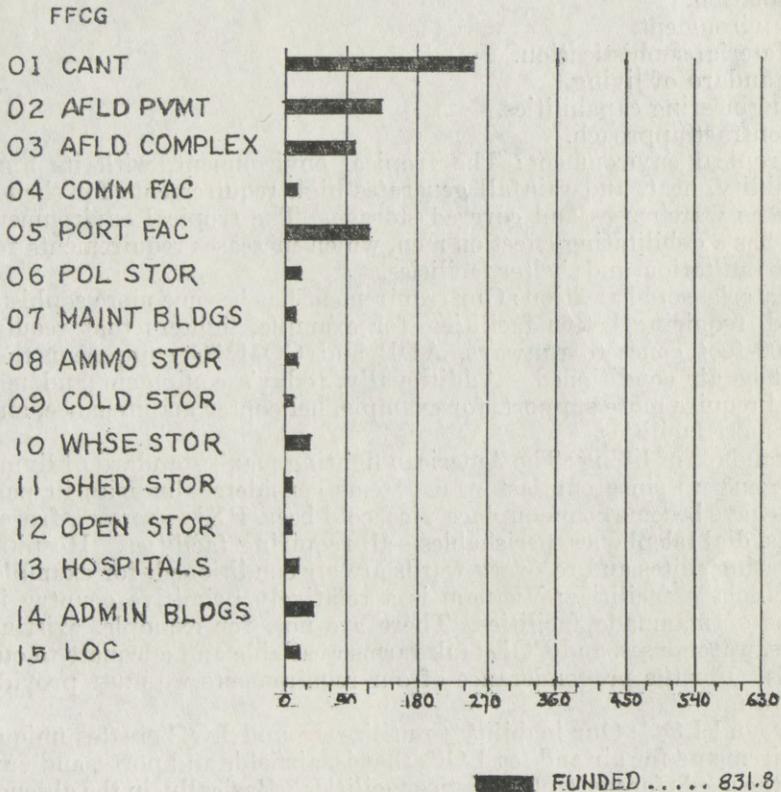
(b) How many tactical units should Qui Nhon port and depot be capable of supporting?

8. *All of these add up to another all-encompassing quandary.*—What our overall program structure should be, for example, how much scope and funds should be in each of the 15 category pockets? This is important since it is from this base structuring that in-country reprogramming authority begins.

We are working diligently to define our program, and it is getting better all the time.

This chart shows the present program by categories, as now funded.

TOTAL REQUIREMENTS (MILLIONS)



General RAYMOND. We have underway an effort by all components to define the follow-on program. This involves a reevaluation of planning factors, a thorough examination of the basis for requirements, and consideration of reductions in standards where appropriate. Justifications are detailed with a 1391 for each FFCG at each location for each service—and a 1390 for each location. We expect to make a submittal to Cincpac on September 1.

INFLUENCES ON REQUIREMENTS/STANDARDS

Much has been said about the economics of construction in Vietnam, stemming from the fact that it is costly. There are many factors as shown on the chart which have a bearing in this matter—not all readily apparent.

INFLUENCES ON REQUIREMENTS/STANDARDS

Manmade facilities.

Ground loc.

Fixed base.

Length of war.

Isolation.

Environment.

Material sophistication.

Standard of living.

Engineering capabilities.

Contract approach.

Tropical environment: The tropical environment, with its high humidity, heat, and rainfall generates high requirements for shelter such as warehouses and covered storage. The tropical environment also has a debilitating effect on men, which increases requirements for bath, sanitation, and shelter facilities.

Materiel sophistication: Our requirement has become more sophisticated, requiring better facilities, for example, fighters that require 10,000-foot concrete runways, ADP and COMMO equipment that must be air conditioned. Additionally, today's equipment and materiel require more support, for example, helicopter maintenance, and thus more facilities.

Standard of living: The American fighting man's standard of living has gone up since our last war. Items considered luxuries in past wars have become commonplace—ice, cold beer, PX's, showers, frozen foods, dial telephones, perishables—all requiring facilities. Hospital operating suites and recovery wards are air conditioned, for example.

Manmade facilities: Vietnam is a relatively primitive country in terms of manmade facilities. There are not, for example, existing ports, warehouses, and POL tank farms available and adequate to our needs. For the preponderance of our requirements we must provide our own.

Ground LOC: Our inability to utilize ground LOC creates unique requirements for air and sea LOC, that is, airfields and ports, and creates the needs for multiple logistics facilities. Basically, in the absence of interconnected and interdependent facilities we must provide multiple ones.

Fixed base: While this is a war of movement in the tactical sense, it is not so in the strategic sense. The base system on which it depends is therefore a fixed one. We are at the same time fighting a war and garrisoning a country. Relatively few people live in the field constantly. Even the ground units, for the most part, operate from base areas. And, unlike in other wars, we do not capture territory and then move on. We fight again and again in the same areas.

Length of war: We in construction are not assuming this will be a short campaign. Therefore, there is less tendency to rely on expedients, such as tactical generators for electrical power, and more tendency to build-in longer life such as obtained by the more economical use of fixed powerplants.

Isolation: Our presence is imposed on a sovereign nation whose peoples must continue their "normal" existence. We cannot, therefore, commandeer facilities, or real estate, or ignore the impact of our

presence on such facilities as piers or water systems or housing. We must provide our own. Additionally, we have deliberately set out to minimize the impact of our presence by avoiding built-up areas where facilities might exist.

Mr. SIKES. Let me interrupt you just a moment, General. We want our people to have everything they need within reason. Are all the things that you mentioned essential? Are we going in for plush fittings and fixtures which are really not necessary?

General RAYMOND. No, sir; I can assure you there is nothing plush. It is on a very austere, minimum, functional basis. The production of things such as ice, for example, does take a separate plant. There is none available on the local economy. I think everybody would agree that coolant for beverages is highly desirable in this climate. This is the kind of thing that we are putting in.

Engineering capabilities: American engineering capabilities, systems, and techniques make possible achievement of higher standards as a result of normal rather than special efforts.

Contract approach: Finally, this is the first modern war in which contractors have been used so close to the battlefield to do so much of the construction job. This has several implications:

(a) It is much more expensive under such circumstances than it is here in the United States. The contractor is the equivalent of a 50,000-man military force, for which he is a substitute, mobilized 10,000 miles from the United States—complete with his own logistics systems. We are not buying construction in normal sense—but a construction capability.

RESOURCES

Now I'd like to mention briefly our construction resources:
First, this chart shows funding.

CONSTRUCTION PROGRAM SUMMARY

	FY-65 MCP PL 88/390	FY-65 SUP PL 89/18	FY-66 MCP PL 89/188	FY-66 MCP PL 89/213	FY-66 SUP PL 89/374	TOTAL
ARMY	14.7	36.1	29.1	35.9	205.9	401.7
NAVY	9.4	17.4	30.3	32.9	157.1	247.1
AIR FORCE	11.8	21.4	16.6	39.2	94.0	183.0
TOTALS	35.9	74.9	76.0	103.0	537.0	831.8
	186.8 ↑ SEP			↑ OCT	↑ APR	

Funds have been made available from both normal and special appropriations. By September 1965, some \$187 million had been made available; another \$108 million was added in October; and then \$537 million more in April 1966, for a total of \$832 million to date.

I am talking now about just funds which have been allocated to Vietnam.

The time frame of this points up the recent nature of the entire construction effort out there.

Mr. JONAS. That does not include construction in Thailand?

General RAYMOND. No, sir, it does not. Just Vietnam.

CONSTRUCTION CAPABILITIES

Construction capabilities have grown similarly—on the troop side from 2 Army and 1 CB battalions in June 1965, to 14 Army, 7 CB and 2 Air Force by July 1966. Contractor capabilities had a similar growth, as shown on this chart.

Engineer troop capabilities growth

	June 1965	July 1966
Army (BN).....	2	14
Navy (CB BN).....	1	7
Air Force (SQ).....	0	2

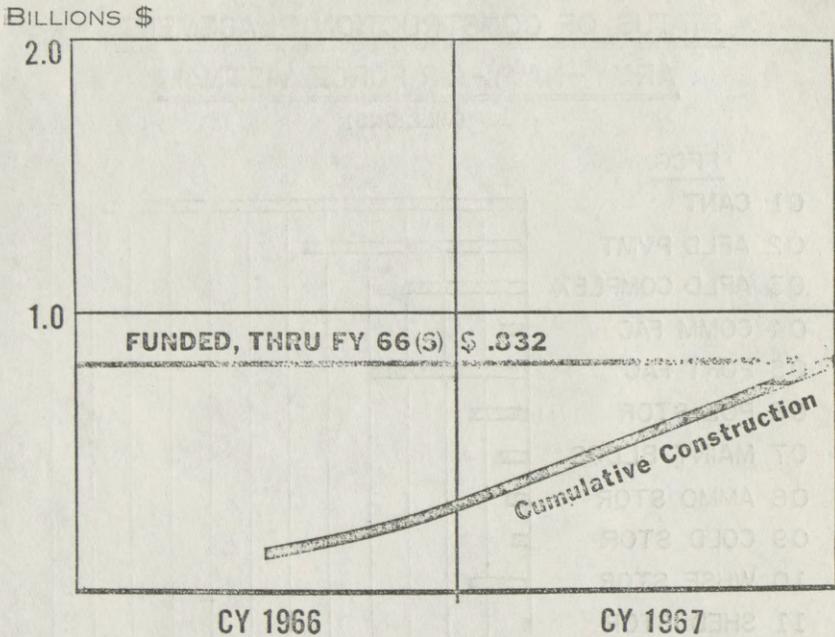
Contractor capabilities growth

	June 1965	July 1966
Personnel.....	13,025	51,000
Equipment.....	14.0M	108.0M

The troop capability is still on the increase, while the contractor capability is now leveling off. His personnel strength may go below present figures.

TOTAL EXECUTION TIME FRAME

This chart is a portrayal of the integrated relationship of program



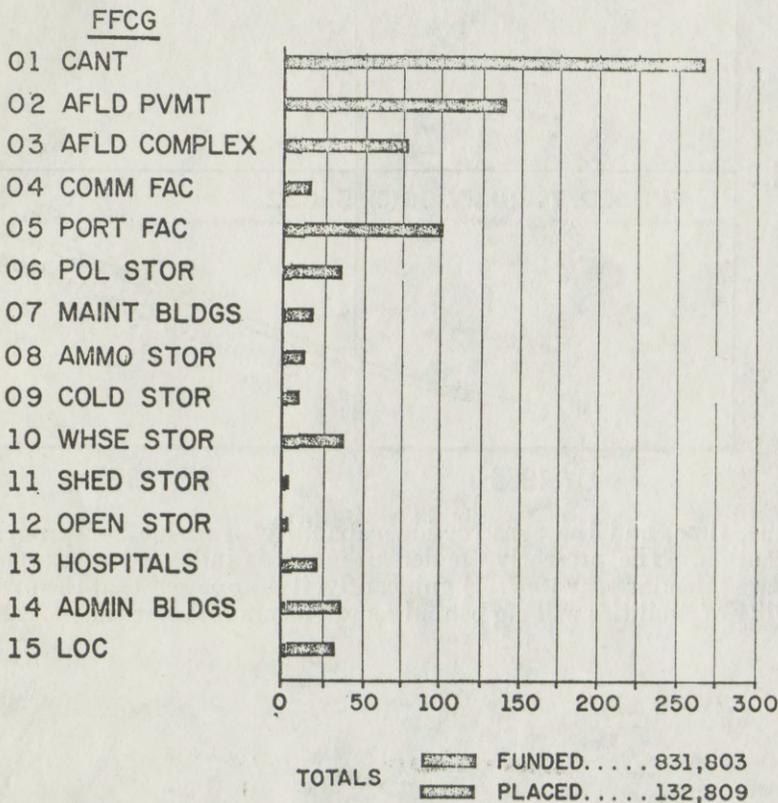
value, time, and the construction capability available for program execution. The presently funded program is indicated as executed in late calendar year 1967. Significantly, it is apparent that the availability of facilities will lag behind requirements for some time to come.

PRESENT STATUS OF EXECUTION

This chart shows the July status of execution of each of the categories:

STATUS OF CONSTRUCTION PLACEMENTARMY-NAVY-AIR FORCE, VIETNAM

(MILLIONS)



The program is now being executed at the contract equivalent rate of \$43 million per month as compared to \$4 million per month in July 1965. Approximately 17 percent of the total program has been completed. The low placement to date is deceptive as the first year now behind us was in many respects a mobilization period—of funds, materials, and execution capabilities. The execution machine is now, however, in high gear.

CONSTRUCTION IN PLACE

Mr. SIKES. Let us discuss that more fully. Do you mean money placed is money assigned to a particular project, and that the other is funded but not placed?

General RAYMOND. That placed is the portion of the funded which has been actually completed in terms of things coming out of the ground, concrete piers, buildings.

PACE OF CONSTRUCTION

Mr. SIKES. You have a long way to go.

General RAYMOND. But the execution rate now is quite high.

Mr. SIKES. How much construction per month are you getting in place?

General RAYMOND. At the present time, \$43 million a month.

Mr. SIKES. At that rate, when will the program be completed?

General RAYMOND. Late calendar year 1967.

PERCENTAGE OF CONSTRUCTION WHICH IS COMPLETE AND USABLE

Mr. SIKES. What percentage would you say has been completed thus far?

General RAYMOND. It would run about 17 percent.

Mr. SIKES. Are our forces still having to make do with a lot of make-shift facilities?

TROOP AND CONTRACTOR RATES OF PLACEMENT

General RAYMOND. You have a constantly increasing rate of placement. The contractor levels off at about \$40 million a month, but the troop capability will go up as more troops are deployed.

TROOP CONSTRUCTION UNITS

Mr. SIKES. For how many troops does this program provide?

General RAYMOND. This presently recognizes the 14 Army battalions, the 8 Seabee battalions, and 2 Air Force Red Horse battalions.

SIZE OF FORCES SUPPORTED BY CONSTRUCTION PROGRAM

Mr. SIKES. What size force will this program support in total numbers?

General RAYMOND. Are you talking about Engineer battalions?

Mr. SIKES. I am talking about the number of personnel in Vietnam.

General RAYMOND. No, sir; this does not. This roughly takes care of about 250,000, but it differs in each category. For example, the ports will take care of more than 250,000. You cannot relate the airfields specifically to number.

Mr. SIKES. I think we will want to get into that much more fully a little later. I want to hear further statements so we will defer questions. Thank you very much for your statement, General Raymond. It was very interesting and it adds considerably to our information.

AUDIT OF CONTRACTS

I would like to move on to the question of audit procedures. Mr. Woodbury, I believe you are the Director of the Internal Audit Sys-

tems Division. Are you prepared to tell us about your activities in the South Pacific?

Mr. WOODBURY. Yes, sir.

STATEMENT OF THE DIRECTOR, INTERNAL AUDIT SYSTEMS DIVISION,
OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Mr. Chairman and members of the subcommittee, it is a pleasure to appear before this committee to discuss audits within the Department of Defense as they relate to construction activities in Vietnam.

Before discussing current audit activities and plans relating to Vietnam, I should like to discuss briefly the Defense audit organizations and functions.

Defense audits are of two basic types: (1) Contract audit of contractors' invoices under cost-reimbursement contracts, as well as the audit of price representations under other negotiated contracts or procurement actions; and (2) internal audits of operating activities including procurement, supply, accounting, and other functions.

DOD Directive 7600.2, which is the basic directive on Department of Defense audit policies, defines the purposes and objectives of internal and contract audit as follows:

"1. *Internal audit.*—The purpose of internal auditing is to provide those responsible for management at all levels with an independent, objective, and constructive evaluation of the effectiveness and efficiency with which managerial responsibilities (including financial, operational, and support activities) are being carried out. All organizational components and levels of operations will be subject to independent and comprehensive audit review and appraisal * * *.

"2. *Contract audit.*—The purpose of contract auditing is to assist in achieving the objective of prudent contracting by providing those responsible for procurement, financial management and contract administration with financial information and advice on proposed or existing contracts and contractors, as appropriate, in connection with the negotiation, administration, and settlement of contract payments or prices which are based on cost (incurred or estimated), or on cost analysis * * *."

Responsibility for all contract audits, formerly carried out by the audit agencies of the military departments, has been centralized for the entire Department of Defense under the Defense Contract Audit Agency (DCAA). It was established by DOD Directive 5105.36, dated June 9, 1965, and became operational on July 1, 1965. Its Director, Mr. William B. Petty, reports directly to the Secretary of Defense. Primary staff supervision is provided to the Director, DCAA, on behalf of the Secretary of Defense, by the Assistant Secretary of Defense (Comptroller).

Internal audit is carried out by a central audit organization established in each of the military departments and the Defense Supply Agency, and an audit group within the Comptroller's office in the office of the Secretary of Defense. All the auditors in each organization are responsible to the chief of the audit organization who, in turn, reports to the departmental or agency comptroller. Audits of Defense installations and activities are performed by audit offices located throughout the United States and overseas on a periodic schedule, either by mobile audit teams or by resident auditors.

Internal audit activities are governed by Department of Defense audit policies set forth in DOD Directive 7600.2 and DOD Instruction 7600.3, "Internal Audit in the Department of Defense."

In carrying out their responsibilities, the internal auditors examine such areas as determination of requirements, programing, budgeting, procurement, inventory management, and utilization of resources, as well as the accounting and reporting areas. The performance of these functions in connection with construction activities is subject to audit coverage in the same manner as for other Defense activities and operations.

With the foregoing as general background information, I should now like to discuss the internal audit situation relating to Vietnam, with specific reference to construction activities. Mr. Petty, Director, Defense Contract Audit Agency, will cover contract audits of construction in Vietnam in his statement.

As the committee knows, the General Accounting Office issued a report on June 18, 1966, entitled "Survey of Internal Audits and Inspections Relating to United States Activities in Vietnam." The report commented on the audits being performed and concluded that more extensive audits were desirable. With respect to internal audits, the GAO suggested that the DOD practice of restricting internal audits in combat areas be reconsidered to permit its regularly constituted audit and review agencies to perform needed functions in relation to logistical and administrative support activities including construction in areas where these functions would not interfere with combat operations nor obstruct U.S. purposes.

We have reconsidered this matter and have developed a policy statement on internal auditing in combat areas which, of course, is applicable to Vietnam, and responsive to the GAO suggestion.

The policy statement, which soon will be issued in final form, provides that suspension of audits in combat areas beyond a temporary period, will be approved only when conditions are so unstable and lines between actual combat operations and support operations are so fluid and undefined that effective audits cannot be made or the attempt to audit would interfere with combat operations or obstruct U.S. purposes. The policy also provides that "audits within combat theaters will emphasize the adequacy and effectiveness of the support furnished combat forces and the controls in being to prevent unauthorized diversion of equipment, supplies or other resources. Functions to be covered, to the extent feasible, include logistic functions—for example, supply, procurement, maintenance, construction, and so forth—assistance to foreign military forces, and administrative support activities. Normally, no attempt will be made to extend audit coverage to units actually engaged in combat, unless specifically requested by local or higher level commanders."

Now I should like to describe briefly the audit activities and plans of the U.S. Army Audit Agency, the Naval Audit Service, and the Auditor General of the Air Force with respect to audits relating to Vietnam, with particular reference to construction activities.

U.S. ARMY AUDIT AGENCY

The U.S. Army Audit Agency has not made any recent audits in Vietnam but has concentrated its audit efforts on the activities outside Vietnam but which support operations there. In this connection, since August 1963, it has completed 81 audits directly or indi-

rectly related to Vietnam operations, and has additional audits of this type scheduled for fiscal year 1967 at 100 locations, 80 within the United States and 20 in the Pacific area. These audits are concerned with supply management, procurement and production, maintenance, training, unit readiness, military assistance program support, and financial management.

At the direction of the Comptroller of the Army, the U.S. Army Audit Agency now is preparing a detailed plan for audits in south-east Asia. The plans call for a survey to begin in Vietnam on September 15, during which time the audit workload relating to activities in Vietnam including U.S. Army construction, will be determined. Based upon the survey, an audit program will be prepared by October 15 at which time it is expected that the audit verification phase will begin.

NAVAL AUDIT SERVICE

Apart from a special audit just completed, the most recent audit in Vietnam by the Naval Audit Service was completed in September 1964 of the Headquarters Support Activity, Saigon. However, in April 1965, the Naval Audit Service completed an audit of the Officer in Charge of Construction (OICC), Bureau of Yards and Docks Contracts, southeast Asia, Bangkok, Thailand. A large part of the construction work for which the OICC was then responsible was in Vietnam and his deputy in Saigon administered these contracts.

In conjunction with the special audit mentioned above, the Navy has completed a preliminary survey of naval operations in Vietnam and has scheduled a comprehensive survey in October 1966 to determine specific audit requirements and define audit objectives. Navy plans for audit of construction activities in Vietnam will be based on the results of this comprehensive survey. Preliminary work on this audit will be done in connection with a regional audit of the "Management of Public Works Functions in the Pacific Ocean Area," which was started this month and is scheduled for completion in March 1967. The Officer in Charge of Construction, Saigon, will not be included in this regional audit, but it will be one of the activities surveyed in October 1966.

The scope and coverage of this regional audit may be of interest to the committee. In addition to the Pacific Division of the Naval Facilities Engineering Command in Pearl Harbor, Hawaii, it will cover eight other public works activities in the Pacific area, as well as the Resident Officer in Charge of Construction, San Bruno, Calif. The audit scope will include such functional areas as comptroller services, supply management, management of real and installed property, procurement and contract administration, and personnel management and payrolls. Particular emphasis will be directed to the administration of military construction contracts. For selected military construction projects, the audit will include evaluation of such matters as project planning, site selection and preparation, architect-engineer contract awards, construction contractor and subcontractor contract awards, and compliance and performance including control of Government-furnished material. It is anticipated that the scope of the audit of construction in Vietnam will be similar to that described above for the regional audit.

AUDITOR GENERAL OF THE AIR FORCE

Air Force activities within Vietnam are audited by the Auditor General resident audit staff located in the Philippines. In recognition of the need for additional audit service in Vietnam, the Air Force Auditor General requested the establishment of a resident audit staff in Vietnam. This request has now been approved and the resident audit office is expected to be in operation prior to September 30, 1966. Areas scheduled for audit by this office are planned to include such things as the adequacy and timeliness of delivery, the end use, and the propriety of costs of the large amounts of equipment, spare parts, and supplies that are provided to Air Force components in Vietnam. Air Force construction activities also will be included in the audit coverage.

As outlined above, and as will be further described by Mr. Petty with respect to contract audit, coverage of the Vietnam situation is in process of rapid change. We keep informed of planning by the agencies as a basis for coordinating the effort to assure that the total Defense requirements will be covered adequately. In this connection, we expect to be aided considerably by the results of the review of construction activities there now being performed by the General Accounting Office.

Mr. Chairman, this concludes my statement. I will now be pleased to answer the committee's questions.

Mr. SIKES. Thank you very much, Mr. Woodbury.

I think it would be advantageous for the committee to hear Mr. Petty before we ask questions.

Mr. Petty, would you proceed, please?

STATEMENT OF DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

Mr. PETTY. Mr. Chairman and members of the subcommittee, I appreciate the opportunity of appearing before this committee to discuss the audit of the construction program being carried on in South Vietnam. It is understood that the work to which I shall address myself is the construction work being done principally by the joint venture known as RMK—BRJ (Raymond, Morrison, Knudsen-Brown & Root, Jones).

The contracting agency for the South Vietnam construction is the Naval Facilities Engineering Command (NAVFAC), and the basic South Vietnam contract was awarded on January 19, 1962. Construction activities went on at a rather low level of effort until the rapid buildup of U.S. forces in South Vietnam began in 1965. The contractor does business in two locations where offices of record are maintained and where direct audit work is done. His San Bruno, Calif., office procures construction materiel and equipment in the United States for shipment to South Vietnam. His Saigon office procures certain materiel items locally, and meets the payrolls and other expenses incurred in South Vietnam. The Defense Contract Audit Agency conducts audits of the incurred costs in both of these locations. As of about June 30, 1966, the contractor had claimed about \$438 million of reimbursements, of which \$285 million was incurred in the United States, with the remaining \$153 million incurred in South Vietnam.

Between 1962 and 1965, while the Auditor General of the Navy had audit responsibility, and while the cost input was at a relatively low level, the audit work was carried on largely by civil service employees sent to Saigon on temporary duty. On July 1, 1965, the Defense Contract Audit Agency assumed responsibility for the audit work and immediately started to establish a permanent staff in Saigon. Six auditors and one administrative man reported for duty in Saigon in January 1966. These people are all military and their tours are only for 1 year. Immediate efforts were instituted to recruit civilian auditors to replace the military group and to augment the Saigon audit staff. Eleven civilian spaces have been authorized for the Saigon office, for which seven people have been selected at this time. Two of the seven are now in Saigon, three are due in August, one in September, and one in October.

The Defense Contract Audit Agency has also established a branch office in Bangkok, which office will have supervisory responsibility over the RMK-BRJ suboffice in Saigon. A staff of eight auditors and one stenographer has been authorized for the Bangkok branch. Seven auditors and the stenographer are now on duty there. The Bangkok branch will, if necessary, augment the Saigon audit force on a temporary duty basis. Six auditor positions have been authorized for the RMK-BRJ San Bruno office, of which five are now in place.

NATURE AND SCOPE OF CONTRACT AUDIT

The audit of contract costs by the Defense Contract Audit Agency is a part of the total surveillance of construction contracts. The contract administration agency, in this case the Naval Facilities Engineering Command (NAVFAC), exercises various controls over the contractor and it is the intent of the audit agency to supplement their work, and to avoid duplication. NAVFAC has personnel who supervise the South Vietnam construction contract, both in the United States (in San Bruno) and in South Vietnam. They perform the following functions which interface with audit:

(a) Surveillance of the stateside procurements in San Bruno, Calif., reviewing contractor purchase orders and specifications for compliance with the contract and with standard Government purchase specifications and regulations.

(b) Approval of the contractor's organization, salary ranges, and position descriptions for administrative and executive personnel; prior approval of purchase of certain items of plant and equipment; prior approval of outside professional services; disposal of Government-owned plant and equipment; prior approval of purchase orders in excess of \$5,000 for materiel or \$1,000 for equipment.

(c) Quality control on the job sites, involving inspections to assure that contracting materiel and methods are within specified tolerances, to assess managerial functions, to review engineering and procurement decisions, and to assure the proper use of labor.

The RMK-BRJ contract is of the cost reimbursement type. Audit of such a contract involves examination of the reimbursement vouchers submitted by the contractor, together with supporting evidence which proves that he has expended the sums claimed for reimbursement, and also an inquiry into the various management, accounting, internal control, and purchasing systems and subsystems which the contractor employs in his efforts to administer and perform the contract.

SAIGON CONTRACT AUDIT

When the DCAA Saigon office was established, a comprehensive program was developed that provided for system and procedure surveillance to detect weaknesses in internal controls and administrative practices as well as audit of transactions. The new program was started in April 1966. To date, work has been done in the following areas:

1. Timekeeping procedures and payroll.
2. Materiel control procedures:
 - (a) Materiel receipt.
 - (b) Physical inventory procedures.
 - (c) Storing, requisitioning, and issuing procedures.
 - (d) Accounting for materiel costs.
3. Subcontracting procedures at Saigon.
4. Electronic data processing system.
5. Equipment rentals and administrative costs.

Since March 23, separate memorandums have been sent to the contractor advising him of weaknesses in various areas. Sixteen of these pertained to materiel control deficiencies, three pertained to payroll and timekeeping deficiencies. At the present time, results of a review of Saigon subcontracting procedures are being summarized and a memorandum is being prepared to advise the contractor of deficiencies in purchasing and subcontracting procedures.

The audit schedule for the next 12 months will cover the following:

Continuation of examination of—

Payroll and timekeeping.

Materiel controls, to include:

Receipt of materiel;

Inventory procedures;

Storage, requisitioning and issuing;

Accounting for cost of materiel.

Subcontracting and purchasing.

Data processing system.

Equipment control procedures.

Administrative costs.

Institute examination of—

Equipment control procedures.

Materiel requirements.

SAN BRUNO CONTRACT AUDIT

Audit at San Bruno was essentially a voucher-type audit of costs incurred, most of which represented materiel and equipment purchases, until approximately January 1966. Beginning in January 1966, the audit was changed from a detailed transaction verification to review and surveillance of procedures. Specifically, audits of the following contract functions are now in process:

1. The accounting system.
2. Payroll and fringe benefits.
3. Automatic data processing systems.
4. Central office expenses.
5. Travel expenses.
6. San Bruno property control procedures.

An audit of the recruitment and relocation function is scheduled for the near future.

The contractor is making strong efforts to improve his own internal procedures and controls in South Vietnam. To this end he has obtained a computer system and is proceeding to computerize his materiel, payroll, and other subsystems.

Direct responsibility for the audit work in South Vietnam lies with our San Francisco region. Two of their supervisors visited South Vietnam during the month of July, and they have indicated the belief that an audit staff of 16 people will be needed in Saigon. It is our intention to staff the Saigon office at whatever level is necessary to do as effective an audit job as the local circumstances will permit. Our staffing problem has three aspects: (i) We must find people who are willing to work in Saigon, (ii) we must arrange with the contractor to provide office space for them, and (iii) we must find living quarters for them.

Mr. Chairman, this concludes my statement. I will now be pleased to attempt to answer the committee's questions.

Mr. SIKES. Thank you very much, Mr. Petty.

Mr. Bow do you have any questions?

Mr. Bow. Mr. Chairman, I have no questions. I regret I must leave but the hearings have been very enlightening.

I appreciate it very much, gentlemen.

Mr. SIKES. Thank you, Mr. Bow.

It has been a pleasure to have you here.

Now may I attempt to ascertain the time problems of our witnesses who must leave soon for Vietnam.

Off the record.

(Discussion held off the record.)

Mr. SIKES. General Goddard, let us hear your statement at this time.

General GODDARD. I have no prepared statement but I have Colonel McGarvey, who will give you a brief rundown pictorially and with charts on the current status of this project.

STATEMENT OF ENGINEERING DIRECTOR, USAF

Colonel MCGARVEY. We welcome the opportunity to give you an up-to-date briefing on the status and progress of the Turnkey project.

As previously requested by Mr. Sanders we have furnished you with an exact sheet on the significant features of the project itself. However, we would like to review with you some of the background features leading up to the contract.

Mr. SIKES. First, for the record, what is the contract and what are you going to do?

TURNKEY CONTRACT

Colonel MCGARVEY. Basically and briefly the contract itself is a Turnkey contract for complete facilities of an airfield complex, an LST port facility with capability of unloading T-1 tankers in Vietnam. The prime contractor is Walter Kitty Constructors in New York, the major subcontractor, B. B. McCormick & Sons of Jacksonville, Fla.

Mr. SIKES. This presents a new approach to the construction problem in the area. Is that correct?

Colonel McGARVEY. That is correct.

Mr. SIKES. Why was it necessary to do this?

Colonel McGARVEY. This is what we would hope to cover here in the background information.

Mr. SIKES. Please procede.

Colonel McGARVEY. Leading up to it, exploring this route of doing construction, we had an acute need for additional Air Force bases in Vietnam. Our bases in this time frame are overcrowded and congested. They reflect directly on the Air Force operational capabilities.

The safety and dispersal problems are the major problems associated with the overcrowding and the congestion of the existing bases.

(Off the record.)

Colonel McGARVEY. This was brought about primarily by a needed increase in construction capability in Vietnam. We experienced delays in completions. ———. We suffered priority problems of other facilities equally needed badly, pushing ahead of the airfield construction.

Mr. SIKES. Colonel McGarvey, I don't like to interrupt you in the midst of your statement. In view of the headlines this morning that there is a cutback in the joint venture contract, does it still make sense for operation Turnkey to proceed? Bear in mind the problems that will be coincident: with the buildup of personnel, equipment, material, and operating facilities?

Colonel McGARVEY. I think as we go through the presentation here, Mr. Chairman, we will show that we are at the stage now that it would not be feasible to retract or to withdraw at this time, in that we are almost fully mobilized at this timespan.

Mr. SIKES. Could it be said that the right hand over at the Pentagon doesn't know what the left is doing? Were you allowed to program Operation Turnkey when someone should have known that the other operation would be scaled back at about this time?

General GODDARD. I think with your permission, Mr. Sheridan might want to address himself to that.

Mr. SHERIDAN. Off the record.

(Discussion held off the record.)

Mr. SIKES. Do you have an answer?

Mr. SERIDAN. We didn't realize at the time that the Air Force would be given approval by the Secretary to proceed with a separate contract. We had not contemplated then to reduce the personnel reflected in the reduction in the story you have before you.

Mr. SIKES. Is the story true?

Mr. SHERIDAN. Partially; yes, sir.

Mr. SIKES. Please go ahead.

Colonel McGARVEY. Within this time frame this was the problem.

In exploring the possibilities of increasing the capability in meeting these requirements the proposal was made by the Secretary of the Air Force to go the Turnkey route. These, basically, are the benefits from the Air Force standpoint of the Turnkey approach.

It does provide the additional capability. It is noncompetitive with the existing resources in the country. At the same time it allows the other work to get on concurrently and speed it up as opposed to imping-

ing upon or delaying the drawing down on existing construction capabilities.

At the same time we are suffering no delays or impacts on Air Force work.

Basically the concept is a turnkey operation of the contractor totally responsible for the entire job, including his own logical support over the beach operation, to put him in place. The Government furnishes only the real estate and the secured area, the matting, generators that were surplus from the deactivated missile sites, and so on.

In pursuing the approach it went the full cycle—MACV approval, JCS, Secretary of Defense, and CINCPAC. We awarded the contract on May 31. We are approximately 90 days down the road now. The purpose of the followon briefing is to show you the progress and status as of today.

Mr. SIKES. At that point, Mr. Sheridan, may I request that at the very earliest possible date we have a summary from the Office of the Secretary of Defense on the relevant problems which would be encountered if this project were terminated and the additional construction requirements were assigned to the regular construction team in-country. We would like to know whether it is more economical and efficient to continue to build up the Turnkey operation and phase down the existing contractors efforts or to shift this Turnkey work to the ROCK-BRJ combine which seems to have excess capabilities at present.

We need to know present OSD thinking.

Mr. SHERIDAN. All right, sir.

(The information requested follows:)

Termination of the Turn Key contract and transfer of responsibilities for this project have been evaluated. Our analysis of the impact of such action clearly indicates that it would be too costly in terms of contract termination costs involving labor, equipment, shipping and materials. In addition and most significant would be the slippage in BOD's and the resulting impact on deployment of fighter aircraft to Vietnam.

It is our judgment that any realignment of construction responsibility for Tuy Hoa Air Base at this time would generate a serious impact on available military construction funds, and seriously degrade our programmed combat capability.

Mr. SIKES. Is there any such summary available now?

Mr. SHERIDAN. Not at the present time.

Mr. SIKES. Can you have it available soon?

Mr. SHERIDAN. Yes, sir.

Mr. SIKES. Please go ahead.

Colonel McGARVEY. This slide depicts the Air Force organization for managing the contract execution. The program director is centered in Saigon at 7th Air Force. He receives his construction directives directly from the MACV director of construction. He acts essentially as another construction agency in helping MACV carry out the construction task. The major segments of the Air Force organization are located in the project office in New York. Resident engineer organization is on site.

In-house within the Air Force organization, again the New York office here in New York totally responsible for the continental U.S. mobilization and the design efforts; program director located in country at Saigon with a small staff, and the resident engineer on site. We are talking in numbers of about 33 people here, about 8 here, and 26 in the New York office overseeing this operation.

The base itself is located approximately 75 miles north of Cam Ranh Bay, directly on the coast. The port facility is at the mouth of the river. The quarry site is 7½ miles north across the river. Very briefly the development plan for the base itself is red, depicting the expeditionary airfield facilities. These are to be completed by the end of December, this calendar year, blue facilities by June 1 of next year.

Shown here in bar chart form we have extracted from the critical path network the major phases of the mobilization and execution of construction.

At this time frame we are at the peak of the mobilization effort, marshaling materials, equipment and labor forces on site in Vietnam.

The red vertical lines indicate the contract milestone dates, the contract requirement to have design completed in 90 days to be fully mobilized and under construction in 120 days, or October 1, to complete the expeditionary airfield and supporting facilities to become operational by the end of December and to complete the sustained operations by the end of May next year.

Port facilities show an extra 3 months but these are not being utilized.

Mr. SIKES. Let us see the chart again.

Will you tell us where you actually are as of today?

Colonel McGARVEY. Right here, sir.

Mr. SIKES. Have you completed plans and designs?

Colonel McGARVEY. 98 percent complete.

CONTRACTOR MOBILIZATION FOR TURNKEY CONTRACT

What about contractor mobilization?

Colonel McGARVEY. The contractor, as we will show you later, is at the very peak of all of the construction equipment on the water or off site. All the construction materials are purchased and the majority in the process of being shipped.

The labor force has approximately 300 people on site, and building up daily.

Mr. SIKES. What will be the total number?

Colonel McGARVEY. 1,375 people, 700 U.S. types, 675 Vietnamese, and third nationals.

Mr. SIKES. Will they start on the 1st of September on the airport?

Colonel McGARVEY. Yes, sir.

Mr. SIKES. What is the story on the mobilization, which was to have started the 1st of August?

Colonel McGARVEY. Contractor initial camp was built back here in the end of June—June 28. Personnel buildup is about 300 now on site.

Mr. SIKES. When will he be fully operational?

Colonel McGARVEY. First of September.

Mr. SIKES. Please proceed.

Colonel McGARVEY. To give you a little better insight into some of the major mobilization activities that are underway, again in this time frame, all of the construction equipment, the complete spread is on the water, being offloaded or on site.

The contractors' camp has about 120 people initially. It is erected and in operation. The follow-on 700-man camp is being erected at this time.

The first load of AM-2 mats are being off-loaded.

The dredge required to dredge out port facilities is on site now and will start immediately in this time frame.

As soon as sufficient compression equipment is off loaded the quarry operation will start.

With this background, very briefly, as you are aware, the Government cost estimate for the job is \$52 million to be done within the 12-month time frame. We have designed and implemented an Air Force-peculiar control system, a unique system, planning and management control to look at this project in a different light from the standard line item reporting. This is the concept of the control system being utilized.

AUDIT

Mr. SIKES. Will this project be subject to the same inspection and audit processes as other oversea projects?

Colonel McGARVEY. Yes, sir. Mobilization efforts in New York are being audited by the Defense Contract Audit Agency in New York. Overseas the Air Force Auditor General's Office in Saigon audits it.

Mr. SIKES. How will you handle the actual inspections?

Colonel McGARVEY. Accomplished by the Air Force on-site resident engineer team of some 33 people shown in the previous chart. They also have contract management people on board as well as the engineering complement.

STATUS OF TURNKEY PROJECT

Mr. SIKES. What have been the obligations to date against the total cost of \$52 million?

Colonel McGARVEY. The following charts will show you that detail. This again is the purpose of the control system.

We are tracking and controlling the project in some 60 separate areas. These represent the eight major areas of control. We will show you those charts as to where we stand.

Back to the previous question, the fund utilization curve shows we placed a cost at \$47.5 million on the contractor out of the Government estimate of \$52 million.

This chart actually reflects his commitments to date, not firm obligations but commitments approved by the contracting officer.

At this point approximately \$27 million in commitments is shown.

Mr. SIKES. How much is in firm obligations?

Colonel McGARVEY. I cannot answer the question between the break-outs. Approximately ten and a half million dollars is in expenditures.

We will pass through the end calendar year here at about the \$40 million mark, which is the present funding level of the contract itself.

The next page or area, the shipping, pay tons shipped to the site, as of this date 53,000 tons have been shipped. They are on the water, on site, and in the process of offloading.

Mr. SIKES. Do you plan to use this concept in other construction?

General GODDARD. Mr. Chairman, we think this concept has great merit. Whether or not we will use it in the future will depend upon the decision by the Secretary of Defense's Office as to whether it is fruitful.

Mr. SIKES. There is only one of these contracts at the moment. Is that correct?

General GODDARD. That is right.

Mr. SIKES. Are others under negotiation?

General GODDARD. No, sir.

Mr. SIKES. Please go ahead with your statement.

Colonel McGARVEY. This shows tonnage of equipments and materials offloaded, approximately, 8,000 tons at this time.

Manpower buildup on site, ultimate figure is 1,375, composed of 700 U.S. multiskilled workers.

Mr. SIKES. The others are what types?

Colonel McGARVEY. Filipinos, third nationals, about 140 Filipinos on site, mostly stevedoring crews, and the others, about 500, Vietnamese.

RECRUITMENT

Mr. SIKES. Will you recruit from among the personnel who are to be released by the RMK-BMJ combine, skilled personnel already in Vietnam, or is all the recruitment programed to be done in the United States and in third countries?

General GODDARD. We are well along in the recruitment program. In a contract review in New York we instructed our contractor to contact the BRJ-RMK combine. If they are skilled and can fit into this job, they would be hired.

I might say that in hiring these people they have been required to demonstrate their ability to handle work in Florida on sand similar to the sands of Tuy Hoa.

In addition we have required them to be multiskilled feeling it is too expensive to take a one-skill man 12,000 miles to work.

If the combine people being let off can meet these requirements we have already taken steps to hire them.

Mr. SIKES. Will you keep this committee informed on the actual progress of assimilating through this contract any excess personnel who may be available in the theater?

USE OF EXCESS EQUIPMENT AND MATERIALS IN THE THEATER

What is the procedure on equipment? Will any of the RMK or military equipment be utilized?

General GODDARD. Equipment has been procured. As you understand, title is vested in the Government at the port. We have procured all the necessary equipment and it is either on site, on the water, or just recently loaded. I don't believe we are in a position to take advantage of any equipment that might be turned loose.

Mr. SIKES. What about materials?

General GODDARD. We have already let contracts for about 90-plus percent of our materials.

Mr. SIKES. Would it be better to acquire it in the theater? Have you explored that?

Mr. TURNER. We are looking into both the equipment and material trying to find out exactly what is available. We will use it if it can be used.

Mr. SIKES. The Monday morning quarterbacks can have a field day on this situation. Keep us closely advised as to what is happening and give us the facts.

Mr. McFALL. Especially on personnel.

Mr. SIKES. Mr. Sheridan, will you see that that is done?

Mr. SHERIDAN. Yes, sir.

TOTAL CONSTRUCTION PROGRAM IN VIETNAM FAR FROM COMPLETE

Mr. TURNER. If I may say something on the cutback. I have been reading a lot in the paper about the cutback. As I understand Secretary McNamara, the situation is under study. There has been no decision yet on the cutback or a go-ahead as has been done in the past.

Speaking for the Air Force, the general mentioned awhile ago some 18 percent of the work is out of the ground, so to speak, and something less than that so far as the Air Force is concerned.

(Off the record.)

Maybe this cutback you read about in the paper may be just a cutback in people, numbers of people, and not a cutback in the total effort.

(Off the record.)

Mr. SIKES. That is a very significant point. It was brought out in earlier testimony that the actual status of completion is still small, less than 20 percent, and that this is in preparation for a force of 250,000 people. We already have 300,000 over there.

(Off the record.)

I am sure the committee does not have all the facts about the construction problems.

Mr. McFALL. Off the record.

(Discussion held off the record.)

PROGRESS OF PROJECT TURNKEY

Colonel McGARVEY. The charts we just reviewed briefly depict the current mobilization status. We will show you by visual portrayal some of the actual progress.

The follow-on three charts are construction schedules for the expeditionary facilities. This is the sustained airfield to be completed by June 1 of next year, and this is the port facility which will be completed by June 1 as opposed to the master schedule which showed it running to September 1 of next year.

Now to move to the mobilization effort itself, we utilized Jacksonville, Fla., the port of Jacksonville, as the staging base for the marshaling of equipment and shipping it to Vietnam. The prime contractor happened to be located in Jacksonville and the majority of equipment was here.

The equipment is shown here in the sands. This is equipment which has been loaded and shipped and off-loaded at the site.

Significant point here is the fact we went under contract on the 1st of May. There was a full shipload of equipment marshaled and ready to go on the 21st of June. We shipped the majority of it within 6 weeks. The crushing plant was the key item and very hard to come by.

These are additional rock pressuring plants to give us capacity of 750 tons per hour.

A significant portion of spare parts, fuels and lubricants went with the equipment spread to maintain it in this year's operation.

All of the vehicular equipment is equipped with large flotation tires, four-wheel drives to move it through sand. We have 250 cubic yard per hour batching equipment. This is the first ship loading out of Jacksonville.

In addition to Jacksonville we have used Government-owned and controlled facilities at Mobile, Ala., at the major staging port for materials and supplies to follow other than the construction equipment.

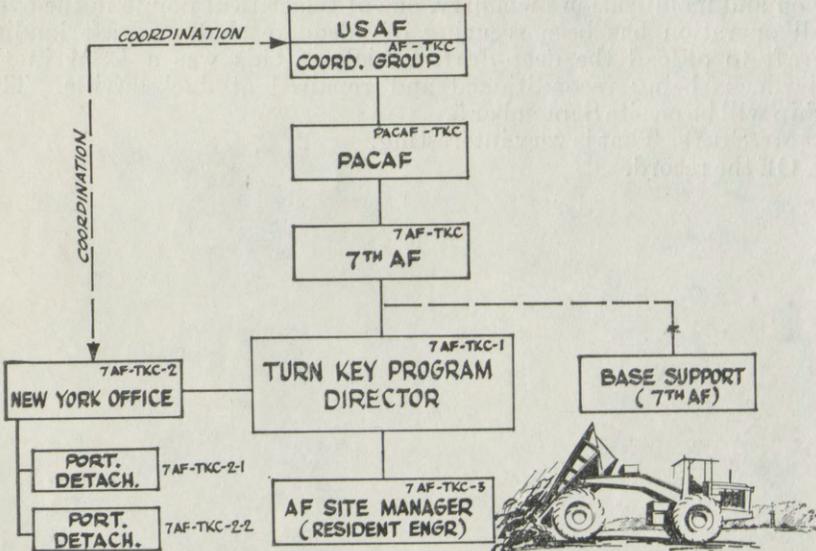
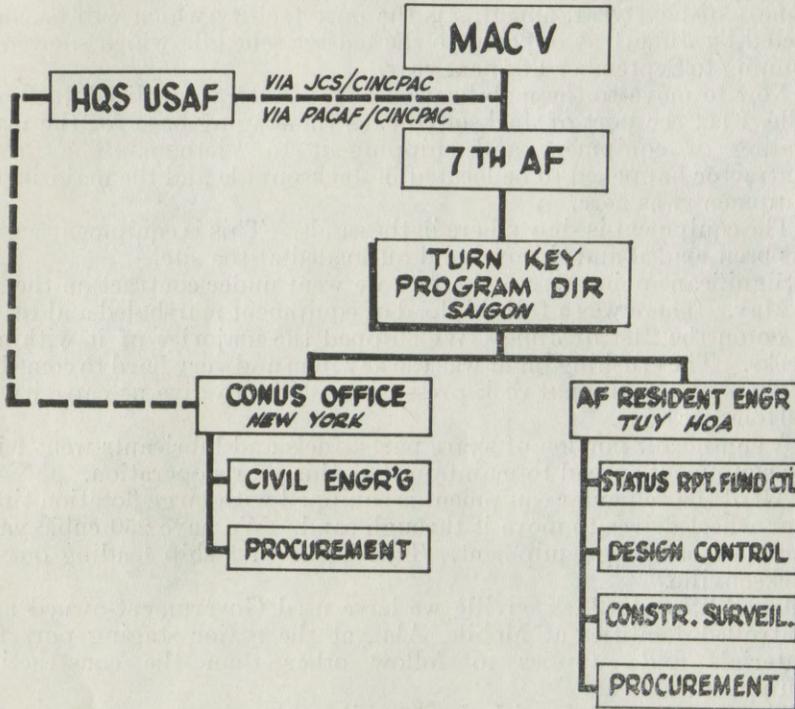
The Government furnished a 500-kilowatt generator.

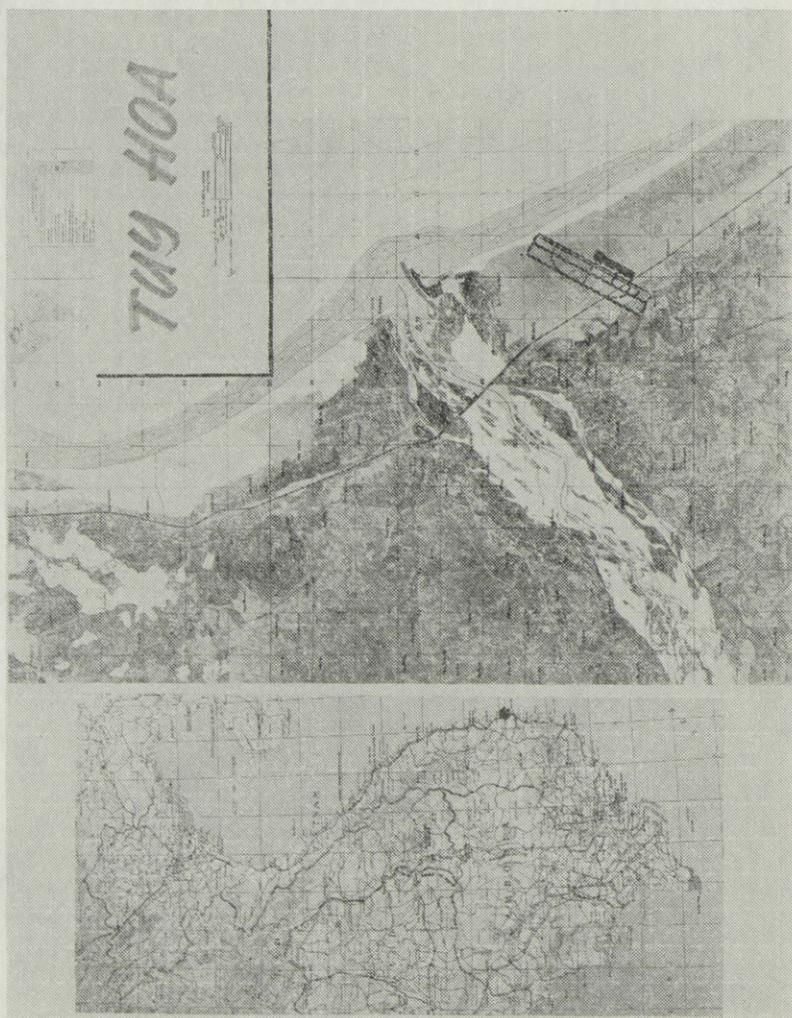
Moving in country itself, to give you a feel for the off-loading operation and mobilization incountry, one of the critical points in the overall operation has been securing of adequate shallow-draft landing craft to offload the deep-draft vehicles. This was a LSM in the drydocks being reconditioned and repaired at Jacksonville. This ship will be on site September 5.

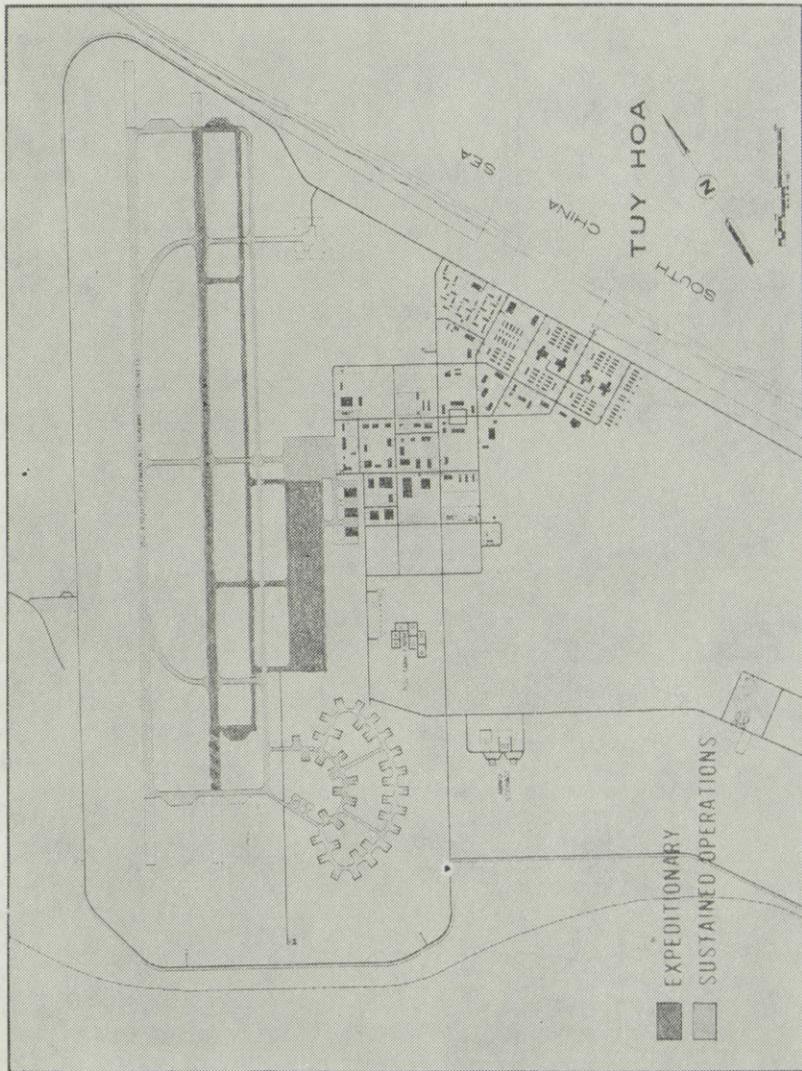
Mr. SIKES. That is very interesting.

Off the record.

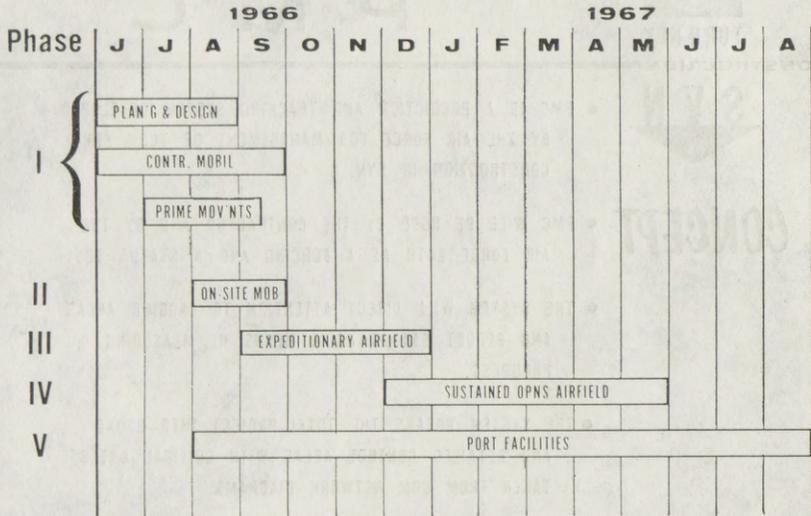
(The charts used for USAF presentation follow:)



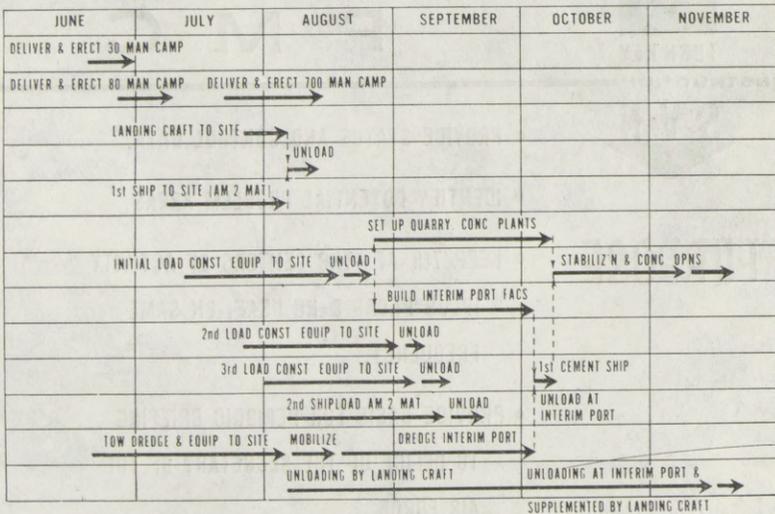




MASTER SCHEDULE



PROJECT TURN KEY MOBILIZATION





TURN KEY

CONSTRUCTION

P M C



CONCEPT

- PMC IS A PREDICTION AND TRACKING SYSTEM DEVELOPED BY THE AIR FORCE FOR MANAGEMENT OF TURN KEY CONSTRUCTION IN SVN.
- PMC WILL BE USED BY THE CONTRACTOR AND BY THE AIR FORCE BOTH AS A FORCING AND A STATUS TOOL.
- THE SYSTEM WILL DIRECT ATTENTION TO LAGGING AREAS AND REPORT STATUS AS A MEANS OF MEASURING PROGRESS.
- THE SYSTEM BREAKS THE TOTAL PROJECT INTO BROAD AND DETAILED CONTROL AREAS WITH CRITICAL DATES TAKEN FROM CPM NETWORK DIAGRAMS.



TURN KEY

CONSTRUCTION

P M C



PURPOSE

- PROVIDE STATUS AND CONTROL DATA.
- IDENTIFY POTENTIAL PROBLEM AREAS.
- KEEP 7th AF-TKC CENTERS OF ACTIVITY (PLUS PACAF & HQ USAF) ON SAME FREQUENCY.
- PROVIDE BASIS FOR PERIODIC BRIEFING TO OFFICE OF THE SECRETARY OF THE AIR FORCE.



TURN KEY

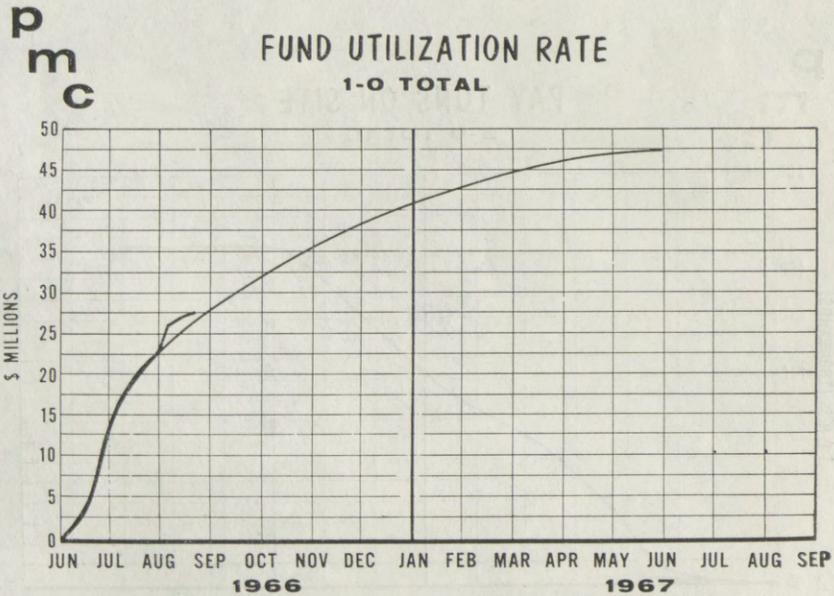
CONSTRUCTION

SVN

CONTROL
AREAS

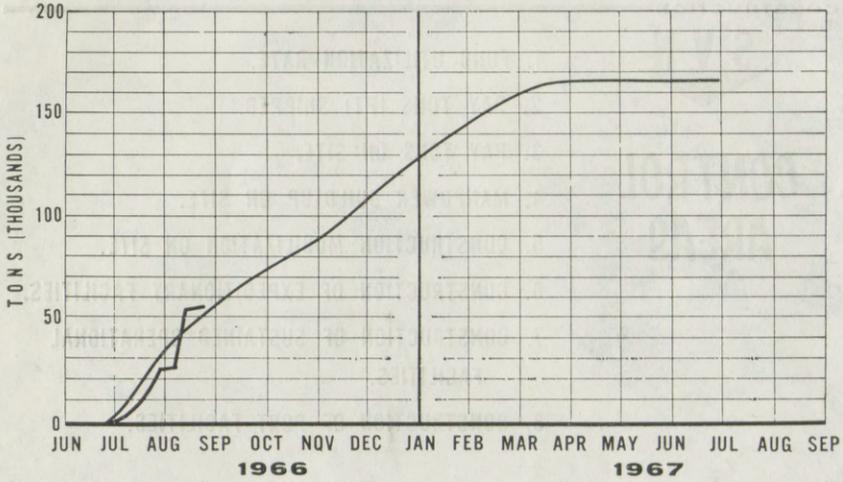
P M C

1. FUND UTILIZATION RATE.
2. PAY TONS (PT) SHIPPED.
3. PAY TONS ON SITE.
4. MANPOWER BUILD-UP ON SITE.
5. CONSTRUCTION MOBILIZATION ON SITE.
6. CONSTRUCTION OF EXPEDITIONARY FACILITIES.
7. CONSTRUCTION OF SUSTAINED OPERATIONAL FACILITIES.
8. CONSTRUCTION OF PORT FACILITIES.



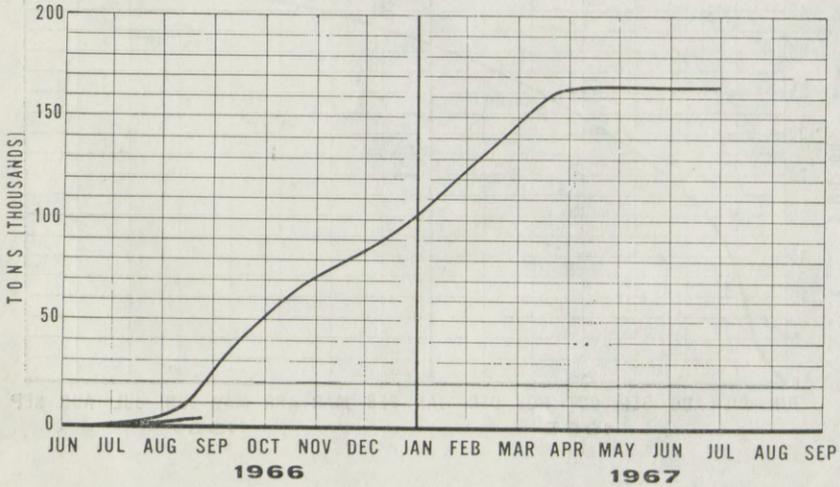
p
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PAY TONS SHIPPED
2-0 TOTAL



p
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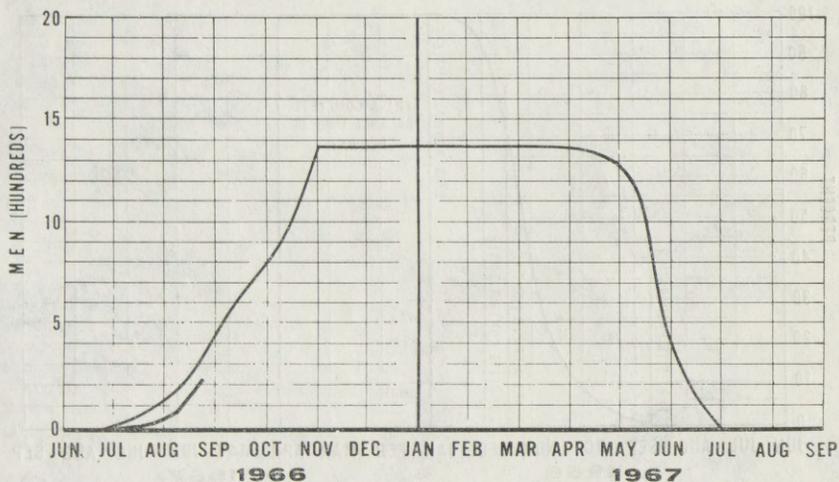
PAY TONS ON SITE
3-0 TOTAL



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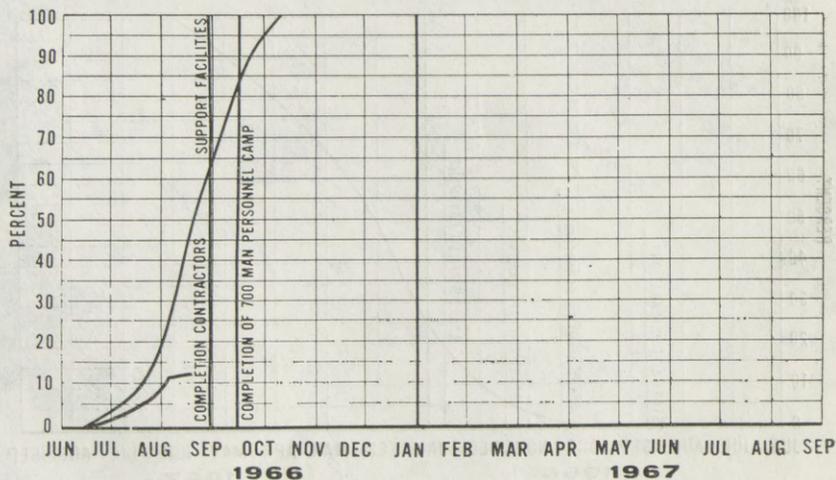
MANPOWER BUILD-UP ON SITE

4-0 TOTAL

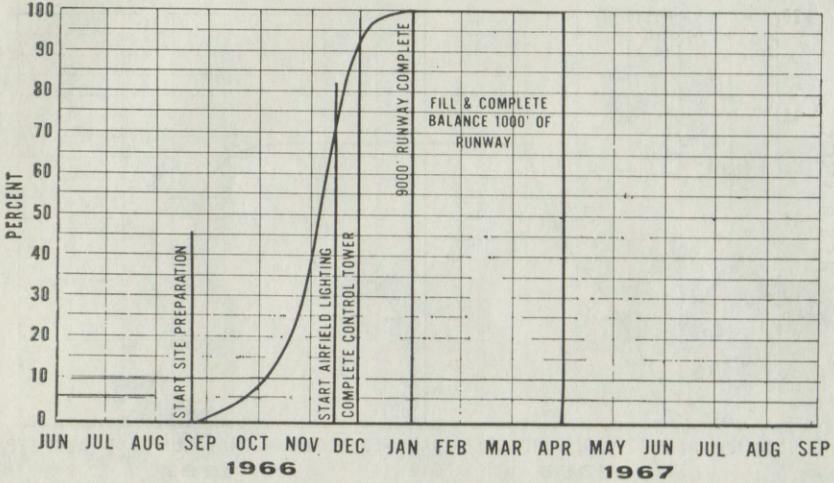
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CONSTRUCTION MOBILIZATION

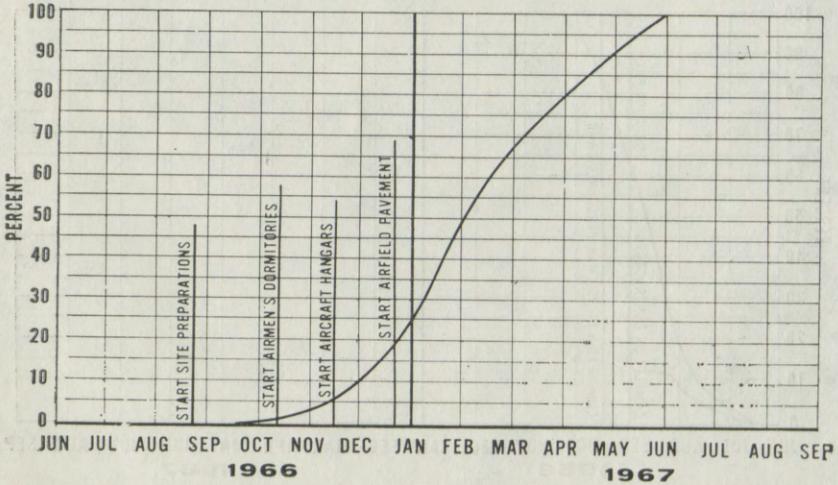
5-0 TOTAL



**p
m
c** CONSTRUCTION OF EXPEDITIONARY FACILITIES
6-0 TOTAL



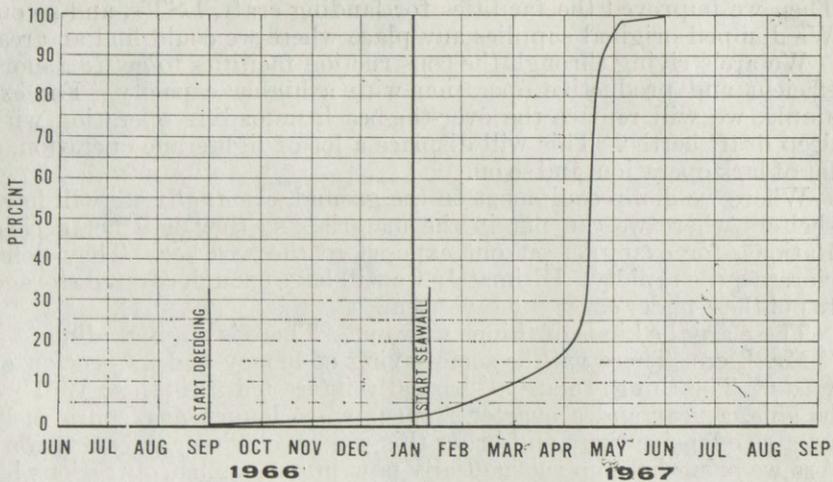
**p
m
c** CONSTRUCTION OF SUSTAINED OPERATIONAL FACILITIES
7-0 TOTAL



p
m
c

CONSTRUCTION OF PORT FACILITIES

S-O TOTAL



(Discussion held off the record.)

Mr. SIKES. Thank you for coming up here to talk with us about the project. It is something in which the committee is keenly interested. We recognize the very great problem that you have in providing needed facilities rapidly there, and this, of course, occasioned the new approach in construction. Possibly the job could have been done just as well under the prior program but this is a case of hindsight.

ROLE OF IMPROVED FACILITIES IN VIETNAM CONFLICT

Mr. LONG. You have roughly 17 percent of all this projected construction in place now. That means 83 percent is yet to be done. You are about one-sixth done. What will be the main thing you can do when the remainder is completed that you cannot do now? Will you be able to handle more people or to do certain jobs better?

Mr. SHERIDAN. A combination of several things, including accommodating more people.

Mr. LONG. We are able to carry out much more than one-fifth or one-sixth of our mission at the present time.

Mr. SHERIDAN. That is right.

Mr. LONG. What are the main disadvantages to us?

General RAYMOND. Basically in each of those categories that you saw on the chart, there are certain vital facilities which must be completed to provide for minimum operation.

For example, on an airfield you must have a runway. You must have a parking apron. These are the absolute minimum. Then you can put people in tents, petroleum in bladder storage, dump the ammunition on the sand dunes, and so on.

In each category, at a port, for example, you can draw the same analogy. You need a means for unloading ships and a place to put the material.

We started in there originally in the ports going across the beaches. Then we improved the facilities for landing craft, LST's, and so on. We dumped original supplies any place where we could find an area.

We are striving through the construction facilities to get to a more efficient and productive operation with a higher capacity. For example, we will replace the over-the-beach unloading operation with deep draft berths. This will displace a lot of lighterage operation, a lot of lark operation, and so on.

Where we dump equipment on the ground, eventually we will have shelters where we can put in the materials so they will not perish. Rations, for example, sat out exposed to the weather. They deteriorate quite rapidly. Ultimately we will have enough covered storage to put these under cover and save them.

These are the kinds of things we want. There is an upgrading.

Mr. LONG. There will be some saving of money and prevention of waste. The thing we are all basically interested in is this: Will we be able, a year and a quarter from now, to launch any enormously greater offensive there and bring this war much closer to conclusion? Are we being held up substantially now in our combat operations by the fact that we are only 17 percent in place?

General RAYMOND. No operation to date has been hindered by the absence of facilities to date. We have been able to do with what we had. It is at a much-reduced facility—

Mr. SIKES. Improved facilities will increase the efficiency of the total operation, of course.

General RAYMOND. Obviously with the continuing buildup, each new man in the theater takes so many more pounds, and this requires unloading capacity, warehouse capacity, hospital bed capacity, fuel capacity, ammunition storage capacity, and so on.

Mr. LONG. Will we really be in much better combat position a year from now?

General RAYMOND. Yes, sir; we will be in better position facility-wise by about a half billion dollars in terms of completed facilities.

Mr. LONG. I was thinking in terms of being able effectively to get the war completed. This is a very frustrating thing for all of us. We don't feel we are accomplishing a great deal now. I am wondering whether part of this lack of accomplishment is due to the fact that we haven't been able to get more construction done?

General RAYMOND. I think the matter of time frame perspective is important. This construction program really started last summer, just a year ago. The bulk of it was not even funded until the first of this year. This first year behind us was one to mobilization capability, mobilize materials, and establish the ability to execute a program.

Now we have reached the point where we have the materials on site. We have the capability. We are ready to put it into the ground at a much faster rate than I indicated by the factor of 17 percent completed to date, which is really deceptive. You went from almost zero a year ago.

Mr. LONG. There is a great deal of feeling in the Congress and throughout the country that we are not pushing this war as fast and as hard as we should. We should get on with it or get out.

To what extent is this true and to what extent has this been due to the fact we have not had enough construction in place to really get on with the war?

General RAYMOND. It is all part of a comprehensive package. Construction is one facet of it and has a bearing on everything else that happens.

For example, if in the economic warfare area we wanted to import rice, which we must do extensively, it takes facilities to unload the rice. There must be warehouses to put it in, means to distribute it. These can be limited by lack of facilities, and they are. One of the major purposes to be served by Newport is the ability to unload goods in the economic area, as well as military.

Mr. LONG. As I see this construction thing, the fact we will complete about five-sixths of it within the next year, to me it opens up a real hope that perhaps we can get the war over with, when this construction is in there we can go to town.

I get the impression from what you have said so far that we really can't look for a new capability at that time, that you have been doing about what you can do. We may be able to clean it up somewhat and save some money but you will not see a whole new scale of military operations which will be made possible by the fact that we will have this construction program completed, which is now only 17 percent in place.

General RAYMOND. I would disagree with that. There will be a substantial increase in the capability to support operations of all kinds.

Mr. LONG. Can you give us an estimate of the increase? Would it be doubled?

Mr. TURNER. Speaking for the Air Force, we have four new airfields partially underway. This will do two things for us. I am sure first you saw Tan Son Nhut and how crowded it was, and even Can Ranh Bay which is one of the new ones. In two of those airfields we are operating today, but using the AM-2 temporary runway. (Off the record.)

Part of our construction program is to get on a more permanent airfield where we can see our way clear to operate as long as necessary.

In two of the fields we are still not operating. We have no airplanes there. One of those fields is Tuy Hoa. As soon as we get those airfields into operation and some so-called sustained operating facilities, I am positive we will be able to operate much better and with less danger from sabotage and mortars than at present.

General RAYMOND. Another example is the matter of deep draft piers. A year ago there were 10 in Saigon. That was the total extent of the deep draft piers in the entire country. We are building a total of ——— additional. A year from now all of them will be completed, so we will have ——— deep draft piers. This, of course, triples your ability to bring in sinews of war.

Mr. SIKES. Off the record.

(Discussion held off the record.)

NEWSPAPER REPORTS OF CONSTRUCTION STOPPAGES

Mr. McFALL. I would like to ask this question, General. Are you familiar with the New York Times article which appeared in the paper?

General RAYMOND. Yes, sir; I read it yesterday.

Mr. McFALL. How would you reconcile the statements we have just heard about the need for facilities and the progress which it is estimated needs to be made, with the curtailment of construction described in the article, assuming the article to be true. Perhaps you would even have comments on that.

General RAYMOND. I think the man who wrote the article doesn't understand the situation. He is drawing conclusions which are not warranted.

The presently authorized construction program underway will be completed and there is nothing about it being cut back.

The subsequent program is under development. It does not yet have MACV approval, it has not gone to CINCPAC, and has not been forwarded to JCS.

Mr. SIKES. To what extent has a shortage of funds brought about this cutback in the construction effort rather than a lack of need for additional facilities?

Mr. SHERIDAN. There is no cutback in construction. That is part of the misunderstanding in the article.

Mr. SIKES. Then what is the reason for the allegations made in the article?

BUILDUP OF RMK COMBINE

Mr. SHERIDAN. In the last 6 months there was a major effort to build up the RMK-BRJ capability in Vietnam. The work force expanded from 26,000 in January to 51,700 by the 1st of July.

The equipment in country grew from 1,800 pieces of heavy construction equipment to over 4,700 pieces, now mobilized and at work in some 47 locations.

Major materiel procurements made early this year have filled the contractors' pipeline in the country's depots.

On any rapid mobilization, such as occurred in the RMK-BRJ buildup, there needs to be a fine tuning when you reach a mobilization goal of personnel.

We have reached the planned mobilization level. We are now going through the contractors' operation to insure against any excessive staffing.

We planned this when we started the buildup in the first place. This type of action is necessary any time you have a major mobilization. It is not a cutback in capability. It is a normal effort to achieve maximum efficiency and economy. It will not cut any muscle.

AVAILABILITY OF FUNDS

Mr. SIKES. Is there a short fall in funds?

Mr. SHERIDAN. Funds are available to the Defense Department. The funds available to the contractor are under constant review.

I would like to make it clear that the Department is not short of funds.

Mr. SIKES. Is there a short fall of funds assigned to the contractor?
Mr. SHERIDAN. There is correspondence now between the Navy Department and the Secretary of Defense which is being analyzed which asks for additional funds to be made available at the present time.

Mr. SIKES. Mr. McFall?

Mr. McFALL. The article says:

Washington has applied the brakes at least temporarily to the gigantic American military and civilian building program in South Vietnam.

You say this is not true, that there have been no brakes applied; is that right?

Mr. SHERIDAN. That is right.

Mr. McFALL (reading):

The consortium of four American companies responsible for the program has begun to pare its payroll and will soon begin to sell excess equipment, including lumber and bulldozers.

Mr. SHERIDAN. That is correct.

WEEDING OUT EXCESS PERSONNEL

Mr. McFALL. Your statement is they are paring payrolls but this is necessary to weed out excess personnel who are above foreseeable future requirements.

Mr. SHERIDAN. That is right. They are refining their whole situation.

On personnel, there are a lot of people that were hired that were not really capable of doing the job. And there is bound to be attrition. This is part of the weeding out process going on right now.

DISPOSITION OF EXCESS EQUIPMENT AND MATERIALS

Mr. McFALL. This sort of an answer, however, probably cannot be made with reference to lumber and materials and equipment. What is being done with this equipment. Is it being sold? Who is it being sold to and what is going to happen to it?

Do you see a situation emerging in which all of the material that has been moved out there is going to be sold, you are going to have to move more material and equipment 10,000 miles to take its place?

I am asking a lot of questions that I want you to answer all at one time.

What could be done, for example, in the way of the United States buying this lumber and equipment and making it available to other contractors who can use it at the present time or at the future time some other place in Vietnam?

Mr. SIKES. May I interrupt for just a moment?

This will be treated in detail on tomorrow. So may I ask whether General Raymond has any information which will be helpful to the committee. We are pressed for time and I would like to get into details on this with Mr. Sheridan, too. I would like to ask General Raymond if he has anything to contribute on this. If not, we will leave it until tomorrow.

NO EXCESS MATERIALS IN THE THEATER

General RAYMOND. I can assure you first of all, in the case of materials, there is no excess. When they are talking about excess of materials, they are talking in terms of the contractors. But in terms of total troop effort, as well as the contractors, there is no excess material. We still have need of large quantities of material.

Mr. McFALL. What happens to these materials?

General RAYMOND. They can be transferred. They are all Government property and can be transferred from one capability to another, from contractors to the troops.

Mr. McFALL. The implication in the article that this is being sold or is being gotten rid of somewhere is not true?

General RAYMOND. It is not true with respect to materials.

Mr. LONG. Are there no materials or equipment now on shipboard coming back from Vietnam?

General RAYMOND. Not to my knowledge; no, sir.

Captain LALOR. That is correct, there are not.

General RAYMOND. With respect to materials, when we mobilized this capability we had to anticipate what we are going to build. An airfield is a good case in point. We have had under consideration an airfield at Hue which we are not building and a parallel runway at Chu Lai which we are not building.

At one time this was a certainty enough so we ordered an equipment spread to do it. There is a long leadtime involved in mobilization to execute one of these jobs. We could not wait until we found out specifically we are going to need it to order the equipment. That would have delayed us 6 or 9 months. So we made the buy of equipment spreads enough to build the airfields we were going to eventually build. It turns out we have one airfield spread in excess of what we needed. We would like to peddle this to someone and are trying.

For example, the Navy has made an effort to see if the contract effort in Thailand could use it. We have investigated the possibility of transferring this material to AID, or perhaps selling it to them.

I suggested to the Department of the Army we perhaps might use it to equip some of the engineering units. There are all kinds of possibilities of using this, for it belongs to the Government and eventually it will wind up somewhere in the system.

Mr. SIKES. Can you say that, for the foreseeable future, there is no excess either of equipment or of materials in the theater? Even though they may not be used by the consortium, they will be required in other activities that are programmed?

DISPOSITION OF EQUIPMENT

General RAYMOND. That is true of materials. I cannot be that specific in terms of equipment, because we mobilize to do a lot of things concurrently that more economically we could have done consecutively. To build 10 airfields simultaneously, we need 10 sets of equipment, and this is the base on which we mobilize. As we finish these things, we are going to have equipment on hand which will not be worn out. So the problem of disposition of it is to come.

There are numerous possibilities that we are looking at. For example, the Vietnamese Government has a public roads department,

they have a railway system. There are possibilities that the troops can use some kind of this equipment.

The rock crusher at Camranh Bay is an example. We investigated the possibility of turning it over on a service basis to troops to operate to produce aggregate and plant mix for the next 2 or 3 years after we no longer have a contract requirement for it.

Mr. McFALL. I hope we do not get in the situation where we are disposing of equipment at this time and then later find out we are going to need more equipment and have to ship it out there.

I hope every effort will be made to make certain that this does not occur because a valid criticism then could be made of this whole operation.

Mr. JONAS. Will the gentleman yield?

Mr. McFALL. Yes.

Mr. JONAS. General, can you assure the committee that equipment similar to what you say is excess under the definition you have given is not required at Turnkey and is not being moved to Turnkey right now, either on shipboard or awaiting shipment?

General RAYMOND. Here again you have the matter of concurrency. Every piece of equipment basically that the contractor has is being used somewhere today. This will be also true of the Turnkey's equipment.

Now if you wanted to postpone an airfield and use some of the contractor equipment when it became available, you would have more economical operation.

Mr. JONAS. You just told us that one airfield that had been programmed has been scrapped and that you had adequate equipment to build the surplus airfield. So I would assume that this is not being used.

General RAYMOND. This equipment is excess in terms of what we would have bought had we known the number of airfields now required.

Mr. JONAS. Did you not tell us you had to furnish and supply a sufficient number of pieces of equipment to build 10 airfields at one time or X number of airfields at one time?

General RAYMOND. X number, yes, sir.

Mr. JONAS. And that later it was determined to scrap one of the airfields. Therefore, that would make all of the equipment needed to build one airfield surplus or excess, would it not, immediately?

General RAYMOND. In general it would, but we took this same equipment and then distributed it over other jobs to enhance the capability at those places. Instead of just having one spread at Phu Cat, for example, we are able to put a few strategic pieces of equipment at Phu Cat.

Mr. JONAS. So we are sending to Turnkey equipment similar to that that will become excess shortly or is already excess.

Mr. TURNER. I do not think there is any excess equipment as yet.

Mr. SIKES. Let us get a clearer answer.

I do not want to lead the witness, but is it true that there is not now any excess; you are using all of the equipment in the theater? However, because the construction program is not as broad as you had originally contemplated, there will be an excess earlier than there otherwise would have been?

General RAYMOND. That is true.

Mr. TURNER. Or it could mean this equipment which is now apparently to become excess in the near future you can put that back on the work that is going on now and cut down—I believe you said at the end of calendar 1967 that facilities would be completed. We would get those facilities completed sooner. With a war going on, that is exactly what we are after.

Mr. McFALL. The equipment you have got out there which is excess, there is not much you can do about that but find a place to put it to work. What we are worried about is that you have got equipment here on docks, on order and on ships to replace equipment, at Turnkey or something else. You may find out when you get it out there that you have a similar type of equipment to that already being termed excess.

This is what we do not want to happen. I think that is what Mr. Jonas is trying to find out.

Mr. JONAS. Yes.

Mr. SIKES. Let's clear up that specific point now.

Is that going to happen?

General RAYMOND. As the situation has developed, there is equipment now available which could have been included at Tuy Hoa had we been able to foresee its availability.

Mr. LONG. Then why not keep some of the stuff now on the dock instead of sending it out?

General GODDARD. Mr. Chairman, to clarify, the equipment for Turnkey is not on the dock, it is either on the water or being off-loaded.

EXCESS EQUIPMENT AT SOME LOCATIONS TO FILL DEFICIENCIES AT OTHERS

To speak also to this matter of some equipment becoming excess as the program phases, for example, our base engineer squadrons in Vietnam, because of the difficulty in getting equipment, are short of equipment, and having learned of this excess of equipment, I would be glad to see if we cannot replenish the authorizations that have never been filled in our base structure throughout Vietnam, for example, where the equipment is comparable.

Mr. SIKES. Do you mean there are shortages?

General GODDARD. Yes, sir, there are shortages in every base squadron.

Mr. SIKES. So there may be too much equipment at one base while there is a shortage somewhere else?

General GODDARD. It is a matter of distribution.

Mr. SIKES. When are you going to know more exactly what the situation is?

General GODDARD. As soon as this is made available in the theater. When COMUSMACV determines it is no longer needed for the intended purpose, the Air Force will be glad to apply it against standing shortages in base maintenance squadrons across the country.

EQUIPMENT NEEDED, ON HAND, AND IN PIPELINE

Mr. McFALL. Would it be much of a job, with all of the computers and everything you fellows have, to make a report right now as to

what equipment is available and to find out whether or not you will not have to ship some more of this material?

I realize that it is all independently programed. It seems to me the likelihood is that you are just shipping more equipment out there. You ought to be able to find out, with all the automatic data systems you have, whether or not it is proper to ship more.

Mr. SIKES. The committee very definitely wants to know that. It is a valid point. It is to your advantage just as much as it is to ours to know this. It is very definitely to the advantage of the American people, the taxpayers, to know whether there is equipment out there that can be used anywhere in order to avoid shipment of additional equipment to the theater.

Mr. JONAS. May I interject?

Mr. SIKES. Yes.

Mr. JONAS. Would it be helpful if we would get a report on identifiable equipment. Equipment covers a wide scope. I am thinking in terms of bulldozers, draglines, and things of that sort. Why can we not ask for the specifics?

Mr. McFALL. Such as asphalt mix plants and all of those in the pictures.

Mr. JONAS. Tractors and trucks and things, without just giving us a mass of so many tons of equipment. That does not mean much.

If we knew how many specific items are on hand in a few categories and what the requirements are and what they are sending over to, say, Turnkey, we could get our teeth into this problem.

Mr. SIKES. General Raymond, you are the coordinator. What can you tell us about this situation? Is there such a listing?

DIFFICULTY OF DEFINING TOTAL BUILDING AND REBUILDING TASK IN VIETNAM

General RAYMOND. We do not really know yet how much of what kind of equipment we are ultimately going to require to do the job out there. The job itself is not defined in its entirety or in its specifics.

As I pointed out earlier, for example, we have this tremendous ground line of communications problem facing us which we have not really begun to tackle. We are going to have to rebuild hundreds of miles of roads and bridges, and so on. Trying to put specific quantities on these things and identify the specific quantities of equipment that go with it is an impossible task.

Mr. SIKES. You are not going to be able to define those future needs right away. You certainly could make a survey to find out whether or not this equipment could meet present needs for construction that is going on right now. You could thereby replace equipment that might be ready to be shipped out of the United States or is perhaps on order somewhere.

Mr. LONG. Do we have very much equipment on order? Are we procuring substantial quantities of equipment?

General RAYMOND. I believe all of the Navy's spreads have been procured and are essentially in the country.

Mr. TURNER. As far as Turnkey is concerned, it is essentially procured and either waiting getting over the beach or on the high seas. It has been loaded in ships.

Mr. SIKES. I think this is another subject that is going to require a much more careful exploration. I am sure OSD will want to get into this picture, to try to sift out the facts to determine whether there really is a requirement for any additional equipment, and will also want to explore means of making the best use of equipment that is there.

So will you alert the authorities of our concern that they get further information on this point? We will want to have it just as soon as possible.

Mr. SHERIDAN. Yes, sir.

FUNDS RELEASED TO THE JOB

Mr. SIKES. General Raymond, are funds that have been made available for the construction program of South Vietnam unassigned either to the contractor or to the troop labor organizations as the result of incomplete criteria or lack of scope?

General RAYMOND. Under the terms of reference of the construction under which the construction directorate was established, all funds go through our hands to the construction agency in the form of a construction directive. I was advised on the 10th of August that the remaining funds, which were Army funds, had all been covered by directives. So essentially 100 percent of all available funds are now in the form of directives and have been given to a construction agency for discussion.

I would guess that probably 25 percent of the scope represented by those funds have some problem of real estate or siting or criteria involved in it.

Mr. SIKES. Have all the funds been made available to General Raymond?

Mr. SHERIDAN. There is a \$200 million contingency fund, Mr. Chairman, as you are aware and that has not yet been made available.

Mr. SIKES. Have all directly appropriated funds been made available?

Mr. SHERIDAN. The billion dollars plus has been made available but the \$200 million contingency fund has not yet.

ACQUISITION OF REAL ESTATE FOR CONSTRUCTION PROJECTS

Mr. SIKES. Will there be a requirement for additional real estate for programs which have not yet been definitized?

General RAYMOND. Yes, sir; without any question there will be. We obtain all real estate rent free from the Vietnamese Government. I am sure there are requirements still to come.

Mr. SIKES. What is the situation now as to your ability to secure additional real estate as it is required?

General RAYMOND. My experience has been that real estate acquisition over there is about no more and no less difficult than it is to acquire here in the United States.

Mr. SIKES. Do you get it when and where you need it?

General RAYMOND. Generally speaking; yes, sir. We have problems where we must go to alternate sites. There are instances where we cannot get all we need. This happens in the United States, too.

Mr. SIKES. Have there been any incidents of that sort which have crippled the efforts in the area?

General RAYMOND. I do not believe so. In every case there has been an alternative site available we have been able to make do with. Generally we get what we need and when we need it.

DEFINING THE NEEDS AND THE COSTRUCTION PROGRAM

Mr. SIKES. Are there any major problems brought about by a lack of complete criteria or lack of scope that have not been discussed yet? What are your principal problems now limiting the construction effort?

General RAYMOND. Our problem is in defining the program, as I indicated earlier, as to what we will ultimately need.

Mr. SIKES. Has OSD not told you yet what you really need out there?

General RAYMOND. Sir, it is incumbent upon us to define our requirements in terms of facilities.

Mr. SIKES. Has that not been done? Do you not know what you are going to need?

General RAYMOND. We are constantly working to define these requirements better and they are constantly changing.

Mr. SIKES. That puzzles me. When are we going to know?

This war has been going on a good while and you have 300,000 people out there. When are we going to know what they need?

General RAYMOND. It depends on operational considerations. For example, a decision was made recently to——

This kind of thing occurs almost every day.

Mr. SIKES. How much of the problem is due to lack of certainty about the size of the troop force?

General RAYMOND. I would say very little of it is due to that. What really creates the problem is the fact it is a dynamic situation constantly changing.

(Off the record.)

Mr. SIKES. The problem is the changing conditions of war; no one knows what requirements those changes are going to bring about. Is that the real problem?

General RAYMOND. I would say that is, the inability to predict the contingencies and operating changes that come up.

LABOR DIFFICULTIES

Mr. SIKES. Is there now a serious problem of work interference and stoppage because of labor difficulties? I know about those in the past. What about the present ones? Are there of moment any at the present time?

General RAYMOND. None that I am aware of and labor problems over there have been less frequent and less in magnitude than those encountered in the United States in my experience.

Mr. SIKES. Did the recent problems which the Vietnamese Government had with the Buddhists interfere with your construction programs?

General RAYMOND. Yes, sir; principally in the Danang area, a delay of 2 or 3 weeks occasioned by the Buddhist demonstration.

Mr. SIKES. Is that over now?

General RAYMOND. Yes, sir; it is.

Mr. SIKES. There are no serious problems affecting construction anywhere in the theater?

General RAYMOND. None I am aware of. I have been gone about 3 weeks.

Captain LALOR. None that affect the contractor.

PLANS FOR BUILDUP OF TROOP CONSTRUCTION FORCES

Mr. SIKES. What are present plans for buildup in troop construction forces in the theater?

General RAYMOND. The deployment I am aware of are those troop units we have to date, the 14 Army battalions, 8 seabee battalions, 2 Red Horse battalions.

(Off the record.)

Mr. SIKES. I understand.

Mr. JONAS. There is just one thing I am not quite clear on. Your chart showed \$832 million funded.

General RAYMOND. Yes, sir.

CONTINGENCY FUND OF \$200 MILLION

Mr. JONAS. In addition to that, you have a \$200 million contingency fund that has not been appropriated; is that right?

Mr. SHERIDAN. The \$200 million is for any place in the world, not just for Vietnam.

Mr. JONAS. However, that has not yet been funded?

Mr. TURNER. It has been appropriated.

Mr. SHERIDAN. And some minor amount has been funded.

PAYMENTS TO CONTRACTOR

Mr. JONAS. Did Mr. Petty say that up to the end of this last June the contractor has claimed \$438 million in reimbursements?

Mr. PETTY. Yes, sir.

Mr. JONAS. Were those all approved?

Mr. PETTY. The contractor has submitted the vouchers to us claiming reimbursement, and with minor exceptions the payments have been made.

Mr. JONAS. So \$438 million has been spent through June?

Mr. PETTY. That is cumulative, remember, since 1962.

Mr. JONAS. I understand.

That leaves yet—Someone testified, I think General Raymond, that the program is only 17 percent completed. That would leave \$136 million.

Mr. SHERIDAN. That is 17 percent work in place.

Mr. JONAS. Some of the \$438 million would represent procurement?

Mr. SHERIDAN. Equipment, materials and these things.

Mr. JONAS. Items not actually any place?

Mr. PETTY. Work in process.

Mr. JONAS. Mr. Sanders calls attention to the fact that some of the \$438 million goes back beyond the buildup in Vietnam.

Mr. PETTY. Yes, sir.

Mr. JONAS. Could you distinguish between the two items?

What part of \$438 million would be related to the \$832 million?

Mr. PETTY. I do not have that knowledge. But bear in mind that \$438 million of reimbursements means that the contractor has procured that much stuff that he has claimed. You can have a large amount of work in progress that is not yet complete.

Mr. JONAS. Have all the remainder of the funds that have been appropriated to date through the last fiscal year, have all of those for this particular operation in Southeast Asia been either allocated, earmarked, or made available?

Mr. SHERIDAN. With the exception of the \$200 million contingency fund.

Mr. JONAS. That is worldwide, you just got through saying.

Mr. SHERIDAN. That is right.

Mr. JONAS. But of the funds appropriated, there are no funds being held back?

Mr. SHERIDAN. None are being held back by OSD.

Mr. JONAS. All have been committed?

Mr. SHERIDAN. Yes, sir.

Mr. SIKES. Thank you very much, gentlemen. We can excuse General Raymond and Mr. Turner and I would like to request that we resume hearings with the other witnesses at 10 in the morning.

WEDNESDAY, AUGUST 31, 1966.

COMMENT ON ARTICLE IN NEW YORK TIMES ON VIETNAM CONSTRUCTION PROGRAM

Mr. SIKES. Yesterday the committee had some discussion on newspaper articles containing conflicting information regarding the present military construction program in Vietnam. These articles indicated that there is a cutback in the construction program as a result of which there would be a surplus of labor, materials, and equipment in the area.

This committee, of course, is very keenly interested in the subject and wants to know the facts.

We realize that the officials in the Pentagon are best prepared to give us the facts on what is taking place in the construction program and we have asked that we be briefed on the specifics of the progress of the construction program and its future, and on whether or not we have overbuilt.

Of course, I think it should be obvious that the construction program is far from complete and the buildup is still in progress and it is not likely that we have overbuilt. Nevertheless, we want to know all the facts.

Mr. Secretary, are you prepared to bring us up to date on just what is taking place?

Mr. SHERIDAN. Yes; I am, Mr. Chairman.

I think perhaps the best way to comment on the articles is to comment specifically on the articles of the New York Times of July 29 written by Mr. R. W. Apple. This article is generally accurate on our plans to tighten the RMK-BRJ work force but he is off on the extent of the reduction and clearly wrong on the reasons for our actions. Mr. Apple states our intent to reduce 1,000 U.S., 550 free-world journey-

men (Koreans and Filipinos), and 5,500 Vietnamese, or a total of 7,050 personnel by October 1.

(Off the record.)

Mr. SHERIDAN. He states that our reason is a funds deficiency and that the reduction will prevent us from reaching our \$40-million-per-month, work-in-place target. This is incorrect. Our reasons are several and I will explain them below but the reduction will not negate our ability to achieve \$40 million per month.

The main reasons for the planned tightening of the workforce are as follows:

1. Completion of mobilization period. Certain functions, such as material receipt, transport, and storage, which have constituted heavy elements of the contractor's work in the last 6 months are phasing down. The personnel on these functions are being reduced.

2. Transfer of functions. Army and Navy logistic commands, which are responsible for off-loading and delivery of material to user warehouses, are assuming these responsibilities for the contractor. This is considerably reducing transport and material handling staffing of the contractor.

3. Training is paying off. The Vietnamese and free world journeymen we have trained are requiring less U.S. supervision permitting us to cut down on the number of U.S. supervisors by normal attrition.

4. Normal postmobilization tuneup of organization. These last 6 months we have mobilized the contractor on a crash basis. Personnel went from 26,000 in January to 50,700 on July 1; construction equipment has increased from 1,800 pieces to 4,700 pieces in the same period. Any time you mobilize an organization that fast you need to adjust or tune it when you get it built. We have been doing this, thinning out any excess staffing, eliminating deadwood and reducing functions no longer needed. The intent obviously is to get as efficient and economical as possible and this is exactly what we have been doing.

Mr. SIKES. Very good. We might proceed to the Navy statement on construction in Vietnam.

STATUS OF NAVY CONSTRUCTION CONTRACT IN SOUTH VIETNAM

Captain LALOR. Mr. Chairman, I propose to brief you on the current construction capability of the RMK-BRJ contract and the basis for the actions we took in mobilizing the contractor to this level of capacity. The point of doing this will be to then set forth for you a problem with which we are confronted at this moment.

To begin with, I would like to speak to RMK-BRJ's mobilization of capability in Vietnam.

These reductions in personnel, this tuneup we mentioned, does not affect that one bit. This can be covered quickly because the contractor is, now, mobilized at a strength capable of completing construction at a rate of \$40 million per month. This was the target rate that we established as our goal last December and we have met our target. Equipment, work force, and material are no longer constraints on our ability to construct. The 6- to 8-month period required for mobilization—which we started at the turn of the year and on which we have previously briefed this committee—is now behind us. I can assure you that the capability is there.

I think you will see some tangible evidences of the capability to build in the slide presentation we will show you a little later.

The substantive question is, why did we set this \$40 million target? The reason lies in the evolution of the fiscal year 1966 supplemental construction program which constitutes the most recent and, more significantly, the major funding input to date into the Vietnam construction effort.

The genesis of this program came during October and November of last fall when COMUSMACV (General Westmoreland), in conjunction with his incountry component commanders, developed their requirements for facilities beyond those already authorized and funded. In aggregate, these projects proposed a countrywide system of ports, depots, airfields and supporting cantonments, and other facilities required to support present and projected levels of U.S. forces incountry.

This program of facilities was presented to Secretary McNamara during his visit incountry in late November. It is my recollection that the chairman and other members of this committee who visited southeast Asia during November were also briefed on these construction requirements. It was this program that our officer in charge of construction analyzed in conjunction with the MACV staff during the time frame of December 1965—January 1966 while the program was receiving favorable OSD processing preliminary to submission to the Congress. Joint analysis revealed the following key points:

1. The construction projects that it was estimated would be assigned to RMK-BRJ would result in a total construction effort that would require construction of new airfields or of major additional paving, such as new parallel runways, concurrently at 10 locations. Construction of major port facilities would be required at 5 locations. One hundred and fifty miles of offbase lines of communications roads plus on-base road construction would be required. In addition extensive depot, Pol and cantonment construction was anticipated throughout country.

2. Secondly, concurrency was the key guidance. All facilities were to be complete by October 1967—18 months from the expected timing of authorization and funding. The military urgency of the situation did not permit the peacetime technique of building one port, then moving on to the next, or of paving one runway and then moving on to the next. Construction of all ports, all airfields, all facilities, in fact, would have to be prosecuted concurrently.

This meant that the total equipment mobilization, the number of dredge charters, the level of material stocks and target levels of work force had to be increased in size to that which would permit simultaneous construction at all sites—of all facilities.

It was for this impending construction requirement that the officer in charge of construction, in conjunction with the contractor, proceeded to analyze and develop his construction and mobilization plan. Specifically, all specific major projects and categories of construction were analyzed to determine the quantities of equipment and material and levels of work force that would be needed. The requirement for dredges and item-by-item listings of construction equipment by type, required to construct the ports, airfields, and other projects contained in the program, were developed. Estimates were made of the long leadtime construction materials required to support the construc-

tion effort. These analyses were made initially last December and refined in January of this year. Due to the long leadtime needed for mobilizing materials and equipment from the United States, advanced procurement authority was provided. Specifically, \$200 million new obligational authority under the Naval Stock Account was established in January 1966. Armed with this, procurements of the equipment and material requirements that we had developed, were initiated during January, February, and March to be ready to start actual construction as soon as possible after the new program was in hand.

Some specific examples are as follows:

1. To meet the urgent need for port construction—we obligated \$48 million in January to start assembling a major port construction capability. These included major quantities of piling, eight added dredges, pile drivers, and work barges. We bought the necessary pipe sections and started a pier prefabrication yard in the Philippines.

2. Eighty-five million dollars in general construction materials were procured on top of the \$100 million already in stock in country or in our pipeline.

3. Sixty-five million dollars worth of additional construction equipment was bought to go with the \$53 million already on board or en route.

4. Seventeen million dollars in additional spare parts were ordered.

5. We established a target contractor work force of 58,500 men, including 5,000 U.S. and 8,500 free-world journeymen to be drawn principally from the Philippines and Korea.

6. We started 15 new contractor construction camps ranging in size from 150 men to 850 men at the major sites throughout country.

7. We established three major material depots at Da Nang, Camranh, and Saigon plus subdepots at 13 additional major construction sites. These depots would require 76 general material warehouses and 21 cement warehouses, as well as extensive open storage areas.

8. Established an automated data processing capability in Saigon to give us construction programing and material and accounting techniques to handle the job.

9. We faced a deficiency in coastal sea shipping capability that was constraining our construction. We obtained authority and chartered a small independent LST capability under the RMK-BRJ contract. Two LST's are now on Station.

10. We couldn't get around to the dispersed sites in-country to manage and direct this construction and found it necessary to establish our own aircraft support capability by commercial charter.

The results of this mobilization effort, I believe, are clearly apparent at all locations in country. We are at work right now on port construction at two major projects in Saigon and on major port projects at Da Nang, Qui Nhon, and Cam Ranh as well. We have major airfield construction underway at eight locations. Adequate supplies of rock and aggregates are the pacing factors of any construction program; they have certainly operated as such in Vietnam. Our new rock crushers are now either in operation or will be in the immediate months to come * * *. The material depots at Saigon, Cam Ranh Bay and Da Nang are in being and are loaded with materials. The construction equipment we ordered is in Vietnam, and, in most cases,

has been moved to the construction sites and is now at work. In effect we have built the construction machine needed to do the job.

The problem, in essence, is a short fall between the program we expected and the program we have been assigned. This has confronted us with a paradoxical situation:

1. First, the equipment and material that have been ordered, that have been mobilized in country, and which are now available on site for construction are, in fact, required to construct the facilities that COMUSMACV and his service component commanders require.

There is a small amount of equipment which, as we discussed yesterday, is excess. We are adjusting our plans to be sure that is not sent into country.

2. Secondly, however, we, as contract construction agent, lack sufficient funding to pay for labor that must be put with this available material and equipment if we are to complete the construction. (See additional information on p. 62.)

We have presented our analysis of the situation to the Secretary of Defense. At the moment the Office of the Secretary has the matter under intensive study. Recommendations for action are now being formulated for early submission to the Secretary for decision. We anticipate this decision in early September.

Mr. SIKES. Thank you very much. That is an extraordinarily good statement.

I would like to direct some questions. They may be answered by you, Mr. Sheridan, or by service representatives as the situation indicates.

Hindsight is always better than foresight. We will find plenty of people now who will find fault with the job which has been done. These armchair strategists will tell you what is wrong out there, and tell you why it should have been done differently. I do not want to be classed in that category. I have a great deal of respect for the job which has been done out there and admiration for those who have done the work. It is a fantastic accomplishment.

Of course, you have made mistakes. You have had to fight time, and fight an extremely difficult logistics and labor problem. The progress which has been made is phenomenal.

I do think, we would do well to analyze the situation and what has happened so that we may properly answer the critics when they arise, and critics will arise.

COST ESTIMATES FOR CONSTRUCTION WORK IN SOUTH VIETNAM

Why is it that you are short of funds? Is it that the job is costing more than you anticipated?

Mr. SHERIDAN. The job is costing more than was originally estimated. The original estimates were made rather hurriedly, and as they were refined, as happens in most cases, the estimates were increased.

The example cited yesterday, I think by General Raymond, relating to port facilities—where they ran into a tripling of costs at Newport, explains how this happens.

Mr. SIKES. Mr. Secretary, was there any accurate basis on which to estimate costs in Vietnam for construction of this nature and magnitude?

Mr. SHERIDAN. Not a precise basis.

Mr. SIKES. Is that a part of the trouble?

Mr. SHERIDAN. That is right.

Mr. SIKES. It was largely a guessing game. There was no adequate cost experience on which to base sound estimates of costs. Is that correct?

Mr. SHERIDAN. That is certainly correct. As you pointed out yesterday, to mobilize a construction effort so far away in a small country which is not an industrial country is bound to increase costs.

Mr. SIKES. Is it lack of money which is causing the layoff and a slow down—if there is a slow down—or are there other reasons?

Mr. SHERIDAN. Lack of funds is not causing the reduction.

Mr. SIKES. That is not causing it?

Mr. SHERIDAN. That is right.

FUNDS AVAILABLE TO MEET EMERGENCY CONSTRUCTION REQUIREMENTS

Mr. SIKES. If there were a shortage of funds is there not another \$200 million available which has not been allocated?

Mr. SHERIDAN. Yes, sir; that is correct. There are funds available to the Department of Defense but the Navy does not have them in hand at the moment.

Mr. SIKES. The decision has not been made as to whether to place these funds in the hands of the Navy for carrying on the work. Is that correct?

Mr. SHERIDAN. That is correct, sir.

Mr. SIKES. Do you know why?

Mr. SHERIDAN. We are trying to find out how much is needed at this time.

Mr. SIKES. While you attempt to ascertain the amount actually required there is some delay. Will this jeopardize the program itself?

Mr. SHERIDAN. No, sir; because when the Navy first brought up the problem assurance was given that an answer would be available by the first of September, and it will be within a day or so.

PROJECTED SHORTAGE OF FUNDS FOR NAVY CONSTRUCTION CONTRACT

Mr. CEDERBERG. In this statement it states "We as construction agent, temporarily lack sufficient funding to pay for labor that must be put with this available material and equipment if we are to complete the construction."

How long have you lacked this sufficient funding?

Captain LALOR. We don't lack money right now to pay the work force.

Mr. CEDERBERG. Why did you put it in your statement?

Captain LALOR. A projection in the future would mean that if the provision of additional funding to which Mr. Sheridan has spoken is not forthcoming in a reasonable period—

Mr. CEDERBERG. Captain, the statement then is misleading. It states "We as construction agent temporarily lack sufficient funding."

Just now you said you do not.

Captain LALOR. Let me strike the word "temporarily" and adjust it.

I meant to say that projecting ourselves into the future, which is our constant problem, sir, we can see that out in the January and beyond time frame if we are not given assurance now of additional funding to continue paying for our labor force then we would be in serious difficulty.

We were advising the Secretary of Defense as soon as possible of a problem developing for the future. The inference of that is incorrect.

We are not short of money right now.

Mr. CEDERBERG. The statement to me is still misleading. It leads me to believe that you lack sufficient funding now, and that you have material and equipment available but you cannot use it because of lack of funding to pay for the labor.

That is exactly what the statement says.

Captain LALOR. I stand corrected. My statement is wrong. I hope I have corrected it here on the record.

Mr. CEDERBERG. It is important that it be corrected.

Captain LALOR. The problem is a future problem. We are alerting the Secretary now but we are not stopping anything in our construction effort.

Mr. JONAS. How much do you have available in the way of funds that you can spend? Give us some dollar figures.

Captain LALOR. Essentially right now we have in the order of magnitude of \$80 to \$100 million in hand that can continue to pay for the labor and the rental of the dredges. We pay this monthly. The continuing expenses which go with putting the material and equipment—

Mr. JONAS. How long will that last at current rates?

Captain LALOR. Conservatively, into the end of the current calendar year.

Mr. JONAS. I don't understand that statement, in the light of other information given the committee.

Mr. SIKES. Provide additional information to clear up this situation. I want to try to determine clearly and accurately what the construction situation is, and if there is a slowdown, to find out how it came about and why.

I think we have considerable information on this in the record but possibly some questions will help to clarify this further.

ANTICIPATED PROGRAM FOR RMK-BRJ CONTRACT COMPARED WITH ACTUAL PROGRAM TO DATE

May I add this: What was the anticipated program which formed the basis for the mobilization of the contractor in Vietnam?

Captain LALOR. Our estimate of the additional program which would be assigned for contract construction out of the 1966 supplemental in dollars was approximately \$550 million.

Mr. SIKES. What was the total program anticipated for the Vietnam contractors which formed the basis for the mobilization?

Captain LALOR. This \$550 million which was our anticipated additional input out of the latest funding package, supplemental of this last spring, added to the prior funding which had already gone into the contract out of MAP, AID, the 1966 budget amendment, and other

prior appropriations would have raised the total contract funding to approximately \$960 million.

Mr. SIKES. You anticipated that the total program would be approximately \$960 million?

Captain LALOR. Yes, sir.

Mr. SIKES. What is the actual assigned program of workload?

Captain LALOR. The number that corresponds to the \$960 million in currently assigned current workload and funding going back to the start of the contract is \$780 million at this moment.

Mr. SIKES. Does that mean there is still more to anticipate in the way of a workload? Are you not building as much as you thought you would?

Captain LALOR. This is getting to the essence of the problem. We mobilized for a bigger program. The smaller program we have been assigned is in the order of magnitude of some \$780 million.

Mr. SIKES. Does the \$780 million represent the original estimated cost or the actual cost?

Captain LALOR. Original estimated cost.

Mr. SIKES. So instead of a program of some \$900-plus million you have an actual program of \$700-plus million?

Captain LALOR. Yes, sir. If I were to state it, there is a requirement to build facilities considerably bigger than the \$780 million.

Mr. McFALL. As I understood the testimony, it was \$843 million. Where did I get that figure?

Captain LALOR. That is correct. When the general talked that figure he talked only about military construction program funds that you have in this committee going back to the fiscal year 1965 program, the 1965 supplemental, and so on. However, that is only the military construction program funding.

Our contract starting way back in 1962 had previously been assigned construction which was funded out of many other appropriations which are not part of General Raymond's responsibility or General Raymond's charter.

For example, we have had MAP, construction programs going back to 1962, and AID work. There has been a great deal of O. & M. funded work. There is no direct relativity between General Raymond's responsibility which he placed in spectrum for you with the \$843 million and the total funds of the contract which go back to previous times and appropriations.

Mr. McFALL. Then, as I understand it, there would be more than \$843 million if you include all of these MAP funds and these other things you are discussing now?

Captain LALOR. Yes, sir; except you must keep in mind the \$843 million have not all gone to the contractor. This has supported construction by military troop units and other contract efforts, and also our contract, as General Raymond showed the other day.

Mr. McFALL. So that the share which goes to this consortium that you have out there is only the \$700-plus million?

Captain LALOR. \$780 million at the moment which reflects part of that \$843 million that General Raymond spoke to.

FUND AVAILABLE TO MEET CONSTRUCTION EMERGENCIES

Mr. CEDERBERG. You said a moment ago that you have enough money to operate at the \$40-million-a-month rate until about the first of the year. Is that correct?

Captain LALOR. Yes, sir.

Mr. CEDERBERG. You are awaiting a release of more funds early in September from the Department of Defense. Is that true, Mr. Sheridan?

Mr. SHERIDAN. Yes.

Mr. CEDERBERG. Do you have more funds to release?

Mr. SHERIDAN. Yes, sir.

Mr. CEDERBERG. How much more do you have available for construction?

Mr. SHERIDAN. A total of less than \$200 million.

Mr. CEDERBERG. That does not include the other amount?

Mr. SHERIDAN. The original figure was \$200 million in the Secretary's contingency fund which Congress approved. A small amount of that already has been released.

Mr. CEDERBERG. Released for construction?

Mr. SHERIDAN. Yes.

Mr. CEDERBERG. You intend to use all of that from the construction area?

Mr. SHERIDAN. Not all in Southeast Asia. This is worldwide.

Mr. CEDERBERG. Are you preparing a supplemental for construction to come in next year? Are you in the process of doing that now?

Mr. SHERIDAN. A program is being developed by the field at the present time on their total requirements under presently planned deployments which is to be submitted to CINCPAC and then to the Joint Chiefs of Staff and Secretary of Defense.

Mr. CEDERBERG. Which will reach us in the form of a supplemental some time next year?

Mr. SHERIDAN. That is possible; yes, sir.

LACK OF RELATIONSHIP BETWEEN FUNDING SHORTAGE AND PRESENT PERSONNEL REDUCTIONS

Mr. CEDERBERG. Did this reduction of the number of people which has been mentioned earlier have anything to do with this indication of anticipated lack of sufficient funds?

Captain LALOR. No, sir.

Mr. CEDERBERG. In other words, this is surplus of people that you had there which are not required any longer?

Captain LALOR. This might be better off the record. Any time you build something fast you don't hit that target exactly.

Mr. CEDERBERG. I understand that.

Captain LALOR. In the mobilization phase, taking the San Bruno office we talked about yesterday, during the peak of the procurement operation we had 450 contract employees there buying materials, maintaining accounts, et cetera.

We have gotten through this procurement phase and the shipping phase. The requirement now is 150. We are half way down in the rapid reduction.

Mr. CEDERBERG. I don't want to criticize you for doing this.

Captain LALOR. I was trying to be explicit.

Mr. CEDERBERG. What I am worried about is that we may come in here with a different program next year and then have to send them all back again to beef up your staff.

Mr. SHERIDAN. No, because there will be a lot of projects completed in the intervening time so that the people who are there under that level, or slightly reduced level, would be available to do work on other projects.

Mr. CEDERBERG. What you are telling us now is—the personnel you are sending home, demobilizing, so to speak, who are excess—you do not anticipate coming in next year to add them back on the payroll, and return them to South Vietnam to take over the jobs they are leaving now?

Mr. SHERIDAN. That is correct.

FUNDS PRESENTLY AVAILABLE FOR RMK—BRJ CONTRACT

Mr. JONAS. Perhaps it is because I have difficulty understanding figures, but Captain Lalor said earlier that the funds the Navy has on hand will be in the neighborhood of \$80 to \$100 million for expenditure. You didn't give a definite figure, but assuming it is \$100 million, you are spending \$40 million a month.

Captain LALOR. No, sir. We are producing that in construction in the ground, but that construction in the ground is really a composite of three things—labor, which we have not yet paid for, plus the material and equipment we already have bought. Therefore to put \$40 million into the ground of runways, buildings, et cetera, we do not have to spend anything like that. We have already bought the material. It is there. We have the equipment paid for. It is there. You have to add only the labor to this three-sided construction triangle, if you will, to get in effect the facilities coming out of the ground that come to \$40 million.

Mr. JONAS. You said funds on hand would run you to roughly the first of the year?

Captain LALOR. Yes, sir.

Mr. JONAS. Then assuming—that is an incorrect assumption because all of the \$200 million in emergency funds will not be available. However, assume that half of the funds are available. How long would that run you?

Captain LALOR. This is an attempt to give you a precise answer in an imprecise situation. I go back to General Raymond's briefing of yesterday where he described the different things—

Mr. JONAS. Another 3 months?

Captain LALOR. Well beyond that, sir.

Mr. JONAS. You have \$80 to \$100 million now and it will run you to the end of the year, you say?

Captain LALOR. That is right.

Mr. JONAS. Four months. Will the other \$100 million run you another 4 months?

Captain LALOR. Conservatively.

Mr. JONAS. That would be through April.

Captain LALOR. I would say—

Mr. JONAS. How long to finish you up?

Captain LALOR. The total program—you asked me to predict the future.

Mr. JONAS. Is it October of 1967, the last of 1967?

Captain LALOR. As far as we can project right now with the workload we have right now we would see ourselves starting, without any further construction being assigned, there will be a commencement of the final demobilization of contractors in the fall of 1967.

Mr. JONAS. At any rate you will not be finished by next April, so you will be out of money unless you get more than \$100 million from the contingency fund. Is that correct?

Captain LALOR. Yes, sir.

Mr. JONAS. So you haven't enough money to run through the fiscal year either available or in sight?

Captain LALOR. This is essentially the study we are working on in conjunction with the Secretary of Defense's staff now—how to position this money so as to keep the contract effort going and keep the work going.

ASSURANCE OF NO STRETCHOUT IN CONSTRUCTION PROGRAMS TO MEET POTENTIAL FUNDING REQUIREMENTS

Mr. JONAS. It makes a lot of difference whether you will continue at top speed or whether you will stretch it out for lack of money.

What we would like to know is what is the plan? Do you plan to stretch out?

Captain LALOR. The condition of the study that we are making with Mr. Sheridan's office has as one of its prerequisites that there will be no diminution below the \$40 million capability. Is this helpful?

Mr. SHERIDAN. There will be no stretchout.

Mr. JONAS. If necessary you will ask for a supplemental?

Mr. SHERIDAN. That is correct, sir.

Mr. CEDERBERG. How much money are you asking for here when you talk about funding to pay for labor and for available materials? What are we talking about in dollars and men?

LABOR FORCE ON RMK-BRJ CONTRACT

Captain LALOR. The stable plane toward which we are settling now on just paying for this, the continuing expense which is essentially labor but it includes the monthly rental cost of dredges, for example, which we would have to pay for, and so on, this is between \$18 and \$23 to \$24 million a month.

Mr. CEDERBERG. And how many people?

Captain LALOR. Essentially 46,000 to 47,000 people.

Mr. CEDERBERG. Can you break it down to United States construction workers, Vietnamese, and foreign nationals?

Captain LALOR. I have it in my notebook if you would like it precisely.

Mr. CEDERBERG. Yes; I would.

Mr. SHERIDAN. While he is looking that up, Mr. Jonas, there has been no firm decision yet on the supplemental. After considering all these problems and what the requirements are, then a decision will be made on a supplemental.

Mr. JONAS. I understood that. The only positive statement you made is that there will be no stretchout.

Mr. SHERIDAN. That is right.

Mr. JONAS. If additional funds are required to keep the program going at top speed—

Mr. SHERIDAN. We will have to ask for a supplemental.

Mr. JONAS. You would have to ask for a supplemental, and you would do so?

Mr. SHERIDAN. That is right.

Captain LALOR. These are not precise figures, but we told you our target. It is 3,200 United States; 5,400 Korean-Filipinos; about 39,000 Vietnamese. These figures are not precise but the total is essentially about 46,500.

Mr. CEDERBERG. Then for the record will you put alongside these figures the figures that you are using now?

Captain LALOR. Yes, sir.

Mr. CEDERBERG. That will give us the figure we want.

(The information requested follows:)

Present and target RMK-BRJ work force levels are :

	Present	Target
United States.....	4,476	3,633
Free world journeymen.....	5,866	5,404
Vietnamese.....	40,358	37,263
Total.....	50,700	46,300

CHANGES IN PROGRAM ORIGINALLY CONTEMPLATED FOR RMK-BRJ CONTRACT

Mr. SIKES. When was there a change in the scope of the program? You said it was \$900 million-plus and now it is \$700 million-plus. When was it changed?

Captain LALOR. This is an evolutionary thing. There was no one time when the program assumed precise definition. It has been gradual by reason of the factors that General Raymond described yesterday. We are tracking a military requirement and these things stabilize as we fight the war.

Mr. SIKES. Do you think the present requirement is a definite requirement, that it will not have to be expanded even though there is escalation?

Captain LALOR. Yes, sir; I think it is a firm requirement.

Mr. SHERIDAN. This is just the contractor's work that the captain is talking about. You know that the construction battalions are doing a lot of work. When they took over the work that cut down on the amount of money the contractor needed.

Mr. SIKES. We are not talking about the overall costs but the contractor costs.

Mr. SHERIDAN. That is what the captain refers to.

Mr. SIKES. Then there has been no reduction in scope of the overall program. It is the reduction in scope of the contractor's program resulting from additional construction battalions and engineering battalions.

Mr. SHERIDAN. And the Tuy Hoa project for the Air Force.

Mr. McFALL. Turnkey?

Mr. SHERIDAN. Yes.

Mr. McFALL. What was the approximate scope of the program as the Navy understood it originally?

Captain LALOR. Talking dollar scope?

Mr. McFALL. Yes.

Captain LALOR. The total program, the part we thought we would get?

Mr. McFALL. Perhaps this is inaccurate because of changes in costs.

Off the record.

(Discussion held off the record.)

Mr. McFALL. What was the original scope as you understood it in terms of dollars?

Captain LALOR. Program not being executed not just by the contractor but the total program?

Mr. McFALL. Yes.

Captain LALOR. My recollection is—we can correct it—the original dollar value of the additional program, and these numbers I recall are those which include some O-3 actions, but there was additional funding coming in essentially in the early part of this year, some \$700 million. This was the original projection, additional funding of the total program during January, February, and March.

Mr. McFALL. Off the record.

(Discussion held off the record.)

Mr. McFALL. It has been pointed out to me that your original concept of the contractor work was \$960 million. Is that correct?

Captain LALOR. Yes, sir.

Mr. McFALL. That has dropped now to approximately \$780 million. Is that correct?

Captain LALOR. Yes, sir.

Mr. McFALL. What happened to the difference, which is about \$180 million? Has that been transferred to some other agency to do the work? Has it been reduced in scope? What is the reason?

Captain LALOR. Essentially it has gone to other places on construction input.

Mr. McFALL. Military troops?

Captain LALOR. Troops, for example. They required more money than anticipated so more money has gone there. In some cases there have been reprogramming actions which have taken money from Vietnam to other places of the world, other contract actions which are adding to the capability on which you were briefed yesterday. These have converted some funds from our anticipations. There has been a multiplicity of factors.

Mr. McFALL. This is the reduction in the contractor scope?

Captain LALOR. Yes, sir.

Mr. SIKES. You said a moment ago that the size of the overall job has not been reduced but the size of the job to be done by the contractor has been reduced. That has resulted in a reduction in money anticipated to be required for the contract effort from the ballpark figure of \$960 million to a present figure of \$780 million.

Captain LALOR. Yes, sir.

USE OF MATERIAL EXCESS TO RMK-BRJ CONTRACT

Mr. SIKES. Is that the reason that the contractor now finds himself with too much labor and too much material and equipment?

Captain LALOR. Not too much labor but too much equipment and material. As General Raymond pointed out yesterday, the material we can use in the military construction effort. The equipment essentially is being used in two ways: One, to apply more equipment, for example, to General Curtain's airfield so we can advance the completion dates; and there is a small amount of equipment which we have stopped on the west coast and have not sent into country.

Mr. SIKES. Originally, was the contractor building up to do the \$960 million construction effort?

Captain LALOR. Yes, sir.

IMPOSSIBILITY OF ADJUSTING RMK-BJR CONTRACT TO PROGRAM CHANGES

Mr. SIKES. When was he told that his effort would not be \$960 million but would be \$780 million?

Captain LALOR. No precise time, because this program has been jelling as to exactly how much would come to the contractor over the months since we appropriated. For example, the Turnkey decision was a June 1 position. That is one piece we saw we would not have to build. The assignments to the troops have been stabilizing. So, there has been an evolutionary progress.

To attempt to give you a precise answer, sir, I would say the magnitude of the exact figure which is now \$780 million became first apparent in late June.

Mr. SIKES. As soon as these decisions were reached on the size of the job to be done by the contractor, was the contractor then notified so he could begin to make adjustments?

Captain LALOR. Yes, sir.

Mr. SIKES. Do you consider that he moved as expeditiously as he could have and should have to make those adjustments in order to avoid severance of personnel and an excess of machinery and materials?

Captain LALOR. Equipment and materials were essentially ordered back in December, January, and February. So they were in the air, so to speak. Obligations were incurred. We could stop materials physically on the west coast. This we have done. But the money was obligated.

On personnel, this side of the contract is not something you can turn and point in this direction in a short time. Action was started to cut down in June. I think he has done a magnificent job of adjusting to the change.

Mr. SIKES. At the time the contractor was authorized to proceed on what apparently was to be a \$960 million operation, did you have any way of foreseeing that there would be made available additional Navy construction battalions and Army Engineer forces would be available to assume a part in the construction load?

Captain LALOR. Essentially, I think we in CONUS and MACV knew how many battalions were going to be there. I think the differences came as these battalions have gotten in the country and have

bedded down and become acclimated to the workload. As their ability to produce has gone up, their consumption of material has gone up and their costs have gone up. The factor has not been a misjudgment of the number of battalions, but the productivity.

Mr. SIKES. Let me ask the same question with regard to Operation Turnkey. At the time you negotiated with the contractor and authorized him to proceed on the \$960 million level of work, did you have any advance information to indicate that a part of this job would be done through another group or would be done in another operation such as Operation Turnkey?

Captain LALOR. At the time the equipment, which is essentially the controlling item on that job, was ordered; no, sir.

ADJUSTMENT CHANGES AND EXCESS MATERIALS OF THE RMK-BRJ CONTRACT

Mr. McFALL. I would like to go into the magnitude of the reductions and where and when they were made. I am looking at your statement, Mr. Sheridan, about the New York Times article of August 29. You say the personnel went from 26,000 in January to 50,700 on July 1. The figures which you gave, Captain, a few moments ago concerning personnel that would be needed after you have gone through this tuning process added up to some 47,600. I believe you said that might be inaccurate.

Captain LALOR. The total is 46,300.

Mr. McFALL. 46,300?

Captain LALOR. I do not have here the precise number of the Vietnamese that go with it. We can get those.

Mr. McFALL. That can be easily adjusted. So, there is a difference of some 4,400 people between 50,700 and 46,300. There is that much adjustment which is being carried out at the present time.

The construction equipment went from 1,800 pieces to 4,700 pieces in the same period. Since you are using this frame of reference, what is the number of pieces of construction equipment that will be necessary now?

Mr. SHERIDAN. We are trying to find that out, and we will have to furnish it to the committee. We do not know at the present time.

(The information follows:)

The required number of pieces of equipment will be reduced from 4,700 to 4,322, a reduction of 378.

Captain LALOR. I can give a dollar magnitude.

Mr. SHERIDAN. Mr. McFall is trying to get it in pieces, I think.

Mr. McFALL. That is what you used here. I am not the expert.

Captain LALOR. We have this, but I do not have the information with me on the pieces that can be repositioned, taken out of this military construction program after Vietnam by reason of the stabilization of the contract at the current level.

Mr. McFALL. I think you understand from our point of view that we want you to do the job and we want you to do it in the most efficient way possible. The only thing is that we are trying to find out whether or not you are actually accomplishing it. We just want the figures in the record to show what you are doing.

Captain LALOR. I think I can give you an example of what we are doing. At the Phan Rang airfield, which General Curtin has followed

very closely, our original estimate on the completion was in the ——— time frame. With part of the equipment that we are talking about here, we have increased our equipment application and we are now going to pave the runways and taxiways by ———. This is what we are all trying to do. There is no excess. We are compressing our construction period into a tighter time period to get the job done.

Mr. SIKES. Regardless of how this situation came about, how much money will the excess labor, excess equipment, and excess material now apparent in the contractor operations cost the United States? What are we spending that we would not have had to spend had we been able to forecast the requirements more accurately? Does anyone know?

Mr. SHERIDAN. No, sir. That could not be determined, Mr. Chairman, until we find out what we can transfer to other uses.

SUMMARY OF POTENTIAL ACTION RELATING TO SURPLUS MATERIALS AND EQUIPMENT OF THE RMK-BRJ CONTRACT

Mr. SIKES. Let us summarize it, briefly. You anticipate that all materials can be used in the theater?

Mr. SHERIDAN. We hope so; yes, sir.

Mr. SIKES. You anticipate, however, there will be some surplus of equipment?

Mr. SHERIDAN. Yes, sir; there is bound to be.

Mr. SIKES. You have no way of knowing at this time what that surplus will be?

Mr. SHERIDAN. All the equipment will be surplus at the end of the job, but how much in phases will be hard to determine.

Mr. SIKES. Presumably they have built up at this point to a higher level than is necessary for the job as the job now stands.

Mr. SHERIDAN. Yes, sir.

Mr. SIKES. So, there is surplus equipment that is on hand and you have no way of knowing what the amount is at this time.

Mr. SHERIDAN. Yes, sir. Captain Lalor can give you a dollar figure, I think.

Mr. SIKES. Do you have a dollar figure?

Captain LALOR. \$12 million. I have a list of the pieces. To pursue this a little because of the concern of the committee yesterday as to our sending it into the country when we find we do not need it, the equipment divides into two pieces: There is \$6 million that is in-country and \$6 million in Vietnam. I am rounding the figures a very small amount. The \$6 million in the United States has been stopped at the west coast. The \$6 million in-country we are identifying by location, manufacturer, and condition. We are pursuing with the Corps of Engineers, with General Curtin's people, and with our own Navy Seabee personnel to find out whether this in-country equipment can be used.

Mr. SIKES. Will any of this be a total waste?

Captain LALOR. No, sir. It will not be. I do not think any of it will be.

Mr. SIKES. That is the point I want to get at. The equipment is not a total loss, even though it may not be needed for the Vietnamese job.

REDUCTION IN RMK-BRJ LABOR FORCE

Mr. SHERIDAN. It is available right now.

Mr. SIKES. Now, let us speak to the problem of excess labor. What costs are associated with accumulating at the job site more labor than is required? These costs might be listed such as the costs of recruitment, costs of training, costs of transportation, and costs of severance pay. Is there anything else?

Captain LALOR. Transportation.

Mr. SIKES. Right, I thought I had included that. Is there any way of knowing what expenses have occurred as a result of having excess labor on site which would not have incurred had the present situation been foreseen?

Captain LALOR. I cannot give you a quantified answer to this, but I can give you my opinion. There is going to be very little excess cost because of the high rate of attrition we have in this type of situation. These people get tired of Vietnam. They want to come home. They put in 6 or 8 months over there. The normal attrition rate that we can exploit in this type of situation is going to account for the reduction, for example, in the U.S. personnel that we anticipate achieving.

Mr. SIKES. So the newspaper story about a constant stream of people coming home does not necessarily mean these are all people who are excess to the job. They could be people who are tired of Vietnam and just want to come back to the United States. Is that correct?

Captain LALOR. That may be. I do not want to mislead you. My own judgment—we cannot quantify it—is that most of these people are just the normal attrition heading home. We have 50,700 total personnel and 40,000 Vietnamese. The U.S. portion is about 4,400, as I recall. It is on that order of magnitude. When you have this many in the first place and, secondly, they go over for an 18-month contract if they stay the whole contract, to begin with that is 200 a month or more than 200 a month. You add on top of that the people who just get sick and tired of sitting on a little piece of non-Floridian sand.

Mr. SIKES. Conditions do not work out as they expected after they get there, and they get tired of it.

ABILITY OF UNITED STATES TO UTILIZE SURPLUS EQUIPMENT AND
MATERIALS OF RMK-BRJ CONTRACT

Answer this for me: If we are less than 20 percent complete on the job and we are going to be busy for at least another year out there trying to finish the job, why is it that anything is surplus?

Captain LALOR. You are speaking of equipment and materials?

Mr. SIKES. I am speaking of equipment, materials, labor and everything else. Why is anything surplus if we still have so far to go?

Captain LALOR. As a general answer to your question, there is no surplus. When we are saying we have \$12 million of equipment out of a fleet of over \$100 million—

Mr. SIKES. Why do you not continue to use the available labor, equipment, and material, if we still have that far to go in the construction program?

Mr. SHERIDAN. Mr. Chairman, when that \$12 million worth of equipment figure is used, it is attributed directly to the contract. In your thinking, I believe, there is so much other work to be done by the Air Force, the construction battalions of the Army and the Navy, a lot of it can be used.

Mr. SIKES. I am not necessarily thinking of that. What percentage of completion has the contractor reached in his work?

Mr. SHERIDAN. That is the percentage which was given yesterday as 17.

Mr. SIKES. Seventeen percent. Why cannot the contractor use all of his material, all of his equipment and all of these men to finish the job?

Captain LALOR. When you get to equipment, it is a question at what point you just supersaturate a jobsite with no further productivity.

Mr. SIKES. Do you have more equipment than you need to complete the job—

Captain LALOR. Even on a fully saturated level.

Mr. SIKES (continuing). Even considering the fact that attrition rates on equipment are very high in Vietnam.

Captain LALOR. We propose not to get rid of it but to keep it so it can be used for replacements as the stuff wears out.

Mr. SIKES. Do you have on hand more material than you actually are going to need to finish the job?

Captain LALOR. No, sir. We have under our contract right now more material than we need right now. This material can be utilized by the troop construction effort which General Raymond talked to yesterday and which I said is consuming by its very effectiveness, now that it has stabilized.

Mr. SIKES. Have you more material on hand than the contractor is going to require?

Captain LALOR. No, sir.

Mr. SIKES. Then why is it surplus?

Captain LALOR. In our procurement of material we have bought more material than the contractor requires in the time frame we are talking about. This, again, is a fairly small amount.

Mr. SIKES. Not because you may not need it this quarter does not mean you will not need it in the next quarter.

Captain LALOR. I am speaking of needing it in the next 6 to 8 months. You do not want to keep lumber forever, because it gets dry rot when you store it, but this lumber and the Romex wiring and switches and these urinals can be diverted, and we are diverting this material to the troop effort so they can use it. It is a fairly small amount of dollars, anyway. It is something on the order of magnitude of \$15 to \$20 million in materials we are talking about.

REDUCTION IN RMK-BRJ LABOR FORCE

Mr. SIKES. Why would you cut down on the number of men? Why do you not just keep the job rolling and get it finished faster?

Captain LALOR. We are doing both. We are getting the job done faster, but in the cleanup operation, the tuneup operation, essentially in the nonconstruction, the nonproductive elements of our operation. For example, we have been doing our own lighterage and tug opera-

tions in the Saigon Harbor and handling all of our materials. It was a matter of necessity because the Army as logistic agent had not built up its capability. We have stopped this. That is a lot of people. It is essentially about \$450,000 a month. We are stopping this. This is the type of thing we are stopping. We are stopping the transport of materials. The truckdrivers and forklift operators have moved this material. That function is behind us and we can cut back. We are cutting back in San Bruno.

The point I am making is that this is not the man who drives the nail; this is not the man who runs the bulldozer. We are getting rid of the people who are essentially the mobilization troops we have had.

STORAGE OF CONSTRUCTION MATERIAL AND EQUIPMENT IN SOUTH VIETNAM

Mr. JONAS. How much construction material and equipment is in Vietnam unused and in storage?

Captain LALOR. On equipment, there is none.

Mr. JONAS. No equipment?

Captain LALOR. No, sir.

Mr. JONAS. How about construction material?

Captain LALOR. Material goes into depots there from which it is drawn and goes right into construction.

Mr. JONAS. Let us stick to equipment, then, because you would have to stockpile materials and use it from day to day. That would not necessarily apply to equipment unless you are thinking in terms of spare parts or replacements.

Captain LALOR. That is right.

Mr. JONAS. You must have some in storage for that purpose.

Captain LALOR. We have spare parts and replacement transmissions, tracks for crawlers, this type of thing. We have this.

Mr. JONAS. No bulldozers or draglines?

Captain LALOR. Sir, if you and I went out, we would find that one bulldozer that would make me answer your question incorrectly, but in essence, every piece of equipment we now have in country is being used.

Mr. JONAS. You have not stockpiled any equipment in Vietnam?

Captain LALOR. No, sir.

Mr. JONAS. None has been sold?

Captain LALOR. No, sir.

Mr. JONAS. None has been transferred to other countries or other Government agencies such as MATS?

Captain LALOR. No, sir.

Mr. JONAS. None?

Captain LALOR. No, sir.

Mr. JONAS. None has been given away?

Captain LALOR. No, sir. The only exception to what I have just said is that we have taken two cranes that were in the equipment in the United States that was not needed in country, and we have sold them to one of our contractors in Thailand who is doing construction work of the same essentiality. We have not transferred, with that exception, anything.

Mr. JONAS. While I have the floor, there is one other question. What has caused you to hold up the shipment of \$6 million worth of equipment now ready for shipment on the West Coast?

Captain LALOR. Essentially the Tuy Hoa equipment. We do not need it in country right now, so we are not going to ship it until we do need it.

Mr. JONAS. You expect ultimately to need it when you are ready?

Captain LALOR. You are asking for my judgment, and my own judgment is that it will be required essentially just by the wearout of stuff. We are operating equipment in the worst possible environment, and it goes bad fast. When it goes bad, I think we will have a need for that equipment on a replacement basis, so we are keeping it.

REVISION OF CONTRACT PROVISIONS OF RMK-BRT CONTRACT

Mr. CEDERBERG. Earlier in the hearings this spring we went into some detail as to the type of contract that you have in Vietnam with this combine, and you indicated to us then that there was a change in the concept of this contract. In other words, you had put in an incentive clause for the contractor. Has this incentive in any way affected the fact that he is reducing his number of personnel? Is this a result of this change-of-contract concept?

Captain LALOR. It would be a contributory factor, because we judge him on how well he is using his assets for construction, how efficient he is, how well he is programing his construction.

Mr. CEDERBERG. But before you had this change in the type of contract, you did not have this incentive. So, if you had not had this change, we might have gone along and not had these excess people.

Captain LALOR. No, sir.

Mr. CEDERBERG. Who would have checked him? Your office?

Captain LALOR. Our office, Admiral Husband, Admiral Enger, who spends probably half of each day on this problem, and 87 of our best officers whom we have in country right now running this contract.

Mr. CEDERBERG. How much money have we saved as a result of this change in the concept of the type of project?

Captain LALOR. I cannot quantify the answer, sir.

Mr. CEDERBERG. Can you give us an estimate? You told us when we had this contract before that it was a cost-plus-fixed-fee contract. So they continued on that for a period of time. Then you changed the type of contract to provide an incentive for the contractor and if he, shall we say, became more efficient, while the cost was less and the plus-fixed fee might have been a little less, he received a bonus. Would you not call it a bonus for efficiency?

Captain LALOR. An awards fee.

Mr. CEDERBERG. You do not like the word "bonus." You always get awards.

Captain LALOR. It is an incentive fee.

You are asking me to give my judgment on how much we would save in the actual cost to the Government of getting the job done?

Mr. CEDERBERG. Yes.

Captain LALOR. I would say actually somewhere between 5 to 10 percent overall improvement has been achieved. It probably has been achieved partly motivated, partly spurred on, if you will, by the added incentive of his knowledge that we are going to judge him and part of his profit on how efficient he is.

REQUIREMENT FOR AUDIT PROGRAM IN SOUTH VIETNAM

Mr. CEDERBERG. I am not being critical at all. I think this is fine. The more efficiency we can get into it, the better. If we had had about five times as many auditors over there helping you, do you think this would have made any difference?

Captain LALOR. I think the auditors have given us a magnificent assist. As a matter of fact, I would like to broaden it not only to Mr. Petty's people who are out there and who on my last trip I saw not just down in Saigon but up at Cam Ranh and Danang. We brought them into the family and said—

Mr. CEDERBERG. Do not get them too close to the family. This is what I am worried about. I do not like the idea of taking auditors into the family. I would not have an auditor in the family as far as a business is concerned. If I am a partner in a business, I do not want my auditor as part of the family.

Captain LALOR. We found they have some real good ideas on how they can help us solve our problems. We realize we haven't all the brains in the world.

Mr. CEDERBERG. That is what I said.

Captain LALOR. If we can get help, we pull them in.

Mr. CEDERBERG. I am wondering if we should have had more auditors in there.

Captain LALOR. We have not suffered for any lack of auditors.

Mr. CEDERBERG. That is what I thought. What do you think would have happened if we had not had any auditors over there?

Captain LALOR. I cannot answer.

Mr. CEDERBERG. What do you think might have happened, Mr. Sheridan?

Mr. SHERIDAN. I do not think it makes any sense to have a contract of that size without auditing.

Mr. CEDERBERG. I do not think it makes much sense to have as few auditors as we have had over there, but I recognize it is hard even to get auditors to go over.

Captain LALOR. Mr. Petty is being assisted to a great degree by some eight resident GAO personnel who are also auditing. In serious answer to your question, I think we have been getting the requisite amount of assistance, and I view this assistance both from the GAO and the DCA auditors in helping us to—

NEW CONTRACT PROVISIONS OF THE RMK-BRJ

Mr. CEDERBERG. Are you satisfied that the new type of contract that you have, the incentive award contract, is better than you had before?

Captain LALOR. Not only satisfied; I think it is the smartest thing we have done.

Mr. CEDERBERG. If you had had your choice, you would have done it earlier?

Captain LALOR. This is the first time anyone ever thought of using that particular type of contract for construction, so I cannot really see how you can criticize us for not doing it quicker. Let me give you an example, perhaps off the record.

(Off the record.)

Mr. CEDERBERG. One more question on this. You are planning, according to your testimony, to finish up the construction work in this area of this combine in October of 1967?

Captain LALOR. Yes.

Mr. CEDERBERG. In any future construction you will try to use, to the maximum extent possible, troop construction battalions. Is that correct?

Captain LALOR. This is the plan; yes, sir.

Mr. CEDERBERG. If, after this has occurred, we find ourselves in the position of having to go back and do more construction than we are able to accomplish by the troop-type construction, will we have had enough experience by that time to go to competitive bids as we have elsewhere?

Captain LALOR. If there is a combat environment in that country at the time of the decision you are talking about, you would not get any contractor to give you a lump-sum bid on one of these jobs that we could afford. How is the man to protect himself against the contingencies of VC action, of interdiction? How is he to get the material to the site or to judge the delays and the changes that are inherent in a war?

Mr. CEDERBERG. Will the contractor himself net any more money under your new type contract than he did under the old?

Captain LALOR. For a million dollars worth of construction done under the old technique and a million dollars worth of construction done under the new technique, he makes less money even if he got all the incentive fee. We negotiate pretty well.

Mr. CEDERBERG. OK.

Mr. SIKES. Go ahead, Mr. McFall.

Mr. McFALL. Very briefly a few questions, Mr. Chairman.

MONTHLY RATE OF CONSTRUCTION IN PLACE

In the New York Times article, there was an allegation that the level of the work was \$30 million a month. We have been discussing here a figure of \$40 million a month. General Raymond said something in the nature of \$43 million. This is approximately 5 percent per month of the total, is it not? \$40 million is approximately 5 percent of \$780 million. How do you arrive at whether it is \$30 million or \$40 million? How do you calculate this?

Captain LALOR. To begin with, the \$30.6 million, the number in the article, which I have read several times, was the actual documented work in place for the month of July. This is of record. We are moving up toward the \$40 million. We have the capability there now. As the work is actually moving, we will be moving on up a slope line from 30. Again, if you want to go back to March, it was \$22 million. We are constantly moving up toward this \$40 million rate.

The question was: How do you determine what you did? The way we do it is, say one of these 331 projects on which we have the contractor working is estimated to cost \$1 million. At the beginning of the month our judgment was that he had 5 percent of that project finished. At the end of the month we say he had 8 percent of that project finished. So, 3 percent of the million dollars added up on 331 projects is where you get the \$30.6 million for the total.

Mr. McFALL. So you hit the rate of \$30.6 million at the end of July.

Captain LALOR. That was cumulative for the month of July, yes, sir.

Mr. McFALL. What was the rate for June?

Captain LALOR. My recollection is it was about \$26 million or \$27 million, sir.

Mr. McFALL. Do you happen to know the one for May?

Captain LALOR. No, sir. It was about on that same slope. We have stayed on our target toward the \$40 million.

Mr. McFALL. On this projection, when will you hit \$40 million?

Captain LALOR. October. That is our plan, and so far we have stayed right on that plan line.

Mr. McFALL. Does the plan line go higher than \$40 million?

Captain LALOR. No, sir.

Mr. McFALL. Does it go lower?

Captain LALOR. It levels off.

Mr. McFALL. It levels off at \$40 million in October. So in October, November, and December, you will hit \$40 million. September will be somewhere between \$30 million and \$40 million.

Captain LALOR. In August. We do not have the figure yet, of course.

Mr. McFALL. August, and September will be somewhere in between.

CONTRACTURAL SERVICE REQUIRED FOR RMK-BRT CONTRACT

One of the statements, I believe yours, referred to the use of contract capability for a commercial charter for aircraft and small independent LST capability under contract. Are you still required to use this type of assistance, or is this now becoming available through Government facilities?

Captain LALOR. I will give you a different answer on the two. We required the LST's during the groundswell of mobilization. We do not need them any more and are transferring them to MSTs right now. Then we will pay for those or any other LST's only when we are using them.

On the commercial air charter, we have been unsuccessful in getting the requisite support of our contract effort on military aircraft.

Mr. CEDERBERG. What is the name of the airline?

Captain LALOR. Continental Aircraft.

Mr. CEDERBERG. Continental Airlines?

Captain LALOR. Continental Airlines. They operate out of San Diego or Los Angeles. Then as a part of this fine tuning which we mentioned earlier, not just people but all of the support services as well, we have cut back on the scope of that airline contract. This was done 3 or 4 weeks ago.

Mr. McFALL. This is a very minor——

Captain LALOR. It amounts to about \$100,000 a month, as I recall.

Mr. McFALL. This is a very minor point, in view of the overall scope of this project, but it would seem that with all of the aircraft that must be out there, the Government should be able to supply sufficient air transport without going to commercial charter.

Captain LALOR. We have been working on this thing, again, as an economy measure to eliminate this. I think to put it in perspective, again you go back to General Raymond's statement that this thing we are running is in essence a 46,000- to 50,000-man division. This is a construction division. You need a lot of airplanes to run that big an operation. To date, there has not been the military aircraft available. They have been mobilizing, too. We continue to pursue this, and I think we have real hopes and a real good chance of getting the military air support we need and send Continental home. Right now we still have them.

MOVEMENT OF MATERIALS IN SOUTH VIETNAM

Mr. McFALL. You mentioned on page 6 of your statement the establishment of three major materiel depots—Danang, Cam Ranh, and Saigon—and subdepots. What are the facilities for getting the material from these depots out into the country? Cam Ranh, for example, is somewhat isolated from where these materials would go. Are there any difficulties—I am not sure you are the one to answer this question—in getting this material to where it will be utilized?

Captain LALOR. No difficulties that are not inherent in the wartime environment. Taking Cam Ranh for example, we have a barge-loading capability right in our depot. We have an LST-loading capability right in our depot. So, we can disperse from Cam Ranh, which supports construction from Phan Rang up to Nha Trang. We can support it by barge or LST.

Of course, right there in the major enclave of Cam Ranh, we can do it by truck.

Mr. McFALL. You do not have any road transport?

Captain LALOR. We can get by road to Phan Rang, but it is a convoy operation. We do this.

Mr. McFALL. It has to go mostly by water?

Captain LALOR. We still use a great deal of LST-barge type of sub-distribution of material.

Mr. McFALL. That is all, Mr. Chairman.

UTILIZATION IN PEACETIME OF FACILITIES NOW BEING CONSTRUCTED

Mr. PATTEN. Are you putting anything into this construction so it can be utilized for peaceful uses later on?

Captain LALOR. You will see some pictures of ports which are the heart of making that country capable of having a viable economy. You will see airfields which will be the initial means of communication back and forth.

Mr. PATTEN. I believe the President said something about that last week.

Captain LALOR. Yes, sir. I think the things we are building can be used perfectly by the economy.

Mr. PATTEN. You are not putting a little curve on them. It just happens that what you are building will be helpful economically.

Captain LALOR. Yes.

(Off the record.)

Mr. PATTEN. That is all.

Mr. LONG. I have a son in combat in the Tuy Hoa area. I would like to hear more from Mr. Patten. I hope he has something there.

PROVISION OF SECURITY FOR CONSTRUCTION OPERATIONS

Captain, what about our security in all these areas which we now have partially under construction and which we hope to have finished by next year? Are these reasonably secure areas?

Captain LALOR. Yes, sir. The contractors are given security by the military units which happen to be occupying the area. We get our military security from the Korean division at Phu Cat, for example. At Cam Ranh and other locations, it is the same.

Mr. LONG. Are we slowed down at all by lack of security? Does it interfere with our construction operation to any extent?

Captain LALOR. You always are. I think the question you ask is, Is it a curable problem. The Vietcong has a habit of not being where you want it in order to do a job. You have to go 10 or 20 kilometers to sites. Yes, this poses problems. It takes time to get in and make the airlift. In answer to your question, we are getting really good support on security when needed, or within a reasonable time frame.

Mr. LONG. What percentage of security do you have in these areas, and what percentage do you hope to have when these things are completed? Will it be 100-percent security or 90 percent, or what?

Captain LALOR. The best answer is, I have slept at most of these sites, and I never worried. These are the places where the contractor works. We do not feel any risk at all.

Mr. PATTEN. What is the price they put on a Navy captain? I read in the morning paper they are putting new prices on them.

Mr. LONG. I have no more.

Mr. SIKES. Are there further questions?

(No response.)

Mr. SIKES. Thank you very much, Captain Lalor.

AUDIT PROGRAM AND PRACTICES IN SOUTH VIETNAM

Mr. SIKES. We will turn to auditing now.

Gentlemen, we heard your statement on yesterday but did not have an opportunity to ask questions.

Would you consider that audit practices in Vietnam are adequate, or do you think there is a need for additional steps or additional procedures which are not now being used?

Mr. WOODBURY. I would say the steps we are taking now will provide adequate audit.

Mr. SIKES. In what time period?

INTERNAL AUDIT PROGRAM

Mr. WOODBURY. As far as the contract audit is concerned, I think it is adequate and it is being given a careful look at to be sure we have enough people there. So far as internal audit is concerned, all three of the military department audit agencies now within this month or next month will have auditors out there reviewing the entire situation and putting audit effort where it is found to be necessary.

Mr. SIKES. Is personnel a limiting factor?

Mr. WOODBURY. This is a problem; yes, sir. It is not a problem from the standpoint of the audit agencies having sufficient people. If it is an area of high enough priority, they can put the people in. But this is not quite as easy, of course, as it is to audit someplace in the States or even in Europe because of the problems of getting people over there and getting theater clearances. They have a tremendous number of visitors over there which creates problems from the standpoint of housing and transportation facilities. Of course, this is one of the reasons why the commands like to hold the visitors down as much as possible.

Mr. SIKES. Do you feel you need more personnel in the area than you have programed in the area?

Mr. WOODBURY. No, sir; I do not think so. Based upon the actions that will be taken before the year is out, I certainly do not think so.

Mr. SIKES. Do you audit AID or just the military operations?

Mr. WOODBURY. We just audit the military aspects.

GAO STATEMENT ON SOUTH VIETNAM AUDIT PROGRAM

Mr. SIKES. The General Accounting Office has made certain reports with reference to the audit processes in South Vietnam. Would you summarize these for us and at the same time tell us what is being done with reference to the findings of GAO?

Mr. WOODBURY. Yes, sir. I tried to do that in my statement. Mr. Petty can address himself to this, but I will mention it briefly.

The GAO said the contract audit was more a voucher audit than a comprehensive audit. They said it was too limited. I think Mr. Petty has addressed that in his statement. True, at the start it was, and this is not too unusual.

On the internal audit, one of the things the General Accounting Office commented on was the fact that DOD policy had been preventing internal audit, the regularly constituted audit, from doing as much auditing in Vietnam as we do elsewhere. Of course, the reason for this was because of the combat conditions there and some of the problems of facilities which I mentioned before. Also, another factor was the intense management surveillance from all levels in the area, which, of course, meant all kinds of review and inspection teams going in.

Based upon the GAO recommendation or suggestion, really, that we reconsider this matter, this has been done. We have put out a policy statement on auditing in combat areas which will apply to Vietnam now and will have future application to any situation which we hope does not arise like this again, but might, which says any time audits are suspended, it will be only temporary, and then as soon as things stabilize, the situation will be looked at again and normal audits will be phased in as quickly as can be done without interfering with the war effort. That has been done.

The General Accounting Office commented also upon the fact that the auditing that had been done in Vietnam mainly concentrated on some nonappropriated funds or some accounting aspects which they did not feel fully considered all of the ramifications of supply, procurement, and administrative support activity. Our policy statement and the plans of all three of the audit agencies now are to look at all these

matters and provide the normal broad-scope internal audit that we customarily apply to any of our operations.

Mr. SIKES. When will these changes become effective in the field?

Mr. WOODBURY. As far as the policy statement is concerned? In my statement I said this policy statement will be issued soon. We coordinate with all interested parties, including the Joint Chiefs of Staff, the Army, Navy, and Air Force, and so on. This has now been done.

The memorandum which puts this into final published DOD instruction will probably be signed today or tomorrow.

As far as operations under it, the Army, Navy, and Air Force are already actually implementing it from the standpoint of Vietnam. The Navy has already had some auditors in there. They are going to send more in October. Army is sending some in in September. Air Force is establishing a resident office there which will be done before the end of September.

COORDINATION OF AUDIT ACTIVITIES IN VIETNAM

Mr. SIKES. You have outlined for us the immediate steps being taken to increase activities of the audit agencies of the three services in southeast Asia. How will those activities be coordinated among the three services?

Mr. WOODBURY. The coordination will essentially fall to our office in the Office of the Secretary of Defense. We are getting progress reports from all four organizations, including the Defense Contract Audit Agency, telling of their plans and schedules, and we are also alerting them to tell us of any areas where they feel that audits are not being performed where they don't think it is their responsibility, but somebody else's.

We want to know about that and be sure proper assignments are made and be sure that allowances are being covered.

Mr. SIKES. Who has the responsibility for the conduct of the overall audit program in Vietnam?

Mr. WOODBURY. Overall I would say that would fall in the Office of the Assistant Secretary of Defense from the standpoint of reviewing what all of our audit organizations are doing. Then there are clear lines of responsibility assigned. Mr. Petty's organization has responsibility for all contract audits. All of the Army activities are a responsibility of the Army Audit Agency and the Navy and the Air Force activities are the responsibility of their respective audit organizations. We are only talking about four audit organizations and we keep in very close touch with them to not only see what they are doing, but also if they have any problems they come to us.

Mr. SIKES. The overall responsibility lies with the Assistant Secretary of Defense, Comptroller, does it not?

Mr. WOODBURY. For coordinating all the audit operations; yes, sir.

Mr. SIKES. The problems of conducting audits in an area such as Vietnam are many. Of course, the primary purpose of all our activities there must be effective military operations and, of course, you cannot interfere with these operations. You also have a problem in securing skilled personnel for reasonable tours of duty, and many other problems. This committee, I feel, wants to know a bit more

specifically how the efforts of the military services, the contract audit agency, and the General Accounting Office will be coordinated so that maximum return will be obtained from the audit personnel and audit activities in this area.

Have some guidelines been laid down for that? Put in the record a summary of how this is going to operate. What kind of guidelines there are for coordinations.

Mr. WOODBURY. Yes, sir.

(The information follows:)

COORDINATION OF AUDIT ACTIVITIES

The Assistant Secretary of Defense (Comptroller) has responsibility for providing policy and procedural direction and coordinating all Department of Defense audit activities. Staff responsibility for these functions is assigned to the Deputy Comptroller for Audit Systems. Coordination is normally accomplished by reviewing audit agency instructions, audit programs, schedules and reports; obtaining administrative reports on audit operations; issuance of policy instruction and guidance; joint audit meetings; and visits to headquarters and field offices of the Defense audit organizations.

Defense policy directives and instructions (DoD Directive 7600.2, "Department of Defense Audit Policies"; DoD Directive 5105.36, "Defense Contract Audit Agency"; and DoD Instruction 7600.3, "Internal Audit in the Department of Defense") provide clear delineations of audit responsibility.

The Defense Contract Audit Agency has responsibility for all contract audit within the Department of Defense. The audit agencies of the Army, Navy, and Air Force have responsibility for internal audit of their respective departments including Army, Navy, and Air Force components of Unified Commands. Joint agencies or activities, such as a Unified Command headquarters, are assigned by the Assistant Secretary of Defense (Comptroller) to one of the audit agencies for internal audit responsibility.

To illustrate over-all policies with respect to audit coordination, the following is quoted from DoD Instruction 7600.3:

"VII.B. Audit Coordination Among Defense Audit Organization

"1. *Audit of Joint Agencies or Activities.* Joint agencies or activities, not specifically covered heretofore, involving two or more DoD components will be assigned to one Defense audit organization for audit. Assignments will be made by the Assistant Secretary of Defense (Comptroller). Any activities of this type not under any audit cognizance, or subject to audit by two or more Defense audit organizations, will be reported to the Assistant Secretary of Defense (Comptroller) for internal audit assignment.

"2. *Coordination with the Defense Contract Audit Agency.* When internal audits require verification of contractor data or records at contractors' plants, the internal audit organization normally should obtain fact-finding assistance from the Defense Contract Audit Agency.

"3. *Coordination of Internal Audits.* Internal audit organizations shall arrange to perform complete or assist audits for one another whenever economy, efficiency, or more effective audit coverage will result. Factors to be considered include the geographical location of audit offices, nature and type of audit work required, availability of qualified personnel, etc. Each audit organization should be alert particularly to request assist audits, as necessary, where effective audit coverage of a program or function involves matters which extend across departmental and agency organizational boundaries. Assist audit arrangements should be worked out between the Defense audit organizations with assistance, as necessary, from the Office of the Assistant Secretary of Defense (Comptroller)."

Close coordination of audit activities also is maintained with the General Accounting Office. Pertinent extracts from DoD Instruction 7600.3 with respect to this matter are given below:

"VI. Relationship with the General Accounting Office

"A. As an agent of the legislative branch of the Government, the Comptroller General has been given extremely broad statutory authority to review the activities of executive agencies. The scope and extent of detailed examination work performed by General Accounting Office representatives are governed by the adequacy and effectiveness of an agency's internal controls, including internal audit. This principle is set forth in Section 117 (a) of the Accounting and Auditing Act of 1950 (31 USC 67) which, in part, provides: "* * * In the determination of auditing procedures to be followed and the extent of examination of vouchers and other documents, the Comptroller General shall give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices of the respective agencies."

"B. As the nature, quality, and scope of the audits performed by Defense auditors are important considerations affecting the manner in which the General Accounting Office discharges its audit responsibilities, it is desirable that that office be kept fully apprised of Department of Defense audit activities. Consultation between audit representatives of the Department of Defense and the General Accounting Office on auditing programs, procedures, methods, and techniques will promote a better understanding of each other's objectives and should prove beneficial in improving the over-all audit program. Close coordination of audit plans and schedules will serve to reduce unnecessary duplication of audit effort by the General Accounting Office.

"C. (Omitted.)

"D. The Defense internal audit organizations should make maximum use of GAO reports as a means of constantly improving the breadth, scope, and coverage of their own audit programs. These reports should be reviewed and action taken as necessary to assure that problem areas reported by GAO are provided appropriate internal audit coverage."

The above-mentioned policies, of course, apply to audits in Vietnam as well as elsewhere. In addition, with respect to audits in Vietnam, the Deputy Comptroller for Audit Systems is monitoring the audit plans of the Defense audit agencies as a basis for coordinating the effort to assure that the total Defense requirements will be covered adequately. In this connection, periodic progress reports as to the status of audit activities and programs in Vietnam have been requested from the audit agencies.

It also is expected that the results of the review now being performed by the General Accounting Office of construction activities in Vietnam will be of considerable help in evaluating the situation.

PERSONNEL PROBLEMS RELATING TO AUDIT PROGRAM

Mr. SIKES. Let us now talk again briefly about personnel. You have outlined for the committee the number of positions you propose with each of the various audit activities. I frankly wonder if this number is not too conservative. Are you concerned about that? Do you feel that you do not actually need more people for this job?

Mr. WOODBURY. Are you talking about the audit of the contracts now?

Mr. SIKES. I am talking about the entire operation.

Mr. PETTY. Speaking only with respect to contract audits. Not only in connection with the efforts of the RMK-BRJ combine, but any other contract audits necessary or needed in that area.

As I indicated yesterday, we have presently authorized a level of 11 people in the Saigon office which, bear in mind, is in the Office of the RMK-BRJ combine. We have also felt these 11 people cannot adequately handle the job so we have provided some additional force on a temporary duty basis from Bangkok. As I said yesterday also, we have had a suggestion from our own regional manager who is responsible for this that we should have, he thinks, a force of 16. I have said

that we will put in Saigon whatever number of people are needed to do that job there. I don't know that I can say to you today exactly how many will be needed at what time. I do have complete latitude.

Mr. SIKES. Can you assure this committee you will use all of the people that are required for the job?

Mr. PETTY. I certainly will, subject only to my problems in finding people whom I can hire to go there, finding places for them to work and finding places for them to live in.

Mr. SIKES. Has it been a seriously limiting problem?

Mr. PETTY. The matter of space to work in the contractor's own facilities has been a limiting problem up to this time, but our latest intelligence on this is that the contractor is opening up some new additional space in the building where he is located and our best understanding now is that we could put as many as 15 people in there. That should not continue to be a limiting problem. The matter of quarters for them may be.

Mr. SIKES. What about recruitment and personnel of the type that you need? Has there been any serious difficulty in that?

Mr. PETTY. We have continuing problems in recruiting auditor personnel, not only for overseas assignments, but also within the United States. However, I think the name of the game there is that we will pay them enough to get enough people there to do the job.

Mr. LIPSCOMB. What grades are you encouraging to go to Saigon now?

Mr. PETTY. We have been trying to get people—one person at the GS-14 level, several at the 13 level and some at the 12 and 11 level, with one clerical at about a grade 6.

Mr. LIPSCOMB. How is this broken down in the proposed 11? You have one GS-14?

Mr. PETTY. I believe there is one 14, two 13's, three or four 12's I believe, and the remainder of the audit force is at grade 11.

Mr. LIPSCOMB. What is the gross that a grade 11 receives?

Mr. PETTY. I am sorry, I can't answer.

Mr. LIPSCOMB. What other benefits do they receive for going to Saigon?

Mr. PETTY. They get no particular benefits except a station allowance that they do get in foreign countries.

Mr. LIPSCOMB. Do you have any idea what the contractor pays his bookkeepers?

Mr. PETTY. No, sir; I don't know.

Mr. LIPSCOMB. What is the staffing of your Bangkok office?

Mr. PETTY. Eight people.

Mr. LIPSCOMB. What are their grades?

Mr. PETTY. A 14 as a leader, a 13, and the remainder in the 12 and 11 grades.

Mr. SIKES. Do you give spot promotions to people who transfer to that area?

Mr. PETTY. No, sir; nothing in the nature of a spot promotion. We may promote a person to get him to go over there, but it is a permanent type of promotion if we give it to him.

Mr. LIPSCOMB. Would the personnel you are encouraging to go to Vietnam be in the first pay grade of a grade 11, for instance?

Mr. PETTY. If they were new hires they would be.

Mr. LIPSCOMB. What has been your experience so far with the people you have assigned to Saigon?

Mr. PETTY. They are people who have been in our employ elsewhere in the United States and who have been willing to transfer, accept a transfer to that assignment.

Mr. LIPSCOMB. Do you have any idea what their experience is to date, how long they have been with the Government before they went to Saigon?

Mr. PETTY. I have no reading on this, except in general knowledge I do know some of these people have been working in Government audit agencies for some time, several years. To my knowledge we haven't sent any real new-hire people over there.

Mr. LIPSCOMB. What is your experience so far in your area with the ability of the type of auditors that you are able to hire to do the job? For instance, if you hire a GS-11 at a starting pay of roughly \$9,000, is his ability and capacity to do the work sufficient?

Mr. PETTY. Generally speaking, yes, because in most cases the GS-11 we send to that particular place will have been in our employ or one of the predecessor audit agencies at least as a 9, possibly through the 5-7-9-11 progression.

Actually in the audit agencies for a number of years the heaviest hiring has been in the lower grades and the people have been promoted within the agency so that they do acquire rather good experience.

Mr. LIPSCOMB. How do your auditors stand up to private contractors' auditors inasmuch as they have, I would guess, a large difference in pay?

Mr. PETTY. It is their job and their duty to stand up to them and deal with them on an equal basis. Certainly we have no knowledge of any problems in this area.

COMPARISON OF AUDIT EFFORT IN SOUTH VIETNAM WITH THAT REQUIRED ON OTHER CONTRACTS

Mr. SIKES. You may submit this information for the record so that we can move along with our hearings. Please prepare a statement comparing the audit effort required on this contract, which is a major contract, with the type of audit effort required in a more conventional contract, a smaller contract, or the type contract you encounter in the United States.

(The information follows:)

STATEMENT OF DIFFERENCES BETWEEN AUDIT OF COSTS UNDER THE RMK-BRJ CONTRACT AND AUDIT OF ORDINARY COST REIMBURSEMENT CONSTRUCTION CONTRACTS

The differences between audit of the RMK-BRJ contract in South Vietnam and the audit of the ordinary cost reimbursement construction contract in the United States result from the large dollar value; the large number of construction sites (37); the varied kinds of work being done (for example port facilities, cantonments, air base runways and facilities); the lack of adequate roads, communications and local transportation in South Vietnam; and the long distance transshipment of much material from the United States.

The work being done at any one of the 37 construction sites is equivalent in value to a reasonably large construction project, which might normally be expected to be done under a separate contract. There are problems in the identification of material, equipment, and supplies to the various jobs, and a very complex system of accounts is required to permit the contractor to accumulate costs against the jobs.

Construction is carried on under adverse physical and weather conditions. Dredging harbors, building airfields, extending shorelines, filling swamps, etc., require huge outlays for equipment operation, equipment rental (e.g., dredges), and labor, much of which is native labor. A very large part of the total cost goes into altering the surface of the earth, rather than into steel, brick and mortar. The auditors have to contend with the continuing question of the propriety of expenditures.

A basic audit step is attendance at job sites to observe and check labor at work. The large number of construction sites, their inaccessibility, and combat conditions prevailing, make this extremely difficult.

Procurement of material and equipment in the United States, with payment made and title taken by the Government at the United States port of exit brings responsibility for surveillance by the auditor of the contractor's accountability for property. The contractor's control of and accounting for property has been less than satisfactory, and the auditors have been continuously concerned about possible losses.

AUDIT FOR AIR FORCE TURNKEY CONTRACT

Mr. SIKES. The Air Force has recently entered into the turnkey type of construction contract with a large number of incentives. What are your guidelines to accomplish the necessary audit of this contract?

Mr. PETTY. It will be our responsibility to audit the costs of this contract in New York where the central control point is and where the procurement is being done. It would also be our responsibility to audit the cost input at the local sites over there. Bear in mind most of the procurement will be done within the United States and that the work force over there, as we heard the colonel describe it yesterday, was about 1,400 or 1,300 people, as I recall it. I would guess one person of ours at that location would probably do the job.

ABILITY TO MEET CONTRACT AUDIT REQUIREMENTS IN SOUTH VIETNAM

Mr. SIKES. Getting back to the RMK job, which is very large and has been in progress for some months, is it not rather late to be building up to the level that you need for a proper audit of that contract?

Mr. PETTY. Yes, I have to say that it is late, but I would point out several things in this connection. First, that the level of cost input over there before July of 1965 was actually quite low. Second, that when we did assume responsibility for contract audit in July 1965, we immediately set out to staff up the office over there. It was most unfortunate that it took 4 or 5 months for us to get seven people over there. I would wish that we had them there earlier, but we were unable to do it.

In the meantime, we have mounted a very serious recruiting effort to replace those military people with civilians and to augment the civilian force. One thing about this work there—

Mr. SIKES. Are you actually going to be able to catch up and keep up?

Mr. PETTY. We will catch up, Mr. Chairman.

I always have this option, if we are not keeping up, of putting people in there on a temporary duty basis, which I can do at any time. We are not going to let this work suffer.

Another thing to remember, of course, is that in a cost-reimbursement type of contract, you aren't really foreclosed until you come to

the point of final settlement. It is best to do all the auditing you can as you go along, but the door isn't shut in your face.

Mr. SIKES. We can assume this recruiting problem and personnel problem is going to continue. Of course, it is advantageous to the Government to have this audit as nearly current as possible. Do you anticipate that you can catch up and be current at the time that the essential features of the contract are completed?

Mr. PETTY. We will point toward that, Mr. Chairman.

MANAGEMENT STUDIES MADE BY THE MILITARY SERVICE IN CONNECTION
WITH CONSTRUCTION PROJECTS IN SOUTH VIETNAM

Mr. SIKES. I would like for an appropriate official in each of the three services to prepare and submit for the record a statement showing what management studies have been made by the respective services to insure that proper management is being exercised over the construction program.

(The information follows:)

ARMY

Justification documents (DD Forms 1391) for the MCA program in Vietnam were reviewed by Department of the Army, the Joint Chiefs of Staff, Department of Defense, and Bureau of the Budget, and approved by Congress. Appropriations for the program were made available by the Army to the Navy at Department level and were in turn passed to the Officer in Charge of Construction, Saigon, the Navy Construction Agency in Vietnam. Department of the Army, acting under guidelines established by Department of Defense, placed the FY 65 Supplemental, FY 66 Amendment and FY 66 Supplemental MCA programs in the following 15 construction categories: Cantonments, Airfield Pavements, Airfield Support Complexes, Communications Facilities, Port Facilities, Liquid Fuel Storage, Maintenance Buildings, Ammunition Storage, Cold Storage, Warehouse Storage, Shed Storage, Open Storage, Hospitals, Administration Buildings, and LOC Improvement. Department of Defense guidance states that the Director of Construction for U.S. Military Assistance Command, Vietnam, will direct, manage and supervise the combined and coordinated construction program to meet MACV requirements and coordinate all Department of Defense construction effort and resources assigned to MACV or in the Republic of Vietnam. Monthly construction reports enable DA to perform management surveillance of the MCA construction program.

To date, no audits have been performed by the U.S. Army Audit Agency of military construction in Vietnam. The U.S. Army Audit Agency has been instructed by the Comptroller of the Army to develop a detailed plan for audit of Army activities in Vietnam. This plan calls for a survey to begin in Vietnam on 15 September, during which time, the audit workload relating to Army activities in Vietnam, including U.S. Army construction, will be determined and appropriate audit coverage planned.

DEPARTMENT OF THE NAVY,
NAVAL FACILITIES ENGINEERING COMMAND,
Washington, D.C., September 1, 1966.

Memorandum for the Deputy Assistant Secretary of Defense (Properties and Installations)

Subj: Contract Construction Management in Vietnam.

Encl: (1) Point Paper of 19 Aug 66, same subject.

The enclosed Point Paper constitutes my statement of management practices requested by Mr. Sikes for the Congressional Record.

Very respectfully,

W. M. ENGER,
Rear Admiral, CEC, USN, Acting Commander,
Naval Facilities Engineering Command.

POINT PAPER

Subject: Contract Construction Management in Vietnam

Purpose: To summarize actions taken by the Naval Facilities Engineering Command (NAVFACENGCOM), its Pacific Division (PACNAVFACENGCOM) and the Officer in Charge of Construction, Vietnam (OICC RVN) to improve management of contract construction in Vietnam.

Scope: This paper covers that contract construction administered by NAVFACENGCOM through its OICC RVN. This construction is being prosecuted under contract with the joint venture of Raymond International of New York City; Morrison-Knudsen of Boise, Idaho; Brown and Root of Houston, Texas; and J. A. Jones of Charlotte, North Carolina (RMK-BRJ). A minor portion of Vietnam contract construction is performed by local Vietnamese contractors.

Management of construction being performed by troop construction units, or by contractors not under contract to the OICC RVN, is not treated herein. Also not included are management actions taken by other agencies in improving program definition, provision of criteria and funds and coordination between the several construction capabilities operating in Vietnam in support of DOD programs.

Background: Since approximately March 1965, contract construction in Vietnam has experienced rapid and major escalation in magnitude. This expansion has required continual review and adjustments in organization, staffing and control procedures required to insure proper management.

MANAGEMENT ACTIONS TAKEN

A. *Actions Taken by NAVFACENGCOM Since March 1965 to Enhance the Management Effectiveness of Contract Construction Have Included:*

(1) Established separate OICC's for Thailand and Vietnam on 1 July 1965. This supplanted the prior single OICC organization for Southeast Asia which had been located in Bangkok, Thailand. The intent of this action was to establish an independent OICC for Vietnam in Saigon, which would be fully empowered and staffed to accommodate the requirements of the expanding Vietnam construction program.

(2) Provided additional officer and civilian staffing to meet growing management and control needs. The expansion occurred as follows:

Staffing personnel	July 1965	August 1966
Officers.....	20	87
U.S. civilians.....	22	97
Free world journeymen.....	53	183
Vietnamese.....	37	85

(3) Established a special team of contract administration and accounting personnel to assist in improving fiscal and accounting procedures. This team worked in Vietnam for approximately three months from October through December 1965. This team established and implemented refined fiscal and accounting procedures.

(4) Revised the Cost-Plus-Fixed-Fee contract which had been in effect to an incentive type contract. This Cost-Plus-Award-Fee contract interjected maximum incentive for contractor efficiency and economy. This revised contract procedure became effective 1 May 1966.

(5) Established a separate organization in December 1965 at the Washington Headquarters level of NAVFACENGCOM to coordinate and direct all actions relative to Southeast Asia construction problems. This organization is now fully staffed and functioning with a complement of 7 officers and 35 civilians.

(6) Established a special control and reporting technique whereby an officer, in a reporting capacity, has brought periodical photographs and verbal reports to Washington level management.

(7) Established program control and reporting system on automated data processing equipment. Teams were sent to Vietnam from October to December 1965, February to April 1966 and June to July 1966 to develop system flow charts and program management procedures and to assist in implementation. Effort has been continuous and the quality of the product is best evidenced by the fact

that the system is now in being and is used by OSD to provide reporting and control for all construction in Vietnam including both troop and contract construction.

(8) Top-level management conferences were held in August 1965, October 1965 and May 1966 between Commander NAVFACENGCOCM, contractors and OICC RVN personnel. Conferences addressed actions taken and required to continually improve management of contract construction.

(9) Continuing visits to Vietnam have been made by the Commander or Vice Commander, NAVFACENGCOCM, with appropriate members of their staff to inspect construction and to review construction management in depth. The frequency of these inspection trips has been approximately every three months.

(10) Established the Deputy Commander, Pacific Division, Naval Facilities Engineering Command, Southeast Asia (Rear Admiral billet), with a staff in Saigon, and assigned the primary mission of providing top-level management surveillance of all contract construction effort in Southeast Asia including Thailand as well as Vietnam.

(11) Established four Civil Engineer Corps Captain billets as Directors of Construction (DIRCONS) in Vietnam to provide decentralized control of four construction areas. This organizational change, staffed with highly competent top-level managers, provided decision-making capability closer to the construction sites. This management action has improved contractor utilization and efficiency, accelerated construction and provided on-site continuous management surveillance.

(12) In August 1965, the original joint venture of Raymond, Morrison-Knudsen was expanded to include Brown and Root and J. A. Jones for the purpose of insuring increased supervisory, management, accounting and engineering capability of the contractor in the vastly expanded construction program. The firm of Fishbach and Moore, one of the foremost electrical contractors in the U.S., was brought into country to improve construction and management of electrical projects.

(13) A contract construction summary report for top-level management, developed in NAVFACENGCOCM Headquarters in May-June 1966, is used for control by the Commander, NAVFACENGCOCM, and is provided monthly to responsible Washington level agencies for monitoring purposes.

(14) Established a cadre of trained management personnel in Continental United States Engineering Field Divisions who would be available for immediate response to requests for additional management capability. Many of these personnel have been sent to Vietnam for temporary additional duty when the need arose.

B. Actions Taken by the Pacific Division, Naval Facilities Engineering Command, to Improve Management and Control of Vietnam Contract Construction Included:

(1) Continuously providing temporary duty personnel to assist in fiscal, accounting, reporting, personnel recruitment, contract administration, design, and program management. This procedure recognized the need for additional management capability in the rapidly expanding construction program and responded in the most timely means available.

(2) Directed a management review of procurement and staffing of the Resident Officer in Charge of Construction Pacific offices in San Bruno, California, through which United States procurement for Southeast Asia construction is accomplished. This review was conducted in May 1966.

(3) Established, in May 1966, a material review team to study the complete logistics chain from the United States to Vietnam construction sites. This team was very effective in identifying and providing solutions to material procurement, shipping, handling, and accountability enroute problems. This team also identified the interfaces between many organizations involved in arranging for, shipping and handling cargo required to support Southeast Asia construction. Procedures have been written specifying which organization to contact for which type of material transfer problem.

(4) Made approximately quarterly top management inspections of OICC RVN construction operations.

(5) Participated in construction conferences held by the Commander in Chief Pacific to anticipate those management actions which would be required as a result of projected construction requirements.

(6) Established a procurement specifications team to develop standard specifications for procurement of material needed in Vietnam construction which had

to be purchased on the open U.S. market. This team met in San Bruno in June 1966 and developed specifications which could be referenced on procurement documents by number which avoided detailed descriptions on each requisition for relatively standard construction materials.

C. The OICC RVN Has Taken the Following Actions to Improve All RVN Contract Construction Management:

- (1) Reorganized contractor construction areas to conform to the areas managed by the four Directors of Construction. This involved aligning port development, which had been considered a separate construction area by the contractor and overlapped all four areas controlled by the Directors of Construction, into the four DIRCON areas. It results in all contract construction in a DIRCON's area being under his management control.
- (2) Established, in March 1966, a management survey and review staff, under the control of a Civil Engineer Corps Captain, to:
 - a. Integrate efforts of all OICC RVN organizational segments.
 - b. Identify areas requiring additional control and develop alternative solutions to providing added control.
 - c. Insure adequacy of records.
 - d. Insure that organizational alignment and staffing is adequate for current workload and flexible enough to meet changing requirements.
- (3) Contracted for the development of a Vietnam construction estimating handbook in December 1965. This handbook has now been published and is a reference for estimating future program construction costs.
- (4) Required the contractor to expedite procurement, installation and utilization of electronic data processing equipment. This installation was completed in April 1966 and programming of OICC RVN and contractor computer requirements is in progress. Machine payroll programs and operational machine programs for equipment, material, accounting and critical path scheduling control will be operational approximately in October 1966.
- (5) Relocated OICC RVN construction division and a portion of the OICC RVN comptroller division to the contractor's office in April-May 1966 to facilitate more rapid communication and control. (Although separated by less than one mile, telephone communication from the OICC RVN to the RMK-BRJ offices is almost impossible—one call may require continuous effort for 2-4 hours.)
- (6) Established a material department in June 1966 to expedite and provide surveillance over material matters and to implement the recommendations of the Materials Survey Team initiated by PACNAVFACENGCOM in May.
- (7) Established a Management Information Center in March 1966 for the mutual monitoring of progress by the contractor and the OICC RVN. This Information Center has graphical presentations which highlight management problems upon which action must be taken.
- (8) From February-May 1966, conducted a detailed review of the contractor's organization and staffing to insure against duplication, overstaffing and to assure compliance with authorized pay scales.
- (9) Initiated manually prepared critical path network analysis of projects at all major construction sites in January 1966. These critical paths are displayed in the Information Center for simultaneous surveillance by the OICC RVN and the contractor.
- (10) Initiated hiring of material control specialists on the staff of the OICC RVN and the contractor in June 1966 to improve the handling and shipping of material.
- (11) Instituted analysis of material procurements against requirements and on-order materials to reduce the potential for creating over-runs in material stocks.
- (12) Developed standard drawings and designs to permit off-the-shelf procurements. This procedure has been pursued from June 1965 and will continue with emphasis on utilization of prefabricated buildings. Coupled with this procedure is a continuous design concept of specifying those materials, suitable for meeting the operational requirement, which are available in contractor bulk-purchased stocks.
- (13) Initiated the integration and automation of contractor and OICC RVN reports in May 1966 utilizing the capabilities of electronic machines in-country.
- (14) Established and filled a labor relations position in July 1966 to improve labor recruitment procedures.
- (15) Increased the frequency of site visits by OICC RVN and his staff members with the objective of taking management action as soon as possible after recognition of problem areas.

Future: Management of the contract construction in Vietnam will be under the constant surveillance of the OICC RVN, DEPCOMPACNAVFACENGCOM, COMPACNAVFACENGCOM and COMNAVFACENGCOM. Actions previously instituted will be continued and improved as long as that effort contributes to resolution of management problems. Concentrated analysis of means to improve the management of the contract construction, and to respond and anticipate the constantly changing construction environment in Vietnam, will continue to be aggressively pursued.

DEPARTMENT OF THE AIR FORCE,
HEADQUARTERS, U.S. AIR FORCE,
Washington, D.C., September 2, 1966.

Reply to attn. of: AFOCE-H.

Subject: Statement by Director of Civil Engineering.

To: Deputy Asst Secretary of Defense (P&I).

The attached paragraph constitutes the statement of the Director of Civil Engineering, USAF, of management practices requested by Mr. Sikes for the Congressional Record.

For the Chief of Staff:

NIELS H. LUND, Major, USAF,
(For Billie J. McGarvey, Colonel, U.S. Air Force,
Special Assistant, Deputy Director for Construction,
Directorate of Civil Engineering).

Management of all Air Force Construction in Vietnam including in-house efforts and work performed by other agents is focused in the Office of the Director of Civil Engineering, Hq 7AF, at Tan Son Nhut AB, Vietnam. This office performs the appropriate management surveillance and control of the various portions of the total program. Reports on status and actions taken are submitted by established reporting procedures to the Director of Civil Engineering in PACAF, from there to Hq USAF.

DELAY IN FORMULATING PROPER INTERNAL AUDIT PROGRAM FOR
SOUTH VIETNAM

Mr. PATTEN. You have mentioned the problems in getting personnel over to South Vietnam. Don't these big companies keep all their payrolls, issue their checks and do their auditing and everything someplace in this country?

Mr. PETTY. They meet their South Vietnam payrolls there. Bear in mind that a large number of the people on their payroll are local, indigenous people, South Vietnamese. They meet their payrolls over there and they buy some materials over there, like rock, sand, gravel, and that sort of thing. They pay a great many expenses.

Mr. PATTEN. After they meet the payroll—suppose they met the payroll in March and April—aren't those records now in the central office in Houston or some place here in the United States?

Mr. PETTY. No, sir; this contractor is maintaining these records in Saigon at this point in time.

Mr. LIPSCOMB. Past experience must have shown the Department of Defense that in entering into a crash program and a crash contract of this nature that it is wide open for inefficiency and mismanagement. In other words, there are all kinds of things that could happen in a contract of this nature.

Why did it take the GAO study or report to get the Department of Defense to show initiative in starting the correct internal audit procedures going on this contract?

Mr. WOODBURY. From the time the contract was let, it was audited by the predecessor organization to Mr. Petty's organization, which was

the Naval Audit Service. They had audit cognizance because the contract was let by the Navy. It was being audited. As Mr. Petty has pointed out in the early period the cost input was relatively low. It was being audited at San Bruno and also audited in Saigon.

The audit in the early period in Saigon was performed by auditors who went to Saigon on temporary duty and they felt at that time this was sufficient to handle the audit problem.

As the scope of the contract grew, the cost input grew and then as Mr. Petty has indicated, when he took over in July, they immediately took action to set up a permanent staff out there and also to keep on top of the situation, to increase the size of the staff.

Now it is true that some of the actions Mr. Petty has been talking about have been taken since the GAO report, but one of the main criticisms in the GAO report is that the audit wasn't sufficiently comprehensive. I think, as Mr. Petty has mentioned, they had started a comprehensive audit before the General Accounting Office commented upon it.

Mr. Petty, would you care to say anything?

Mr. PETTY. I believe the question was directed more toward the internal than it was toward the contract.

Mr. LIPSCOMB. For instance, it is my understanding that the GAO found that no audits were being conducted or planned by the basic audit agencies of the Department of Navy and Department of Army. The Air Force Auditor General was planning some audit by temporary duty staff in the area of accounting, finance, procurement, and certain nonappropriated fund areas. This is all they have found.

They also said in their report that the Army comptroller specifically prohibited the Army Audit Agency from activities in the area. I assume that was because of the regulations in regard to combat areas.

Mr. WOODBURY. Yes, sir.

Mr. LIPSCOMB. Certainly the Department of Defense should have recognized that this should not have been the case. For instance, going back to the Spanish base problem, it was found then that they should have had better internal auditing. The experience was there. Why the Department wasn't on top of it is a mystery to me.

Mr. WOODBURY. The reason I talked about the contract audit in my answer to your question earlier was because I think this compares more to the Spanish base problem that you had reference to and I did point out that it was under audit surveillance from the beginning.

As far as internal audit is concerned with Vietnam—incidentally, of course, the internal audits of the actions that have been taken outside of Vietnam relating to the supply and accounting and contracting and so on, taking place over there, were being performed.

Now, with respect to audits with Vietnam, it has only been within the last year where the magnitude of the operations over there has, of course, reached its present level.

The audits had been less than would normally have been provided—internal audits, that is—because of the combat situation and some of the things I mentioned earlier about the intensive management surveillance being given; also the fact that there was additional drain on the limited facilities over there when you have more people in.

As far as the actual audits are concerned, the Air Force had been doing some audits from a resident audit office in the Philippines. Again up to the last year when they started taking action to get more

auditors on site, Air Force activities had not been too extensive in Vietnam. The Navy had, it is true, not made an audit of some of the major naval activities with the customary frequency that they normally make audits—again because of the combat situation.

As you mentioned, the Comptroller of the Army had directed the Army Audit Agency not to audit in Vietnam unless specifically directed by him. Again the reason was to cut down on the administrative people in Vietnam, to avoid hindering the prosecution of the war.

The Army Audit Agency was not completely precluded from going into Vietnam. As a matter of fact, they were planning a survey of all the supply activities which support Vietnam, scheduled for this fall, and in that process they were going to determine whether it was necessary to go to Vietnam to cover some of the operations there, or that part of the supply system and other operations there. If they found it necessary to do so, they could have gone to the Comptroller of the Army and have said, "In view of what we see, we think we ought to go into Vietnam." Of course, I can't say they would have gotten permission, but it is logical to assume that they would have.

AUDIT OF AIR FORCE TURNKEY CONTRACT

Mr. LIPSCOMB. I gather on Project Turnkey that you are going to be in on it right from the start and live with it. Is that correct?

Mr. PETTY. We are in that already.

Mr. LIPSCOMB. You will handle that differently from the other contract which is operating now. I presume you are going to be right there on the job, following it from the start?

Mr. PETTY. We hope to be current with it all the time.

Could I speak to your question with respect to contract audits? GAO didn't really have to move in, didn't have to move us in that respect. We were already on the way. It just happened that they got there very soon after our audit staff had arrived and we hadn't accomplished very much. Perhaps they built a little bit of a fire under us, but we weren't waiting for them to nudge us to do this work.

NECESSITY FOR CONDUCTING AUDIT PROGRAM IN SOUTH VIETNAM

Mr. LIPSCOMB. Because of the shortage of personnel, the difficulty in getting qualified personnel, and the magnitude of the job, one of the most important features that I see is the coordination so there is not a lot of duplication and wasted effort. I assume one of you gentlemen has responsibility for that coordination of the program.

Mr. WOODBURY. I am from the Assistant Secretary of Defense, Comptroller's Office, and he has overall responsibility; yes, sir.

Mr. LIPSCOMB. It is possible with the personnel you have in Army, Navy and Air Force, and your office, to be as comprehensive as possible in a case of this nature without duplication and waste of personnel, isn't it?

Mr. WOODBURY. I would say yes, sir, because we all have specific segments of the total program to audit so there is no duplication from the standpoint of what the DCCA does, or what the Army, Navy or Air Force does auditwise.

Mr. LIPSCOMB. I think the coordination of the program is the whole thing.

Mr. PETTY. Mr. Woodbury's boss, Mr. Kilgore, is the Deputy for Audit Systems under Mr. Anthony, and Mr. Kilgore and I work very closely together and we also are in constant touch with the directors of the audit agencies of the military departments. I believe we do get an effective coordination of effort.

RESULTS TO DATE FROM AUDIT PROGRAMS

Mr. JONAS. We have been talking about audits and GAO has been in there. What has resulted from the audits you have done?

Mr. PETTY. The result of the audits in this whole RMK-BRJ contract, in terms of disallowances or suspensions, are rather small in terms of dollars.

We have not at this point in time disallowed very much in dollars.

Mr. JONAS. Could you give an estimate of the amount?

Mr. PETTY. I don't have it right up to date, but I had some figures a few months ago which showed that as of March 1—the latest figures I have on disallowances—we had only disallowances of about or a little less than \$150,000 at that time.

Mr. JONAS. Out of what magnitude in dollars?

Mr. PETTY. The accounts claimed by the contractor at that time were about \$250 million.

Mr. JONAS. Give us some examples of the disallowances.

Mr. PETTY. I am sorry, I don't have that information available, exactly what was disallowed.

Mr. SIKES. Can you provide it?

Mr. PETTY. I can provide it and I can provide up-to-date information on what we have disallowed.

(The information follows:)

Defense Contract Audit Agency: Saigon and San Bruno suboffices—Costs questioned and suspended under RMK-BRJ contracts from contract inception to Aug. 31, 1966

	Disallowed	Suspended
San Bruno:		
Travel and relocation	\$23,592	\$4,891
Transportation of household goods	316	
Entertainment	293	
Miscellaneous duplicate charges	76	
Central office expense	5,185	
Central office overhead	212	
Commercial freight	155	
Payroll (excessive leave)	52	
Other miscellaneous	106	
Total, San Bruno	29,987	4,891
Saigon:		
Materials and supplies	7,404	
Travel and per diem	19,612	
Expatriate employees payroll	9,317	
Subsistence and quarters	4,828	3,553
Interest expense	619	
Medical expense	28,540	
Total, Saigon	70,320	3,553
Total, San Bruno and Saigon	100,307	8,444

Mr. PETTY. We have released over there in Saigon to the contractor something in excess of 20 different memorandums wherein we have pointed out deficiencies in his internal controls and methods of doing business. Most of these deal with the control of material; some with the control of labor.

Our contribution probably at this point in time has been more in the area of the effort to strengthen the systems than in terms of exact disallowances.

Mr. SIKES. Would you submit copies of those for our records?

Mr. PETTY. I have them; yes, sir.

(The information follows:)

PRELIMINARY AUDIT FINDINGS NOTICE No. 1.

U.S. GOVERNMENT,
March 24, 1966.

Memorandum to : Mr. Leo O. Walton, business manager, RMK-BRJ.
From : Maj. Kenneth B. Durgin, DCAA.
Subject : Timekeeping procedures.

Attached for your information and action you deem appropriate are copies of work papers on labor practices currently under review by the DCAA. Although the primary reason for our visit was orientation for Mr. Ben Williams, Supervisory Auditor, San Francisco Region DCAA, certain deficiencies were noted in the timekeeping practices at the various sites. As part of our audit program the DCAA Auditors will be making frequent visits to the sites in the immediate future and continuation of the deficiencies noted could result in disallowance of cost and/or non-acceptance of your accounting system for direct labor.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 2

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, April 9, 1966.

To : Mr. Leo O. Walton, business manager, RMK-BRJ.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

On April 7, 1966 an orientation visit was made to Can Tho and Vung Tau sites. During these visits timekeeping procedures were observed. Although no discrepancies were noted at Can Tho several deficiencies as recorded in the attached work papers were noted at Vung Tau.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 3

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, April 18, 1966.

To : Mr. D. G. Gaetz, controller, RMK-BRJ.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

DCAA review of Minor Property write-off Account (7043) indicates a violation of Warehouse Operational Procedure Nr. 1 dated June 6, 1962 which states that the "issue document shall be used to write off property losses of \$100.00 or less". This violation noted occurred in January 1966. Whiz tickets noted below do not fall within the intention of WOP #1.

W/T:

120740	-----	\$486. 65
92624	-----	728. 21
122642	-----	176. 55
122738	-----	7, 231. 18

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 4

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO, U.S. Forces 96243, April 18, 1966.

To: Mr. D. G. Gaetz, controller, RMK-BRJ.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

On numerous occasions in the past few weeks the DCAA has requested from the Accounting Department various records, i.e. journal vouchers, only to find that these records were missing. Discussion with accounting personnel revealed that they had no knowledge as to who had borrowed the records or where they could be located. These missing records are detrimental to the accomplishment of DCAA's mission.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 5—RECONCILIATION OF BILLINGS TO BOOKED COST

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, April 19, 1966.

To: Mr. D. G. Gaetz, controller, RMK-BRJ.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

According to our records a reconciliation of billed costs to booked costs has not been accomplished since June 30, 1965. It is requested that a reconciliation of the billed costs to the costs booked in the General Ledger be made for the period 1 July 1965 to 31 March 1966. It is further requested that this cumulative reconciliation be accomplished on a monthly basis commencing 30 April 1966.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 6; SUPPORT OF CBPAC DETACHMENT

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
IN CARE RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, April 23, 1966.

To: Mr. D. G. Gaetz, controller, Raymond Morrison Knudsen-BRJ.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

We have not had a reply to the attached BCAA letter of March 3, 1966, requesting we be furnished copies of the contract's quarterly requests for reimbursements from the Navy for work performed for the CBPAC Detachment.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 7; INTEREST INCOME ON EMPLOYEE DEPOSITS

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
IN CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, April 27, 1966.

To: Mr. D. G. Gaetz, controller, Raymond Morrison Knudsen-BRJ.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

Our DCAA San Bruno auditors were advised by Mr. J. Everingham, Controller, RMK-BRJ, San Bruno, that the \$125/Mo (Maximum \$700) return travels fund deductions made from the contractor's overseas employes' paychecks are placed in a non-interest bearing trust account with the Bank of America in San Francisco. The accounting over these return travel funds is handled by RMK-BRJ, Saigon. Mr. Everingham stated that on March 7, 1966 he would have the return travel funds transferred to interest-bearing time deposits with the Bank of America. He also stated that the interest would be paid to the Joint Venture by separate check.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

Please advise on the following items:

- a. Date the employee's deposits were transferred to interest-bearing time deposits.
- b. Planned disposition of the interest income.
- c. Method of recording the interest income.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 7A

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND-MORRISON-KNUDSEN-BRJ,
APO U.S. Forces 96243, May 20, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.

Info: Mr. D. G. Gaetz, controller, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

Reference is made to Preliminary Audit Findings Nr. 7, dated April 27, 1966 and your reply thereto dated May 6, 1966, copy attached.

We recommended that the disposition of interest income on employee deposits be clarified in the Off-Continent Employment Agreement. If it is agreed not to pass the interest income to the respective employees, then the interest income should be credited directly to the contract and not credited to non-reimbursable costs as proposed in your letter of May 6, 1966.

It is requested that this office be advised of all action taken to correct existing deficiencies, by June 10, 1966.

MILO TRESIKA,
Captain, U.S.A.F.,
(For Kenneth B. Durgin, Major, USAF, Auditor in Charge).

PRELIMINARY AUDIT FINDINGS—NOTICE NO. 8

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO, U.S. Forces 96243, April 29, 1966.

To: Mr. D. G. Gaetz, RMK-BRJ, controller.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

Initial review of the Inventory Adjustment Account (7041) indicates that many types of entries other than physical to book inventory adjustments are being placed into the account. The DCAA auditor recommends that the 7041 account be purged of all entries other than physical to book entries and the miscellaneous amounts be placed into an account entitled Inventory Adjustments-Other. This action is necessary to clarify the account for OICC and DCAA information purposes.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor In Charge.

PRELIMINARY AUDIT FINDINGS-NOTICE NO 9

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, April 29, 1966.

To: Mr. D. G. Gaetz, controller, RMK-BRJ.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

Review of February 1966 Journal entries into the Materials Lost, Not Recovered account (7042) indicates the following discrepancies:

(a) Many of the entries into the account are credit entries. Review of the supporting Receiving & Inspection Reports does not indicate why the credit entry to the 7042 account exists. Only by reviewing purchase orders, copies of paid checks, and vendor invoices can a determination be made as to the reason for the credit entry. The DCAA auditor suggests that a workpaper form be designed to be attached to the R&I to indicate the basis for the credit entry. The workpaper form should show the exact reason for the credit and a reference to the supporting documents that can be reviewed to establish the correctness of the entry.

(b) Whiz Tickets (RMK Form 0240) are being used to write off materials not received. The purpose of the Short Loss and Damage Report as outlined in Warehouse Operational Procedure No. 5, dated 27 October 1962, is apparently not understood by various contractor personnel in charge of warehousing functions. The Whiz Tickets in error are:

A-161203	-----	\$536.25
A-161204	-----	348.20
A-161205	-----	221.30
A-124567 (Pleiku)	-----	5.25

The DCAA auditor also suggests that the 7042 account be clarified by the establishment of a separate account for *over shipments and disagreements between invoices and purchase orders* that result in credit entries into the 7042 account. For more useful information for DCAA, OICC, and the contractor, the 7042 account should reflect only debit entries resulting from processed Short, Loss and Damage Reports. The DSAA auditor recommends that all SL&D reports processed since the beginning of the contract be totaled and this total be used as a starting point for a clarified 7042 account. The present debit account balance could be subtracted from the total of the SL&D's to establish a beginning balance for the new account to contain all entries *other than* SL&D transactions. Conceivably under the present method of handling transactions into the 7042 account, a credit balance could occur which would certainly be questionable based on the account title and description.

2. It is requested that this office be advised not later than 14 May 1966 of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor In Charge.

PRELIMINARY AUDIT FINDINGS NOTICE No. 10

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
 SAIGON SUBOFFICE,
 CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
 APO U.S. Forces 96243, May 5, 1966.

To: Mr. B. J. Coyne, manager procurement and supply, Raymond Morrison Knudsen-BRJ.

Info: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.

DCAA review of the inventory process currently being accomplished at the TSN warehouse indicates the following deficiencies:

1. The accounting adjustment work sheets *are not* being prepared on a current basis as the stock record card balances are being adjusted. This accounting adjustment worksheet is the form submitted to the OICC for its approval. Since OICC approval is required for inventory adjustments, this delay of paperwork is *detrimental* to the OICC for control purposes.

2. Good internal control procedures dictate that the Controller Department, through utilization of *internal* audit, have *cognizance over* all inventory taking procedures. Confirmation of physical counts and the resulting *book* adjustments should be one of the functions of an internal audit staff.

It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
 Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS-NOTICE No. 11

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
 SAIGON SUBOFFICE,
 CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
 APO U.S. Forces 96243, May 5, 1966.

To: Mr. B. J. Coyne, manager procurement and supply, Raymond Morrison Knudsen-BRJ, Saigon, Vietnam.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

DCAA Review of Local Bills of Lading (LBL) currently being prepared at various contractor shipping locations indicates that only one location (Saigon Port) is preparing a summary document showing all LBL shortages and overages for a specific period of time. The DCAA recommends that all shipping locations prepare this form on a daily or weekly basis (depending on volume) for OICC and DCAA information purposes. Presently this form is not required by the OICC but its value for control purposes is obvious.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
 Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 12

AUDITOR IN CHARGE, DCAA, SAIGON SUBOFFICE,
 May 5, 1966.

To: Mr. B. J. Coyne, manager, procurement supply, RMK-BRJ.

The following preliminary audit findings are submitted for your information and action you deem appropriate:

DCAA review of Local Bills of Lading (DLD's) and other correspondence indicates that the contractor is loaning material purchased under NBy 44105 to agencies outside the contract. The attached Inter-office Memorandum to Roy Greetan (Marine Transportation from Sid Webber (Saigon Port) confirms the loaning of 600 bags of Taiwan Cement to the U.S. Army. Various LBL's re-

viewed indicate the loan of 1,500 bags of cement to PA&E. The LBL's in question, copies attached, are as follows:

LBL No.	Number of bags
81556-----	500
82059-----	500
82174-----	500
Total-----	1,500

NavDocks P-71, paragraph 2.4.3.7 states that "shipment of materials and/or supplies shall be permitted only upon written authorization of the OICC".

You are requested to obtain immediately OICC approval on all loaned materials or BCAA will be required to suspend \$2,341 (2100 bags @ \$1,115, Source: P.O. VN 5918) on the next applicable Public Voucher.

Your immediate response is requested.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE NO. 13

AUDITOR IN CHARGE, DEFENSE AUDIT AGENCY,
SAIGON SUBOFFICE,
%RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, May 5, 1966.

To: Mr. B. J. Coyne, manager procurement and supply, Raymond Morrison Knudsen-BRJ, Saigon, Vietnam.

1. The following preliminary audit findings are submitted for your information and action you deem appropriate.

DCAA review of existing warehouse procedures indicates that along with the standardized procedures numbering 1 thru 10, under various dates, there are numerous unnumbered procedures written by various contractor warehouse personnel. We recommend that the contractor review the existing procedures now being utilized to determine if they are still applicable. All unnumbered procedures that have current value should be reissued in a logical numerical sequence under the signature of the Manager-Procurement and Supply. All such procedures must be distributed to all sites exercising warehouse functions for uniform application.

2. It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS, NOTICE NO. 14, AUDIT OF VIETNAMESE PAYROLLS

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
IN CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, May 9, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ, Saigon, Vietnam.

The following preliminary audit findings are submitted for your information and appropriate action.

1. Contractor lacks sufficient control over personnel transactions at various sites because personnel departments have not been established.

Recommendation: At site location, where economically feasible, personnel departments should be established in such a manner that organizationally-wise, they are separated from the time keeping and payroll departments.

2. DCAA review of field checks performed by various RMK timekeepers indicates that unexcused absences are not being detected.

Recommendation: The contractor's existing written procedures provide for adequate field checks; the contractor should enforce these existing procedures.

3. A summary listing of all Vietnamese employees on the various payrolls is not being submitted by the payroll department to the personnel department for reconciliation purposes.

Recommendation: The above policy should be adopted by the contractor to insure agreement between the payroll and personnel records.

4. Lead time on present hiring is inadequate.

Recommendation: Manpower budgeting should be utilized by the contractor to help the hiring hall plan its hiring on a more even basis and enable the hiring hall to hire qualified employees.

5. Many of the forms being utilized by the contractor refer to "Navy Audit" in the distribution references.

Recommendation: These forms should be updated to eliminate the distribution to the "Navy Auditor" as many of these forms are not required by the DCAA on a day to day basis.

6. Based on a review of calculation checks performed by the Saigon Payroll department, many calculation errors are being made on Vietnamese payrolls.

Recommendation: The contractor must remind all individuals signing the payroll summary sheets that it is their responsibility to insure that the payrolls are mathematically correct.

7. Payroll summary totals as entered into the accounting records do not agree with the billed amounts to the government. This finding was the subject of a separate letter to the contractor dated March 11, 1966.

Recommendation: Cost accounting is currently preparing the distribution journal voucher and should reconcile the payroll totals per distribution journal entry to the payroll summary sheet.

8. The contractor is apparently utilizing several methods of preparing payroll signature affidavits at various locations.

Recommendation: A standard affidavit form to show the required payroll information should be established by the contractor, and kept on file at each location and Saigon.

9. Written standard procedures have not been issued by the contractor for paying Vietnamese employees.

Recommendation: Written procedures should be utilized by the contractor to standardize the paying methods used at all locations.

10. Audit review indicates that mandatory leaves and rotation of duties are not being practiced within the various payroll departments.

Recommendation: This internal control check must be utilized within the contractor's payroll departments to insure a separation of duties within the payroll department.

11. Many supplementary payrolls are being prepared to augment regular payrolls, however the contractor has not issued a written procedure authorizing supplemental payrolls.

Recommendation: The contractor should establish a written policy for the issuance of supplementary payrolls. The procedure should outline the circumstances under which a supplementary payroll may be issued, the individuals who are responsible for its preparation and outlining the responsibility of the approving authority on such payrolls.

It is requested that this office be advised of all action taken to correct existing deficiencies by May 31, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 15

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE.
IN CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, May 9, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.

Info: Mr. D. G. Gaetz, controller, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

The Defense Contract Audit Agency's initial review of Local Bills of Lading (LBL's) and the theft reports indicates that discrepancies as noted thereon are not being written off as such in the accounting records. For clarification of the contractor's position on this potentially serious deficiency, the attached sum-

marized schedules of LBL variances and theft documentation are submitted for the contractor's review and comments. The contractor's reply should reference each line item on the schedules and should list the accounting document under which each line item was written off and the account charged, or an explanation as to why the line item was not written off.

We request that contractor's reply be submitted to the DCAA by May 31, 1966.

It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

Review of LBL shortages and theft reports

LBL No.	Date	Quantity	Description	Reference No.
	Apr. 14, 1966	25 cans	Paint, damaged	5010-95-11415-1.
	do	Unknown	Bearings, pilfered	10-5023-1.
110735	Apr. 13, 1966	78 units	Goggles, theft	w/t 201931.
	do	Unknown	Filter cartridges, theft	97-12010.
	do	1 unit	Fan, theft	Unknown.
	May 2, 1966	1 carton	Magnet wire, theft	30-4952-1.
	do	1 box	Oilite, theft	5232-95-12967-2.
	do	do	Tools, theft	35-5327-1.
	do	do	?, theft	33-5622-3.
	do	do	? theft	33-5861-1.
	do	do	? theft	5400-95-11560-1.
	do	1 case	? theft	33-6260-1.
98065	Jan. 25, 1966	3 crates	Beds, not rec phan rang, not rec	w/t 154332.
93035	do	1 crate	Wardrobe locker—phan rang, not rec	w/t 154370.
107624	Mar. 8, 1966	4 pints	Taiwan cement, short	VN6111.
107626	do	3 pints	Taiwan cement, damage	VN6111.
107727	Mar. 10, 1966	10 pints	do	VN6111.
107835	do	2 pints	do	VN6111.
	Apr. 27, 1966	1 box	Plumbing supplies, theft	PP w/t 9156.
	Apr. 26, 1966	1 case	Spare parts, jeep, theft	33-6045.
	do	do	do	33-6036.
	do	do	Miscellaneous hardware, theft	35-6020-1
	do	do	Repair kits, theft	5400-95-11543-1.
	Not listed	Unknown	Camp supplies, theft	f21-10320-1.
	do	1 each	Spare parts, theft	21-10320-6.
	do	50 each	6-inch surface bolts, theft	33-4734-1.
	do	16 each	Valves, theft	30-4742-1.
	do	1 each	Door closes, theft	30-5217-1.
93179	Apr. 6, 1966	1,000	Cable wire, missing	w/t PP9256-7.
	Apr. 29, 1966	1 box	Files, theft	w/t 216320.
	do	do	Spare parts—GMC, theft	35-6020-1.
	Apr. 16, 1966	Extensive	Flush valve, theft	95-10563-1.
	do	Several	Switches, theft	30-5212-1.
	Apr. 17	Several boxes	? theft	SE-2737.
108242	Apr. 1, 1966	1 box	Not shown, missing	30-4742-1.
108342	do	4 boxes	do	33-5527-1.
108371	Apr. 3, 1966	1 box	do	35-10312-1.
108997	Apr. 10, 1966	10 bundles	Barbed wire, missing	33-5009-2.
109052	Apr. 8, 1966	2 pieces	Not shown, missing	Not listed.
109443	Apr. 1, 1966	?	? not received	10-6143-11.
108655	Apr. 8, 1966	1 LM	Concrete pipe, damaged	?
108536	Apr. 4, 1966	8 each	Lamps, missing	?
107706	Mar. 30, 1966	1 LM	Reinforced pipe, missing	9002-07-81346
108539	Apr. 9, 1966	10 bags	White cement, missing	? w/t 144443.
99160	February 1966	1 box	Electrical equipment, missing	P. O. 6039-30-3110-1
99745	do	do	? missing	30-3088-1.
99145	do	2 boxes	do	SE-2423.
99114	do	2 5 gallon cans	Paint, missing	SE-2427.
99114	do	10 5-gallon	Paint, empty	30-6078-2.
99938	do	6 pieces	Pipe, short	30-6078-2.
98973	do	1 piece	do	30-5721-1.
101404	do	6 cans	Paint, damaged	30-5721.
101402	do	8 pails	do	SE 2931.
101112	do	14 5-gallon pails	do	SE 2931.
98498	do	52 pieces	Asbestos cement, lost	30-6370-1.
98496	do	6 cartons	Vinyl tile, missing	00-2003-1.
101936	do	3 cartons	Wiping rags, missing	VN 6300.
101677	do	9 lengths	Hose, missing	30-6565-1.
101670	do	29 pieces	Black pipe, missing	35-4730-1.
103201	do	1 carton	?, missing	30-5721-1.
102865	do	?	Conduit, damage	30-5423-1.
43423	do	9 bags	Cement, damage	Unknown
93421	do	3 bags	do	VN6190
108518	do	37.5 gallons	Paint, damage	VN6190
107865	do	2 5-gallon pails	Paint, loss	5210-95-11417
				5210-95-11417

PRELIMINARY AUDIT FINDINGS—NOTICE No. 16; WAREHOUSE RECEIVING FUNCTIONS

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND-MORRISON-KNUDSEN-BRJ,
APO U.S. Forces 96243, May 19, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.
Info: Mr. B. J. Coyne, manager, procurement and supply, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

The DCAA review of the material receiving function at various warehouses in the Saigon area disclosed the following discrepancies.

No written receiving procedures have been issued by the contractor since the beginning of the contract.

A large back-log in processing supply documents exists at various warehouse locations.

Where Local Bills of Lading indicated that boxes and cartons of material were received in a broken or damaged condition, there was no audit evidence available to indicate that the broken or damaged articles were immediately inspected to determine the extent of the loss or damage.

We recommend that the contractor issue a warehouse procedure for the receiving function and take appropriate action as necessary to eliminate the back-log in processing supply documents.

It is requested that this office be advised of all action taken to correct existing deficiencies by June 10, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS, NOTICE No. 17; REVIEW OF THEFT REPORTING PROCEDURES

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO U.S. Forces 96243, May 19, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.
Info: Mr. B. J. Coyne, manager, procurement and supply, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

The contractor lacks an effective standard operating procedure for reporting thefts and for the recording of thefts in the accounting records. We noted that various forms are used to report thefts and that, in many instances, thefts were reported by employees on a verbal basis to their supervisors. Many of the thefts reported to the contractor's security section have not been written off in the accounting records, and only those locations that have assigned security personnel are consistently reporting thefts.

The following recommendations are made to improve theft reporting procedures.

The contractor should publish a written standard operating procedure that would provide for the use of a standard theft reporting form by all personnel at all sites. The procedure should require the processing of the theft reports through the RMK Security Section, OICC for their approval, and to the RMK accounting for proper write-off in the accounting records.

When thefts are noted, employees should submit theft reports, properly documented, to their immediate supervisor.

The contractor should designate an individual at each site to be responsible for processing theft reports. This individual should be the security chief when a security section has been established.

The following recommendations are made to correct the accounting records as necessary:

The contractor should review all theft reports documented since the inception of the contract. Appropriate accounting entries should be made to insure that all thefts have been properly written off.

It is requested that this office be advised of all action taken to correct existing deficiencies by June 10, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 18

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND-MORRISON-KNUDSEN-BRJ,
APO U.S. Forces 96243, May 24, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.
Info: Mr. B. J. Coyne, manager, procurement and supply, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

DCAA audit observation of Stock Record Cards at Major Depot #95 and Thu Duc Island warehouses indicates that physical separation of Stock Record Cards from the warehouse function is not being accomplished. As a result access to the Stock Record Cards is not being limited to warehouse employees charged with the responsibility of SRC maintenance.

At the Major Depot #95, TSN, the consolidation of all Stock Record Cards into the main office, Bldg #1 is recommended with the SRC area to be physically isolated from the other operational areas. We also recommend that an American supervisor be placed in charge of the SRC's with access to cards being limited to this American and his assistants. Plans for a similar arrangement should be implemented for the Thu Duc Island warehouse area.

It is requested that this office be advised of all action taken to correct existing deficiencies, by June 17, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 19

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND-MORRISON-KNUDSEN-BRJ,
APO U.S. Forces 96243, June 6, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.
Info: Mr. J. A. Lilly, general manager, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

Defense Contract Audit Agency review of the Materials In-Transit Account indicates that an estimated \$6,000,000 of material paid for by the San Bruno Office and shipped to Vietnam prior to December 31, 1965, has not been accounted for in Vietnam. In view of the large dollar amount of material not accounted for, the DCAA auditor requests the following information:

(1) The contractor's plans for reconciling the outstanding materials and supplies intransit accounting balance as of December 31, 1965, to physical material accountability, and the date this reconciliation will be completed.

(2) The contractor's proposed changes in present operating procedures to prevent recurrence of this unsatisfactory situation in the future.

In view of the large dollar amount of the material involved, a preliminary plan of action should be submitted to SYCC and DCAA before June 20, 1966.

It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 19A

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
 SAIGON SUBOFFICE,
 CARE OF RAYMOND-MORRISON-KNUDSEN-BRJ,
 APO U.S. Forces 96243, July 2, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.
 Info: Mr. J. A. Lilly, General Manager, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

The contractor's reply dated 17 June 1966 to the DCAA's Preliminary Audit Findings No. 19 did not contain the contractor's plans for "reconciling the outstanding materials and supplies in-transit accounting balance as of 31 December 1965, to physical material accountability, and the date this reconciliation will be completed."

The contractor's reply infers that once all unaccounted for material is formally received, the unaccounted for balance as of December 31, 1965 will no longer exist. Recent site visits by the DCAA indicate that material has passed through various depot and warehouse areas with no formal paperwork being accomplished. The lack of paperwork precludes the preparation of formal receiving reports based on processed documentation in lieu of actual inspection of the material. Therefore, it is requested that the contractor's plans for reconciling the outstanding balances be submitted to the DCAA on a timely basis.

The contractor's reply made reference to the establishment of a committee to review existing conditions and make recommendations to improve the present situation. DCAA requests information as to the members of the committee, time and place of meetings, proposed agenda, and copies of written findings and recommendations made by the committee.

It is requested that this office be advised of all action taken to correct existing deficiencies.

KENNETH B. DURGIN,
 Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 20, CEMENT ACCOUNTABILITY DISCREPANCIES

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
 SAIGON SUBOFFICE,
 CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
 APO U.S. Forces 96243, June 11, 1966.

To: Mr. Leo Walton, business manager, Raymond Morrison Knudsen-BRJ.
 Info: Mr. B. J. Coyne, manager procurement and supply, Raymond Morrison Knudsen-BRJ.

The following preliminary audit findings are submitted for your information and appropriate action:

The Defense Contract Audit Agency completed a detailed review of Receiving and Inspection Report procedures for purchases of Portland cement made since March 1965. This review disclosed numerous discrepancies which are listed on the attached Schedule A and identified by purchase order. The following comments and recommendations are made to correct specific discrepancies as shown on the attached schedule and to strengthen the system of related internal controls.

(1) It is our opinion that the lack of a written "receiving procedure" is one of the prime reasons why Receiving and Inspection Reports are not prepared, why incorrect purchase orders are cited thereon, and why the original Receiving and Inspection Reports are subsequently altered. The lack of a written receiving procedure was the general subject of Preliminary Audit Findings No. 16, dated May 19, 1966, wherein we recommended that such a procedure be issued. We recommend that this procedure be issued without delay and that it be effectively implemented.

(2) Many of the purchase orders where unaccounted for material exists are considered completed by the contractor. Other purchase orders indicate apparent overpayment to the vendor. These conditions denote a serious weakness

in the internal control system as it appears that no one department is responsible for insuring that all material paid for by the contractor is accounted for. We recommend that the contractor designate a particular department with this responsibility.

(3) It is requested, relative to the deficiencies shown on the attached schedule, that this office be advised of all action taken by the contractor to:

- a. Account for material not accounted for under various purchase orders.
- b. Correct Receiving and Inspection Reports erroneously referenced to P.O. VN 5250.
- c. Credit the contract for the overpayment that exists under P.O. VN 5324.
- d. Provide adequate documentation to justify why alterations of original Receiving and Inspection Reports prepared under P.O. VN 5918 should be considered allowable costs.

It is requested that this office be advised of all action taken to correct existing deficiencies, by June 30, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

SCHEDULE A

SCHEDULE OF RECEIVING AND INSPECTION REPORT DISCREPANCIES IDENTIFIED BY PURCHASE ORDER

P.O. VN4325

1. R&I reports numbered 26600, 25634, 26743 and 30276 were referenced to P.O. VN5250. Review of shipping documents and payment vouchers indicate that these R&I's belong under P.O. VN4325.

2. One shipment of 1,000 metric tons of cement shipped via the "S/S Sooner State" should not be R&I'd under P.O. VN4325. The P.O. under which the "S/S Sooner State" shipment was shipped and paid for could not readily be produced for the auditor's review.

3. The schedule below shows various shipments and the extent of accountability established by the contractor under P.O. VN4325.

Ship	Metric tons paid by RMK-BRJ	Metric tons accounted for by RMK-BRJ (R&I or SL & D)	Unaccounted tonnage
LST-561.....	508.00	503.60	4.40
LST-399.....	1,016.00	1,007.40	8.60
S/S Coe Victory.....	1,412.00	1,405.55	6.45

P.O. VN5250

1. Several R&N's that were referenced under this purchase order belong under P.O. VN4325 (See discussion on P.O. VN4325 for detail).

2. A detailed schedule of accountability as established by the contractor follows:

Ship	Metric tons paid by RMK-BRJ	Metric tons accounted for by RMK- BRJ (R&I or SL & D)	Unaccounted tonnage
LST-276.....			
S/S Tourist.....	1,016.00	1,000.00	16.00
S/S Alice Brown.....	2,032.00	1,016.00	1,016.00
LST-222.....	2,010.75	2,010.60	.15
S/S Coastal Nomco.....	980.00	987.75	(7.75)
S/S Kemmar.....	1,190.00	-----	1,190.00
S/S Coe Victory.....	938.00	610.75	327.25
LST-276.....	588.00	1,243.00	(655.00)
LST-1152.....		1,000.00	(1,000.00)
All other shipments.....		232.50	(232.50)
	21,245.25	21,245.25	-----
Total.....	30,000.00	29,345.85	654.15

3. Payment records indicate that a total amount of \$554,016.40 was paid under this purchase order. The authorized P.O. amount is \$548,200.00, thus an apparent overpayment of \$5,816.40 exists without P.O. coverage.

P.O. VN5324

1. An apparent overpayment \$7,384 exists on this purchase order. The terms of the purchase order require payment based on sound bags unloaded, however, the contractor made payments based on tonnage at the port of debarkation. (Details supporting the \$7,384 figure may be obtained from the DCAA auditor).

P.O. VN5561

1. This Purchase Order, dated 21 August 1965 was for 1,000 bags of cement to be delivered at the Phan Thiet jobsite. To date, no formal R&I has been prepared even though the purchase order indicates the material has been delivered.

P.O. VN5890

1. This Purchase Order, dated 30 September 1965, was for 1,200 bags of cement to be delivered at the Pham Thiet jobsite. To date, no formal R&I has been prepared even though the purchase order indicates the material has been delivered.

P.O. VN5918

1. Our review of the R&I's prepared under this purchase order indicates that initial R&I's were later modified to include a greater amount of tonnage accepted by RMK-BRJ. Since the terms of payment under this P.O. are for good bags unloaded in Vietnam, the modification of the R&I's enabled the vendor to collect \$8,530 more than the original R&I's called for under the terms of the purchase order.

P.O. VN6190

1. Review of shipments under this purchase order indicates that the "S/S Wingless Victory", with 3,500 metric tons, departed Japan for Saigon on 7 January 1966 and the "S/S Carroll Victory", with 3,000 metric tons, departed Japan on 14 January 1966 for Da Nang. To date, no R&I's on either shipment have been processed by the contractor.

PRELIMINARY AUDIT FINDINGS NOTICE No. 21; MANAGEMENT PRACTICES AT
CAM RANH BAY

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,

SAIGON SUBOFFICE,

CARE OF RAYMOND MORRISON KNUDSEN-RBJ,

APC 96243, July 8, 1966.

To: Mr. Leo Walton, business manager, Raymond-Morrison-Knudsen-BRJ.
Info: Mr. B. J. Coyne, manager, procurement and supply, Raymond-Morrison-Knudsen-BRJ.

During the period of 6-10 June 1966, DCAA auditors performed a review of internal controls and procedures used in accounting for material and supplies at Cam Ranh Bay, primarily at the depot warehouse. This review disclosed several deficiencies in the area of management practices that should be corrected. The following comments and recommendations are made for your information and action to correct existing deficiencies.

DCAA Audit Findings:

- (1) Organization charts for the depot and the project are outdated.
- (2) The project manager of the depot reports to the General Construction Manager in Saigon. However, the depot department heads, who come under the depot project manager, report directly to other personnel in Saigon, such as the Chief, Procurement and Supply.
- (3) Several instances were noted where a lack of separation of duties exists between the depot and the project. An example is where correspondence intended for the depot is first routed through the project office.

DCAA Recommendations:

(1) An updated organization chart should be submitted for all major functions at both the Cam Ranh depot and project office.

(2) All department heads within the depot should report to the depot project manager who in turn should report to the Chief, Procurement and Supply.

(3) A complete separation of duties and functions between the depot and the project should be emphasized by Saigon management and passed on to the applicable personnel at Cam Ranh.

It is requested that this office be advised of all action taken to correct existing deficiencies by July 30, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE No. 22; RECEIPT OF MATERIAL AT CAM
RANH BAY

AUDITOR IN CHARGE, DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN—BRJ,
APO 96243, July 8, 1966.

To: Mr. Leo Walton, business manager, Raymond-Morrison-Knudsen-BRJ.
Info: Mr. B. J. Coyne, manager procurement and supply, Raymond-Morrison-Knudsen-BRJ

During the period 6-10 June 1966, DCAA auditors performed a review of internal controls and procedures used in accounting for materials and supplies at Cam Ranh, primarily at the depot warehouse. This review disclosed a serious lack of material accountability that demands the immediate attention of the contractor. The following comments and recommendations are made for your information and action to correct specific deficiencies and to strengthen the system of internal controls.

DCAA Audit Findings:

(1) Material receiving and inspection procedures in use at Cam Ranh have not been reduced to writing.

(2) One individual was assigned responsibility for both receiving and issuing at the depot as of June 10, 1966.

(3) Only 88 R&I's totaling \$1,905-520 had been issued at Cam Ranh as of June 10, 1966. This represents only a small portion of the R&I that should have been processed.

(4) Approximately 10% of all R&I's prepared were based on Transportation Control Movement documents (TCMD) prepared by the U.S. Army, 1st Logistical Command.

(5) The material is sometimes not counted and inspected as required in paragraph 2.4.3.4 of Navy Manual P-71.

DCAA recommendations:

(1) It is once again recommended that procedures be written for receiving and inspection. This recommendation has been made twice before on Preliminary Audit Findings Nrs. 16 and 20, dated May 19, 1966 and June 11, 1966, respectively. This procedure must be an official one and identifiable in some numerical sequence. Paragraph 2.4.3.4 of Navy Manual P-71 spells out the procedures to be followed in the preparation of R&I's and their eventual issuance.

(2) It is recommended that adequate personnel be assigned to the receiving function at Cam Ranh and that the receiving function be segregated from the function of material issuing. The two areas must be separate and assigned to different employees.

(3) The retyping of rough draft R&I's should be eliminated as a duplication of effort. The control number should be entered when the contractor's procurement section prepares the R&I, prior to sending it to the receiving clerk. See paragraph 2.4.3.4 of Navy Manual P-71.

It is requested that this office be advised of all action to correct existing deficiencies by July 30, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

PRELIMINARY AUDIT FINDINGS—NOTICE NO. 23; STORING AND ISSUING OF MATERIAL
AT CAM RANH

DEFENSE CONTRACT AUDIT AGENCY,
SAIGON SUBOFFICE,
CARE OF RAYMOND MORRISON KNUDSEN-BRJ,
APO 96243, July 19, 1966.

To: Mr. Leo Walton, business manager, Raymond-Morrison Knudsen-BRJ.
Info: Mr. B. J. Coyne, manager, procurement and supply, Raymond-Morrison Knudsen-BRJ.

During the period 6-10 June 1966, DCAA auditors performed a review of internal controls and procedures used in accounting for materials and supplies at Cam Ranh, primarily at the depot warehouse. This review disclosed a serious lack of material accountability that demands the immediate attention of the contractor.

The following comments and recommendations are made for your information and action to correct specific deficiencies and to strengthen the system of internal controls:

DCAA Audit Findings:

- (1) Access to the depot area was not limited in any way, nor was there any evidence of security precautions, other than a few rolls of concertina wire.
- (2) Stock record cards are not current due to the lack of R&I's to post from.
- (3) Shipping documents, TOMD's, and Routing and Distribution documents are reviewed in the assistant depot manager's office for material availability since the stock record cards contain no useful information.
- (4) Whiz tickets cannot be issued since the R&I has never been prepared. Suspense whiz tickets are being pending the preparation of R&I's.
- (5) Requisitions for material are not always being used. In some instances only a piece of scrap paper evidenced issuance of materials and supplies.

DCAA Recommendations:

- (1) Written procedures must be drafted by the contractor to cover the areas of storing and issuing material. These procedures must be official and identifiable in some numerical sequence.
- (2) Steps should be taken to provide adequate security at the depot and to permit access to only authorized depot personnel for these areas where materials and supplies are stored.
- (3) Warehouse material should be issued from the depot only upon presentation of a properly prepared material requisition.
- (4) Immediate steps should be taken to update all stock record cards. Since much of the material has been received and issued, it is not possible now to accomplish the R&I function in the normal accepted manner. Therefore, an alternate method must be used which would have the effect of adjusting the stock record cards. Whichever method is used must first be approved by the OICC. A suggested method follows:
 - (a) In lieu of preparing the R&I, post to the stock record cards directly from the purchase orders.
 - (b) Post all whiz tickets or other issue documents to stock record cards.
 - (c) Conduct physical inventory and post to stock record cards.
 - (d) Inventory overages or shortages should be submitted to the OICC for approval or disapproval.
 - (e) Approved inventory overages or shortages should be posted to stock record cards and should be distributed to all projects based on engineering estimates etc., as approved by OICC.
 - (f) Disapproved inventory overages or shortages should also be posted to stock record cards and recorded in a nonreimbursable account.

It is requested that this office be advised of all action taken to correct existing deficiencies by July 30, 1966.

KENNETH B. DURGIN,
Major, USAF, Auditor in Charge.

Mr. SIKES. Thank you very much, gentlemen. You have been very helpful to the committee.

DISPOSITION OF DEFERRED PROJECTS

(The following information was supplied by OSD to amplify testimony found on page 5:)

During the hearings before this committee on Tuesday morning, August 30, the question was raised concerning the priority relationship of FY 1966 deferrals and the new FY 1967 Military Construction Program, and what steps were being taken by the Department of Defense to release the deferred items.

As to relative priorities, information supplied for the record following Mr. Ignatius' appearance on FY 1967 Military Construction Appropriations, was as follows:

"In general, all of the projects included in the FY 1967 Program would have priority and would be placed under construction in advance of the projects in the FY 1966 Executive Program now deferred. As we have previously stated, the projects presently included in the FY 1967 Program are of the same high priority as those projects in the FY 1966 Program, which have been cleared to proceed. More specifically, the projects in both of these groups have been individually reviewed, and only those projects were deferred which did not contribute to immediate combat readiness, the ability to carry out new or expanded missions, or which were not essential to health, safety, or other compelling requirements. The delayed items in the FY 1966 Program are not generally time sensitive, even though completely valid, and represent for the most part improvements and modernizations which can be delayed for an interim period.

"However, there are four projects where these deferral criteria were inconsistently applied. These items are not of higher priority than similar items deferred from FY 1966 execution, and would not go forward ahead of similar items deferred in the FY 1966 budget. These projects, nevertheless, are fully justified on an individual basis and should be retained in the FY 1967 Program. The specific FY 1967 projects are as follows:

"Location	Item	Cost
Army:		
Fort Devens, Mass.	Enlisted men's barracks complex.....	\$7, 117, 000
Fort Gordon, Ga.	do.....	12, 630, 000
Navy:		
Naval Academy, Annapolis, Md.....	Utility rehabilitation (2d increment).....	2, 803, 000
Naval Station, Roosevelt Roads, P.R.....	Bachelor officers' quarters and mess.....	547, 000."

The FY 1966 deferral list has been under periodic review against the possibility of changed conditions which would meet the criteria mentioned above and thus justify proceeding with individual items. As a consequence of these reviews, the following projects have been released to date:

Chanute Air Force Base: Dormitory-dining hall.....	\$2, 615, 000
Charleston, S.C.: Drydock project.....	5, 200, 000
Keesler Air Force Base, Miss.: Technical training building.....	1, 842, 000
Chanute Air Force Base, Ill.: Weapons training facility.....	687, 000
Lackland Air Force Base, Tex.: Composite recruit training facility..	2, 933, 000
March Air Force Base, Calif.: Airmen dormitory.....	810, 000
Scott Air Force Base, Ill.: Headquarters building.....	672, 000
Mather Air Force Base, Calif.: Dining hall (student officers).....	348, 000

More currently, a review is now underway in anticipation of the enactment of the FY 1967 Military Construction Authorization Bill in order to insure that individual projects qualify under the certification requirements stipulated in Section 607 of the new bill. As the Committee may know, Section 607 requires certification by the Secretary of Defense, in writing, before any project in the FY 1967 Program may proceed on the following two counts:

1. All projects in the FY 1967 program are urgently required in the interests of national defense; and

2. All projects in the FY 1967 Program are more essential to the interests of national defense than items in a deferred status.

Although the review against Section 607 is related primarily to items in the FY 1967 Bill, it will entail some re-examination of items on the FY 1966 deferred list. This review has just been initiated and will be phased to correspond with requests from the Military Departments for apportionment of funds to execute the FY 1967 program.

As to any general release of projects on the FY 1966 deferred list, there is still no decision by the Secretary of Defense regarding a definite date. As Mr. Ignatus testified before this Committee, only when circumstances which led to the deferral decision are no longer present will it be possible to reconsider and to proceed.

The first part of the report deals with the general situation of the country and the progress of the work. It is followed by a detailed account of the various expeditions and the results obtained. The report concludes with a summary of the work done and the prospects for the future.

The report is divided into several sections, each dealing with a different aspect of the work. The sections are:

- 1. General situation of the country
- 2. Progress of the work
- 3. Detailed account of the various expeditions
- 4. Results obtained
- 5. Summary of the work done
- 6. Prospects for the future

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