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THAILAND SERVICEMEN'S CLUB ACTIVITIES

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HEARING

BEFORE THE

SUBCOMMITTEE ON THAILAND SERVICEMEN'S CLUB ACTIVITIES

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

NINETY-FIRST CONGRESS

SECOND SESSION

ON

ALLEGATIONS OF KICKBACKS AND OTHER POSSIBLE
IRREGULARITIES IN NONAPPROPRIATED FUND AIR
FORCE OFFICER AND NONCOMMISSIONED OFFICER CLUBS
IN THAILAND

JUNE 10, 1970

Printed for the use of the Committee on Armed Services

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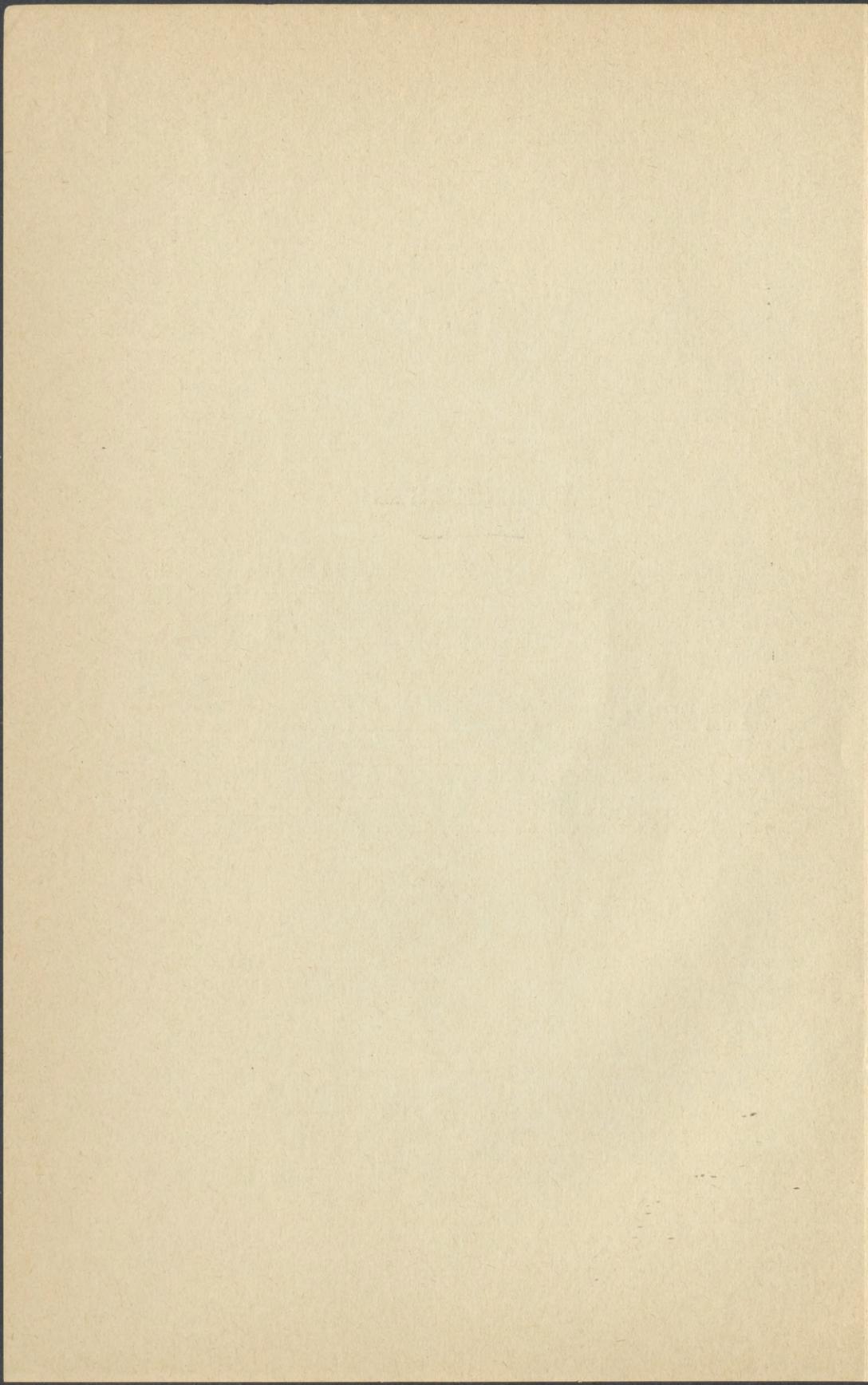
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FOREWORD

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, D.C., July 28, 1970.

HON. JOHN C. STENNIS,
*Chairman, Committee on Armed Services,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Last December the Department of the Air Force reported to the committee certain irregularities discovered by it in the operation of commissioned and noncommissioned officers clubs, particularly in Thailand. You promptly appointed me as chairman of a special subcommittee, along with Senator Byrd of Virginia and Senator Murphy of California, to review the activities under investigation by the Air Force and to make such recommendations as were deemed necessary. Thereafter, I maintained close contact with appropriate officials of the Air Force to determine when it might be appropriate to hold hearings concerning the matter without jeopardizing their investigations. These hearings were subsequently held on June 10, 1970, and a copy of the hearings is enclosed for your consideration.

The scope of our inquiry was necessarily limited due to the lack of sufficient staff assistance and financing. The subcommittee performed no independent investigation into the matter but relied solely upon the integrity of the Air Force for such information as was developed and made available to us. We called no defendants or prospective defendants as witnesses, having deferred to the judgment of the Air Force officials that to do so might be prejudicial to the cases of the prospective defendants as well as those of the Government. It was emphasized that our inquiry was not intended to be a trial, but that it was our intent to find out what had happened, the factors that permitted the discrepancies to occur, and finally what corrective measures were contemplated. Although our hearings were restricted to irregularities in Air Force clubs, we believe that lessons learned are applicable to the other services. We are of the opinion that similar improvements in regulation may also be justified in the operation of Navy and Army open messes.

I should like to state that the witnesses appearing before the subcommittee were candid and helpful in every respect. Likewise, I should like to commend the efforts and helpfulness of Mr. Eric Lee of my personal staff and Mr. Gordon A. Nease of the committee staff who, in addition to their many other responsibilities, devoted much time and effort to assure the success of the hearings.

The present disclosures would seem to stem from the fact that in September of 1969, the Chief of Staff of the Air Force requested that a close look be taken into the operation of the open messes worldwide. Although it cannot be stated as a fact, it is quite probable that this directive resulted from Senator Ribicoff's investigation of irregulari-

ties in the operation of open messes of the Army. In any event, as a result of this directive, the Office of Special Investigation of the Department of the Air Force conducted a series of 100 "no-notice" investigations of open messes, and the Office of the Auditor General of the Air Force conducted a worldwide audit of some 138 open messes. This resulted in (as of July 24, 1970) the opening of 163 active investigations by the Office of Special Investigations based upon allegations of wrongdoing of various types in clubs located in the countries indicated below:

Thailand	37
Remainder of Pacific area	39
European area	47
U.S., including Canal Zone, Goose Air Base, Canada, and Greenland	50

Investigations have been completed in 131 cases and 32 are still under investigation. Commanders have made their decisions on what action is to be taken in 72 cases involving 79 individuals. In the remaining 59 completed cases it is now known that there will be 16 general courts-martial based upon cases developed in Thailand, and one special court-martial case is pending in Korea.

Irregularities discovered range from soliciting or giving kickbacks to administrative irregularities that could result in fraud. While many of the instances follow the same general pattern, there was no indication of conspiracy among club custodians, and the overall losses in comparison to the business transacted appear to be small.

Several things did become apparent, however, during our inquiry that would seem to require further attention.

The operation of these open messes is big business. Last year, the income derived from them in the Air Force alone was \$282 million, with a net income of \$14.5 million. Testimony revealed that there is no lack of directives, rules, and regulations under which these open messes supposedly operate. These are being tightened, but the fact remains that these directives and regulations have not been properly enforced in all instances. An operation of this magnitude certainly warrants closer attention from higher command levels, and organizational changes should be made to bring about a stronger control of these activities.

Last year, some \$26 million or nearly 10 percent of the gross income came from the operation of slot machines. It is difficult to comprehend why such an activity that lends itself to graft and corruption is necessary for amusement or morale purposes. It is also difficult to understand why gambling activities of a type considered illegal and barred from the open messes within the United States should be permitted overseas. The rationalization offered by the Department—that slot machine income is justified by lower prices for food and beverages—is inadequate, for it ignores the seriously detrimental effects these activities can have on our service personnel and their dependents.

The subcommittee strongly believes that the Department of Defense should submit an annual report to the committees of the armed services of both the Senate and the House of Representatives on nonappropriated funds income and disbursements. Such a report should also contain a statement concerning any irregularities discovered during the reporting period relating to the administration or the handling of these funds

and the type of remedial action taken. It is hoped that the submission of such a report might be arranged administratively but if not, it should be made mandatory by Congress.

Finally, the subcommittee strongly recommends that a special subcommittee sufficiently staffed and adequately financed be appointed to look into these open mess activities of the three military services that lend themselves to graft and corruption which would include the operation of amusement machines, bingo games, procurement practices for entertainment, beverages, etc.

The subcommittee will continue to follow the progress and disposition of those cases under investigation by the Office of Special Investigations and will later make recommendations for such remedial legislation as may be warranted.

Sincerely,

DANIEL K. INOUE,

Chairman, Subcommittee on Thailand Servicemen's Club Activities.

AIR FORCE OPEN MESS IRREGULARITIES

WEDNESDAY, JUNE 10, 1970

U.S. SENATE,
SUBCOMMITTEE ON THAILAND SERVICEMEN'S
CLUB ACTIVITIES OF THE COMMITTEE
ON ARMED SERVICES,
Washington, D.C.

The Thailand Servicemen's Club Activities Subcommittee (composed of Senators Inouye (chairman), Byrd of Virginia, and Murphy) appointed to review allegations of kickbacks and other possible irregularities in nonappropriated fund Air Force officer and non-commissioned officer clubs in Thailand met, pursuant to notice, at 10 a.m. in room 224, Old Senate Office Building, Senator Daniel K. Inouye (chairman), presiding.

Present: Senators Inouye (presiding), and Byrd of Virginia.

Also Present: Gordon A. Nease, professional staff member, Herbert S. Atkinson, acting chief clerk, and Mary E. Keough, clerical assistant.

Senator INOUE. Last December, the Air Force notified the Senate Armed Services Committee of certain irregularities discovered in connection with the operation of open messes in the course of the Air Force investigation into the matter. A subcommittee was appointed by the chairman to determine if present regulations governing the operation of officers' and noncommissioned officers' open messes are adequate and, of course, to recommend any legislation deemed necessary that might aid the Department in the operation of the clubs or in bringing to justice persons responsible for irregularities in the operation of these clubs. Since that time, I have maintained contact with the appropriate officials of the Air Force to determine when it might be appropriate to hold hearings without jeopardizing their investigation.

I have deferred to the Air Force's judgment that to invite any of the defendants to appear before the committee at this time might be prejudicial to the cases of the prospective defendants as well as those of the Government. If we should conclude this is later necessary, these people can be called after the cases are disposed of through court-martial proceedings or otherwise.

I have emphasized to the Air Force that we do not intend for these hearings to be a trial, that we want to find out what has happened, the factors that permitted these incidents to happen, and what the Air Force proposes to do about it.

Finally, of course, we want to be in the position of recommending preventive legislation if such is found necessary.

(1)

I believe there is a witness list before you, and our first witness this morning will be Hon. James P. Goode, Acting Assistant Secretary of the Air Force for Manpower and Reserve Affairs.

Welcome, Mr. Secretary.

STATEMENT OF HON. JAMES P. GOODE, ACTING ASSISTANT SECRETARY OF THE AIR FORCE (MANPOWER AND RESERVE AFFAIRS)

Mr. GOODE. Good morning, Mr. Chairman. I am James P. Goode, Acting Assistant Secretary of the Air Force, Manpower and Reserve Affairs. I appreciate the opportunity to appear before your subcommittee this morning to discuss Air Force open mess operations, rules, and regulations governing clubs and messes, the procedures we utilize to administer, supervise, and police our clubs and planned action to preclude future problems in club management.

At the secretarial level, we provide broad policy guidance to the Air Staff. The Air Staff, through several agencies, is responsible for issuing necessary regulations concerning the establishment, operation, and administration of the clubs. These procedures are implemented at every level of command.

Commanders of the major commands and installations have latitude in determining the need for a club and its scope of operations to include what is determined best for the people served. However, this latitude cannot permit deviations from the basic principles which require that the assets of these clubs be soundly managed and wisely expended to assure the maximum possible benefits for the membership.

All levels of command are expected to attain an effective club program, including strict accountability for funds and property. The only acceptable performance in the administration of clubs is a scrupulous adherence to the highest ethical standards by those involved.

The Air Force has 537 open messes which generate \$282 million of business annually. With an operation of this magnitude, we expect and we encounter discrepancies and irregularities. However, to minimize these management problems, our club operational policies and procedures are continually being reviewed and revised.

Additionally, we audit, investigate, and inspect the operation of individual clubs to insure compliance with our directives and with sound business practices. As discrepancies and/or irregularities are discovered, corrective measures are applied. These management reviews and corrective action have been taking place as long as there has been a Department of the Air Force.

Periodically, we also make open-mess operations a special interest area for our auditors and investigators. Such was the case in September 1969. I have with me today representatives from the agencies involved with club operation at Headquarters, USAF. These gentlemen will discuss the findings of these special audits and investigations and the corrective actions we have taken or plan to take.

Major General Dupont, the Assistant Deputy Chief of Staff for Military Personnel, will discuss the responsibilities of the Deputy Chief of Staff, Personnel, and Lieutenant Colonel Fortescue of his staff will present a briefing on the overall operation of our clubs.

This briefing will review how the various staff agencies work together in club supervision. He will be followed by Mr. Row, the Associate Auditor General; Brigadier General Cappucci, the Director of Special Investigations, and a member of his staff, Mr. O'Donnell; and Major General Cheney, the Judge Advocate General. These gentlemen will provide some of the general information regarding personnel who are currently under investigation for alleged club irregularities.

Our briefings will include the administrative actions taken since last August, when we made a complete review of our club system. I know that you are interested primarily in the current club irregularities and the actions we have taken and planned to preclude recurrences. We shall strive to provide this information.

Additionally, we will attempt to provide your committee any additional information needed to pinpoint problem areas. I respectfully request that certain specific details of individual cases currently under investigation be withheld at this time. To discuss these details prior to final disposition of the cases could have an undesirable impact for at least two reasons: First, we could jeopardize the success of the legal proceedings, and, second, we could jeopardize the rights of the individuals involved.

Consequently, we also request that the appearance of any accused, suspect, or witness before the subcommittee be delayed until completion of pending or future court-martial proceedings, or such time as a suspect is cleared of culpability.

I will now turn these proceedings over to General Dupont.

Senator INOUE. Mr. Secretary, before hearing from General Dupont, may I ask a few questions which I feel relate to the level of your command.

Who at the secretarial level is directly responsible for the oversight of the open-mess system and who reviews activities of the Air Staff to assure that basic policy decisions are being implemented?

Mr. GOODE. I would say my office is primarily responsible for the general supervision of policies relating to the open-mess management. Of course, I do have counterparts in our office. There is a counterpart in the Secretary's office. We have an Assistant Secretary, you know, for financial management, who would generally supervise audit activities that Mr. Row, the Associate Auditor General, is engaged in. We have the Assistant Secretary for I. & L., who is responsible for certain construction and installation activities, and there are—we have General Counsel in the Air Force who is also concerned with investigations of possible criminal activity.

So we do have some general staff assistants level, but the primary responsibility for supervision of officers' mess and NCO clubs would be morale, generally under morale and personnel and be my responsibility.

Senator INOUE. And what is the procedure whereby basic policy is made at the secretarial level? For example, if a program is to be established or eliminated, how would this policy be decided at your level?

Mr. GOODE. Well, could you be a little more specific as to what particular policy?

Senator INOUE. Let us say, for example, it was felt that it would be in the best interests of the United States to do away with slot machines.

Mr. GOODE. I see. Well, that would be a matter that would come under my jurisdiction.

Senator INOUE. What sort of procedure would you follow?

Mr. GOODE. Well, as you know, slot machines are a very contentious problem. Slot machines have been made illegal in the United States, but they have not been illegal overseas. They generate a tremendous amount of income. They also create certain morale problems. There is no question that some individuals have not been judicious in the use of machines. They have also led to certain irregularities which will be discussed in some of our briefings. And since they involve a great deal of cash, they are a potential source of problems as far as accountability, audit, things of this sort.

However, they generate a tremendous amount of revenue. I believe it was some \$26 million last year. It is very difficult to cut off these operations peremptorily, but this matter has been the subject of some concern.

Senator INOUE. Let us say that it has been found at the lower command level that it may be well for the Air Force to do away with slot machines. What procedure would you follow in making this a part of basic Air Force policy? Do you have committees that meet on such questions or are you the one that makes the final decision?

Mr. GOODE. Yes.

Senator INOUE. You are the one who has the final review of the decisions, if any?

Mr. GOODE. Well, the operation of the clubs in general is, of course, delegated down to the lowest level. We do have a council which is in charge of the distribution of central welfare funds that make periodic recommendations to the Chief of Staff of the Air Force involving the operations of certain funds and the Chief generally makes some of these decisions.

Now, we have relatively supervisory responsibility at the secretarial level as to the general operation of these activities, but we do not engage in the operational details, the day-to-day administration of the clubs. That is generally delegated down below.

The specific problem of slot machines has been the subject of constant concern and the Chief has indicated that he wants our procedures tightened up to assure that there is not any abuse or improper operation of the slot machines and any irregularities in their administration. But he has been reluctant to terminate completely the operation of the machines. That particular decision has been considered my office, and we have gone along with the Chief's recommendation to tighten up our procedures.

Senator INOUE. Let us assume that your office issues a policy decision to prohibit certain types of shows on bases. Can the clubs carry on these shows in the face of a ban which was issued by your office?

What I am trying to ask is, Do you have absolute control over the organization and operation of these clubs?

Mr. GOODE. Oh, I see what you are talking about.

I believe the Secretary can issue a broad general policy guidance prohibiting certain types of shows, if he wishes to, and then it would be a responsibility for the commanders in the field to implement that policy and obey those instructions. And if they were violated, they

could be the subject of disciplinary action. We would take disciplinary action. We would have as a mechanism for determining whether there has been any violation of instructions emanating from the Secretary's office, the normal procedures which will be discussed in more detail of audits, inspections, and other things conducted by General Cappucci, and various other available staff inspection agencies, and if there are any improprieties or irregularities or disobedience of regulations, this would be grounds for proper disciplinary action.

Senator INOUE. You note in your statement that individual commanders have wide latitude in making decisions.

Mr. GOODE. That is right.

Senator INOUE. As a result of this probe, is there any evidence to show that certain commanders perform in such a manner that more direct central controls are desirable?

In other words, were the results of administration so uneven as to suggest that more direct controls would have resulted in better performance?

Mr. GOODE. I think our reviews did indicate that there were certain types of activities that did need tightening up. You mentioned slot machines. We found, for example, in USAFE, U.S. Air Forces in Europe, they have a very fine program which will be described in more detail. If you wish to prevent any discrepancies in operations you keep a check on the daily take, to identify significant variations that would lead to suspicion that there may be something wrong. They are very tightly supervised and controlled.

As a result of those procedures coming to the attention of higher headquarters, we did issue instructions at high level to have similar procedures made applicable world-wide as far as the operation of these things.

We have also issued command directives from the Chief's office, to all major commands concerning the problems involved as a result of notoriety that has been achieved in some of the press concerning the irregularities in some of the messes, to assure that existing procedures which we think are relatively adequate are assiduously followed.

We found for the most part there wasn't too much difficulty with our regulations and our procedures. The problem was that they weren't being followed in the field.

Senator INOUE. What happened when the commander did not follow your instructions?

Mr. GOODE. Well, we have taken action to try to prevent recurrences of these things, to tighten up and to relieve individuals who have not been following their instructions and in certain cases where there has been gross disregard.

Senator INOUE. Have these commanders been disciplined?

Mr. GOODE. The individuals, the supervisors who have been involved. There have been certain actions taken, yes. And General Cheney will discuss the details of these actions in more detail later.

Senator INOUE. Would you suggest from the study made that greater centralization of controls by your office would be desirable?

Mr. GOODE. It is possible that as a result of some of these reviews, we may consider some greater provisions at the secretarial level, but I am convinced for the most part the Secretary must rely upon the

integrity of his supporting commanders to achieve the compliance, the full compliance with these directives.

It is obviously impracticable to have too much centralized control in an operation of this magnitude. We have to have certain flexibility of operations. I think more of an audit procedure to test the compliance with existing regulations is probably more in order, perhaps a little more frequent inspections and audits could be invoked, but I would avoid overcentralizing the supervision of these clubs and compounding our problems.

Senator INOUE. In your statement, you have indicated that special surveys have been made in the past. How often have these surveys been made, and how did they compare in scope and in results with the most recent surveys?

Mr. GOODE. Well, as you know, we do have continuous procedures that have been in operation in the normal course of events for a very thorough review of Air Force activities. The functions of the Inspector General of the Air Force is to supervise periodically the readiness of operational units, the degree of compliance with procedures, regulations that are current, and he has from time to time special items of interest as a result of special activity or matters coming to the attention of the Chief or the Secretary which are constantly reviewed and investigated.

He has all of the facilities at the various commands and their staffs plus his own special staff. In addition, we have other activities that are constantly engaged in supervising their own functional areas of responsibility such as the Auditor General in connection with financial matters, the budgetary reviews that are constantly made concerning funds and things of this sort, and personnel as far as the assignment of people and their compliance with morale and welfare regulations and things of this sort.

There are many staff officers constantly concerned with special aspects of their functional areas that are continually reviewed.

Now, in connection with the special survey that I referred to in September 1969, it was primarily concerned as will be described in more detail by Mr. Row with problems that result in administration of cash assets, and there was concern about whether our procedures were adequate, whether we had sufficient internal controls, for example, to safeguard against possible theft and pilferage. And that was a special subject that was reviewed and led to certain changes in procedures and recommendations which were made and which in the main were adopted and implemented as will be described.

Now, from time to time, as we come across certain types of special activities or certain cases demonstrating that there has been an irregularity which could have been corrected by the adoption of another auditing technique or procedure, and that is recommended to be adopted, it is adopted and applied uniformly throughout the Air Force.

But the degree of compliance with existing procedures is the responsibility of the Inspector General to check on periodically. He does this regularly as part of his duties.

Senator INOUE. Because of the coincidence in time and schedule, I feel compelled to ask this next question. Why did the Air Force begin

the special investigation in September? Was it a result of hearings conducted by Senator Ribicoff?

Mr. GOODE. General Cappucci, do you have the answer to that particular question?

General CAPPUCCI. Yes, sir, Mr. Chairman. I plan to cover that in my statement. If you wish, I will answer the question now.

Senator INOUE. Please do.

General CAPPUCCI. OSI has been conducting surveys, investigative surveys, for a long period of time. The September problem came up when the Chief of Staff placed upon me the requirement for conducting 100 no-notice investigative surveys of open mess facilities, both officer and NCO clubs, around the world.

I cannot say what he had in mind. I cannot speak for the Chief of Staff as to whether or not the Ribicoff hearings had any bearing on it. I personally do not think so, because during this time period, we were picking up certain allegations that needed some investigation. I think as these allegations started to multiply, it is possible that in reading the Ribicoff hearings, he might have thought we might take a look at our own business a little more thoroughly. It took the Chief of Staff to request that we make a massive investigative survey for the simple reason that OSI has so many other things we have to do that I could not divert from our normal business to a massive type of operation without the Chief of Staff authorizing it, since there were other things that would not be done.

Senator INOUE. In your experience with the OSI, would you say that these 100 no-notice type surveys have been extraordinary?

General CAPPUCCI. Yes. We have never done that many at the same time before.

Senator INOUE. This is the first time it has been done?

General CAPPUCCI. Yes, sir.

Senator INOUE. And in prior surveys that you have conducted, normal surveys, were you able to come up with the type of corruption that these 100 no-notice surveys have disclosed?

General CAPPUCCI. Yes, they were generally the same. Fewer in number because we did fewer. Some of them stem from allegations from different sources that we have, and in some instances it stemmed from the investigative survey type. But these were isolated cases. So it would be difficult, because of a case here and there you know, spotted around, to come to any conclusions.

In the massive survey where there are a large number of cases that can be analyzed, then I think you can come out with a trend or a pattern.

Senator INOUE. Was the Air Force aware of the extent of irregularities in the open mess system prior to the September investigation?

General CAPPUCCI. It was not, sir, nor was anyone in the Office of Special Investigations, and I seriously doubt that anyone else was, because I personally brief the Inspector General, the Chief of Staff, and the Secretary on what is going on around the world based on OSI investigations, so if they did know anything, it did not come from me, and I would have been the first to know. They knew it was happening in isolated cases here and there, but I am fairly certain, sir, that they had no idea it was this extensive.

Senator INOUE. So you have no direct knowledge as to why the Chief ordered the one hundred no-notice surveys?

General CAPPUCCI. I have no personal knowledge, no, sir.

Senator INOUE. Thank you very much, General.

Mr. Secretary, as a result of this September survey, do you believe that periodic reviews, the so-called normal type of reviews, are sufficient?

Mr. GOODE. Well, I think I indicated previously that while we learned something from the special review, what we learned primarily was that some of our regulations were not being followed, either through ignorance or in some cases willful noncompliance.

We did find there was a requirement for a more educational mission to acquaint supervisors and individuals with proper auditing procedures and regulations that were already extant. In other cases, where there were indications of gross improprieties, they were made the subject of other investigatory procedures which will be discussed a little bit later in which corrective action or disciplinary action is indicated.

Now, I do think that our review indicated that in general our policies and procedures were adequate. There were some few recommendations that were feasible for adoption and change in the regulations which were adopted and applied, and there is no question that there should be continuous surveillance of these operations to assure against recurrences of any impropriety. But I think in general our regulations and procedures are adequate and really it is just a question of getting the proper education of supervisors as to what these regulations are and then have your inspection system insure compliance with the policies that have been established.

Senator INOUE. Mr. Secretary, under normal circumstances, what percentage of the time of your office is devoted to the management or mismanagement of open mess operations?

Mr. GOODE. Well, not a very substantial amount. I indicated in my opening statement—I have a general overall responsibility for policy, broad general policy guidance, but, obviously, the magnitude of the operation we have here and the other responsibilities that are part of the functions of my office doesn't involve me in a great deal of personal supervision in the operations of officers' messes. I am relying, of course, upon the Air Staff, which has a great many officers that are available for advising me of problem areas from time to time, and where additional policy guidance is necessary, we try to furnish it.

But for the main part, we have to rely upon the massive supervision of these clubs and the various offices that are represented here today. For example, personnel is charged with the staffing and monitoring of personnel assigned to these places.

The Auditor General is responsible for periodic audits.

The Inspector General is responsible for the inspection and investigations of irregularities and the Judge Advocate General, of course, is responsible for the supervision of any disciplinary action that might be involved.

Now, all these various offices have many individuals at their disposal for reviewing policies, procedures, and any deviations from them, and advising my office from time to time of any problem areas they think require additional guidance and supervision, in which case I try to provide the necessary additional policy guidance.

Senator INOUE. I believe I am correct in assuming that the GAO does not investigate nonappropriated funds activities such as the open mess activities. Do you believe it would be in the best interests of the service to have the GAO involved in these activities?

Mr. GOODE. Well, the GAO, as you know, is not under our cognizance or supervision. They are not reluctant to engage in any exploratory investigations they wish to make at any time. And, occasionally, they do investigate certain aspects of nonappropriated funds activities, and render reports. These reports, as you know, are generally referred over to the Department of Defense and we do review them for any information, advice, guidance we can get—any corrective action that is required as a result of it is undertaken. We report our observations back to the GAO with our recommendations.

Senator INOUE. I don't recall any investigation conducted on the operations of the open mess system. Would you invite such an investigation by the GAO?

Mr. GOODE. Would I invite it? I don't think I would invite it, no. I think we have our own internal procedures that are sufficient. I know GAO is not reluctant to undertake any investigation it deems necessary without invitation.

Senator INOUE. How would you look upon a request submitted by the Congress to the Defense Department that annual reports relating to the operation of open mess systems be submitted to the Congress?

Mr. GOODE. I have no disposition to indicate there is any attempt on the part of the Air Force or any of its activities to conceal or suppress any information concerning any part of its activities.

The only considerations I would like to suggest are that we can be overregulated and overly supervised, and the degree to which we have more and more supervision, more and more inspections, more and more audits, more and more reviews, does involve budgetary considerations, manpower considerations, money, men, time.

Now, I believe that there has to be a reasonable balance in what could be considered productive results from the amount of energy expended and the degree of supervision required at various echelons.

I think this is a problem of management essentially, as to what degree of supervision and control keep and assure sound business management without undue costly overhead.

Senator INOUE. One final question, sir. I note in your testimony that the monetary amount involved in the open mess operation is \$282 million. Is that correct?

Mr. GOODE. I believe that is the figure; right.

Senator INOUE. Is that a gross figure or a net figure?

Mr. GOODE. Gross figure.

Senator INOUE. Thank you. I don't know if your office has done this, but have you computed the monetary amount of the corruption involved in the investigation?

Mr. GOODE. I have not.

Senator INOUE. General Cappucci, have you come up with any sort of figure as to how much was involved?

General CAPPUCCI. No, sir.

Senator INOUE. You have no estimate?

General CAPPUCCI. No, sir, for the simple reason that while I could add up some money figures, it wouldn't mean too much because many

of the actions that took place were in the form of gratuities other than financial and I have no way of costing those: free liquor, free entertainment, female companionship. I have no way of relating that, sir.

Senator INOUE. Thank you very much, Mr. Secretary. I appreciate your statement, sir.

Now, we have Maj. Gen. R. G. Dupont, Assistant Deputy Chief of Staff, Personnel, Headquarters USAF, and Commander, USAF Military Personnel Center.

General Dupont, welcome, sir.

STATEMENT OF MAJ. GEN. R. G. DUPONT, CHIEF OF STAFF, HEADQUARTERS USAF, AND COMMANDER, USAF MILITARY PERSONNEL CENTER

General DUPONT. Thank you, Mr. Chairman. I will discuss the purposes which are served by our open messes; the responsibilities assumed by the Deputy Chief of Staff, Personnel, for their operation and the magnitude of the open mess business.

I will also highlight the principal problem area associated with the operation of our open messes and the corrective measures which have been applied. Lieutenant Colonel Fortescue, who acts as the focal point on my staff for Air Force open messes, will then continue with the discussion and elaborate on my presentation.

Our officer, NCO, and airman open messes, totaling 537 in the United States and overseas, are established and operated to promote and maintain the wellbeing, morale, and efficiency of the members by providing dining, social, and recreation activities. These open messes are member oriented, and serve as centers of Air Force community life for our military personnel and their families. Their operation and the activities conducted are financed almost entirely from membership dues and income derived from the sale of goods and services.

Lieutenant General Russell, the Deputy Chief of Staff, Personnel, is responsible for policy guidance pertaining to open mess operation. This policy guidance, continually under review for improvement, is formulated by our staff and coordinated throughout the Air Staff prior to dissemination to field units.

More specifically, we publish and maintain current an operational manual which contains detailed guidance on every phase of open mess operation; we conduct periodic staff visits to the major commands for the purpose of coordinating our efforts; we publish a quarterly open mess newsletter and issue special letters to the major commands to provide further information and guidance on a current basis; we periodically conduct educational seminars for open mess managers and major command supervisors; and we establish policy and guidelines for the administration of military and civilian employees of open messes.

Last year, Air Force open messes had an income of some \$282 million and generated a net income of \$14½ million. This income over the cost of operations is used by the open messes for construction, alterations, and other improvements to the open mess facilities and their furnishings.

There are approximately 35,000 full and part-time employees associated with the open mess activities and they are paid more than \$80 million annually.

In the past year, we have received feedback from various sources which revealed that the policy guidance being disseminated by the Air Staff was not in all cases being adhered to at the operating level. This information came from such sources as the Auditor General reports, OSI investigations, and from staff visits to field units.

Mr. Row, of the Auditor General's office, and General Cappucci, of the OSI, will discuss more of the specifics regarding their methods of audit and investigation, and their findings.

As I stated earlier, the Deputy Chief of Staff, Personnel, is responsible for policy guidance pertaining to the operation of our open messes. In this context, I will now discuss the general problem area that confronts us, and, more importantly, the types of actions that have been taken to correct deficiencies.

Our major problem has centered on club management which, generally speaking, has neither instituted nor applied effective internal controls that are required by directives. Accordingly, we have taken corrective measures which address the following important areas:

(a) Command emphasis: The Air Force Vice Chief of Staff has made open mess management a special subject for attention by major commands and commanders at all levels. The need for continuing command attention to open mess operations has been emphasized, particularly with regard to correcting deficiencies and being alert to the possibility of irregular operating practices.

(b) Operating manuals: Open mess operational and accounting manuals have been revised to correct weaknesses and strengthen control practices. These changes reflect the need for improved internal control procedures revealed by recent audits and investigations.

(c) Personnel management: To insure the assignment of well-qualified personnel to management positions in our open messes, we have substantially revised the selection process. These changes affect the criteria and procedures for selecting officers and NCO's, and the requirements for their training prior to assuming club duties. Additionally, we have established better means for the identification and control of personnel who may be removed from club duties because of inefficiency or dishonesty.

(d) Surveillance of club operations: The Air Force Inspector General and Comptroller, through their staff organizations, play an important role in the surveillance of our open mess operations. Their contributions and activities in this respect will be discussed in the presentations that follow.

With your permission, Mr. Chairman, I will, whenever you wish, have Lieutenant Colonel Fortescue give you more specifics pertaining to the supervision and operation of our open messes and more details of the actions which have been taken and are underway to uncover irregularities and preclude recurrences.

Senator INOUE. Before proceeding with Colonel Fortescue, I believe it would be helpful to this committee if we could get some idea as to what sort of irregularities have been involved at least, for the record.

Mr. Secretary, in view of the decision of this subcommittee not to invite any of the defendants or discuss any of the specific cases, because we do not wish to jeopardize your case or their cases, do you think it would be appropriate at this point to discuss, without identifying the

individuals, the type of irregularities and violations involved. I ask this because we have been speaking in very general terms about irregularities.

Mr. GOODE. Yes. General Cheney will answer that.

General CHENEY. You have involved in some cases larceny which might fall under the more specific heading of embezzlement. This is the general run of things that you have in the open mess irregularities.

You have the question of acceptance of gratuities from vendors to the nonappropriated fund managers and people working for them.

Senator INOUE. What sort of gratuities, sir?

General CHENEY. Well, I think in some situations we have had provision of entertainment, provision of trips and things of this sort, providing of minor gifts. This sort of thing is what it generally runs into.

Then you have kickbacks where the vendor to the club enters into a contract with the manager and he receives a kick—the manager receives a kickback from the vendor.

Senator INOUE. Is this any significant amount?

General CHENEY. I am not aware of any that I would consider a great amount in any particular case. I think it probably depends on what you consider to be a great amount, but I think to my knowledge, the cases that I have looked at, the sums are relatively small, depending upon the size of the contracts, maybe a hundred dollars, in some cases, maybe a thousand dollars. You don't get up into vast sums of money, mostly on the petty scale.

We have involved the violation of regulations. Actually the acceptance of gratuities is generally charged as a violation of regulations because it does constitute a violation of our Air Force regulation 30-30.

We do have allegations of bribery, that is, an occasional one. And we have had and we do have the allegation of extortion in one case I know of.

Senator INOUE. What sort of extortion?

General CHENEY. I cannot give you the specific details on it, but where the manager attempted to threaten the vendor if he didn't provide a kickback, something of this sort, again on a more or less minor scale.

You have other various things that we have charged—I am getting into the legal effect of how the charge is wrongful appropriation which is just a question of larceny with a lesser intent than larceny.

You have had soliciting of gratuities and bribes as well as the actual acceptance of gratuities and bribes, and we have had the failure in one case I know of, of a custodian to report shortages which is a dereliction of duty.

I think that by and large covers the general run of the type of offenses that we have found.

Senator INOUE. Have you found any carrying on of illicit or illegal activities such as prostitution?

General CHENEY. I don't recall any specific case of prostitution. I know that we have not made it the subject of any charges. You may have found it in the general investigation. I don't know that we have found any of that. I know it has never been the subject of charges to my knowledge.

Senator INOUE. What sort of activities are involved in relation to slot machines.

General CHENEY. In relation to slot machines? Several types of things. You have on the one hand people who through some device or mechanical means or otherwise attempt to get the machines to pay off when they are not supposed to pay off. This is, of course, not in the operation of the thing. This is just someone who comes into the club and uses it.

Then you have the manager who has false jackpots in collusion with someone who uses the machine and the person on duty in the club, they will enter into collusion to report jackpots that were actually not paid and will pay off jackpots.

Then, of course, at the supervisory level we have had people supervising the clubs who have failed to report the income from the machines and divert it, something of this sort. This is generally the nature of things that you get into with slot machines.

Senator INOUE. In the area of kickbacks, in terms of monetary amounts, what percent of the gross sales did it involve; 5 percent, 10 percent?

General CHENEY. Mr. Chairman, again as General Cappucci stated, I don't really know, but I am sure it certainly falls into less than 5 percent, far less than 5 percent of the gross revenue.

Most of the cases, as I say, that we have had involve relatively small amounts of money. I know of one case which was an old, old case, and we did prosecute it and this was some 7 or 8 years ago in which there was allegedly some \$100,000 involved, but that was a long time ago. I know of no present case with any sums of money like that involved.

Senator INOUE. What would be the largest amount involved in any individual case?

General CHENEY. Can you answer that, General Cappucci, as a result of your investigations?

General CAPPUCCI. Well, one subject of our investigation, when we apprehended him, had \$6,500 on his person which he could not account for and refused to make a statement about it. That is the largest sum we have come across in our investigations.

I might add, Mr. Chairman, that in several of these cases we are still trying to locate bank accounts and we still have some leads out on those, and we may come up with even more money. But in some cases they put small sums of money in banks where they have never been before, in areas where they have never lived, but they may have friends or relatives that bank the money for them. We still have several of these leads out.

Senator INOUE. I appreciate this background information, sir.

General Dupont, I would like to ask a few questions. On the first page of your statement, you have indicated that General Russell, the Deputy Chief of Staff of Personnel, has the responsibility of policy guidance. Does this mean that your office rather than the Secretary's office is responsible for making policy?

General DUPONT. For Headquarters, USAF, as far as the Air Staff is concerned, yes. The Deputy Chief of Staff, Personnel, through my particular staff, does write the policy and coordinate it.

Senator INOUE. Then the statement by Secretary Goode which I quote—"At the secretarial level, we provide broad policy guidance to the Air Staff," is not quite correct.

General DUPONT. I say we write it for the Air Staff itself. Quite obviously, we follow the directions and the policy of the Secretary of the Air Force.

Senator INOUE. In your statement, you have indicated that your office conducts periodic staff visits to the major commands to coordinate your efforts. How often do you make these visits?

General DUPONT. They are rather infrequent, Mr. Chairman. We are not staffed to conduct frequent visits. We do have communications, of course, other than personal visits. We are in communication with the people who administer the programs down at the major command levels. But to answer your question specifically, I would say our staff visits are rather infrequent to any one major command.

Senator INOUE. Are these no-notice visits?

General DUPONT. No, sir; I would like to make it clear that whereas we write the policy guidance and the operational manual at the Air Staff, we have delegated primary authority to the major commanders for the administration of their messes, and as such, we look to them and their staffs who are devoted to the task of administering the open mess and nonappropriated fund activities.

Senator INOUE. In your visits, have you noticed some disparity or is the same level of control being exerted by all of the commands?

General DUPONT. I would say in the last year, sir, that all the commands have made a concerted effort. As I tried to outline in general terms, there has been tremendous emphasis placed on the overall open mess and nonappropriated fund activities and closer controls over their operation. As such, we have received feedback from all the major commands which indicates they are not only doing what they have been asked to do by the Vice Chief of Staff and others, but they have also instituted additional efforts on their own which do differ between major commands.

Senator INOUE. You mention seminars in your statement. Are these seminars compulsory for managers?

General DUPONT. All the managers are invited, yes.

Senator INOUE. They are invited, or are they compelled to attend?

General DUPONT. Well, when they are invited, they do attend. These are infrequent at Air Staff level. I would also say that at major command level they do the same thing. Headquarters, Pacific Air Force is having one in the very near future where all their primary people will attend.

Senator INOUE. On the second page of your statement, you state, "We establish policy and guidelines for the administration of military and civilian employees of open messes." Does this include hiring or is it restricted to their conduct during the course of the employment?

General DUPONT. It includes all the administration of military and civilian personnel. I don't know of any restrictions on this. DOD, of course, does play a part in the administration of nonappropriated fund personnel. It is my understanding that they now have a rather comprehensive study underway which is meant to produce improved guidelines for the services to work with. But in the meantime, as far as headquarters USAF is concerned, yes, the guidelines do come out for

the hiring, for the payment, for the firing. All those things that pertain do come out of the Air Staff.

Senator INOUE. Would you be able at this time, or later on, to give us a breakdown on the amounts involved in different categories? I notice the full amount is \$282 million, net income \$14.5 million. Would you tell us how much is derived from slot machines, how much from the bar, and from food, and so forth?

General DUPONT. Yes, sir. I believe we have that, and we will be glad to submit it.

(Information referred to follows:)

CALENDAR YEAR 1969—AIR FORCE OPEN MESS INCOME

Food sales.....	\$76, 668, 983
Beverage sales.....	78, 528, 367
Other sales.....	72, 626, 387
Amusement machine income.....	26, 000, 000
Other income, i.e., dues, interest, et cetera.....	28, 107, 626
Total	281, 931, 363

Senator INOUE. Thank you, sir. Do you conduct security investigations on the background of persons who apply for employment?

General DUPONT. Yes, sir.

Senator INOUE. I am referring to investigations for possible criminal background.

General DUPONT. You are talking about both military and civilians, I am sure.

Senator INOUE. Yes.

General DUPONT. On the military personnel, of course, we do review all their personnel records. It is required that all their service be evaluated in terms of whether they are potentially qualified and whether they have any background which would indicate they should not be placed in this type of duty. We have underway in our revised manual a mandatory requirement that every individual who is selected must have a national agency check. If there is indication of any conviction, any lack of integrity, that man will not be selected to go into that field where moneys are involved.

Senator INOUE. Do you require your club managers, whether they be civilian or NCO's, to file with your office copies of income tax returns?

General DUPONT. No, sir.

Senator INOUE. Do you think this would be advisable?

General DUPONT. I would have to get some counsel on that question. I am not sure whether this would be in the best interests of the Air Force or not. I know what you are getting at, and on the surface my answer should be yes, but I would prefer to defer that until I get some advice on it.

Senator INOUE. If you could furnish us with a statement for the record, as to the advisability of such a policy, I would appreciate it.

General DUPONT. Yes, sir, I will.

(Information referred to follows:)

We question the propriety of requiring club managers to file a copy of their individual Federal income tax returns as a condition to employment. It may be reasonably argued that such a condition of employment is a violation of constitutional rights, an unreasonable invasion of their private affairs, etc. Regardless

of the questionable legality, it is our view that it is unlikely that those who profit illegally would include the ill-gotten gains as reportable income. For example, a review of past cases reveals that none of those investigated or convicted for accepting bribes, grafts or gratuities did, in fact, report such on their Federal income tax returns. Therefore, we conclude that it would be of doubtful value to the Air Force to impose such a requirement as a condition of employment.

Senator INOUE. I asked a question of General Cappucci earlier as to the coincidence in timing and scheduling of the September survey. Now, I would also like to ask you whether the survey conducted as a result of Senator Ribicoff's investigation?

General DUPONT. It was conducted as a result of a letter that the Secretary of Defense wrote to the Chief of Staff of the Air Force, and I am sure to the other services on August 12, 1969, in which he asked us to review all the controls, all the procedures that apply to our open messes to insure that we have adequate controls and that they are being run properly.

As a result, we did have a very massive review of all the activities associated with our open messes.

Senator INOUE. You speak of your office receiving feedback from various sources that policy guidance was being ignored at the local level.

Are you suggesting that prior to this year, you did not receive this kind of feedback in spite of the 123 investigations conducted in fiscal 1968 and 1969?

General DUPONT. We have always received feedback from the audit reports, reports of irregularities, and, any of the monthly analyses of the clubs that would indicate any trend which was not the norm. These have always been reviewed by our office.

Senator INOUE. But you did not consider this feedback as out of the ordinary?

General DUPONT. No. In any large business like this, there will be irregularities. I don't think any of us will deny that. But they were not of the magnitude that we are reviewing right now where we have had the numbers of no-notice inspections, the auditor review, and so forth, which has surfaced rather a profound number of irregularities. But I wouldn't want you to misunderstand me. We have had feedback. We have acted on that feedback. We have corrected manuals. We have taken action against the individuals concerned. All these things have been going on over the years.

Senator INOUE. I have noticed that in many programs carried on by the Defense Department, the Department has found it necessary to retain the services of consulting companies. Has your office sought the advice of consultants on the management of open mess systems?

General DUPONT. We do have our own consultants within the Air Force, and I look upon, for example, the Comptroller as one of our very closest consultants. He is an expert in the field. He writes the accounting manual for the open messes. He reviews our operational procedures. There is very close coordination between all the agencies concerned, and I would say that we do have our experts and do coordinate and we do make use of them.

Senator INOUE. I commend you for the command emphasis on controlling open mess operations. Do you believe that this new emphasis will lead to more effective policing of the system?

General DUPONT. Yes, sir, I do. Our feedback indicates that the commanders themselves are taking a very personal interest in this. They are becoming more closely associated with the open mess activities and it is not meant to be a one-shot type effort. We want this to be on a continuing basis, and we intend to keep the emphasis on the surveillance of the open messes through the commanders at all levels.

Senator INOUE. I bring this up, because I believe mess operations theoretically have been the direct responsibility of commanders, and it would appear from what you said that in the past these commanders have not carried out effective controls. What assurance are you given that in the future these commanders will carry out more effective policing?

General DUPONT. We will see that, sir, I believe, through our continual audits and investigations of the messes to see if improvements are indeed being made. We expect they will be. We expect to see it in the financial statements that we review every month. We hope to see a downward trend in the people who are being removed for inefficiency, negligence, or malpractice. All this will be looked at very closely, and I can only say that with all the emphasis from all angles that is being placed on the open mess operation, there must be an improvement.

Senator INOUE. I note in your statement that changes have been made in your accounting and operation manuals. Can you give us some example of the sort of changes that have been made?

General DUPONT. Yes, sir. We have, of course, used the auditor's report as a basis, since the auditors specifically looked at our control procedures as contained in the Air Force Manual, 176-3. They looked at the irregularities that were found in conjunction with the operating and accounting manuals that prescribed certain procedures and then made recommendations on how and where we should change the manuals.

These audits and their recommendations did us a great service. We have, for example, in our most recent changes required that all persons entering club management be approved by the major command. This is based upon a review of their character, their performance, potential, and so forth. We will make it mandatory that each individual who is selected to become a manager of a club attend our OJT course, an 8-week training course, which we set up earlier this year and the DOD Fort Lee management course. We have put further controls on the use of airmen and their overtime.

In December, we put out very detailed control procedures—and these will be a part of the manual—we did not wait until the manual was actually reprinted—on the control of slot machines. This is a control that has been utilized by the U.S. Air Force in Europe which was found to be quite effective, and we now have made that control a minimum requirement for adherence throughout the Air Force wherever slot machines are in use.

We have given better definition to travel and expenses on the part of our managers; also, on purchasing procedures to require bids in all cases.

We have placed certain restrictions on the employment and use of members of the family in the clubs. We have prescribed tighter check cashing controls. We have prescribed better controls on serving drinks at the bar, where we found some clubs supposedly pouring 1-ounce

drinks when in practice they were somewhat less than 1 ounce. Essentially, we have addressed, all the areas which were directly responsive to the audit and the recommendations made by the Auditor General.

Senator INOUE. These irregularities were never uncovered in the post OSI investigations.

General DUPONT. Yes, they were. Some of these irregularities have cropped up in the past and all these things have been covered in the manual. I do not mean to imply there are voids in the manual. What we have tried to do is strengthen the procedures in the manual, to try and cut out any loopholes, possible loopholes.

Senator INOUE. I would like to ask a policy question that I alluded to earlier. I believe I am correct in contending that it is the policy of the U.S. Government to frown upon gambling, more specifically slot machines. As a result, I believe slot machines are prohibited in open messes on American soil, is that correct?

General DUPONT. Yes, sir.

Senator INOUE. If that is the policy, why is it that we insist upon having slot machines in open messes overseas? If it is not good enough for men at Fort Meade or Hickam Air Force Base, why—

General DUPONT. First I would like to say—and I am not trying to take a defensive posture here—that we look on the slot machines as a recreational activity. It is an activity where an individual can go or not go, use or not use, as he so pleases. It does provide an augmentation to the income of the open messes, an income which reduces the prices which are placed on services and other things in the club, which means that there is some benefit to the club members.

Senator INOUE. It is not my intention to debate, but if the slot machines provide this significant income, it must mean that men are losing money.

General DUPONT. This is true.

Senator INOUE. I receive many letters from wives who have been quite distressed over the fact that their husbands have been losing money at these clubs and are not able to provide additional funds over and beyond the subsistence allowances.

General DUPONT. I have not had those complaints brought to my attention. We have had isolated cases where wives, I think two to be exact since I have been in the Center, that have come in. But generally speaking, my reaction is that there is substantial amount of pleasure derived from the use of these machines, for those who like to use them.

Senator INOUE. I gather that income from slot machines in the Air Force open mess system would amount to about \$26 million?

General DUPONT. Yes, sir.

Senator INOUE. That is about 10 percent of the gross take of all the operations?

General DUPONT. Yes, sir.

Senator INOUE. Then I would be correct in assuming that men in uniform have lost \$26 million to the machines.

General DUPONT. It could be arithmetically computed that way, yes, sir.

Senator INOUE. And you still think this is in the best interests of the welfare and well-being of our men?

General DUPONT. We have seen no reason up to this point to deprive the overseas messes the use of their slot machines. Certainly in the majority of the countries we are talking about where those machines are used, you will find that there are places, casinos, et cetera, off base that these people, if they insist upon indulging will go and lose their money. In the open mess they are at least keeping it in the family, so to speak, and when you say lost, again I would say that is not a net loss because the moneys that are received are used for the club itself, for the benefit of the members.

Senator INOUE. I would like to have for the record, it may be submitted later, a statement from the Air Chief advising this committee on his arguments for maintaining slot machines in open messes.

General DUPONT. Right, sir.

(The information referred to follows:)

HQ USAF STATEMENT REGARDING THE OPERATION OF SLOT MACHINES

In overseas areas where permitted by the laws of the jurisdiction, Major Commanders may authorize slot machines in open messes as a means of amusement and relaxation, and as a source of welfare funds. Commanders who authorize the use of slot machines are expected to exercise strict controls and provide rigid supervision to insure that the primary function of the mess is a center of fellowship and relaxation is not subverted. In this respect, slot machines are merely an incidental feature to the many other activities of the mess. The income generated by these machines is returned to the membership in the form of improved facilities, a fine social program, and reduced menu prices for food and beverages. This, in turn, helps make the open mess financially self-sustaining for welfare and morale purposes, and brings much needed entertainment, recreation and social activity to service personnel at oversea locations.

During 1969, the Air Force conducted a comprehensive review of slot machine operations. It was determined that their continued use in authorized overseas areas was justified, but that improvements in control and accountability procedures were required. On 10 December 1969, Major Commanders were advised that "It is imperative that the acquisition of machines, control of keys, payment and verification of jackpots, and counting and depositing receipts be aggressively controlled and supervised." Additionally, detailed instructions for slot machine operation, control and accountability of income were furnished for immediate implementation. These improved procedures are now in effect and will be continually reviewed for adequacy in preventing irregular practices.

Senator INOUE. Thank you very much, General Dupont. You have been very helpful.

At this time, I welcome Colonel Fortescue, Chief of the Air Force Open Mess Management Section, U.S. Air Force Military Personnel Center. Colonel, welcome.

STATEMENT OF LT. COL. P. C. FORTESCUE, CHIEF, AIR FORCE OPEN MESS MANAGEMENT SECTION, USAF MILITARY PERSONNEL CENTER

Colonel FORTESCUE. Thank you very much.

My prime responsibilities concern the personnel responsibilities and Air Force focal point for the club supervision.

As General Dupont has said, we have 537 clubs throughout the world. Most of our bases have a club for officers and one for NCO's. They provide a convenient place for our people to eat and participate in various forms of social activities similar to those found in civilian city clubs. Although the buildings are usually built with funds provided by Congress, the furnishings, interior decorations, and equip-

ment are provided from funds generated by club members. Each club has a club manager, with one or two assistants provided by the Government; however, all other employees are paid with club funds. We also provide facilities and programs to satisfy the social needs of our young airmen. On our 100 larger installations, we have airmen clubs operated similar to our NCO and officer clubs and practically all our installations have a service club which serves as a community center for airmen and their families.

Although the Deputy Chief of Staff, Personnel, has the primary responsibility for open messes, other staff officers have collateral responsibilities. The Comptroller of the Air Force, through his Assistant Comptroller for Accounting and Finances, establishes accounting procedures for all nonappropriated funds and publishes the accounting directives. These procedures are based on accepted commercial systems used in civilian clubs and restaurants, with added emphasis on internal control. The Assistant Comptroller also is responsible for the operation of centralized accounting offices which do all the control accounting and some of the operational accounting for our clubs and other non-appropriated funds. These offices were established in the early fifties to provide better accounting at a lower cost, and probably more importantly, to provide independent surveillance of all the procedures used by the clubs. Twice a year the chief of this office and the club managers are to make a complete review of all the accounting and internal control procedures used in the clubs to insure that directives are being complied with.

The Comptroller, through the Auditor General, periodically conducts independent audits of our clubs and submits detailed reports of his findings and recommendations to installation commanders, the commanders of the major commands, and to the Comptroller of the Air Force. The report goes simultaneously to all three places rather than through the normal chain of command. Mr. Row of the Auditor General will follow me with more of the specifics regarding this process.

The Inspector General of the Air Force, through his Director for Special Investigations, conducts investigations at the request of the Chief of Staff and commanders at all levels of command concerning allegations of irregularities. Their reports also are referred to key Air Staff officials simultaneously rather than through the chain of command. Additionally at the request of the Chief of Staff they conduct no notice investigative surveys of clubs. The investigative process and results will be discussed by General Cappucci.

The Judge Advocate General, through his command and installation Staff Judge Advocates advises commanders on legal sufficiency of allegations, and prosecutes violators or recommends other action to be taken if additional proceedings are not considered appropriate. They also review contracts, other legal documents, and advise management on any legal matter that may arise.

This, along with the Deputy Chief of Staff, Personnel, responsibility previously given by General Dupont, is a summary of the supervision given by HQ USAF.

I might depart just briefly, Mr. Chairman. There are other staff officers, surgeon, for example, director of civil engineering, and a few others.

More detailed supervision of club operations is accomplished by major commands. The Directorate of Personnel Services in larger commands has two to five people directly associated with nonappropriated funds management. The greater portion of this attention is devoted to clubs. The commander, through his staff, supervises the establishment, administration, operation and dissolution of clubs on their installations. He reviews acts of installation commands in connection with club activities to determine if they are in the best interest of the Service. Staff visits and inspections are conducted periodically by the major command staff to insure that policies, procedures and directives are complied with. They take action to correct faulty administration and to insure that the clubs are solvent. Our major commands also conduct periodic educational conferences and seminars to keep club management abreast of changes in the industry and other matters pertaining to good club management. We have also instituted a recent change in policy in that the major command now must approve all persons entering club management and supervise training for these people at one of their clubs prior to assuming management duties.

Our installation commanders under the supervision of their major command insure through visits, audits, and inspection that clubs are operated for the benefit of all; that pertinent directives are being followed and that they are being operated in an efficient and business-like manner.

Our operational and accounting manuals are under continual review and recommended changes are submitted from the field, the Air Staff, and from the Auditor General if he finds a weakness during an audit. However, last August, all the major commands, the Auditor General, the OSI and others made a detailed examination of our directives to insure that there was adequate guidance to preclude the misuse of funds. The results of this review indicated that our directives are generally adequate, if followed. Subsequent to this review, the Auditor General and the Office of Special Investigations started an audit of 138 clubs and a no-notice investigation of 100 clubs. These reviews against substantiated the adequacy of our directives. However, it was determined that (1) club management, in many instances, neither instituted nor applied effective internal controls that are required by directives, (2) there has been insufficient emphasis to assure that directives are on hand and followed, (3) the ineffective surveillance of club operations by many fiscal control offices (centralized accounting office I referred to earlier) had permitted poor management practices to continue for long periods of time, and (4) most of the irregularities should have been found by the fiscal control office in the day-to-day review or the semiannual review of internal controls.

In view of the above, we have taken some positive corrective actions. They are:

a. The Vice Chief of Staff discussed club management at length with the major commanders in November 1969 and February 1970, and reiterated the findings listed in this report and directed action to be taken by them.

b. The Vice Chief of Staff also directed that each major command Deputy Chief of Staff, Personnel, receive copies of investigations to follow up on action taken by commanders. Commanders were directed to (1) be alert to the possibility of irregularities and other deficiencies,

not only in clubs but in all nonappropriated funds; (2) use of such in-house resources as are available to complement the centrally directed efforts of the Auditor and Inspector Generals; (3) become personally aware of the development, review, and disposition of each irregularity disclosed by these reviews; (4) initiate prompt judicial or administrative action against these individuals; and (5) reclassify inefficient or negligent club managers.

c. The Comptroller of the Air Force has revised and strengthened the accounting manual and he has directed his comptrollers at each level of command to actively supervise and monitor their fiscal control offices. Through the Auditor General, he will assure that our clubs receive appropriate audit coverage.

d. The Inspector General, through the Office of Special Investigations, will annually survey a selected number of our clubs on a no-notice basis in a manner similar to the 100 investigations recently completed.

e. The club operational manual has been revised to include a detailed operating procedure for the control and operation of slot machines; requirements for solicitation of bids for the purchase of property, equipment, and supplies; guidance concerning timekeeping procedures; and certain other refinements resulting from a review of OSI and audit reports.

f. Persons who in the future are convicted by a court-martial or confined as a result of a civilian court sentence may not obtain or retain the club management duty specialty nor may one obtain or retain the specialty if he receives nonjudicial punishment for club-oriented offenses.

g. Mature seasoned officers usually will be selected for club managers rather than second lieutenants just entering the service. The few exceptions will be limited to those young officers who have had prior academic training and practical experience in club or restaurant management.

h. Persons initially selected for club managers will receive on-the-job training in a club monitored by the major command prior to assuming club management duties which complements the formal 7-week club management course.

i. Experienced club managers have been encouraged to attend the 4-week club management course, conducted by the Navy, which is held at various locations within the United States and overseas, to provide career broadening and additional knowledge.

The following measures are now being staffed for implementation:

a. To raise the mandatory minimum mental standards for airmen entering club management.

b. To require a national agency check for all persons entering the club management field.

c. To require completion of the open mess management school to obtain the club management specialty.

d. Improve the officer career field by combining it with other fields to provide improved career progression for our club officers.

e. Establish a program to allow our people to train with industry and receive advanced formal education.

f. Obtain limited quotas for highly qualified and motivated college graduates to enter the Air Force and become assistant club managers until they gain experience.

These actions that I have just discussed are steps taken by the Air Staff to provide improved and continuing guidance and direction to our commanders, staff officers, and club managers in the field so that they may do a better and more efficient job in supervising and operating our clubs. We expect a substantial improvement through the use of improved directives and methods by which we select and train our people; by more thorough inspections and surveillance to assure that any irregularities are promptly discovered, reported, and followed by positive corrective action, and by command emphasis at all levels. This is a continuing process that will have the attention and efforts of all of us—not a one-shot clean sweep.

This completes my presentation, Mr. Chairman.

Senator INOUE. Colonel, I thank you very much.

I would like to refer to the first page of your statement in which you indicated that the manager and his assistants are subject to Government regulations.

Colonel FORTESCUE. Sir?

Senator INOUE. The manager and the assistants are paid for by Government funds.

Colonel FORTESCUE. Yes, sir; depending on the size of the club. Some of them have one, some have two, and some have three.

Senator INOUE. Well, are the club employees who are not paid by Government funds subject to the same regulations as the manager and his assistants?

Colonel FORTESCUE. They are subjected to the same policies, although I believe that they would probably be under the jurisdiction of the local district attorney, but they all are required to follow the operational manual and Air Force directives.

Senator INOUE. Would they be subject to court-martial, sir?

General CHENEY. Depending upon whether they are military or not. If they are not military, of course, we have no jurisdiction. We have no jurisdiction over civilians. So they are not subject to court-martial. If they are military people, they are. I think that all persons working for the club are required to observe the regulations which control the operation of the club.

General CAPPUCCI. May I expand on that?

Senator INOUE. Yes, sir, please proceed.

General CAPPUCCI. In the United States, when we are running an investigation involving civilians in open messes, we refer those to the FBI for investigation and for action. The action is taken by the Justice Department.

Overseas it depends on what agreement we have with the host nation, with the foreign nationals. With American civilians overseas, I will defer to General Cheney.

General CHENEY. We still have no jurisdiction anywhere of any kind insofar as—let me draw a fine distinction here. We cannot impose sanctions under the Uniform Code of Military Justice upon civilians overseas. We do insist that they are subject to our jurisdiction, that they must obey our regulations and our orders, et cetera, but we are without means of taking punitive sanctions in case of violations. Administrative remedies are available, of course.

Senator INOUE. Can American civilians be brought back to be tried in Federal courts?

General CHENEY. No, not under present law. Not for anything I think involving most of the offenses we find in our nonappropriated funds. There are certain statutes, of course, which provide for extra-territorial jurisdiction over civilians for fraud against the Government. These statutes do permit prosecutions for fraud against nonappropriate funds as agencies of the Government.

Senator INOUE. Colonel, I note that several of the violations involve vendors and I presume that these vendors were those people who were selling the clubs liquor or food.

Colonel FORTESCUE. Yes, sir.

Senator INOUE. To be specific, now, what sort of problem is involved? For example, the club manager has the responsibility of purchasing liquor for the bar.

Colonel FORTESCUE. Yes, sir.

Senator INOUE. And I presume he will purchase Old Granddad or Black and White, et cetera. Now, where does the bribe or the kickback come in?

Colonel FORTESCUE. The liquor is purchased in the States primarily from the distiller if the State law permits it. Overseas it is purchased from various locker funds. For example, in Europe, they have the European class VI system which procures and distributes all the packaged alcoholic beverages. It is sold retail to people for their homes and wholesale at a price discount to our open messes. This is prevalent in all the oversea areas. In Thailand, for example, there is a locker fund.

Senator INOUE. In other words, the club manager is purchasing from a third party intermediary? He does not purchase it directly from the distiller?

Colonel FORTESCUE. Not overseas, sir.

Senator INOUE. But here you do.

Colonel FORTESCUE. Yes, sir.

Senator INOUE. Why isn't it possible to do it overseas?

Colonel FORTESCUE. Well, it is bought in quantity and shipped over in bulk and controlled by one office. This system provides income to the welfare funds. For example, the welfare fund in USAFE, receives dividends not only from the exchange service but from their locally operated class VI stores. They mark it up very little for clubs. For patrons they mark it up a little bit more and the specific reason why they have done it that way is probably to control the price. If one central office is buying from distillers it could be monitored a lot better than individual club managers.

Senator INOUE. I presume you have, for example, in Thailand, one salesman representing Budweiser and another representing Schlitz. If I were a manager, would I follow some definite policy as to whether I purchase Budweiser or Schlitz?

Colonel FORTESCUE. A club manager should purchase what his customers want. They all have available the first three or four largest selling beers in the States. Not that they necessarily should follow those first four because that would be hurting small business a bit, but certainly a good percentage of the brands they have available to our club members should be what the American public as a general rule likes to drink. We do not have any requirement by directive that to purchase certain brands.

Senator INOUE. Are purchases conducted on bid?

Colonel FORTESCUE. Many commands in fact most of the commands have this procedure prescribed by directives. Our directive, general policy for purchasing, is in a regulation that says since we are Government instrumentalities, all purchase actions must be favorable. Government sources such as GSA, commissary and exchanges should be used. Many of the commands have had requirements for bids for purchases of over a thousand dollars. As General Dupont said and as I mentioned previously, a new manual which is at the printers right now requires competitive bidding for purchases over \$100. In a small amount it could be oral or written but in all cases it will be documented. However, more recently we are working to have our installation procurement offices do our procuring.

We presently have surveillance. A club manager may not buy equipment, supplies, et cetera, over \$250 without having the Advisory Council which is a group of seasoned officers, in the case of an officer's club, and senior NCO's in the NCO Club, approve the purchases, not only the idea of the purchase but approve the source from where it comes. This also is approved before it can be bought by the installation commander, who frequently lets the Comptroller and other key staff officers review the proposed action.

Senator INOUE. This is the policy which existed before the survey of September?

Colonel FORTESCUE. Yes, sir.

Senator INOUE. Are there any differences in the operation of the NCO, officer's club and EM clubs?

Colonel FORTESCUE. Only differences are getting back to Mr. Goode's comment about latitude of scope of operations in hours, facilities, (some clubs may have a snack bar while others have a dining room) activities, and so forth. Some of the smaller clubs may not have a dining facility. Some may operate their swimming pools, while others may have somebody else operate them. As far as the directives, internal controls, procedures, and so forth, all are required to use the same.

Senator INOUE. Were the examples of corruption disproportionate in the clubs or were they just about equal in the NCO, officer and EM?

Colonel FORTESCUE. I would say fairly equal.

Senator INOUE. May I ask General Cappucci?

General CAPPUCCI. Very disproportionate. The majority were NCO clubs.

Senator INOUE. What about officer's clubs?

General CAPPUCCI. Officer clubs, I think we had two or three. I will have to check but I think it is about two or three on the whole. I would say 99 percent enlisted men's clubs according to our investigations.

Senator INOUE. Colonel Fortescue, in view of this would you suggest the difference of operation of these clubs contributed to the disproportionate nature of the corruption?

Colonel FORTESCUE. Would you repeat that, please, Mr. Chairman?

Senator INOUE. You just indicated that there is no uniformity of control over these three types of clubs.

Colonel FORTESCUE. No. The control is 100 percent uniform.

Senator INOUE. In officer's, NCO and EM?

Colonel FORTESCUE. Yes, sir. The only latitude pertains to the hours of operation, the facilities that they have available to them, and so forth.

Senator INOUE. The auditing procedures are all the same?

Colonel FORTESCUE. Yes, sir, identical.

Senator INOUE. Do you have any suggestion as to why the discrepancy or the disproportionate nature of corruption in the three levels? Why 99 percent in NCO clubs, very little in the other enlisted men's clubs and almost none in officer's clubs?

General CAPPUCCI. Mr. Chairman, may I expand?

I was speaking of corruption irregularities, thefts. If you are speaking about management, then it could be pretty well balanced out between the officer's and enlisted men's clubs but I was speaking of investigations reflecting irregularities in predominantly enlisted men's clubs.

Senator INOUE. You found the irregularities predominant in NCO Clubs?

General CAPPUCCI. On irregularities, thefts. On management I think it is across the board on those we investigated.

Senator INOUE. How would you account for the great number of irregularities at the NCO level?

General CAPPUCCI. Mr. Chairman, we have been trying to put our finger on that and it is very difficult to come up with a conclusion. Just as a guess, I would say regarding officer's clubs, the commanders go and the general officers go to them. If the service is not good, if the prices are too high, they complain to the board and I suppose something is done about it. This is only a guess. I really do not know, sir.

Senator INOUE. How would you account for the low level of corruption at the EM Clubs, the Airmen Clubs?

General CAPPUCCI. Well, again, and this is just a guess, I think that many of the vendors that are dealing with the club custodians are former enlisted men themselves and I think they have a closer rapport to the custodians at the enlisted clubs, but I say this is just strictly speculation on my part.

Senator INOUE. Colonel, you have noted that the emphasis on accounting procedures is on internal control. Is it correct to say that there is limited control over the accounts of any particular club or is control uniform throughout?

Colonel FORTESCUE. It is uniform with the exception that the accounting manual does provide that very, very small clubs may not be able to have the separation of responsibility as much as a larger club. For example, one man is not permitted to purchase an item, receive it, and account for it. In some very small clubs doing \$500 or \$600 to \$1,000, \$1,500 a month, they would not be financially able to hire the people to have this control.

Senator INOUE. How long have you carried on this review of controls over accounting?

Is this a recent development?

Colonel FORTESCUE. No, sir. The manual is continually reviewed.

Senator INOUE. Do you have any direct surveillance of the accounting operation?

Colonel FORTESCUE. Do I? No, sir.

Senator INOUE. Does your office?

Colonel FORTESCUE. No, sir.

Senator INOUE. You just rely upon reports emanating from the club managers.

Colonel FORTESCUE. Well, much of the accounting is done on each installation by the fiscal control office. It is supervised by the installation comptroller who, of course, is on the base commander's staff as well as the Major Command which has a Comptroller and staff who check, supervise and inspect base accounting units.

Each major command receives a detailed financial statement from each one of the clubs within its command. We receive a summary of these statements from each major command which has the sales for each club, the food sales, bar sales, etc.

Senator INOUE. How many reports and audits conducted before the September survey either by your office or by the Comptroller's office, have indicated discrepancies. Percentage-wise, that is.

Colonel FORTESCUE. I would have to refer to Mr. Row.

Mr. Row. I think to properly answer your question, Mr. Chairman, you first need to understand that most every audit report that we issue discloses some discrepancy. This is the nature of audit. So I would think you would say most every audit points out some type. There are memos, in some instances, administrative malpractice or failure to follow procedures or regulations all the way up to embezzlement or suspected fraud.

Senator INOUE. What percent have disclosed criminal fraud of some sort, embezzlement or larceny?

Mr. Row. This is a pure guess at the moment but no more than, I would say, 5 percent, 10 percent have gotten into that type of discrepancy.

Senator INOUE. Thank you, sir.

I note, Colonel Fortescue, that you are in almost direct charge of the open-mess management section. What sort of cooperation do you receive from commanders who obviously outrank you?

Colonel FORTESCUE. Well, I do not have much detailed contact with the commanders, Mr. Chairman. When I go out and make a staff visit, for example, to a major command, I deal with the Director of Personnel on down but not with the major commander.

Senator INOUE. In your operation have you been involved in any instance where commanders have tried to discourage investigations?

Colonel FORTESCUE. I have not.

Senator INOUE. Have they been fully cooperative at all times?

Colonel FORTESCUE. There again the investigations, of course, would come under General Cappucci, and he will explain how he works with the commanders. I do not have any personal knowledge of any commander hindering an investigation and there are some excellent safeguards along that line, Mr. Chairman.

Senator INOUE. As far as your operation is concerned, you have no complaints regarding commanders. They have not put any roadblocks before you?

Colonel FORTESCUE. No, sir.

Senator INOUE. They have cooperated with you?

Colonel FORTESCUE. Yes, sir.

Senator INOUE. I note that all contracts and legal documents relating to mess operations are subject to review by the JAG office.

Colonel FORTESCUE. On the installation, yes, sir.

Senator INOUYE. Have these reviews disclosed any fraudulent contracts?

Colonel FORTESCUE. Not to my knowledge, sir. They are reviewed before they are executed.

Senator INOUYE. On page 4 of your statement you state that your installation commanders can assure that pertinent directives are being followed and that the clubs are being operated in an efficient and business-like manner. The point of these hearings is that these directives and regulations are not being followed. Just why in your opinion are they not being followed? Is it criminal intent, complication, laxity, disinterest, negligence?

Colonel FORTESCUE. I think probably a combination of the large responsibility of the installation commanders—if they are having problems with the flying end of it, they may devote all their energies in this direction. I do not think there is any criminal intent, just one man with a large responsibility.

Senator INOUYE. In all of the statements so far you speak of auditing, reviews, surveys, et cetera. How often do you conduct these audits, surveys, inspections, and investigations of clubs?

Colonel FORTESCUE. In the major commands there are Inspector General teams which inspect an installation at least once a year.

Our open-mess people, at the major command, should visit each club at least once a year for several days, and more often if necessary. The audit is up to, in some cases, the judgment of the local Auditor General representative and installation commander. The investigations by the OSI are started in several ways which General Cappucci will explain.

Senator INOUYE. Do you feel that if you had adequate personnel to carry on these auditing and investigative functions, that the graft and corruption that we speak of today would have been uncovered in the past?

Colonel FORTESCUE. Most certainly, and I think there would not have been anywhere near as many instances if we had more people for policing.

Senator INOUYE. Since the September survey, have you added personnel to your section?

Colonel FORTESCUE. I think I should clarify, Mr. Chairman, that the Auditor General, OSI, Inspector General, and so forth, are all completely divorced from us although we work together. In my particular section, we are taking steps to try to get our office increased from one to three. We implement the policy that comes down by memorandum either from the Secretary of the Air Force or DOD, write the operational manual which is part regulatory and part operational.

Senator INOUYE. Colonel, you have suggested that most of the irregularities should have been found by the fiscal control offices in the day-to-day review or the semiannual review of internal controls, and it seems to me that is a rather serious charge. Now, to whom do these people report?

Colonel FORTESCUE. The fiscal control people report to the installation comptroller. Prior to February they reported to the installation accounting and finance officer who works for the comptroller. The

comptroller at each level receives guidance from comptrollers at higher levels.

Senator INOUE. You have suggested that these irregularities would have been uncovered if these men had carried out their duties. Now, has anything been done in specific cases to tighten up on this laxness and to hold these offices accountable for dereliction of duty and inefficiency?

Colonel FORTESCUE. There has been a considerable amount done to tighten control over the fiscal control offices.

Senator INOUE. Have they been disciplined?

Colonel FORTESCUE. I do not know. I could not answer that myself.

Senator BYRD. Mr. Chairman, may I make an observation?

It seems to me that is a very important point the chairman raises. Someone should respond as to whether there has been discipline involved in these cases.

General DUPONT. May I suggest that we do have a member in the group who has that information. A member of the comptroller's office is here. Would you respond to that?

Mr. HOLLOWELL. Yes, sir.

Mr. Chairman, my name is Hollowell. I am with the Air Force Accounting and Finance Center which is directly under the Comptroller of the Air Force. We have the responsibility for FCO's, the Fiscal Control Offices. With respect to the direct question—has there been discipline — there has been no discipline per se and I do not believe that it is called for in this particular instance. As has been previously indicated, the regulations are adequate. There has been a failure to comply. The comptroller has made a study of this earlier and he found that the primary reason for this noncompliance was not willful, but rather it was a lack of proper emphasis being placed on the nonappropriated fund. Formerly, the function was under the accounting and finance officer who had a great deal of personal responsibilities in the appropriated funds area, and as a consequence, he concentrated most of his attention on these far greater amounts of money appropriated by the Congress and he simply did not supervise the fiscal control office as he should.

In addition to this —

Senator INOUE. Now, you have just said that he did not supervise the FCO as he should have.

Mr. HOLLOWELL. Not as adequately as he should have.

Senator INOUE. Now, has something been done to change this?

Mr. HOLLOWELL. Yes, sir, there has been. There was another contributing factor here. The FCO, it was found, was being run by individuals with a low civil service grade who were not always qualified people. Now, the thing that we have —

Senator INOUE. Who selects the FCO?

Mr. HOLLOWELL. The fiscal control officer now will be selected by the comptroller. The action we took was to remove the first control officer from organizational alignment under the accounting and finance officer and place him directly under the comptroller.

Senator INOUE. Prior to this survey, who appointed the FCO?

Mr. HOLLOWELL. The accounting and finance officer, I believe, would have hired the fiscal control officer since he was working strictly for the accounting and finance officer.

Senator INOUE. How is it that we hire so many incompetent FCO's?

Mr. HOLLOWELL. I think, sir, because the authorization was for a low Civil Service grade, it attracted a lesser caliber individual. That was the second phase of our corrective action. In addition to moving it directly under the Comptroller, we also authorized in the Air Force a standard position description which authorized a professional accountant to head the fiscal control office as a civil service GS-11 position paid from appropriated funds.

Senator INOUE. I believe you have just said that the fiscal control office oversees the accounting of all funds?

Mr. HOLLOWELL. Yes, sir, that is correct.

Senator INOUE. That is a very important position, is it not?

Mr. HOLLOWELL. Yes, sir, it is indeed.

Senator INOUE. I cannot understand why such an important position was handled by low grade officers as you have indicated.

Mr. HOLLOWELL. Mr. Chairman, I cannot truthfully answer why things went amiss in the past but I feel that corrections that we have made are adequate to at least move in the right direction of improving this. I certainly agree with your observation.

Colonel WHITMORE. May I offer a clarifying statement?

I am Colonel Whitmore, executive secretary, Air Force Welfare Board, involved with nonappropriated fund policy throughout the Air Force. I think it will help your understanding of this fiscal control office to know that the fiscal control office is a group of nonappropriated fund employees. These people are paid for on the basis of man hours contributed to each of the funds served at salaries established for nonappropriated funds employees. Although there has been an appropriated funds manning space authorized for the position of the Chief of this office, until recently many of the FCO chiefs have been lower level nonappropriated fund employees. As Mr. Hollowell just mentioned, now we have GS-11 civil service employees in most positions to man this slot, which provide for trained accountants to head this fiscal control office.

Senator INOUE. Was this weakness noticed before the September survey?

Mr. HOLLOWELL. Yes. The Comptroller made a study in 1968 that revealed these deficiencies.

Senator INOUE. And what was done as a result of the study?

Mr. HOLLOWELL. The actions that I mentioned were taken. The standard position description, the realignment of the fiscal control office.

Senator INOUE. This was a result of the 1968 survey?

Mr. HOLLOWELL. Yes, sir, but it was some time in 1969 that these actions were being implemented almost concurrently with the audits that were being performed.

Senator INOUE. Senator Byrd?

Senator BYRD of Virginia. Thank you, Mr. Chairman.

I am not clear as to the frequency of external audit of these accounts. Have these accounts been audited once a year by an external source or not?

Mr. Row. I might answer that, Mr. Chairman. When you say an external source, are you speaking of some source external to the club management or external to the Air Force?

Senator BYRD of Virginia. External to the club management.

Mr. Row. These clubs are audited exclusively by the Auditor General of the Air Force who is independent of the chain of command of the club management, and as to frequency, there is no established frequency of audit. We attempt to apply our audit resources where we feel they are needed at the moment and to give what in our judgment is adequate audit coverage to all activities within the Air Force. Some clubs may have an auditor visit them for an across-the-board type audit once a year. There may be other more frequent visits for specific limited reviews in particular areas. On an average our auditors would probably visit every major club at least once a year for some type of audit review.

Senator BYRD of Virginia. Each club would have been audited at least once a year, is that correct?

Mr. Row. I think we would have had an audit visit to each of the major clubs at least once a year. Now, I do not want to mislead you by this statement to infer that we would have made a complete audit of the total operation once a year. All of our audits are not complete overall reviews of club operations.

Senator BYRD of Virginia. Is it your policy to make a complete audit once a year?

Mr. Row. It is not.

Senator BYRD of Virginia. Do you think that policy should be revised?

Mr. Row. This particular policy is under review at the present time within the Department of Defense for all the services and it has been suggested that as a minimum, an annual audit of each club should be made. There have been arguments to the contrary. What this policy will eventually turn out to be I can only speculate at the moment myself.

Senator BYRD of Virginia. What are are arguments to the contrary against an annual audit?

Mr. Row. Well, one of the most significant arguments I think is the fact that the audit organizations are not sufficiently staffed to audit everything completely on a regular routine basis. In fact, by comparison with the activities of the clubs, the amounts of moneys involved, resources consumed, the clubs do not assume the same priority many times as larger operational accounts or appropriated funds.

Senator BYRD of Virginia. Thank you, Mr. Chairman.

Senator INOUE. Colonel Fortescue, in your statement you suggested that there has been a change requiring approval of all persons entering club management. What was the policy prior to the September survey?

Colonel FORTESCUE. Our NCO's cross-train after they have been in the service for a number of years. We get very few directly from basic training and the cross-training policy in general provides for the installation personnel office, to permit a man to train from one field to another. We had general guidelines in the classification manual for this cross-training, but there was no specific requirement in years gone by to take a detailed look at the character of the individual. So we are requiring now—this will be in effect shortly—that the Major Command's open mess supervisor look at each individual person after reviewing the results of a national agency check which is a check of

records of all Federal agencies going back for years, FBI arrests, civilian convictions, military records, et cetera. The selection process also includes reviewing the candidate's records and performance reports.

Senator INOUE. Was not this considered necessary before this recent survey.

Colonel FORTESCUE. It was not required by directive in as much detail; no, sir.

Senator INOUE. Are there not certain temptations involved in the handling of money which would require managers of a certain level of integrity?

Colonel FORTESCUE. I believe there are, yes.

Senator INOUE. But no investigations were conducted were there?

Colonel FORTESCUE. Not specifically for this particular thing.

Senator INOUE. In the examination of the background of these custodians or managers, do you look into their financial background, stockholdings, other sources of income, et cetera?

Colonel FORTESCUE. No, sir; I do not believe the national agency check encompasses that unless the man has been under investigation conducted by the OSI and then they usually do that, but General Cappucci could give you more details on that.

Senator INOUE. You are not concerned about the possibility of, say, a conflict of interest?

Colonel FORTESCUE. Yes, we are concerned about that, and we have a directive which covers that. It is based on a DOD directive.

Senator INOUE. But in your investigation you do not look into the man's other sources of income?

Colonel FORTESCUE. No, sir.

Senator INOUE. The next question may be rather difficult to answer but I note that many changes have been made in your directives and in your manual. Would you tell us how these directives would directly affect, say, kickbacks, bribery, solicitation, et cetera?

Colonel FORTESCUE. How they would uncover—

Senator INOUE. Uncover or control?

Colonel FORTESCUE. Uncovering a kickback is extremely difficult because, there are usually only two people involved. However, there are ways—there are leads that one may take to become suspicious. For example, if a piece of equipment normally sells for a thousand dollars and it is found that somebody is paying, let's say, \$1,500, he either is a bad purchaser, by not finding the right source of supply, or maybe he is getting a portion of the overpayment. However, in the very near future we plan to put all our procurements, except for very minor purchases, under the control of the installation procurement officer which will prevent somebody paying too much for a piece of equipment.

In connection, for example, with irregularities and fraud, while audits are important in uncovering some of these where there are gross violations, it has been my experience generally that irregularities come about through disaffection of the individuals. Generally, there is somebody who feels his cut isn't sufficient. There is a falling out amongst thieves and the information gets to the proper authorities for the investigatory technique. This in many cases is much more productive toward uncovering irregularities and taking corrective action than audits.

I am not decrying the advantages of audits but at the same time there can be an over-reaction as to what is the proper procedure to undertake.

Senator INOUE. I am well aware, sir, of the gross amounts involved here and this is the reason I have been trying to elicit from the witnesses the extent of the corruption involved, to give this committee as we proceed some idea as to the magnitude of the problem.

Mr. GOODE. I understand.

Senator INOUE. I have no idea whether it involves \$50 million or half a million, and that is why I asked for the dollar amounts. Such information would give us an idea as to whether it is really important or if it is just penny ante.

Mr. GOODE. We will try to get the total amount.

Senator INOUE. This information would be very helpful.

Mr. GOODE. We will arrange to supply it for the record.

Senator INOUE. The members of this committee are well aware that in an operation of this sort all men cannot be expected to be angelic and all of us have our weaknesses and sometimes the weaknesses are stronger in some than in others, and so we expect some irregularity or some laxity. What I am trying to gather before we proceed is the extent of this laxity. Could you furnish us this information?

Mr. GOODE. We will try to do that, sir.

Senator INOUE. It should be very helpful. I hate to be pressing upon a matter which might in reality be very minor in importance.

Colonel FORTESCUE. I think I should really clarify something, too, Mr. Chairman. On page 5, we indicate that directives aren't being followed, which was discovered largely during the directed audit of 138 clubs.

Now, these are discrepancies or irregularities, but they aren't fraudulent.

Senator INOUE. Colonel, what happens to a vendor who is involved in some irregularity?

Colonel FORTESCUE. I am speaking for somebody else but there is an Air Force directive covering this situation. If the vendor is found to be guilty of the allegation, he is put on a worldwide list of companies that are de-barred. This is the procedure handled by the procurement people. They have their regular procedure to follow if vendors are found to be suspect, but I am speaking out of my sphere of direct knowledge.

Senator INOUE. Is the individual vendor disciplined or the company he represents disciplined?

Colonel FORTESCUE. I don't know for sure, sir. I would imagine the company would probably discipline the vendor (salesman).

Senator INOUE. Can anyone answer this? It would seem to be a very important policy matter. If I were involved in bribing some club manager or offering kickbacks, I would assume that something should happen to me.

Mr. GOODE. If there is any indication of violation of law, it would be referred to the appropriate investigative agencies for possible criminal prosecution. If there was involved bribery, corruption—this sort of administrative action could be taken to debar as he indicated, any individual from doing business with the Department of Defense for gross improprieties.

Senator INOUE. What about the company he represents?

Mr. GOODE. Well, if he is in a representative capacity, the company would either have to prove its innocence of complicity and take such corrective action against his employment with that company to demonstrate their good faith.

I think I would like to indicate for the record, though, that I want to correct one impression, maybe a mis-impression here. That is, from my review of all the materials and files which the various witnesses are going to discuss in more detail, I want to correct any impression that our review has found any wide-scale corruption of any great magnitude throughout the Air Force in the operation of messes. We have found irregularities. We have found some misunderstandings. We have found certain cases which are more serious in nature, and which might result in some punitive action, disciplinary action, but even in those cases the sums involved are not tremendously significant compared to the overall scope of operations.

Another thing, in connection with the question of requirement for audits, which was discussed, in many cases there can be over-reactions to indications of wrongdoing which might result in the imposition of too much supervision in response to productive results in connection with the time, money and expenditures that might be involved. I am talking now particularly of small sundry units who haven't too much income and the requirement of a detailed audit, for example, for what the possible productive results could be obtained as a result of it, might be relatively negligible.

For example, a cashier in a dining room must obtain a bank of \$200 before she can operate. If she forgets to sign a receipt for that, accountability is lost and it is a discrepancy or an irregularity but it is not fraudulent. So it varies from things like that to the few isolated instances of fraud and criminal acts. Our presentation is not directed to one particular country but to things over all of the world. As I say, noncompliance with directives is in many cases relatively minor.

Senator INOUE. I am coming back to slot machines again. I do this because I note that in calendar year 1968, 23 percent of the total income for overseas clubs came from slot machines. So this is a major item as far as income is concerned.

In your statement you indicated that the operational manual has been revised to include detailed operating procedure for control and operation of slot machines.

Colonel FORTESCUE. Yes, sir.

Senator INOUE. Are you suggesting that prior to this survey you had no such controls or procedures?

Colonel FORTESCUE. No, sir. We had controls and procedures for our people in general and we specified they would be operated under controls issued by the major command. We realized last fall that we should have uniform policy based on an outstanding directive of one oversea command. This was based on statistics and we implemented this directive—which had nothing to do with the difficulties of any other Service.

Senator INOUE. As you are well aware, these machines can be regulated mechanically as far as the percentage is concerned.

Colonel FORTESCUE. Well, they can plug holes up and put lemons where the bars are.

Senator INOUE. Do you control your machines so that management or the club will receive, say, 70 percent or 80 percent of the take?

Colonel FORTESCUE. The requirement when they buy the machine is that it will be 85 percent to the player and 15 percent to the club, I guess is the way to put it. They are required periodically, a manager or somebody else, to look at the reels to make sure that holes haven't been plugged and that lemons haven't been pasted over. They count the symbols on the various reels and through a mathematical process can determine what the percentage going to the individual should be. If it is out of line, they immediately have to check the reels again to make sure that it hasn't been tampered with.

The longer the machine is in play the more closely its percentage will conform to the theoretical percentage. There are two charts they have to maintain, the jackpots and the money collected from each machine each month as well as the jackpots paid and the money collected from each machine over a period of a whole year. So a machine that has a lot of play should conform to the laws of probability. There are 8,000 combinations on the standard 20-wheel machine, 20 times 20 times 20, and the more it is played, closer the amount that should be collected—from computation—will be to that actually collected.

Senator INOUE. And is there a set policy that the player will receive 85 percent and the clubs 15 percent?

Colonel FORTESCUE. I will check that. I am almost sure of it.

Senator INOUE. How does that compare with Las Vegas?

Colonel FORTESCUE. I don't know, sir. I think it is about the same.

Senator INOUE. I ask this question because I recall a former manager in Las Vegas suggesting that the take for the club was much higher than 15 percent.

Colonel FORTESCUE. Well, what it means is that if a person puts 100 coins in a machine—this is the law of probability—he will get 85 out in one form or another. Of course, he will put that 85 back in and get 85 percent of it, and so forth. So in the long run—

Senator INOUE. He could lose all the first 100 to the machine.

Colonel FORTESCUE. Yes, although he could hit the jackpot on the first pull and make a thousand percent or he could have a bad run. But out of 8,000 plays, 8,000 pulls, he will get 85 percent of his coins back based on the law of probability.

Senator INOUE. I feel sorry for the ones who are losing.

I note that we have competitive bidding for the purchase of property. Are you suggesting that you did not have competitive bidding before the September survey?

Colonel FORTESCUE. The procurement directive we followed did not require that all purchases be on bids but that they must be favorable for the Government. Most of our major commands implemented or added to the directive—this was in AFR 176-1—by requiring competitive bids.

We realized we were in error and have changed that. Our people must go by good business commonsense and purchases are reviewed by the Advisory Council, the installation commander and his staff and also I may add the major commands. Although they do not approve or disapprove the minutes, they review the minutes in detail and if there is something they don't like they either question or disapprove it. So there are controls built in.

Senator INOUE. How are club managers elected? Do they apply for the job?

Colonel FORTESCUE. Yes, sir. The enlisted potential club manager applies to retrain from another Air Force career field.

Senator INOUE. How are the officers selected? I notice that you have second lieutenants who are club managers.

General DUPONT. Sir, may I answer that? If I could talk about the officers first. We do get some club officers from people coming into the Air Force. These are people who have an academic discipline in the hotel and restaurant business and some of those people have been given that type of duty when they entered on active duty.

More recently, since we recognized the need for more maturity and experience in our people and we have been making a concerted effort to get club managers from related career fields. In the food service field, for example, captains and majors who have a desire to get into this type of work are being selected, even though career opportunities in this type of work are somewhat limited, and the hours are long. But we have acquired a good number of people through this manner.

The selection of these people is now being done at the Military Personnel Center, so it is centrally controlled. These people now are selected based upon their qualifications and potential. Their qualifications are matched against the size of the club, their training is mandatory through an on-the-job training course. Also they are now programed into the DOD management course.

We require training reports on these people as they go through school to determine their adaptability, their desire to learn as they get into the business and to continue in it. We also review their performance record after they are placed on the job, so I am confident that now we have a quality control on these people that will produce a better club officer than we have had in the past.

Senator INOUE. There are not just "green" newcomers?

General DUPONT. Some of them are, sir, I don't want to tell you that they are not. In some cases, we do have accessions that we take through the ROTC and OTS programs. We have to match in most cases their academic disciplines against the type of duty they will perform in the Air Force; but in the case of our open messes, we are deemphasizing that type of assignment and emphasizing the procurement or selection of more mature potentially able people, people able to supervise large numbers of people in an area where lots of funds are involved. It is a very careful selection.

Now, on the NCO's we again are starting a selected manning procedure that will select at my center individual NCO's to fill all the overseas club management positions. It will not be done by the major command any longer. It will be done by us where we will look at the man's record, determine whether he is capable and if he is qualified, and assign him to a specific club overseas. I call this selective manning, which we do for special categories such as the Air Staff, very important positions. It takes much effort to do this, yet I believe our clubs deserve that type of attention.

Senator INOUE. General, in revising your directives and manuals, do you consult with the Army?

General DUPONT. Yes, sir; I haven't mentioned a lot of the things we are considering. I have had my people in contact with the Marriott

chain, with the Hilton, with Ramada, to find out how they are doing business on the civilian economy, anything that might apply to the way we do business. I have had our people in contact with the Army, the Navy, and the Marines to find out what they are doing. They are experiencing, of course, the same problems. We are trading off our ideas with one another—all of us are interested in improving the management of our open messes—I assure you of that.

Senator INOUE. I am curious as to why you send your people to the Navy school for training?

General DUPONT. There are not so many going to the Navy school. I would say that the DOD school, the Fort Lee school, run by the Army, is the one that we use more extensively as a formal course than any other; and as I say, we are making it mandatory for our people to go through that course consistent with the numbers of quotas we are able to get.

Senator INOUE. What additional costs will be involved in the upgrading of club managers, now that we are using officers?

General DUPONT. We have always had officers. We are still manning the officers' clubs with officers or civilian managers. There is no charge there. The same is true for the NCO's.

Senator INOUE. So there is no change in cost?

General DUPONT. No cost involved other than perhaps the training costs, emphasizing the fact that we are trying to get a higher grade captain and major on the jobs as opposed to lieutenants.

Senator INOUE. I have just one more question before we recess. We have spoken quite often about the national agency check. Can you tell me what this is all about? What is involved in the national agency check?

General CAPPUCCI. Sir, may I answer that question?

Senator INOUE. Please do.

General CAPPUCCI. The national agency check consists of a check of the files of the Federal investigative agency that could have information. It invariably includes the FBI, criminal and subversive files, plus any national agency.

Now, I am not speaking of local police departments, only national. It could be Civil Service Commission, if they ever worked for the Government. If they immigrated to the States it would be with the Immigration and Naturalization Service.

Mr. GOODE. It would disclose an arrest record, wouldn't it?

General CAPPUCCI. Yes, because the police departments report to the FBI on criminal records, and the same thing with subversive files.

Senator INOUE. Gentlemen, I thank you very much. I would like to resume these hearings at 2 o'clock this afternoon. Thank you.

(Whereupon, at 12:25 p.m. the committee recessed to reconvene at 2 p.m. of the same day.)

AFTERNOON SESSION

Senator INOUE. The subcommittee will come to order. Our next witness will be Mr. Orion Y. Row, Associate Auditor General of the U.S. Air Force.

STATEMENT OF ORION Y. ROW, ASSOCIATE AUDITOR GENERAL,
U.S. AIR FORCE

Mr. Row. Our organization is composed of a headquarters at Norton Air Force Base and approximately 140 Auditor General resident offices (managed by resident auditors) located at Air Force bases throughout the world. The personnel who man these resident offices report directly to the USAF Auditor General. They are totally independent of base, subordinate command and major command control and authority. At the present time, we have about 1,250 military and civilian personnel assigned to our organization of which approximately 1,000 are auditors. Many of these auditors are assigned to resident audit staffs which provide on-the-spot independent audit service to management personnel of the installation where they are assigned. For example, during fiscal year 1969, 6,949 reports of audit covering all types of accounts and activities were issued by these resident offices.

Our total audit responsibility includes the audit of open messes. These audits are not merely limited to a review of the financial accounts of an open mess. They cover all operations, and our objective is to make practical recommendations—when appropriate—to improve the efficiency and effectiveness of open mess management. Of course, if there are indications of fraud or mismanagement, we are interested in reporting this also. In these cases, copies of the audit report are provided to the Comptroller of the Air Force and the Assistant Secretary of the Air Force (Financial Management). In addition, the Air Force Office of Special Investigations (OSI) is notified in order that it may initiate investigations when appropriate.

Audits of open messes may be either initiated by the resident office at a particular base or they may be centrally directed by the Auditor General. In the latter case, a representative number of open messes—worldwide—are audited simultaneously using an audit program prepared by the Auditor General. In these instances, in addition to the local audit report issued by the resident office, a report summarizing open mess conditions Air Force-wide is issued to the top echelons of Air Force management.

We recently completed a worldwide audit of 138 open messes to determine whether existing internal controls afforded adequate protection of open mess funds and resources. The audit disclosed weaknesses in the following areas: controls over cash and other sensitive assets, such as slugs and tokens; inventory accountability procedures; amusement and vending machine operations; procurement practices, including instances of possible conflicts of interest; entertainment practices and related contractual procedures; payroll administration; and the surveillance functions of the fiscal control offices. As a result of these findings, and related Auditor General recommendations, Air Force management officials took aggressive action to refine or revise appropriate directives and to reemphasize to Air Force commanders the need for stringent compliance with appropriate directives. In addition, base level reports of audit were issued by USAF resident auditors for each open mess audited, indicating appropriate audit findings, and the necessary action required by installation commanders to correct these conditions.

At the same time we were performing this particular audit, the OSI was making inspections of open mess operations. Accordingly, we maintained close coordination with the OSI to preclude any duplication of effort.

I might add that our two organizations exchanged our findings during the course of the audit.

This concludes my prepared remarks. I will be glad to answer any questions you might have.

Senator INOUE. Thank you, Mr. Row.

Mr. Row, you have stated that the members of your staff are answerable only to the Auditor General and are independent of base control, subordinate command, or major command control. Are your staff members available for specific auditing functions upon the request of any of the levels that I have just mentioned?

Mr. Row. They are available to the local management people, commanders, and their staff, to do reviews or audits upon request of these people. We attempt in our planning of our audit resources to allocate a reasonable amount of their time to the local resident offices for them to use upon their own initiative as they see fit and to answer such requests from local management.

Senator INOUE. So if I were a base commander I could call you directly and request an audit?

Mr. Row. If you were the base commander, the initial request would go to the resident auditor who is stationed at the base, and for the most part your request would be accommodated in such instances. Where for one reason or another the local auditor could not accommodate it and you felt that it warranted audit attention, you obviously could go on to higher levels, to supervisory level at our headquarters, and obtain consideration of your request.

Senator INOUE. Do you as a matter of practice conduct unsolicited audits of open messes?

Mr. Row. Yes. We do conduct unsolicited audits of the messes from time to time and for the most part I think it probably would be about half the audits that we make that are initiated within our own organization.

Senator INOUE. You spoke of the resident auditor. Is he the fiscal control officer?

Mr. Row. No, sir.

Senator INOUE. They are different people.

Mr. Row. Yes, sir.

Senator INOUE. We have heard that at least in the past there have been many incompetent fiscal control officers. What about your resident auditors? Are they qualified?

Mr. Row. I would say that we probably have one of the best qualified groups of people in the service, and for the most part all of our people are well qualified.

Senator INOUE. If you discover some irregularity or laxity in your audits, what action do you take?

Mr. Row. Well, obviously we inform the local management of our findings. At the same time, if it involves misconduct, irregular practice, fraud and the like, we would also advise the Office of Special Investigations and in instances where statutes may have been violated, criminal statutes, the office of the Federal Bureau of Investigation is also advised through appropriate sources.

If the matter is of sufficient importance, we would raise the level of our reporting to the major command and oftentimes to the Headquarters of Air Force here in Washington.

Senator INOUE. Are the fiscal control officers under your command?

Mr. Row. No, sir.

Senator INOUE. In your testimony you have mentioned the completion of a worldwide audit of 138 open messes. Now, what are the circumstances that brought about these audits? Who requested them?

Mr. Row. This audit was made at the specific request of the Comptroller of the Air Force who is the next level of reporting for the Auditor General of the Air Force. What occasioned his request I do not know specifically.

Senator INOUE. When was this request made?

Mr. Row. The best I can recall, this was sometime in the time frame of August-September of last year.

Senator INOUE. If the special worldwide audit had not been made, would you have discovered the shortcomings that you speak of in the usual course of your work?

Mr. Row. In all frankness I doubt we would have discovered all of them that we know about now, and perhaps not a major percentage of them.

Senator INOUE. You indicate that your audit disclosed weaknesses in certain areas. I would like to receive some clarifications. What do you mean by controls over cash and other sensitive assets such as slugs and tokens?

Mr. Row. Well, deposits of receipts, daily receipts, accountability for cash receipts, accountability over slugs that are used in machine operations, slot machines I believe are areas, and Colonel Fortescue may correct me if I am wrong on this, where we used slugs in lieu of actual coins. These are accounted for much the same as cash. Assets such as bar whiskey, foodstuffs and the like, property accountability.

Senator INOUE. These weaknesses you speak of, were they of a criminal nature or were they just a matter of negligence and laxity?

Mr. Row. There are a certain number of them, not the most of them I might add, which appeared to be of a criminal nature and these are cases which have been turned over to the Office of Special Investigations for proper investigative action.

Senator INOUE. In terms of dollars, would you say it was a significant amount?

Mr. Row. Well, "significant" is a relative term.

Senator INOUE. How much was involved.

Mr. Row. I don't recall any cases of amounts in the nature of \$10,000 to \$15,000. Most of them were minor amounts. A few hundred dollars down to \$50. In instances where we can assess or estimate what the dollar amounts involved are, we include these in our reports. However, initially when these things are first detected, it is not always possible to determine the full financial impact. I don't recall any of them being of major amounts.

Senator INOUE. If the controls as indicated in the manuals had been followed, would these weaknesses have shown up?

Mr. Row. I think I can express the opinion that had the prescribed procedures and controls been adhered to, many of them probably would not have happened.

Senator INOUE. What do you mean by "inadequacies in inventory accountability procedures"?

Mr. Row. Well, we have, of course, the assets which these clubs have which require inventory accountability, such things as foodstuffs and liquor, bar supplies, property, furniture and the like. It is a matter of not keeping adequate inventory records and making the prescribed physical counts of inventory.

Senator INOUE. Did the manual require such an inventory?

Mr. Row. Yes. I think for the most part the procedures in existence at that time required not only inventory but proper recordkeeping for these.

Senator INOUE. Were these managers required to submit an inventory report annually to some command?

Mr. Row. I don't think they are required to submit an inventory report outside the local management, but they are required to keep accountable records and to take periodic inventory accounts.

Senator INOUE. Then no one reviews the inventory other than the manager himself.

Mr. Row. I wouldn't say that. We review it. This is generally a part of conventional audit, not only to review inventory procedures but to make selected tests of inventories.

Senator INOUE. Did you find this weakness occurring in other audits prior to the worldwide audit?

Mr. Row. Yes, I think we probably have found similar instances.

Senator INOUE. You speak of procurement practices including instances of possible conflicts of interest. Specifically what sort of conflicts were involved?

Mr. Row. Well, I think these are instances that were referred to earlier today. I am trying to recall the specifics of these. I would have to review the facts to properly respond to your question, sir. If I may, I would like to furnish that to you.

Senator INOUE. I would appreciate that, sir.

Colonel FORTESCUE. I have two items I would like to add to that.

Senator INOUE. Please do.

Colonel FORTESCUE. One of the procurement irregularities is that we describe management splits a purchase order to circumvent the requirement to have purchases over \$250 be approved. The auditors discovered some people were, instead of getting an item approved for \$400, making purchases on their own by making two purchase orders for \$200. These instances were isolated but they were a violation.

Senator INOUE. I am interested in this conflict of interest.

Mr. Row. I will research this, sir, and furnish it.

(Information referred to follows:)

There were two instances of possible conflict of interest in the procurement of open mess property. One dealt with the purchase of a television set by the Open Mess from the Open Mess Secretary, while the second instance dealt with the purchase of a refrigerator, electric tape, and regular recorder tapes by the Open Mess from the President of the Open Mess Advisory Council.

A further example, in the area of entertainment contracts, was the activities of an Open Mess night manager who also acted as a booking agent for various entertainment groups.

Senator INOUE. I appreciate it.

What is the weakness in the entertainment practices and related contractual procedures?

Mr. Row. Well, I think this covers some of the instances that have been mentioned of kickbacks from the award of entertainment contracts.

Senator INOUE. Does your auditing disclose kickbacks?

Mr. Row. I am not sure that our audit disclosed kickbacks because these things are not generally a matter of record.

Senator INOUE. Let's put it this way. Did the auditing cause you to suspect that kickbacks might have been involved?

Mr. Row. Yes.

Senator INOUE. Can you give the committee some examples?

Mr. Row. In reading from the audit report, I find there were instances where entertainment contracts apparently had been entered into and we were not able to find copies of the entertainment contracts in the files.

Senator INOUE. Were these contracts in large amounts?

Mr. Row. Individually I don't think these contracts generally run over some \$500 or \$600 at the outside, do they, Colonel Fortescue?

Colonel FORTESCUE. Well, some of them might be an annual contract for a house band but most of them are contracts for a band to perform Saturday night and it is a relatively small amount.

Senator INOUE. What is the policy, if I may digress, on the selection of entertainers? Do you have an approving agency to approve acts or groups or combos?

Colonel FORTESCUE. Not worldwide. The acts and the proposed entertainment are approved by the advisory council which again is made up of senior members or a representative number of members of the club and it is put into the minutes and approved by the base commander. Certain of our oversea commands, which have a lot more entertainment than the States, have varying degrees of centralizing procurement of entertainment. USAFE, for example in Europe, is putting out a list of acts approved by them, that are available, and the maximum price that may be paid. Of course, there again the price varies. If a band has to travel 50 to 100 miles to do one show and return, it is going to cost more than if they go 50 or 100 miles to perform 5 or 6 days, two shows a night. So it is awfully difficult to put a set price on an entertainment act.

In the States some of our big name bands with a usual price of \$2,000 may reduce it if they are in the area and can pick up a Sunday afternoon or Sunday performance at either one of our clubs or civilian clubs in the area—to \$1,200 for example. It doesn't mean, though, that a man who pays \$2,000 is necessarily suspect of paying too much. Pricing of entertainment is based on supply and demand.

Senator INOUE. Am I correct in assuming that most of the entertainers come from the United States?

Colonel FORTESCUE. In Europe, we frequently have acts like Johnny Cash, many other country and western people, who go over there for a month at a time. We have a few American solo acts, but the bands, juggling acts, floor show type acts, are usually local European acts.

Senator INOUE. Who arranges and serves as the contractual party for U.S. entertainers? Obviously, someone must handle the negotiations here before they go to Thailand, for example, or are negotiations conducted via long distance or by mail from Thailand?

Colonel FORTESCUE. Usually in an overseas area a local agent or an American agent who is over there handles all that and then they

make—unless it is going to be centralized as it will be in 7th Air Force, and it may be in Thailand—the individual club manager contracts with the entrepreneur, the agent or producer who brought the act over. In the States, the club manager usually deals directly with the performers or the agents or in some cases they might buy various acts from one particular agent or they go through bids or use several agents.

We do not have a cut and dried rule. We do say that all contracts will be approved by the local Judge Advocate. Practically all entertainment must be recommended by the Advisory Council and approved by the base commander, and it is a matter of record in the minutes.

Senator INOUE. You have just stated that you do publish a price list?

Colonel FORTESCUE. USAFE has done that.

Senator INOUE. Not elsewhere.

Colonel FORTESCUE. I can't speak specifically for Pacific Air Force but I believe we have someone in the room who can.

General DUPONT. We have a man from the Pacific Air Force here as a backup witness and what he is bringing out, Mr. Chairman, is that we recognize this liaison between a club manager and a vendor has not proven to be the best in all cases. We have a pilot project in the 7th Air Force in South Vietnam where they have now started a centralized procurement program handled through the headquarters of 7th Air Force for all procurement contracts and for all entertainment contracts. This system will take the club manager out of the business of contracting with the vendor and vice versa. The manager makes his requirements known to the headquarters and it is handled through the staff procurement agencies.

This has just gone into effect. We are going to have an evaluation of that and see if we can't do more in the area of centralized procurement and contracting.

Senator INOUE. I ask these questions because I gather from the Army hearings conducted by Senator Ribicoff that this was one area where you found many irregularities occurred.

General DUPONT. Yes, and in some of the foreign countries as you may know, it is common practice for a vendor to offer tokens of appreciation when they enter into a contract, not because it is illegal or anything, just one of their homeland practices.

Senator INOUE. It is not in the contract, though, is it?

General DUPONT. No, sir; not at all.

Senator INOUE. Thank you.

Mr. Row, what do you mean by weaknesses in the surveillance functions of the fiscal control offices? This was alluded to by Colonel Fortescue also.

Mr. Row. May I read a couple of excerpts from our report, sir?

Most of the findings included in this report should have been found by the FCO either in the day-to-day processing of accounting actions or in the required semi-annual review of internal controls of the open mess.

Another item:

Payments to entertainers were supported by letter signed by the open mess office manager, operations manager, or secretary. The fiscal control office did not receive copies of any entertainment contracts or statements of service, so they were unable to verify the propriety or accuracy of payments.

Senator INOUE. As the auditor are you satisfied that these weaknesses have been rectified?

Mr. Row. We are satisfied that aggressive action has been taken to attempt to cure them. We will at some later date review these areas again to determine if in fact the action has been effective and corrections are in evidence.

Senator INOUE. Is it the intention of your office to continue these worldwide audits or is this just a one shot deal?

Mr. Row. No, no. We will from time to time make similar audits in the future. At the present time we are planning, I believe, an audit of the fiscal control office operation.

Senator INOUE. And are you as auditor sufficiently satisfied that our commanders are now fully aware of the need for stringent compliance with these auditing directives?

Mr. Row. All I can say, sir, if they are not aware of it, they aren't listening to what they are being told and they are not reading what is being sent to them. Action has been taken to see that they are aware of such need.

Senator INOUE. Now, if you don't have a resident office auditor, who does the auditing?

Mr. Row. There is only one internal audit performed within the Air Force and all of these are performed by the auditor general organization. We have, as I previously stated, resident offices at all of the major Air Force installations worldwide. These resident offices audit all Air Force operations at their own location and where we do not have a resident office located at smaller locations, these audits are made on a mobile basis out of an existing resident office nearest to the location.

Senator INOUE. You speak of your close liaison with OSI. Who decides whether your auditing reports should be submitted to the OSI and what are the criteria for forwarding these reports?

Mr. Row. Well, there is a standard policy and directive upon our people to immediately advise the Office of Special Investigations any time they suspect fraud, irregular conduct or practices. So this is a day-to-day standard procedure.

Senator INOUE. I believe I am correct in assuming that the major bulk of your work, 99.9 percent, is the auditing of appropriated funds, wouldn't it?

Mr. Row. Well, percentage-wise I don't know that I can say 99 percent. The major portion of our work, yes, is devoted to appropriated funds activities.

Senator INOUE. Do you feel that you have enough personnel to carry out your responsibilities? That is a very leading question.

Mr. Row. I think we could do a great deal more with more people, sir.

Senator INOUE. Do you have staff people specifically assigned to the activities of the open messes?

Mr. Row. No, sir. We do not have people assigned to any particular activity per se. Our resident officers at an air base, for example, have the responsibility for auditing all activities on that air base and the personnel of that office are assigned to do work from day to day as the local resident auditor desires. So a man may be auditing an open mess today and next week he might be auditing the local finance office or base supply office or some other activity.

Senator INOUE. Of the 138 open messes that you audited, did you find any open mess which was clear of any weakness? Did any club get a 100-percent rating?

Mr. Row. I would have to research the backup for our audit to be completely accurate in answering your question. I would doubt that we did because we will report very minor things sometimes. So it is not reasonable, I don't believe, to assume that we would make an audit and not find something to report, although in many instances they are quite minor.

Senator INOUE. Thank you very much, sir.

Our next witness is a man I have been working with rather closely, Brig. Gen. Joseph J. Cappucci, Director, Office of Special Investigations, Headquarters, United States Air Force.

General Cappucci, welcome to this committee.

STATEMENT OF BRIG. GEN. JOSEPH J. CAPPUCCI, DIRECTOR, OFFICE OF SPECIAL INVESTIGATIONS, U.S. AIR FORCE

General CAPPUCCI. Thank you, sir.

Mr. Chairman, I have been the Director of the Office of Special Investigations, U.S. Air Force, since 1964. For 16 years prior thereto, I was assigned within the Office of Special Investigations (OSI) to various duties, staff and investigations in the field, in specific areas, of Europe and the United States.

As investigative organization for the Air Force, OSI operates a worldwide, centrally directed service which functions include the conduct of investigations of a criminal and counterintelligence nature. We perform these investigations at the request of individual Air Force commanders at every location in the world where the Air Force is directed to operate. We have permanently assigned personnel at all major Air Force installations. They are not assigned to the commands and all report directly to OSI Headquarters in Washington, D.C. Organizationally, a number of OSI units or detachments within a specific geographical area are grouped together into a structure we call a district. Each district is given a number and each district commander worldwide reports directly to me concerning all OSI matters of an investigative or an operational nature.

As mentioned previously, we initiate investigations at the request of Air Force commanders. Should an allegation or wrongdoing be independently received by one of our agents, we present the matter to the appropriate Air Force commander for determination as to whether he wants an investigation. Should an allegation be received directly involving the Air Force commander himself, OSI is organized in such a way as to pass the information to the next higher commander for his desires as to whether an investigation is warranted.

Should a commander not desire an investigation of a matter of a serious nature which clearly indicates that an investigation is necessary, the district commanders are instructed to advise me promptly. If, in fact, the matter is of such a nature that it clearly requires investigation, I then inform the Inspector General who may direct me to conduct the investigation. In these rare cases, coordination is accomplished with the appropriate persons in the air staff and the major Air Force commander. Included in the many categories of investigations we conduct are those based on allegations of fraud against the Government and conflict of interest as well as other allegations of criminal irregularities in connection with appropriated and non-

appropriated funds, such as open messes. Should specific allegations concern matters in which other Federal or local agencies have investigative responsibility, we assure that these matters are referred to the proper agency. We monitor that agency's investigation, assist the agency when requested, and furnish reports to the interested Air Force commander, so he may take appropriate action. We also maintain a central repository for all investigative reports and related data as well as similar reports of Air Force interest furnished by other military or civilian investigative agencies.

Reports of investigation, following their preparation in the OSI District Offices, are immediately disseminated to the requesting Air Force commander. Copies of these reports are simultaneously forwarded to my office here in Washington where my staff reviews them for guidance to the field, if necessary, and determination as to which Air Staff Office would have an interest. Should a determination be made that an air staff element has an interest for management control, copies of the reports are forwarded.

I might add at this point that OSI at no time makes any recommendation as to action which should be taken as a result of the investigation we have conducted. We are solely a factfinding agency. However, we are responsible and we assure that the investigative results are forwarded to the concerned commander and any major staff office having an interest in the findings. In addition, we are informed of the action taken by the commander based on the investigative results. These command actions are computerized for patterns and trend studies and are then individually filed with their respective investigative reports for record purposes.

Specifically regarding frauds and other criminal irregularities connected with open messes, allegations are normally received from disgruntled vendors or entertainment agents, concerned open mess employees, or other sources who had observed happenings which they did not consider appropriate. Other allegations are received through the commander from Base Management Personnel including the Base Fiscal Control Office, the office that monitors all financial transactions of the open mess. Many times the allegations, as received, are extremely vague or nonspecific; for example: Airman John Smith, a member of the management of a specific open mess was living beyond his means, or was seen in a night club in the company of a vendor who had recently transacted substantial business with that open mess. Experience has shown that these types of incidents may well be indicators of favoritism being given by an open mess employee to a particular vendor, or even that kickbacks may have been solicited and accepted by an open mess employee.

A number of investigative techniques are available to ascertain whether allegations have substance. I shall only discuss one to give an idea of the nature of these investigations and the time required to satisfactorily complete them. One type is a financial background investigation which involves the determination of all of the subject's assets, an accounting of his liabilities, and a determination of the expenses the employee incurred during a given period of time. This technique frequently discloses that the person has an unexplained income. Should this individual be responsible for the purchasing function at the open mess, all purchasing transactions for a given period of time would be

reviewed for indications that regulations were violated or ignored as concerns a particular vendor, thus showing the possibility of favoritism and kickbacks which could be the source of the unexplained income. Armed with this information and, hopefully, a financial transaction or two indicating that the open mess employee had in some way benefited financially from his relationship with the vendor, the individuals concerned are interviewed for clarification of the investigative findings. I would like to add that while investigations of this type may not always provide the basis for criminal prosecution, the information gained has, as a minimum action, enabled the Air Force to revise the pertinent regulations for the purpose of effecting better management control.

The reports of open mess investigations since October 1969 have been forwarded to the Office of the Director of Personnel of the Major Air Command as well as the local commander who requested the investigation. This added distribution is made to insure that proper corrective action has been taken by the subordinate commander. In addition, copies of all open mess investigations are forwarded by my staff to the Headquarters USAF Personnel Services Division at Randolph AFB so that they can monitor the investigations, review action taken by command and effect better personnel control.

We have conducted investigations of allegations involving irregularities in the open messes since OSI was instituted in 1948. As an example of a 1 year's investigations in this field, I submit the following statistics:

During the 12 month period, July 1967 through June 1968, OSI conducted 59 investigations of irregularities in open mess activities. A breakdown of these cases is as follows:

Two cases involving entertainment contracts.

Twenty cases involving slot machines; that is, falsification of payouts, illegal manipulation, forgery of receipts, and thefts from cash-boxes.

Thirty-seven cases involving sundry fraudulent acts; that is, manipulation and falsification of records and funds, falsification of employee timecards, unauthorized personal bills charged to open messes, embezzlement and/or fraudulent conversion of open-mess funds and supplies, kickbacks, fraudulent payouts in bingo games, and unauthorized use of open-mess facilities.

During the following year from July 1968 through June 1969 we conducted 64 investigations of the same type; these break out as follows:

Four cases involving entertainment contracts.

Twenty-one cases involving slot machines.

Thirty-nine cases involving other fraudulent acts of varying nature.

Since September 1969 when we were directed by the Chief of Staff to take an extensive look at the Air Force open-mess operation worldwide and following our implementation of the worldwide investigative survey project, a total of 142 substantive investigations have been initiated. These criminal investigations concern club custodians, club employees, and firms doing business with the open mess. The specific allegations can be categorized in about the same manner as above. These cases do not, however, reflect proven acts of criminal activity, but represent allegations considered to be of a criminal nature, if proven.

In Thailand alone, we have initiated a total of 37 investigations. Thirty-four of these were initiated in November 1969 upon information received from an OSI source that club custodians throughout Thailand were soliciting and receiving kickbacks, gratuities, entertainment, and favors from firms doing business with the open messes. Subsequent investigation substantiated that custodians and other open-mess personnel were receiving money and entertainment from vendors and entertainment agents doing business with the clubs. It was found that it was common practices for these firms to furnish custodians with gifts, cars, expensive dinners, nightclub entertainment, and female companionship. Companies involved were allowed the opportunity to cooperate during the investigations by command authorities. This included making their records available to OSI, and if they had only been involved in the payments of kickbacks or the furnishing of entertainment, they would be allowed to continue doing business with the Air Force.

At this point I would like to depart from my prepared remarks to add that if a company did not cooperate by making its records available, it would be debarred by the commander from doing business with the Air Force. In this regard, 28 companies and individuals had been barred from further business with the Air Force by the commander in Thailand.

Some of the companies involved did make their records available to OSI, and some company representatives have furnished sworn statements detailing payments of kickbacks and gratuities to specific custodians. As an example of the extent of the matter, one club custodian, at the beginning of the investigations, was searched at the air terminal as he was departing on reassignment. U.S. currency totaling \$6,500 was found in specially made bags sewn to the inside of his trousers. The investigations have now reached the point that, as will be mentioned later, command action is in progress.

The remaining three investigations in Thailand are separate from this series and involve the manipulation of slot machines, diversion of liquor, and theft of funds.

The 105 other investigations concern allegations of open-mess irregularities in every major theater. To clarify this, the 142 cases are categorized as follows by theater:

Pacific area.....	60
European area.....	38
United States, including the Panama Canal Zone, Goose Bay AB, and Greenland.....	44
Total	142

As I mentioned previously, in September 1969, the Chief of Staff requested that we take a good look into the open-mess operation worldwide. We organized our resources to conduct a series of 100 investigative surveys of open messes, calling the project, Seven Snacks.

Departing once again from my prepared remarks, these were conducted on a no-notice basis insofar as possible. I must advise, though, that although our appearance there was "no-notice," the base commander or the wing commander or the major Air Force commander, or whatever the case may be, was notified within a day or two that we

would be there, but no one else was informed, so it was really a surprise.

Senator INOUYE. Did they cooperate with you?

General CAPPUCCI. Yes, sir.

Senator INOUYE. Did you have any evidence of collusion between commanders and operators?

General CAPPUCCI. No, sir. I have found, Mr. Chairman, that in matters of this type, where it is directed by the Chief of Staff, cooperation is full and complete.

Now, an investigative survey is an indepth probe or test check of a specific operation, activity, or program. This is primarily for the purpose of determining the existence, location, and extent of fraud, violations of public trust, and other criminal or major administrative irregularities. To illustrate this function in OSI, I shall refer to a portion of an open mess survey, the private party operation. We analyze the operation to determine what irregularities can occur. As an example, these may include the improper billing of entertainment, food or beverage costs, double billing, or inadequate fund control. We then review the command and local directives and interview employees to determine exactly what they do prior to, during, and following a private party. We establish if they are following directives regarding inventory control, pricing, and billing. We test check the records which were prepared to determine their validity. Thereafter, we interview at random a selected number of customers to assure that the charges to them were as reflected in the records. As you can see, the investigative survey entails a thorough review of previously recorded operations. In the 100 open mess surveys which were accomplished under project Seven Snacks, we not only surveyed the private party operation, but the dining, bar, entertainment, purchasing, slot machine, and every other activity of the open mess.

The entire survey operation is geared to detect criminal or gross administrative irregularities thus providing commanders with a better tool of management. In conducting these surveys, we utilize knowledge gained through our conduct of similar investigations elsewhere.

The OSI survey technique for open mess activities has evolved to its present form during the past 8 years. Prior to project Seven Snacks, we normally conducted individual surveys of specific activities within the open mess, such as slot machines, at the request of a local Air Force commander. I now believe that the investigative survey, in addition to being a management tool, goes a long way to preventing criminal activity by detecting major irregularities which lend themselves to subsequent criminal acts.

I would like to point out that we continually coordinate our survey activity with the Air Force auditors. When we were directed to initiate the Seven Snacks project, we coordinated our program with them to assure that there was no duplication of effort during the program. We continually coordinate our activities with them, and they provide us with the results of their audits at the local level to assure that all information is exchanged on a timely basis.

As the individual investigative surveys are completed, copies of the reports are provided the individual base commanders, the Major Air Command, the Personnel Services Division at Randolph AFB and General Accounting Systems Division at the Air Force Finance

Center, Denver, Colo., so that appropriate action can be taken at all levels, including the revision of current regulations and accounting procedures. I will defer to the representative of the Air Force Director of Personnel Services and to the representative of the Air Force Auditor as to command controls and auditing procedures they have in effect to oversee the general operation of the open mess.

Pertaining to the 100 surveys conducted under the Seven Snacks project, 58 of these have been analyzed in detail, and these form the basis for the following discussion.

The open messes were located as follows: 30 in the United States, 18 in the Pacific area, and 10 in Europe.

For the purposes of this analysis, the discrepancies within the open messes were divided into eight categories: bar and food; bingo; amusement and vending machines; purchasing, receiving, and inventory; payroll; fixed assets; entertainment and private parties; and lastly, general management.

In the area of bar and food operations, irregularities were found at 55 of the 58 facilities that were analyzed, or 94.8 percent. The most common discrepancy noted in this area was the failure to properly conduct the required daily bar inventory. This was found in 44 (75.9 percent) of the open messes. Control over the bar stock was found to be lacking in 33 of the facilities or 56.9 percent. Also included as discrepancies in this area are falsification of inventory records, thefts by open mess employees, not accounting for bonus liquor and beer, failing to ring all sales on cash registers, unexplained overages and shortages, and various other irregularities and violations of regulations too numerous to mention. As this is the main income producing area of club operations, the discrepancies in bar and food operations are particularly noteworthy and show that numerous opportunities for fraud or misappropriation exist within the system.

In the area of bingo operations, 35 of the 58 clubs had regularly scheduled bingo sessions. Discrepancies in various aspects of this operation were found at 24 (68.6 percent) of these 35 clubs. The most common areas of deficiency were the inadequate controls over the bingo cards at nine (25.7 percent) clubs and the awarding of prizes, either excess amounts or to unauthorized individuals, at nine (25.7 percent) clubs. The remaining discrepancies included club employees purchasing merchandise at a discount from the vendors supplying prizes, misappropriation of prizes, inadequate accounting for revenue, and failing to properly identify winners.

I would like to clarify the discussion regarding the third area of concern, that of amusement and vending machines where irregularities were noted at 43 of the facilities. I will depart to a degree from my prepared statement and break this category into two segments.

The first pertains to cigarette and candy machines, jukeboxes, soft-drink machines and pinball machines—32 of the clubs surveyed had these types of machines. A computation of deficiencies reflects that 19 of these contained irregularities. The most common fault was lack of proper accounting for revenue and merchandise.

The second segment of this category is that of slot machines. Of the 25 clubs that had slot machines, 24 had deficiencies noted in their operation. The most common discrepancy was in the control over and accounting for the revenue generated. This was noted in 20 of the 25 clubs.

In the area of purchasing, receiving, and inventory procedures, discrepancies were found at 51 (87.9 percent) of the clubs. The most common failing here was in inventory accountability. At 31 (53.4 percent) of the facilities, the procedures utilized for orderly, transferring, and securing merchandise were not in accordance with established directives. The next most common failure was in purchasing of and payment for goods and services.

Discrepancies in the open mess payroll were noted at 42 (72.4 percent) of the 58 clubs. Overpayments were discovered at 20 (50 percent) of the open messes, and most of these involved overtime pay to open mess employees. Improper control over timecards was noted at 21 (36.2 percent) open messes.

In the control and maintenance of fixed assets, discrepancies were discovered at 32 (55.2 percent) of the facilities. By far, the most common fault was in the recording and marking of club assets.

Turning to the area of entertainment and private parties, irregularities were found at 52 (89.6 percent) of the facilities. At 46 (79.4 percent), controls over funds expended for entertainment and monies received for private parties were inadequate. Proper contracts and documentation for entertainment expenses were not maintained at 31 (53.4 percent) of the open messes. Other discrepancies noted included conflicts of interest and kickback allegations and failure to utilize standard price lists for private parties.

The final category to be discussed is general management control. This category was utilized to include discrepancies pertaining to overall management and custodian responsibilities and command surveillance functions. In these areas, discrepancies were noted at all of the facilities. I will only mention a few specific discrepancies: (1) overstating, misstating, mischarging or failure to document custodian's expenses at 15 (25.8 percent) clubs; (2) failing to promptly deposit funds at six (10.3 percent); (3) failure to establish limits for entertainment expenses noted at 10 (17.2 percent) open messes; (4) cash (percent) of the clubs; and (5) failure to follow directives in the check count and reconciliation discrepancies of varying amounts at 21 (36.2) cashing operation at 27 (46.6 percent) of the facilities.

These conclusions parallel the findings of the USAF auditors and were not readily apparent prior to the initiation of the massive survey and audit programs. This is further shown by the fact that, as previously mentioned, OSI has opened 142 investigations involving open messes in the 8 months since the initiation of the specialized inquiries. This figure is contrasted by the 12-month investigative figures previously furnished:

July 1967-June 1968.....	59 investigations
July 1968-June 1969.....	64 investigations
September 1969-April 1970.....	142 investigations

The allegations predicating these 142 investigations were received in three ways: (1) the Auditor General, during their audit program, referred situations indicative of fraud and criminal activity to OSI for further investigation; (2) we uncovered situations requiring further investigations during our survey program; and (3) allegations requiring investigations were received through the normal channels in the course of OSI operations. The number of cases attributable to each category is as follows:

Auditor referrals.....	19
Survey activity.....	81
Normal channels.....	42
Total	142

We are beginning to receive from the local commanders the actions they have taken to tighten their controls. These command actions are being furnished the Personnel Services Division at Randolph for their additional information and to assure sufficiency.

Regarding punitive actions, our reports are furnished by the commander to the local Staff Judge Advocates for a determination as to whether any court or administrative actions are required. If indicated, these punitive actions are taken.

Departing slightly from my prepared remarks, I would like to add that concerning Thailand and the 34 cases involving kickbacks and gratuities, three investigations did not develop sufficient information for the commander to take action. In the remaining 31 cases the subjects were assigned to the following bases while serving in Thailand: Korat, Hakhom Phanom, Takhli, Udorn, Ubon, and U-Tapao.

Fifteen of these personnel had been charged with accepting or soliciting bribes and gratuities. The command recommended Article 15, administrative punishment, regarding four other persons and a letter of reprimand for acceptance of gratuities. The other 11 cases have been completed and are being reviewed by command authorities for determination as to appropriate action. I defer discussion regarding official actions to the Judge Advocate General, Maj. James S. Cheney.

I am prepared to answer any questions you have.

Senator INOUE. Thank you, General. I do have a few questions.

I note that in 1968 you conducted 59 investigations. In the following fiscal year, 64, and recently, 142. In these three fiscal years did you have the same number of staff people?

General CAPPUCCI. No, sir; because we got a slight reduction a few months ago. Some things had to be left undone in order to get this done. The average inspection survey takes approximately 600 man-hours to do. It is a lot of work. In order to do that, I have to do one of two things, either suspend some other minor type investigation, those not of much a high priority, or move some of my people from another area where they are not overloaded into that area to help out.

Senator INOUE. In other words, with lesser personnel, you had more investigations?

General CAPPUCCI. Yes, sir. I have a tremendous backlog, too.

Senator INOUE. With regard to your computer program, is there any effort being made to determine whether there are any trends of criminal activity? Does your computer show this?

General CAPPUCCI. Our computer shows general trends. We are in the process of computerizing our entire file system and all the information contained in the files. This will be over the next 2-to-3-year period depending on the availability of funds but we are proceeding on that basis.

We have a good portion of our operations computerized, yes, so we can get general trends, particularly in the criminal field. And I would guess in about 2 years' time it should be pretty well underway. It is partially complete now.

Senator INOUE. This is just a matter of definition. What do you mean by "a private party"?

General CAPPUCCI. A private party is where, let us say, an officer or a noncommissioned officer wants to have a party at his home or, as in most cases, at the club, and the club will cater that party, and during the observance of that, although we interview, as I told you, customers, we also maintain a surveillance and we have watched some of the action where they load the van to take the foodstuff to the private party, and we have intercepted some of those vans and checked them and we find there that, two cases of whiskey are charged out for the party, but we have found where they have taken the whiskey out of two or three bottles and put the cap back on. When the one who is giving the party receives it, he sees three cases of whiskey, fine, he pays for it. He doesn't know how much liquor is consumed by his guests, so someone has made the price of two or three bottles of whiskey.

Senator INOUE. Of the man being investigated and charged, what was the highest rank involved?

General CAPPUCCI. The highest rank is a major, I believe. There are four officers involved. Two are majors, one is a captain, and one is a first lieutenant. One of the majors is in the hospital ill. And they can't take any action until he is released. I don't know when that will be. The other major has already been charged. I defer to the Judge Advocate General, General Cheney.

General CHENEY. The highest rank is a major, Mr. Chairman.

Senator INOUE. Did you find any evidence of conspiracy? Your report doesn't indicate this conspiracy.

General CAPPUCCI. No, sir. We specifically looked for that admittedly on the basis of the Army operations. We have not found any conspiracy. We have a large number of cases in Thailand, I think, because the country lends itself to this type of thing, giving gratuities, and the club custodians all knew each other, but it was that each one was running an independent operation. It was quite obvious when one custodian left, his replacement just took over. The vendors would entertain them in groups.

Senator INOUE. You indicated that since the October 1969 survey, your reports have been sent to major commands as well as to local commanders.

General CAPPUCCI. Yes, sir.

Senator INOUE. And as you put it, "This is to insure that proper corrective action has been taken."

Do you have reason to believe that there are cases where such action has not been taken by local commanders?

General CAPPUCCI. No, sir, I have not. The reason that that was done is because our Chief of Staff, the Vice Chief of Staff, and the Secretary of the Air Force are informed about these, the Chief of Staff will many times get on the phone to a commander.

We can use the commander in Thailand as an example, the top commander, and he will express to him some of his views about some of the club operations.

Well, the commander in Thailand wants to know what the chief is talking about, so he wants copies of the reports.

At the same time when the action that is taken by the command gets back, the Chief of Staff may have some comments on that, too. So

the major commander is kept informed for those reasons and also where he personally wants to insure that action is taken. There is no reason to believe that no action would not have been taken. No, sir.

Senator INOUE. You indicated that in fiscal year 1968 your office conducted 59 investigations. Were there other complaints of irregularities received during that fiscal year?

General CAPPUCCI. No, sir.

Senator INOUE. So 59 was the total number of complaints?

General CAPPUCCI. Those were the total, yes, sir.

Senator INOUE. So 59 was the total number of complaints?

General CAPPUCCI. Yes, sir.

Senator INOUE. In other words, you did not disregard or dismiss any other complaint.

General CAPPUCCI. No, sir.

Senator INOUE. Did you find as a result of your studies that there has been an increase in irregularities over the years?

General CAPPUCCI. Sir, I suppose there might be. I really can't say. There has been very aggressive programs conducted to uncover irregularities. I think this is part of it. The fact that we uncovered the 142 and mostly through this inspection survey I think is indicative of that.

Senator INOUE. You have indicated that during the fiscal 1968 investigation, and also the 1969 investigation, about one-third of the irregularities related to slot machines.

General CAPPUCCI. Yes, sir.

Senator INOUE. And I recall that Colonel Fortescue advised this committee that measures have been taken to tighten regulations. Are you satisfied that these regulations are adequate?

General CAPPUCCI. I haven't had a chance to check into that. I think the controls were put in effect as a result of these investigations, weren't they?

General DUPONT. Yes.

General CAPPUCCI. So that we haven't, you know, resurveyed them yet.

Senator INOUE. Were these controls the result of the 1968 investigation or the 1969 investigation?

General CAPPUCCI. 1969, the last one.

Senator INOUE. The controls were not tightened as a result of your first two studies.

General CAPPUCCI. The first two were investigations conducted either at the request of a commander because he had some information or some people reported to us, or we would conduct an investigative survey. But it was not on a massive basis. It was just a spot check here and there, isolated cases.

Senator INOUE. Bingo has been mentioned. Is this a matter of major concern?

General CAPPUCCI. It is not a matter of major concern but it still results in irregularities happening. Cheating at bingo. The custodian provides the prizes. He gets a discount but he charges the club the full price and the custodian keeps whatever discount he got, 10 or 20 percent, whatever it is. Falsifying the winners in the records.

Senator INOUE. The most recent survey involved 142 investigations. Were these the result of complaints furnished your office by commanders?

General CAPPUCCI. No, sir. These—19 were from the auditors that had conducted their 138 audits.

Senator INOUE. The rest were no-notice type investigations on your own?

General CAPPUCCI. Eighty-one of these were from our own investigative surveys and 42 from tips we received aside from anything else.

Senator INOUE. Who decides which open messes are to be investigated?

General CAPPUCCI. No one. I only conduct investigations when I am requested to do so. It could come from the base commander, it could come from his superior, or as has happened in the surveys from the Chief of Staff.

Senator INOUE. In other words, all of the 142 were requested investigations.

General CAPPUCCI. Yes, sir. Some were generated from the audits.

Mr. Row. When you finish I want to add a point of clarification to your question, sir.

Senator INOUE. Please proceed.

Mr. Row. In speaking of his investigations and his reference to the fact that he investigates those instances which are reported to him and he is requested to investigate—how many came out of the audit? The 19 came out of the audit. In selecting bases to be audited, this is exclusively a matter for the Auditor General to determine and we determined what clubs in this instance we felt should be audited by the application of many factors, such as the volume of business, prior known irregularities, remoteness of the operation, and many other factors, but our reviews are determined purely within our own organization.

Senator INOUE. How do you account for the sudden rise from 59 and 64 suddenly to 142?

General CAPPUCCI. Well, it was in this last year that we conducted the investigative survey and that surfaced many of them, of course. Of the 142 we credit 81 to that activity. And the other part, we initiated 42 on our own. In other words, we received the allegations, told the commander, and he asked us to conduct the investigation, and on that part, sir, if I may defer, I would prefer to answer personally to you on that one rather in open session.

Senator INOUE. How many clubs are there in Thailand?

Colonel FORTESCUE. Seventeen.

Senator INOUE. And I recall, General, in your testimony that irregularities were found in every club?

General CAPPUCCI. Yes; they were found at six bases and each base has two clubs and some have three. Korat, Nakhom Phanom, Takhli, Udorn, Ubon, U-Tapao.

Senator INOUE. I realize that your office is strictly an investigative and factfinding one but how many prosecutions have resulted from your investigation of 142 cases?

General CAPPUCCI. I was just giving you the ones for Thailand, sir. We had 37 there of the 142. I don't have the prosecutions on the other cases elsewhere in Europe and the States. I didn't bring that with me. I can get it.

Senator INOUE. I would like to know the disposition of all of the cases because your testimony gives the impression that out of the 142 investigations, listing a whole sundry of irregularities involving slot machines, bingo, kickbacks, and so forth, just about half a dozen were charged.

General CAPPUCCI. No, sir.

Senator INOUE. It would seem rather strange.

General CAPPUCCI. Yes, sir; I understand. We will provide that for you.

Senator INOUE. I would appreciate that, sir.

General CAPPUCCI. Yes, sir.

(The information referred to follows:)

OPEN MESS INVESTIGATIONS

[Since September 1969]

	Auditor	Surveys	Normal	Total
Cases:				
Opened.....	19	81	42	142
Closed.....	14	59	27	100
Pending.....	5	22	15	42
Actions:				
Total closed.....				100
Action received.....				42
Awaiting action ¹				58

¹ Includes the 15 subjects charged in connection with the Thailand cases.

TYPES OF ACTION REPORTED

(Administrative action or changes in procedures may not have been reported to OSI)

None required.....	16
No action—insufficient evidence.....	5
Court-martial.....	5
Article 15.....	4
Administrative action/changed procedures.....	12
Total actions received.....	42

CHARGES IN THAILAND CASES

Rank and name	Charge	Article
Maj Roland R. Fox.....	2 specifications of accepting gratuities from persons engaged in doing business with the several open messes at U-Tapao airfield.	92
Maj. Jackie A. Nickerson.....	1 specification of asking for a bribe from an entertainment booking agent.	134
	1 specification each of agreeing to accept bribes and accepting bribes from an entertainment booking agent doing business with the several open messes at U-Tapao airfield.	134
C.M. Sgt. Robert D. Beaudean....	5 specifications of accepting gratuities from persons engaged in doing business with the Nakhon Phanom NCOOM.	92
	1 specification of receiving bribes by accepting monetary sums from an entertainment booking agent engaged in doing business with the NCOOM.	134
C.M. Sgt. Bobby L. Estes.....	4 specifications of accepting gratuities from firms or persons engaged in doing business with the Korat NCOOM.	92
	1 specification of asking for a bribe, agreeing to accept a bribe, and receiving bribes for services rendered to an entertainment booking agent engaged in doing business with the Korat NCOOM.	134
C.M. Sgt. Robert B. Morris.....	3 specifications of accepting gratuities from person or firms engaged in doing business with the Takhli NCOOM.	92
	1 specification of agreeing to accept bribes, accepting bribes, and soliciting a bribe for another person.	134
	Accepting a gratuity (\$1,200) from Chester Marriott.....	92
S.M. Sgt. James C. Bolin.....	Accepting graft (\$1,200) from Chester Marriott for services rendered.....	134
	3 specifications of accepting gratuities from persons or firms engaged in doing business with the Udorn NCOOM.	92
	1 specification each of asking for a bribe and receiving bribes for services rendered to an entertainment booking agent doing business with the Udorn NCOOM.	134
M. Sgt. James C. Burgess.....	Accepting a gratuity (\$3,500) from Chester Marriott.....	92
	Accepting graft (\$3,500) from Chester Marriott for services rendered.....	134
M. Sgt. George J. Dowdy.....	2 specifications of asking for bribe and 2 specifications of receiving bribes for services rendered to an entertainment booking agent doing business with the Takhli OOM and NCOOM.	134
	1 specification of accepting gratuities from a firm engaged in doing business with the NCOOM.	92
M. Sgt. Wallace J. Dubois.....	1 specification of asking for a bribe and receiving bribes for services rendered to an entertainment booking agent engaged in doing business with the NCOOM.	134
	2 specifications of asking for bribes from Edward C. Harold.....	134
M. Sgt. James F. McLelland.....	4 specifications of accepting gratuities from persons or firm engaged in doing business with the U-Tapao NCOOM.	92
	2 specifications each of agreeing to accept bribes and receiving bribes for services rendered to an entertainment booking agent engaged in doing business with the U-Tapao NCOOM.	134
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Senator INOUE. So your studies indicated that there wasn't a single 100-percent clean one. Every club manager was involved in some sort of irregularities.

General CAPPUCCI. Not necessarily the manager, Mr. Chairman, but we can always find something. I guess like the auditors, much of it was minor.

Senator INOUE. Your investigations were usually initiated upon the receipt of allegations. Have you found that these allegations were well founded?

General CAPPUCCI. Not in all cases, no sir. Some were rather vague, but we still have to explore them, and if there are indications that there is some substance to them, we then go to the commander and say, here is what we have, do you want an investigation? Usually he will say yes. If he says no, that report comes back to me from wherever it is in the world. It still comes back to my office, and if I consider that an investigation should have been conducted, then I will take it up to the Inspector General and higher, and an investigation will be directed if they believe one should be done.

Senator INOUE. I asked this question during this morning's session and I would like to have the answer in order to give this committee some indication as to the magnitude of the problem. In fact, we were discussing this among the staff people earlier, that if out of a total operation of \$282 million, if the criminal activities were less than a million dollars, it is small and I would hate to drag the whole Air Force through an extensive hearing on something which could be proportionately very small. Therefore, once again I would like to ask you to give us an estimate of the total amount involved in goods and services, entertainment, kickbacks, bribes, et cetera.

General CAPPUCCI. Mr. Chairman, we discussed this problem during the lunch break and we are preparing something for you to the best of our ability.

Senator INOUE. I realize you can't come out with something very accurate because I don't know how much the services of a woman are, but I suppose there is a going rate even in Thailand.

General CAPPUCCI. But we plan to submit something to the committee in the very near future.

(Information requested follows:)

ESTIMATED DOLLAR VALUE—142 OPEN MESS INVESTIGATIONS

A review of the 142 Open Mess investigations revealed that allegations were made concerning kickbacks, gratuities, and embezzlement having an estimated dollar value of approximately \$354,400.

The basis of the above approximation is set forth as follows:

a. A number of entertainment agents in Thailand furnished testimony to the effect that 10% to 20% kickbacks were paid to club custodians on all entertainment contracts at NCO Open Messes in Thailand. Entertainment expenditures at all NCO Open Messes in Thailand for a 12 month period totalled \$1,588,000. Using 10% as the multiplier, the alleged annual kickbacks would total \$158,880. Investigation, however, was not able to positively confirm that this sum was received by the custodians.

b. The remaining amount, \$195,520, concerned investigations of Open Messes worldwide, exclusive of the kickbacks on entertainment contracts in Thailand. This total was derived by extracting specific dollar values from investigative reports whenever they were established, by estimating the normal market value of items and services when the dollar value was not reported, and by projecting the dollar value of kickbacks when individuals reported that they had paid a specific percentage.

It is again emphasized that the above total represents, in large measure, projections and estimates of dollar values involved, and does not reflect the absolute value of loss or graft occurring in the open mess system.

The investigative surveys of 100 open messes developed a total of 3150 administrative irregularities and 81 allegations of specific criminal conduct; i.e. 3150 : 1 or an allegation of criminal irregularity rate of 2.6%

Senator INOUE. In your investigation did you find that most of these irregularities were of a criminal nature? In other words, with knowledge, premeditation? Or were they just a matter of negligence or laxity?

General CAPPUCCI. Well, the matters that our investigations developed, of course, would be of a criminal nature. Kickbacks, gratuities, this type of thing, although we did surface, as you know, irregularities in management. The fact I think that 15 are presently facing charges in Thailand, and there will be 11 more to go.

Senator INOUE. In your testimony you indicated that all of the vendors who were involved in these investigations were given the opportunity to testify and that if they refused to testify they were debarred. Has this debarring procedure been effectively carried out?

General CAPPUCCI. Yes, sir; it has. This was done by the command upon the advice of the staff judge advocates who reviewed the whole thing. There was no—speaking of Thailand, no Thai laws were violated by the vendors. To give gratuities or kickbacks, anything they want—

Senator INOUE. Is it permitted in Thailand?

General CAPPUCCI. Yes, sir; it is permitted.

Senator INOUE. Kickbacks?

General CAPPUCCI. Yes, sir. As long as the vendor pays his taxes in Thailand, there is really no problem, unless he is stealing the stuff that he is selling. But let us say it is legitimate merchandise. He can make any deal he wants to with the buyer. It is perfectly all right. There are no Thai laws involved here. So what we are involved with, then, do we want to continue to do business with vendors who pay kickbacks and offer gratuities and then refuse to cooperate when we investigate these matters, because it is against our laws and principles.

Senator INOUE. Are you suggesting that all of these vendors were Thai citizens?

General CAPPUCCI. No, sir; a number of them were Americans.

Senator INOUE. What happened to them?

General CAPPUCCI. Well, one is back, but these Americans worked for Thais, for Thailanders. The Americans returned to Thailand and went to work—for example, one of the vendors worked for a Thailand entertainment agent. The one that gave us—

Senator INOUE. He would be placed on a blacklist as an individual.

General CAPPUCCI. Yes, and this is a loss of business to these people and the thing was coordinated by the command so that the Army, Navy, and Air Force, all the U.S. facilities, in Thailand put them on the debarred list so they cannot do business with any U.S. facility. This hurts.

Now, what they will attempt to do, I am sure, some of these vendors will change their names and get their friends to front for them, I suppose, but this is being watched, too. A number of them did cooperate, did open their books, and we were able to get good evidence. Some will testify. These people will continue to do business with the U.S. facilities in Thailand.

Senator INOUE. Can you tell this committee for the record how the kickback operates for, say, a food vendor or beverage vendor?

General CAPPUCCI. Yes. I will take the beverage first. I think you stated this morning there were a number of liquor representatives running around looking for business, and as you know, it is purchased—the class III, the locker deal. All the custodians have to do is to indicate what kind of liquor he wants to buy. So the vendor has to get the custodian to select his brand of liquor. For example, J. & B. scotch. This is what you ought to buy and this is the price I will give you. But you could keep part of it. In other words, let us say it is \$20 a case, but I will give you back \$5 for each case. I will give you two cases free or three cases free for your own use. You don't have to report it.

Senator INOUE. Whom do these vendors represent?

General CAPPUCCI. They represent liquor dealers here in the States.

Senator INOUE. The distilleries?

General CAPPUCCI. Distilleries, through distributing companies.

Senator INOUE. Have you found any evidence that these mother companies or distillers were aware of the kickback operation?

General CAPPUCCI. No, sir; as a matter of fact, I recall one who is very cooperative and I think they fired their man anyway.

Senator INOUE. I presume these mainland companies must have been pressing the vendors to aggressively seek business.

General CAPPUCCI. Yes; it is a commission business, I am sure. He only gets paid when he sells liquor. So there is I am sure quite a lot of pressure.

Senator INOUE. And they were not aware that this sort of temptation might be available?

General CAPPUCCI. We have no evidence that they were, Mr. Chairman.

Senator INOUE. So you are satisfied that at least the home companies here were not involved.

General CAPPUCCI. Yes, sir.

Senator INOUE. Were the home companies advised of the irregularities of their agents or vendors?

General CAPPUCCI. I don't know for certain. I will have to get that information. I will provide that information for you, sir.

(Information requested follows:)

In explanation, several distillery firms are usually represented by a distributor. Salesmen are employed by that distributing company to promote and sell the brands of liquor handled by their employer. The distributors, where applicable, have been apprised of the information that their salesmen were alleged to have given kickbacks and gratuities to custodians. The distillery firms, however, have not been informed of this information by the Air Force.

Senator INOUE. But once they have been involved, I am talking about the vendor, once they have been found to be involved in these irregularities, they are blacklisted?

General CAPPUCCI. Yes, sir.

Senator INOUE. So you will not be doing business with them any longer?

General CAPPUCCI. No U.S. facility will.

Senator INOUE. Are the vendors also under investigation for possible prosecution? By that I mean are you submitting their names to the Justice Department?

General CAPPUCCI. We had their names but actually they haven't performed any criminal act.

Senator INOUE. Not under Thai law.

General CAPPUCCI. Not under Thai law.

Senator INOUE. Have you found this type of activity in the United States?

General CAPPUCCI. I think the thing that would come closest in the United States would be giving bonus liquor and the custodian keeping the bonus liquor for his own use.

Senator INOUE. What about in Europe?

General CAPPUCCI. I don't think we have found that, no, sir. We haven't found that.

Senator INOUE. So your studies indicate that most of the irregularities were found in Southeast Asia.

General CAPPUCCI. Yes, sir.

Senator INOUE. And your explanation is that because of law and custom—

General CAPPUCCI. Yes, indeed. We have cases, you know, in Europe, 38 of them, but there are other irregularities. Embezzlement, theft, and so on. But regarding the deals with vendors, this doesn't seem to apply so much in Europe. We haven't found any.

Senator INOUE. Are you satisfied that the commanders were unaware of these irregularities?

General CAPPUCCI. Yes, sir; I am. Now whether they had suspicions or not I don't know. I do know they were not aware of what was going on. If it had been called to their attention sooner, I am sure they would have taken positive action.

Senator INOUE. Do you think that your office will be conducting these surveys on a regular basis from now on?

General CAPPUCCI. Yes, Mr. Chairman. I already have requests for 100 surveys a year from General Dupont's activity and I plan to continue them just as long as possible with the personnel that is available to me.

Now, there are some more personnel reductions that are going to come in the near future, but I have already prepared paper work which hopefully will exempt OSI from a big reduction.

Senator INOUE. From your studies were you able to determine what proportion of the irregularities were actually violations or just poor management?

General CAPPUCCI. No, sir. I don't think I could give you a specific on that.

Senator INOUE. You spoke of conflict of interest. Will you give us an example?

General CAPPUCCI. Yes. I am trying to think which one it was.

Mr. O'DONNELL. We have cases where a custodian will be employed by the club and run as a separate business a selling operation to the same club for which he works. In the case in mind, it is a foreign national who had a foreign national contact and he was in a sense selling to himself.

Senator INOUE. How many instances did you have of this type of conflict?

Mr. O'DONNELL. I can't give you a specific figure but I would say in the neighborhood of five to six at the most.

Senator INOUE. Did they involve large purchases?

Mr. O'DONNELL. Negative. In the couple of hundred-dollar type purchase.

Senator INOUE. I gather from your testimony, General, that this recent survey brought out with findings which are not obvious in the past. How do you explain these irregularities escaping notice in the past?

General CAPPUCCI. Well, I can only explain it on the basis that no organization went in to look for that type of thing.

Senator INOUE. But would you say that these activities were actually being carried out in the past?

General CAPPUCCI. Well, I would assume that the type of irregularities uncovered have been going on for some time, yes, in varying degrees.

Senator INOUE. I would like to get back to your response to a question earlier this morning. I was quite intrigued by this. You have three different types of open messes, haven't you—officer, NCO, and airmen?

General CAPPUCCI. Yes, sir.

Senator INOUE. And you suggested that most, in fact, over 90 percent of the irregularities were found in the NCO clubs, open messes.

General CAPPUCCI. Yes. From my investigations, yes. I am only speaking of the clubs that we investigated. I don't say, you know, it pertains to every club worldwide.

Senator INOUE. Of the 100 you investigated, how many were officer clubs?

General CAPPUCCI. Approximately half.

Senator INOUE. And the remainder were NCO clubs?

General CAPPUCCI. Yes, NCO and airmen's clubs.

Senator INOUE. Can you give us your explanation again as to why the irregularities were very few among officer clubs and so many in the NCO club?

General CAPPUCCI. Well, it is speculation. As I indicated previously, I know the commanders go to the officer's club, so I imagine if things were wrong, if they were not getting the service, if the price were too high, they would complain and I would guess that custodian or club manager would do his utmost to make sure that the club the commander goes to is really first class.

Another consideration is that the NCO clubs and the airmen's clubs do a bigger business than the officer's clubs. So this, you know, lends itself I think to—

Senator INOUE. Temptation.

General CAPPUCCI. To temptations. And I think that the custodians of the NCO clubs are a little easier to get to than some at the officer's clubs.

Senator INOUE. I gather that your investigations indicated that the criminal activities or irregularities involved in the Air Force operations did not in any way get close to the magnitude of the Army operation.

General CAPPUCCI. No, sir, because we specifically looked for a conspiracy, for any group that would set up a supply company or something to funnel purchase orders through or to buy from them, and we couldn't find it.

Senator INOUE. So you are satisfied that there is no international conspiracy?

General CAPPUCCI. Yes, sir.

Senator INOUE. You have no dummy corporations.

General CAPPUCCI. No. None.

Senator INOUE. No Swiss accounts.

General CAPPUCCI. Well, on the Swiss accounts, I cannot specifically state with accuracy that none of the people that we have investigated don't have secret bank accounts. I suspect that a few may.

Senator INOUE. Do you have any evidence that these NCO club managers were having annual conferences?

General CAPPUCCI. The club managers in Thailand were having periodic meetings in Bangkok, yes. But it was at the invitation of several of the vendors. They would be entertained.

Senator INOUE. Any evidence of criminal conspiracy at these meetings?

General CAPPUCCI. No, sir. Strictly entertainment, drink and females.

Senator INOUE. Were there any reports suppressed by commanders?

General CAPPUCCI. Not to my knowledge. The commanders were 100 percent cooperative.

Senator INOUE. You are satisfied that none of the commanders were involved. The highest rank is a major, I believe.

General CAPPUCCI. Yes, sir.

Senator INOUE. What was his responsibility?

General CAPPUCCI. He was a base service officer.

Senator INOUE. Now I would like to ask the staff assistant, Mr. Gordon Nease, to ask any questions he may have.

General CAPPUCCI. Yes, sir.

Mr. NEASE. I would like to ask Colonel Fortescue, in the final analysis who has the responsibility of the operation of supervision of the clubs? Say the 3rd Air Force, for example. Who is responsible to see that these regulations are carried out.

Colonel FORTESCUE. 3rd Air Force, for example, did you say?

Mr. NEASE. Yes, or any numbered Air Force.

Colonel FORTESCUE. The commander, He has a large staff to accomplish much of that for him. For example, I think it was brought out earlier that he has his comptroller to do certain parts, his Staff Judge Advocate to do certain parts. He has on the individual bases of resident auditors to do a certain amount of it which he has to supervise but he gleans information from them. He has his director of personnel to do certain parts of it. He has the director of personnel services. The director of personnel services has probably the larger function of dealing with the operation of the club, and they do make staff visits—to look at the operation, but they don't provide the audit function. They don't inspect the accounting function of the FCO.

Mr. NEASE. In other words, it is not left up to any one individual to see that these club managers operate properly. It seems you have an awful lot of directives and regulations, some of which you have changed, but what I am trying to get at, who is the man on the base that sees to it that these directives are carried out? If he just gets

piecemeal information, maybe from the auditor, OSI, or other personnel—

Colonel FORTESCUE. The man on the base that handles it primarily, I guess we would have to say the base commander, but there is a special services officer who is directly over the operation of the club. There again he doesn't have accountants or auditors with him. They have to rely on the staff organization rather than a firm like Howard Johnson's which operates and contracts from one central office.

General DUPONT. If I may just add, sir, at the base level, the base commander is responsible for everything on that base, including the open messes.

Mr. NEASE. Well, isn't part of the problem here the fact that while you have ample regulations to run these clubs, nobody is really seeing to it that they are carried out? No one has taken the single responsibility to—

General DUPONT. I think the responsibilities are fairly well defined. The club secretary has jurisdiction over that club. He is responsible for everything that happens in that club. The fiscal control officer, for example, has specific responsibilities to the nonappropriated funds for accounting, separate from the bookkeeping system that is conducted in the club itself. The Auditor General has specific responsibilities for conducting periodic audits of the open messes.

Mr. NEASE. In other words, there is really no one person held responsible for these irregularities that have turned up in these clubs here. In other words, you say why did it go wrong. You had to go back to several different people to see who was responsible for catching these errors.

General DUPONT. Are we still talking about base level?

Mr. NEASE. Yes, sir.

General DUPONT. The commander. He is the one person responsible.

Mr. NEASE. Is he ever held accountable for these defalcations?

General DUPONT. On all these things that occur, he is responsible for endorsing the findings, pointing out corrective actions and seeing that the job is done properly.

Mr. NEASE. General Cappucci, you had 142 substantive investigations. Now, there are about 537 clubs, and based upon what you told us of the number of incidents you turned up, do you contemplate conducting a survey at all these clubs?

General CAPPUCCI. No, sir; it would be a physical impossibility. I could never have enough agents to do this at any one time.

Mr. NEASE. Don't you think this indicates a need to go into every club?

General CAPPUCCI. Yes, sir. When we plotted these 100, we took a number in the Pacific, in the States and Europe and we chose areas where through experience we knew things had happened before.

On the lot we will do it during the next 12 months, not all in one swoop, and we will do at least 100 and we will spot check them around. We will do others this time and some of them will be repeats where we have had some problems.

Mr. NEASE. And you will have the authority in the future—I would think this would also apply to the Auditor General's Office—to choose some of these and go into them unannounced without being requested.

General CAPPUCCI. Yes sir, because the Chief of Staff has already

advised his major commander that this is going to happen. That is all the instructions I need.

Mr. NEASE. Have their been any American civilians involved in any of these that you have turned up yet?

General CAPPUCCI. Yes. Some of the vendors—well, one of the vendors who is going to testify may be involved in giving kickbacks.

Mr. NEASE. But there have been no civilians employed in the club system involved.

General CAPPUCCI. Yes, sir. There was one. He was a retired officer, I think in charge of buildings or something, and he was fired.

Mr. NEASE. And as I understand it, as long as he is not or his shortcomings do not involve Government property or Government funds, there is nothing you can do about it. You can't bring him back and try him.

General CAPPUCCI. We can't bring him back. It is out of our jurisdiction.

Mr. O'DONNELL. We have turned that case over to the Department of Justice and they haven't made a decision yet as to prosecution in district court.

General CAPPUCCI. And the Thai national, of course, that are employed, the best they can do with them is fire them because they have absolutely no jurisdiction.

Senator INOUE. May I ask a question at this point? Is there any procedure whereby the vendors are investigated before they are approved for business? What I am suggesting is that you may have had one who had been involved in other irregularities in the past.

General CAPPUCCI. There is no system I am personally aware of. All I can say is the only vendors that OSI investigated is as a result of an investigation of a case. But those who wanted to get on the list to sell supplies or services we have never—OSI has never investigated them, no.

Senator INOUE. How do you get on this vendors' list?

Colonel FORTESCUE. I will have to find out.

General CHENEY. What was the question, Mr. Chairman?

Senator INOUE. How does one get on the approved vendors' list or approved entertainers' list?

Colonel FORTESCUE. What I referred to before was in Europe and now in the 7th Air Force in Viet Nam. The officials at Air Force Headquarters in Europe have compiled a list after auditions of many European acts and they have approved them for content of the act and also set a price. So the people apply. It is partly done through a kind of joint Army-Air Force thing. They have auditions I think once a month and that is the approved entertainment list that USAFE, Air Forces in Europe, had just started within the last 6 or 7 months, I believe.

Senator INOUE. How is it done in Thailand?

Colonel FORTESCUE. I can't speak for Thailand.

Senator INOUE. You have no uniform policy. I ask this question because it appears that much of the irregularity would involve entertainers and food and beverage vendors.

Colonel FORTESCUE. We hope in the near future as I mentioned earlier to direct procurement be handled by the installation procurement offices on each installation or in some cases in a geographical area.

Senator INOUE. I gather there must be some approved list because I recall receiving a letter from a constituent requesting some assistance of the ANCE and assistance in getting him on the approved list.

Colonel FORTESCUE. There is an approved sanitation list for food vendors.

General CAPPUCCI. They have a list of vendors because you are either barred or you are not barred and—

Senator INOUE. What I want to know is how do you get on this list?

General CAPPUCCI. This I don't know.

General DUPONT. May I ask the Pacific Air Force representative, to address the question.

Major BLAISDELL. I am Major Blaisdell from Pacific Air Force. Historically this is done by exception. The vendor is allowed to participate until such time as he is shown that he is unworthy of further participation. To my knowledge there has been only one vendor debarred from operations in the Pacific area up until the present investigations. Of course, General Cappucci has already disclosed the present investigations on the vendors who have been debarred, but up until 1969 there was only one that I know that was debarred. The vendors' list on the other hand is handled by procurement in the area of appropriated funds. They have an approved list that is published. The nonappropriated fund area has no such list.

Senator INOUE. Can you give us the reason for this difference?

Major BLAISDELL. No, sir, I cannot.

General DUPONT. I think it probably points to an area that we are very interested in correcting and where I must again refer back to this pilot project in the 7th Air Force. So I am unable to tell you that we have got that area corrected because we do not. But it evidently needs more attention and we are going in this direction of centralized procurement and contracting.

Colonel WHITMORE. Mr. Chairman, if I could comment on what General Dupont has just said, so that there is no inference of negligence in this matter drawn by the committee. In the nonappropriated fund area from the standpoint of overall nonappropriated fund policy, it has been considered desirable as a matter of overall policy, to allow not only the major commanders but local commanders maximum flexibility in the operation of these funds in order to procure maximum services for the people in uniform at the lowest possible cost. Part of the cost of doing business in nonappropriated fund areas is the very machinery of procurement. The creation of lists and requirements for lists, all would require more nonappropriated fund employees at the expense of people in uniform.

Therefore, we have through the years attempted to impose upon the nonappropriated fund administration a minimum of costly requirements and restrictions. It is only when we come to a point where we see that something is necessary—that is the point we are at now in the procurement area—that we then realize the nonappropriated funds are going to have to pay for it. This means the people in uniform in the ultimate are going to have to pay for it, that is to say for the additional costs of these lists and controls.

Senator INOUE. Don't you think, Colonel, that as a result of this type of flexibility that you speak of, the club manager has been given

greater flexibility and discretion to buy from the one who entertains him the best?

Colonel WHITMORE. It is very obvious that additional controls are now necessary.

Senator INOUE. Are you suggesting that tighter controls such as the establishment of an approved list are not required?

Colonel WHITMORE. No, sir. I am saying that it does now appear that in line with the previously mentioned objectives for bringing nonappropriated fund procurement closer to the appropriated fund machinery, we shall indeed probably evolve a certain additional procedure.

Senator INOUE. Colonel Fortescue, I gather from your statement that there is no uniform policy concerning entertainment lists or vendors' lists existing throughout the world. You speak just of Europe.

Colonel FORTESCUE. I spoke of Europe and of the 7th Air Force in Vietnam.

Senator INOUE. Your office is also in charge of the Far East, isn't it?

Colonel FORTESCUE. Well, in certain areas; yes, sir. Certain phases.

General DUPONT. Yes, sir. We are responsible for the policy. This is one area where we do not prescribe policy on contracting with vendors. We do ask for a fair price, getting most for the membership of the clubs. It has been stated several times that this is not a sole contractual agreement on the part of the club manager. It is approved by the advisory board and by the base commander in most cases, so it is not one man who is entering into these contracts.

Senator INOUE. As a result of these findings are you going to institute stricter controls?

General DUPONT. We have already started that, sir. I will repeat once more that we have a pilot project in the 7th Air Force which is rather a radical departure from past practices. It is something we cannot implement overnight, worldwide, for centralized procurement by our procurement officers. It will be evaluated. We have already started get-togethers within the Air Staff to find out if we can move this faster, but we have had no evaluation.

The 7th Air Force manuals have been prepared. They will be instituted. The system will be evaluated and we hope that this will lead us into something that will divorce the individual managers from contracting with the vendors. I think this is a prudent thing to do based upon the weaknesses of some of our managers.

Senator INOUE. Thank you very much.

Our final witness, and I am sorry to have kept you waiting so long, sir, is Maj. Gen. James Cheney, Judge Advocate General of the U.S. Air Force.

STATEMENT OF MAJ. GEN. JAMES CHENEY, JUDGE ADVOCATE GENERAL OF THE U.S. AIR FORCE

General CHENEY. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you today.

You have heard, from previous witnesses before this committee, of the efforts taken to identify irregularities in open-mess operations, offenders, and the investigations which followed. Our judge advocates are trained to be legal advisors and general practitioners of law, as well

as specialists in certain fields of law. Therefore, we furnish legal advice and assistance to management, in the operation of open messes. This assistance is also rendered to commanders and investigators during the early stages of detection of offenders. We work in close harmony with the investigative personnel of the Air Force by furnishing advice as to proper and legal investigative procedures to aid in the successful prosecution of those who profit illegally from open mess transactions and operations. This assistance begins, at Air Force level, with the coordinated efforts of the investigative staff agencies and my office in the preparation of handbooks for guidance of investigative personnel. This relationship is continued down to the echelons in the field where the efforts bear fruit. I am happy to report that this mutually cooperative relationship has been instrumental in providing commanders with thorough and complete investigations to enable orderly and timely prosecution and, in certain cases, appropriate administrative action.

Upon receipt of an investigation by the appropriate commander, the judge advocate furnishes the commander advice as to the sufficiency of evidence available to support court-martial action and, if appropriate, criminal action is initiated. If punitive action is not appropriate, then advice is rendered as to the administrative remedies available to the commander for resolution of the problem.

At times, even our best investigative efforts and timely prosecution of offenders are met with problems. The very nature of offenses of bribery, accepting gratuities, and soliciting kickbacks in open-mess management brings about evidentiary problems. Normally, the prosecution witnesses are of questionable morality and character, and reliability is, many times, unpredictable. We believe that the offenses proscribed by the Uniform Code of Military Justice and current Air Force directives are adequate to punish open-mess violators. We further believe that the table of maximum punishments for these offenses prescribes adequate penalties.

There are other problems encountered in the prosecution of open mess offenders as evidenced by some difficulty encountered in the Thailand open mess cases, currently pending. This is the problem encountered in obtaining the testimony of foreign nationals. It does present some difficulty when the foreign country and the United States are not parties to a Status of Forces Agreement (for instance, Thailand). The prosecution is guided by the desires of the foreign national witness, and this, coupled with insuring the individual rights of an accused under the military judicial process, poses problems of scheduling, logistics, and timely processing of a court-martial. Geographically we encounter problems in affording individual selected civilian counsel in the United States sufficient time for travel of great distances; and, we are unable to supervise control, as we would like, over prospective foreign national witnesses concerning times and dates of scheduled hearings for depositions, article 32 investigations, or trial dates.

The United States has exerted great efforts to enter into a Status of Forces Agreement with Thailand, but to date these efforts have not been to successful. It should be noted that a Status of Forces Agreement in Thailand will not be the answer to all of the problems encountered in prosecution in some instances if we operated under a Status of Forces Agreement.

Another problem area we face, in disposition of cases involving open mess offenders overseas, is the lack of court-martial jurisdiction over civilians accompanying or serving with the Armed Forces in the field. Article 2(10), Uniform Code of Military Justice, provides for the exercise of court-martial jurisdiction, in time of war, over civilians serving with or accompanying an armed force in the field. However, the Court of Military Appeals has held recently that, for purposes of this article of the Uniform Code of Military Justice (10 U.S.C. 802(10)), the term "in time of war" means a war declared by Congress. We are studying proposed legislation to empower the military to exercise court-martial jurisdiction over civilians accompanying or serving with an armed force in the field.

Other legislation which will indirectly assist in appropriate disposition of open mess offenders is being considered. This proposed legislation would give the military judge of a court-martial the power to sentence a convicted accused in a court-martial. We believe that a uniformity in punishment will result and this is in accord with the practice in the Federal judiciary.

I must conclude by stating that, as a result of the increased efforts of our auditors, investigative agencies, and commanders to insure proper management in the operations of our open messes and to identify offenders, our legal workload has also increased. It is my view that this continued effort will be effective and that we will achieve the purpose—sound open mess operations, with graft and dishonesty held to the absolute minimum.

As you are aware, the cases in Thailand are in various stages of investigation.

I appreciate the forbearance of the committee in delaying appearances of any accused, suspect or witness before the subcommittee pending completion of the court-martial proceedings or as to such time as a suspect is cleared of complicity.

Senator INOUE. Thank you very much, General.

Before proceeding with my question I would like to say, as one member of the committee, that I am aware of the number of officers in JAG. I realize that the workload is an extremely heavy one. I will try my best to convince my colleagues that we should augment your organization.

General CHENEY. I appreciate your interest.

Senator INOUE. You have spoken of investigations of cases by your office. Am I to assume that lawyers are involved in these investigations?

General CHENEY. You will recall, sir, our having said we investigate cases. We assist the investigative agencies, that is, the OSI at the base level, and additionally, of course, once we get into a case—I did speak of article 32—the formal pretrial investigation is conducted by a judge advocate in most cases.

Senator INOUE. Are all of your JAG officers trained lawyers?

General CHENEY. Yes, sir.

Senator INOUE. Now, will the officers in your command assisting in these cases which are currently before us give advice and recommendations on the charges to be made?

General CHENEY. That is correct.

Senator INOUE. Or is this policy decision as to what charges are going to be made left entirely up to the commander?

General CHENEY. Well, the staff judge advocate is the legal advisor to the commander. He reviews reports of investigations and arrives at the conclusion as to the probable sufficiency of the evidence, and based thereon he makes recommendations to the commander as to what action should be taken in a case. The decision, of course, is that of the commander.

Senator INOUYE. What happens if the commander refuses to abide by the recommendations?

General CHENEY. Well, it depends I suppose on which way it goes. Of course, if the recommendation is that no action be taken and the commander insists, then you have a question of legal sufficiency. I suppose you get involved—we get involved with the people at higher headquarters. On the other hand, if the recommendation is that action should be taken and no action is taken, then I think in any of these cases, in any event, if there has been an investigation by the OSI, I believe also when audited by the auditing people, that reports are made to them of the action that is taken on the basis of these investigations. So that this information does feed up as to whether or not action has been taken in any specific case.

Senator INOUYE. Are you as head of the office advised as to the action taken?

General CHENEY. Am I advised? Not necessarily. I will work, of course, with the OSI in this area and he will feed to me information of investigations where action has not been taken and then I will, of course, get into it. We have had, I say for the record, Mr. Chairman, in this area no problem. In other words, our experience has been that the commanders, I would say almost invariably, do take action based upon the recommendations of the staff judge advocate.

Senator INOUYE. General, in your testimony you set forth some of your problems relating to time, scheduling, logistics and transportation. Have any participants during the course of this investigation escaped prosecution because of evidentiary or other procedural matters such as failure to schedule a timely court-martial?

General CHENEY. No. I don't know specifically for those reasons. There are, of course, cases which fail because of the insufficiency of the evidence or because the witness disappears. The witness is a foreign witness and disappears, or, for that matter is perhaps an American witness who refuses to testify. You do have this happen inevitably. The problems that you run into in the prosecution of these cases are practically all practical problems, problems of getting a witness, problems of having a witness testify, but for the reasons you have stated, I don't think we have had prosecutions fail.

Senator INOUYE. Can you advise this committee as to the penalties for some of the violations that have been described in this hearing today?

General CHENEY. All right. The larceny, of course, which depends on the Uniform Code of Military Justice, you have penalties running up to 5 years' confinement with punitive discharge and that is if the amount involved is more than \$100. For less amounts, for less than \$50, the confinement is 6 months. \$50 to \$100, the confinement would be 1 year.

Many of these cases are prosecuted as receipt of gratuities and they are tried as violations of Air Force Regulation 30-30, so you have here involved the disobedience of a standing regulation for which the max-

imum penalty is 2 years' confinement. If it should be some other regulation, then it could be 6 months' confinement.

Wrongful appropriation, up to 3 months. Six months' confinement, Bad Conduct Discharge for more than \$100 value. We have bribery or graft charged under Article 134 which will carry a punishment of dishonorable discharge and 3 years' confinement. Soliciting can go to 5 years' confinement. Dereliction of duty under Article 92, 3 months' confinement. For officers, any of these offenses will also carry a penalty of dismissal.

Senator INOUE. You have set forth the maximum punishment.

General CHENEY. That is correct.

Senator INOUE. In past prosecutions and convictions, have any of the convicted received the maximum punishment?

General CHENEY. I think I can state without exception none have. None has received the maximum penalty.

Senator INOUE. Would you say that most of them have gotten off lightly?

General CHENEY. I don't think they have gotten off lightly. Those who have been tried have a conviction by a Federal court on their record. If they are reduced a grade, just one grade, this over a period of time will work a large financial penalty.

If they receive confinement, of course, there are many disabilities attendant upon that.

Let me put it this way. I have seen nothing to cause me to believe that inadequacy of punishment has contributed to continuation to the irregularities in the funds.

Senator INOUE. In your testimony you have referred to the Status of Forces Agreement. For the record, how would that assist you in your problem?

General CHENEY. Mainly it provides an avenue of cooperation between us and the officials of the foreign countries. With some countries we do have arrangements whereby we can, through their offices, subpoena witnesses. Now, this is not true in Thailand. It is true only in a very few countries. In Germany under the Supplemental Agreement the Germans can subpoena people to appear as witnesses in our proceedings. In the United Kingdom this can be done, Canada, and also Australia. Other than those countries, the fact that you have a Status of Forces Agreement you have an avenue, a channel of working with the officials and you can generally get much better cooperation with them.

Senator INOUE. What happens in those countries where you do have Status of Forces Agreements and you have violations of the nature described today?

General CHENEY. The main advantage is some assistance in getting a foreign witness in to testify, and I just enumerated those countries where we have arrangements where we can actually bring them in. Those are under Status of Force Agreements.

Senator INOUE. I note in your testimony that your office is considering legislation, one on the definition of war, I believe, the other to give the judge of the court martial the power to sentence the convicted accused.

General CHENEY. This latter one, Mr. Chairman, there has actually been no legislation proposed as yet. The three Judge Advocates General of the three services, we are exploring, shall I say, the recom-

mended legislation. We feel that perhaps it would result in better uniformity of sentences as I stated in my testimony.

There is another bill, of course, it has been introduced in the House, H.R. 4225, which would confer jurisdiction to the U.S. District Courts to try certain civilians who are or have been connected with Armed Forces. I think DOD and the services are in the process of proposing substitute legislation rather than this. We are in favor of the objectives of this measure but we feel there is a better way of going about it, and we are in the process of proposing an amendment to title XVIII which would provide that the people accompanying the armed forces overseas could be tried in a Federal Court in the United States for those offenses which are presently within the maritime and special jurisdiction of the United States courts, and then an accompanying provision to amend title X which would give the military the authority to apprehend and hold in custody and deliver those civilians accompanying the armed forces.

Senator INOUE. When will you be ready to submit for our consideration your recommendations on the legislation you have just referred to?

General CHENEY. I think the last legislation I spoke of is presently at the Bureau of the Budget. In other words, it has been completed to our satisfaction and we have submitted it for clearance with the Bureau of the Budget.

There is one matter that has not been resolved yet with the Department of Justice and that is a question of retroactivity of the application of the bill. That problem we have to work out. But that is the status of it at the present time. It is on the way.

Senator INOUE. I would like to call upon Mr. Nease if he has any more questions.

Mr. NEASE. One or two. I believe you have 15 individuals under charges, 16 more on whom you haven't completed your investigations?

General CHENEY. That is approximately correct. I believe that other than the 15, the investigations have been completed and recommendations are being made for disposition of those cases. Some of those are still under the command of the 13th Air Force. Others are in other commands throughout the Air Force and the 13th Air Force is presently in the process of making recommendations to the commanders of those individuals as to what action it thinks should be taken on them.

Mr. NEASE. Have you any guess as to the time when these cases will be disposed of?

General CHENEY. You mean all of the cases or the 16 or the 15?

Mr. NEASE. The 15 first and then the 16.

General CHENEY. Well, the 16 are in the process of being disposed of now. They will be disposed of very shortly because I think in those cases the action is going to be administrative in nature, or article 15 which, of course, if the individual should decline it, he could demand trial by court-martial, could go to court-martial.

The other 15 I cannot at this point make an estimate on as to when the cases will be completed. The article 32 investigation; the formal pretrial investigation is scheduled to commence this week.

Mr. NEASE. What do you mean by article 32?

General CHENEY. Article 32 of the Uniform Code of Military Justice which requires that before any case can be referred to trial by general court-martial, it must undergo a certain investigation to deter-

mine whether there exists or not a prima facie case. It is a formal investigation of the charges that have preferred.

Mr. NEASE. You referred to lack of court-martial jurisdiction over civilians accompanying certain armed forces in the field. Is that a factor in this case? Would that apply to the one civilian you mentioned?

General CHENEY. I don't think that we have any in this case except one or two if those as mentioned by General Cappucci who might, if we had other legislation, we might have—these are the vendors, and so forth. These are not people working for us. Conceivably with other legal provisions we might have been able to take some action against them but it is not really an issue in this case, I will say that. In other cases—we have had cases where we have had civilians working for the fund. We have not been able to take action because we have no jurisdiction other than firing the individual, of course.

Mr. NEASE. As a result of these surveys you have been running now, these investigations, is action contemplated against anybody in any other theater of operation other than Indochina, Thailand?

General CHENEY. If there is action in any of these cases where they have discovered criminal conduct and action can be supported, it will be taken. I just don't know specifically of individual cases at this point.

Mr. NEASE. There was something in the paper some time ago about someone in Iceland or Greenland.

General CHENEY. In everyone of these cases the report of the OSI investigation will be reviewed by the staff judge advocate and if the file indicates that it will support punitive action, punitive action will be initiated.

Mr. NEASE. That is all I have Senator.

Senator INOUYE. Although this subcommittee will adjourn in a few minutes I would like to advise the Air Force that our records will be kept open to receive additional information which I am certain will be submitted relating to some of the questions I have asked. If you do have additional information which you feel may be helpful in our study, the committee would appreciate receiving it.

Before we adjourn in behalf of my committee I would like to thank you for your cooperation. I appreciate it very much.

I should like to note that in many ways this is a rather unusual study. By conducting these hearings in this manner, we are expressing our complete faith in the Air Force. As you know, gentlemen, we have had no investigations conducted independently of your establishment. Our staff people have not been in the field. We will have to reach conclusions on this matter almost solely on the testimony you have provided us today, and I am convinced that you have done so as candidly as possible without jeopardizing your case.

I would like to tell you that I appreciate all the prehearing briefings that we have had. It has been most helpful. I hope that as a result of these hearings the subcommittee will be able to recommend to the full committee certain legislative changes that may assist your command and assist the Department of Defense in preventing further irregularities of this nature. Do you have any other statements you would like to make?

General DUPONT. No, sir.

Senator INOUYE. If not, thank you very much.

(Whereupon the committee adjourned at 4:25 p.m. to reconvene subject to the call of the Chair.)

