

1037

Y4
. G 74/6
M 59/2/1
PT. 1

92 84
G 74/6
M 59/2/pt. 1

U.S. MILITARY SUPPLY SYSTEMS
TRAFFIC IN SURPLUS WAR MATERIEL

GOVERNMENT
Storage

DOCUMENTS

NOV 6 1972

THE LIBRARY
KANSAS STATE UNIVERSITY

HEARINGS

BEFORE THE

PERMANENT

SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON

GOVERNMENT OPERATIONS

UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

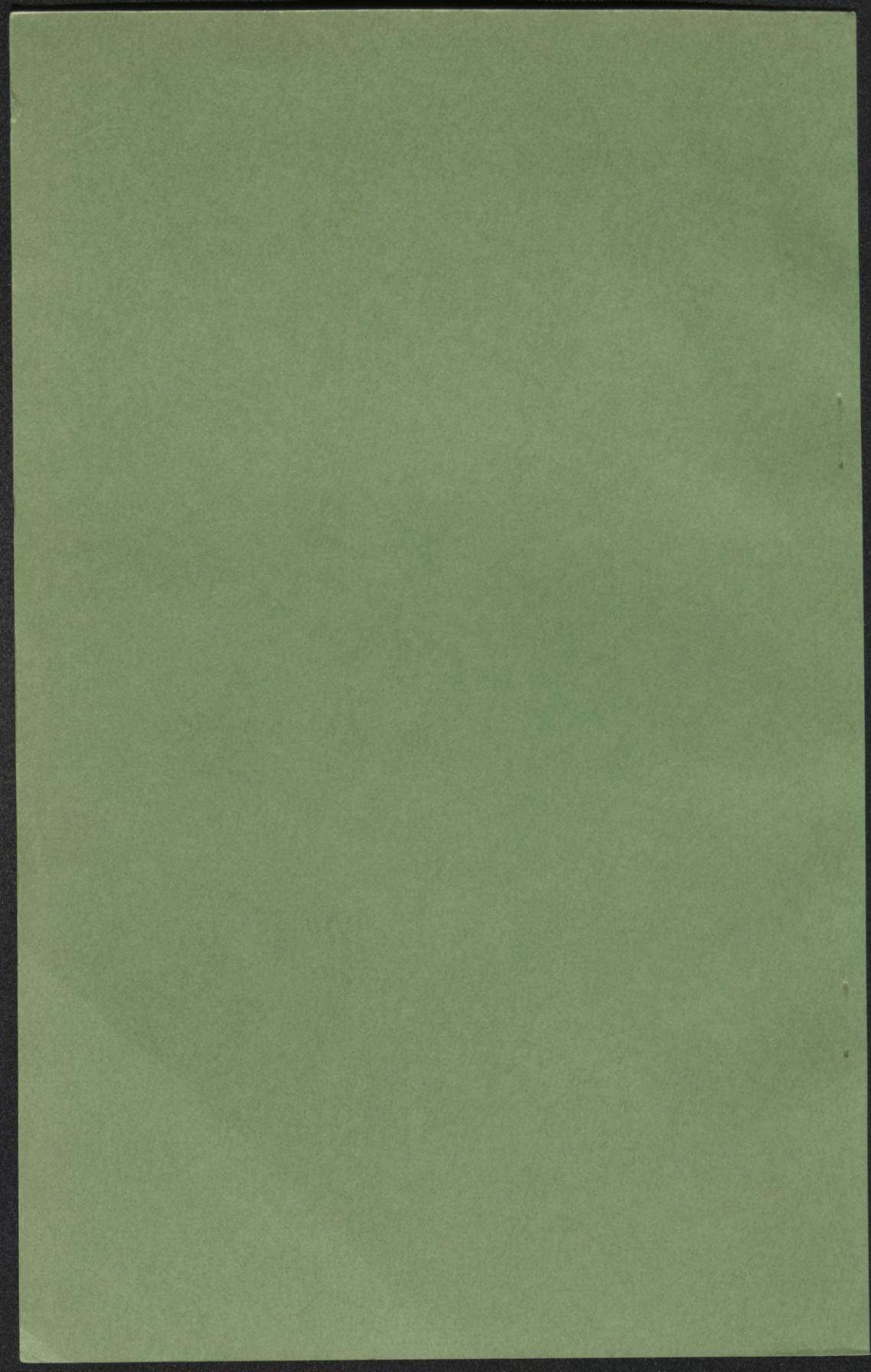
PURSUANT TO SECTION 4, SENATE RESOLUTION 258,
92D CONGRESS

JULY 26, 27, AND 28, 1972

PART 1

Printed for the use of the Committee on Government Operations





U.S. MILITARY SUPPLY SYSTEMS
TRAFFIC IN SURPLUS WAR MATERIEL

HEARINGS
BEFORE THE
PERMANENT
SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
UNITED STATES SENATE
NINETY-SECOND CONGRESS
SECOND SESSION

PURSUANT TO SECTION 4, SENATE RESOLUTION 258,
92D CONGRESS

JULY 26, 27, AND 28, 1972

PART 1

Printed for the use of the Committee on Government Operations



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1972

COMMITTEE ON GOVERNMENT OPERATIONS

JOHN L. McCLELLAN, Arkansas, *Chairman*

HENRY M. JACKSON, Washington	CHARLES H. PERCY, Illinois
SAM J. ERVIN, Jr., North Carolina	JACOB K. JAVITS, New York
EDMUND S. MUSKIE, Maine	EDWARD J. GURNEY, Florida
ABRAHAM RIBICOFF, Connecticut	CHARLES McC. MATHIAS, Jr., Maryland
FRED R. HARRIS, Oklahoma	WILLIAM B. SAXBE, Ohio
LEE METCALF, Montana	WILLIAM V. ROTH, Jr., Delaware
JAMES B. ALLEN, Alabama	BILL BROCK, Tennessee
HUBERT H. HUMPHREY, Minnesota	KARL E. MUNDT, South Dakota
LAWTON CHILES, Florida	

JAMES R. CALLOWAY, *Chief Clerk and Staff Director*

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

JOHN L. McCLELLAN, Arkansas, *Chairman*

HENRY M. JACKSON, Washington	CHARLES H. PERCY, Illinois
SAM J. ERVIN, Jr., North Carolina	JACOB K. JAVITS, New York
ABRAHAM RIBICOFF, Connecticut	EDWARD J. GURNEY, Florida
JAMES B. ALLEN, Alabama	WILLIAM B. SAXBE, Ohio

JOHN P. CONSTANDY, *Chief Counsel*

PAUL E. KAMERICK, *Administrative Assistant*

PHILIP W. MORGAN, *Chief Counsel to the Minority*

RUTH YOUNG WATT, *Chief Clerk*

ROLAND L. CRANDALL, *Staff Editor*

CONTENTS

TRAFFIC IN SURPLUS WAR MATERIEL

Testimony of:	Page
BeLieu, Kenneth, Under Secretary of the Army-----	12, 24, 29, 34, 38, 51
Buzhardt, J. Fred, General Counsel, Department of Defense--	7, 14, 25, 32, 35
Graham, Thomas Edward, Chief Warrant Officer, U.S. Army-----	73, 87
Helmer, Richard A., Supervisory Auditor, General Accounting Office-----	155, 214
Johnson, James Robert, Chief Warrant Officer, U.S. Army-----	73, 87
Naumann, Henry, Chief Warrant Officer, U.S. Army-----	73, 87
Wagner, Lt. David M., Property Disposal Officer, Property Disposal Yard, Ludwigsburg, Germany-----	173, 195

EXHIBITS

	Introduced on page	Appears on page
1. Invitation for Bid 61-514-s-65-49 dated February 10, 1965-----	75, 111	(*)
2. U.S. Government Bid and Award Form dated March 10, 1965, re Invitation for Bid 61-514-s-65-40-----	75, 111	(*)
3. End Use Certificate Statement, re Disposition and use of property, dated March 9, 1965-----	75, 111	(*)
4. Letter dated April 15, 1965, from the American Embassy, Bad Godesberg, Germany, to the Contracting Officer, USAFE/Germany-----	75, 111	(*)
5. Letter dated April 22, 1965, from USAFE R&M Field Management Center to USAFE/Germany R&M Center-----	75, 112	(*)
6. Disposition form, U.S. Army General Depot, Kaiserslau- tern, dated May 6, 1965, re Demilitarization-----	75, 112	(*)
7. Three memorandums for record, U.S. Army General Re- port, Kaiserslautern, dated May 20 and 26, and June 3, 1965, respectively, re Decontamination of Nike Ajax Missiles—PDO-----	75, 112	(*)
8. Memorandum for record, U.S. Army General Depot, Kaiserslautern, dated June 22, 1965, re Live ammunition (Nike Ajax)-----	75, 112	(*)
9. Statement of Rudolf Schreurs, dated June 6, 1966-----	75, 112	(*)
10. Statement of Herbert Teichmann, dated June 8, 1966---	75, 112	(*)
11. Statement of Karl Heinz Franke, dated June 14, 1966---	75, 113	(*)
12. Statement of CID investigator Maxwell C. Payne, dated July 15, 1966-----	75, 113	(*)
13. Statement of Facts and Analysis regarding Investiga- tion of Property Disposal Activities, Germersheim, Ger- many, U.S. Army Depot, by Capt. David O. Wentz, dated June 28, 1966-----	75, 114	(*)
14. Demilitarization certificate dated September 15, 1965, and statement dated April 21, 1966, each signed by Paul G. Dahan-----	75, 114	(*)
15. Invitation for Bid 91-569-s-64-106, dated June 22, 1964-----	75, 116	(*)
15A. Notice of Award, Release Document and Statement, dated August 5, 1964-----	75, 116	(*)
15B. Sale of Government Property Bid and Award, dated July 16, 1964-----	75, 116	(*)
16. Statement of Walter Ceglarek, dated December 8, 1965-----	75, 117	(*)

* May be found in the files of the subcommittee.

EXHIBITS

	Introduced on page	Appears on page
17. Statement of Alfred Herrmann, dated December 8, 1965	75, 117	(*)
18. Statement of Walter Weber, dated November 16, 1965	75, 117	(*)
18A. Letter of firm named P. H. Fahnenschreiber and Son, dated August 24, 1965	75, 117	(*)
18B. Photograph of M-12 and T-41 Rangefinders	75, 117	(*)
18C. Photograph of T-41 Rangefinder	75, 117	(*)
19. Statement of Herbert Teichmann, dated December 13, 1965	75, 118	(*)
20. Statement of CID Investigator Maxwell C. Payne, dated January 31, 1966	75, 118	(*)
21. Inventory Adjustment Report from Property Disposal Section, Hanau, dated October 5, 1964	75, 120	(*)
22. Statement of Willi Kauffeld, dated December 8, 1965	75, 120	(*)
23. Statement of Annemarie Sauerwein, dated September 21, 1965	75, 120	(*)
23A. Statement of Annemarie Sauerwein, dated December 8, 1965	75, 120	(*)
23B. Statement of Helmut Wegfahrt, dated December 8, 1965	75, 120	(*)
23C. Statement of Heinz Viel, dated December 7, 1965	75, 120	(*)
24. Statement of Harold Ellis Massie, Jr., dated October 27, 1965	75, 122	(*)
25. Statement of CID investigator Richard J. Crosman, dated February 1, 1966	75, 122	(*)
25A. Statement of Hermann Lind, dated September 30, 1965	75, 122	(*)
25B. Statement of Gerold Humm, dated October 6, 1965	75, 122	(*)
26. Statement of Fritz Ullrich Burger, dated February 14, 1966	75, 123	(*)
26A. Statement of Helmut Wegfahrt, dated February 3, 1966	75, 123	(*)
27. Extract listing item No. 89, Spot Bid 65-49, bid opening date November 10, 1965	75, 123	(*)
28. Extract listing item No. 79, Spot Bid 65-35X bid opening date February 9, 1965	75, 124	(*)
29. Statement of Horst Mentges, dated April 5, 1966	75, 124	(*)
29A. Statement of CID investigator Richard J. Crosman, dated May 6, 1966	75, 124	(*)
30. Unsigned statement of Isaac Moradi, dated December 19, 1966	75, 124	(*)
30A. Letter dated March 25, 1966, from Isaac Moradi, Universal Auto Parts Exporters, Bronx, New York, to Richard J. Crosman, 6th MP Detachment	75, 124	(*)
30B. Letter dated December 24, 1964, from Isaac Moradi, Universal Auto Parts Exporters, Bronx, New York, to Mark Speyer, Levy Auto Parts Ltd., Toronto, Canada	75, 124	(*)
30C. Telegram dated December 28, 1964, from Isaac Moradi, Universal Auto Parts Exporters to Mark Speyer, Levy Auto Parts, Ltd.	75, 124	(*)
30D. Letter dated February 5, 1965, from Mark Speyer, Levy Auto Parts Co. to Isaac Moradi, Universal Auto Parts Exporters	75, 124	(*)
30E. Letter dated February 19, 1965, from Mark Speyer, Levy Auto Parts Co., to Isaac Moradi, Universal Auto Parts Exporters	75, 124	(*)
30F. Letter dated July 15, 1965, from Ron Bradshaw, Levy Auto Parts Co., to Isaac Moradi, Universal Auto Parts Exporters	75, 124	(*)
31. Affidavit of Annemarie Sauerwein, dated January 26, 1972	75, 125	(*)
32. Affidavit of Helmut Wegfahrt, dated January 26, 1972	75, 125	(*)
33. Extract of Invitation for Bids 61-514-s- 66-68X and list of end items for parts in lots 161-164, IFB 66-68X	75, 126	(*)

* May be found in the files of the subcommittee.

EXHIBITS

	Introduced on page	Appears on page
34. Statement of Rocco Martella, dated March 23, 1966---	75, 126	(*)
35. Statement of Franz Augustin, dated March 23, 1966---	75, 126	(*)
36. Statement of Franz Thoma, dated March 23, 1966---	75, 127	(*)
37. Letter dated October 19, 1965, from R. Martella to Miss C. Lipporte-----	75, 127	(*)
37A. Statement of Charlotte Lipporte, dated March 17, 1966-----	75, 127	(*)
37B. Statement of Charlotte Lipporte, dated March 28, 1966-----	75, 127	(*)
38. Statement of Investigator Richard J. Crosman-----	75, 128	(*)
39. Summary of review of contracts awarded to Karl Zink--	75, 129	(*)
40. Investigators' summary of the Zink case signed by James R. Johnson, Maxwell C. Payne, and Thomas E. Graham, dated February 28, 1967-----	75, 129	(*)
41. CID report of investigation for the period July 27, 1966, to March 6, 1967, re Karl Zink et al-----	75, 129	(*)
42. Voucher No. C-1732-65, dated October 21, 1964-----	75, 130	(*)
42A. Inventory Adjustment Report, dated February 19, 1965-----	75, 130	(*)
42B. Notice of Award, Release Document, and Statement for Spot Bid 65-71X dated May 18, 1965-----	75, 130	(*)
42C. Inventory Adjustment Report, dated July 28, 1965--	75, 130	(*)
42D. Statement of Henry Brown Cribbs, dated November 9, 1966-----	75, 130	(*)
42E. Statement of Henry Brown Cribbs, dated January 16, 1967-----	75, 130	(*)
43. Breakdown sheet for Contract No. AF 61(514) s-2547, by Thomas E. Graham, dated October 28, 1966-----	75, 130	(*)
44. Statement of Werner Heinz Ackerman, dated October 27, 1966-----	75, 130	(*)
44A. Statement of Charles Samuel Johnson, dated Novem- ber 1, 1966-----	75, 130	(*)
44B. Statement of Gerald Keith Rankin, dated November 2, 1966-----	75, 131	(*)
45. Extract of railshipment breakdown sheet, dated Octo- ber 28, 1966-----	75, 131	(*)
46. Statement of Hans Martin Goelker, dated October 27, 1966-----	75, 131	(*)
46A. Another statement of Hans Martin Goelker, dated October 27, 1966-----	75, 131	(*)
47. Statement of Gustav Mittelstaedt, dated October 27, 1966-----	75, 131	(*)
48. Statement of Josef Richard Poliwoda, dated October 27, 1966-----	75, 131	(*)
49. Statement of Oskar Hans Roth, dated November 9, 1966-----	75, 132	(*)
49A. Another statement of Oskar Hans Roth, dated No- vember 9, 1966-----	75, 132	(*)
49B. Statement of Oskar Hans Roth, dated November 10, 1966-----	75, 132	(*)
49C. Statement of Oscar Hans Roth, dated November 30, 1966-----	75, 132	(*)
49D-49H. Photographs of property recovered from Oskar Hans Roth. Date of exposures: November 11, 1966-----	75, 132	(*)
49I. List of U.S. Government property recovered from Mr. Roth-----	75, 132	(*)
50. Statement of Walter Anton Schrenk, dated October 27, 1966-----	75, 132	(*)
51. Statement of Gerhard Schubert, dated October 27, 1966-----	75, 132	(*)
52. Statement of Hans Walther, dated October 27, 1966--	75, 132	(*)
52A. Statement of Hans Walther, dated October 28, 1966--	75, 132	(*)
53. Statement of Albert Jadojan, dated October 29, 1966--	75, 132	(*)

* May be found in the files of the subcommittee.

VI

EXHIBITS

	Introduced on page	Appears on page
53A. List of U.S. Government property recovered from the home of Albert Jadojan, dated October 29, 1966-----	75, 132	(*)
54. Voucher D-6815-66, dated June 2, 1966, for a Royal typewriter-----	75, 132	(*)
54A. Department of the Army Form 2407, requesting technical inspection of typewriter, dated June 2, 1966-----	75, 132	(*)
54B. Letter dated November 23, 1966, from Capt. Robert H. Lipinski to commanding officer, 6th CID, re repair cost of typewriter-----	75, 132	(*)
54C. Disposition Form re Justification of WABCO/WABTOC Equipment H.R. No. 167, dated May 18, 1966-----	75, 132	(*)
54D. Department of Defense Form 1150, Request for Issue or Turn-in, dated June 1, 1966, re Royal typewriter-----	75, 132	(*)
54E. Statement of Earnest W. Mahaffey, dated January 5, 1967-----	75, 132	(*)
54F. Statement of Robert Alexander Phillips, dated January 12, 1967-----	75, 133	(*)
54G. Statement of Oskar Wolf, dated December 14, 1966---	75, 133	(*)
54H. Statement of Helmuth Hennings, dated January 12, 1967-----	75, 133	(*)
54I. Statement of Walter Schrenk, dated November 7, 1966-	75, 133	(*)
55-55E Photographs depicting nondemilitarization of munition list items, exposed October 27, 1966-----	75, 133	(*)
56. Statement of Martin Goelker, dated November 2, 1966--	75, 134	(*)
57. Statement of Hans Walther, dated November 1, 1966----	75, 135	(*)
(Photographs used in exhibits 58 through 58U were exposed on October 27, 1966.)		
58. Photograph—Overall view of Fuerth PDO's classification of heavy iron and steel scrap ready for sale-----	75, 135	(*)
58A. Photograph—closeup view of Fuerth PDO's Classification of heavy iron and scrap showing several items that do not meet that classification-----	75, 135	(*)
58B. Photograph depicting automotive differentials and starters for sale as heavy iron and steel at Fuerth PDO----	75, 135	(*)
58C. Photograph of items segregated from Fuerth PDO's heavy iron and steel scrap-----	75, 135	(*)
58D. Photograph of tank road wheels segregated from scrap ready for sale at the Fuerth PDO-----	75, 135	(*)
58E. Photograph of two copper heating coils segregated from heavy iron and steel scrap ready for sale at the Fuerth PDO-----	75, 135	(*)
58F. Photograph of automotive starters and generators segregated from Fuerth PDO's heavy iron and steel scrap-----	75, 135	(*)
58G. Photograph of automotive starter and generator rotors from Fuerth PDO's heavy iron and steel scrap-----	75, 135	(*)
58H. Photograph of electric motors segregated from Fuerth PDO's heavy iron and steel scrap-----	75, 135	(*)
58I. Photograph depicting improper segregation of automotive radiators and transfer cases at the Fuerth PDO---	75, 135	(*)
58J. Photograph depicting improper segregation of fire control components at the Fuerth PDO-----	75, 135	(*)
58K. Photograph reflecting improper segregation of tank vision blocks at the Fuerth PDO-----	75, 135	(*)
58L. Photograph of automotive parts improperly segregated at the Fuerth PDO-----	75, 135	(*)
58M. Photograph of electric motors improperly segregated at the Fuerth PDO-----	75, 135	(*)
58N. Photograph of cast aluminum engine block in the Fuerth PDO's heavy iron and steel scraps-----	75, 135	(*)
58O. Photograph of cast aluminum cover and locking wheel in the Fuerth's PDO's heavy iron and steel scrap-----	75, 135	(*)
58P. Photograph of a solid brass valve in the Fuerth's PDO's heavy iron and steel scrap-----	75, 135	(*)

* May be found in the files of the subcommittee.

VII

EXHIBITS

	Introduced on page	Appears on page
58Q. Photograph of tank road wheels in Fuerth PDO's tank track scrap-----	75, 136	(*)
58R. Photograph of tank road wheels in Fuerth PDO's tank track scrap-----	75, 136	(*)
58S. Photograph of a generator control assembly in Fuerth PDO's tire scrap-----	75, 136	136
58T. Photograph of a radio power pack in Fuerth PDO's tire scrap-----	75, 136	137
58U. Photograph of a 24-volt tank starter in Fuerth PDO's tire scrap-----	75, 136	138
59. U.S. Army Audit Agency Report of Fuerth PDO, prepared by Herbert W. Kleinlein-----	75, 139	(*)
59A. Statement of Helmut Frank, dated January 9, 1966--	75, 139	(*)
59B. Statement of Helmut Frank, dated January 12, 1967--	75, 139	(*)
60. Letter dated October 29, 1962, National Defense Ministry (Belgium) No. ZGN 411/60691, with attached list of MAP property-----	75, 142	(*)
60A. Letter dated November 16, 1962, from Chief Navy Section, Military Assistance Advisory Group, Brussels, Belgium, to Chief, Bureau of Supplies and Accounts, Navy Department, Washington, D.C. with enclosure----	75, 142	(*)
61. Naval Speed letter (Ser: 75-63) dated July 11, 1963, from J. D'Amico, CDR, SC, U.S. Navy, to Chief, Bureau Supplies and Accounts, Washington, DC.-----	75, 142	(*)
61A. Naval Speedletter S72, dated July 24, 1963, from J. S. Priest, to chief, Navy Section, Military Assistance Group, Brussels-----	75, 142	(*)
61B. Letter No. ZGN 411/58089, dated August 16, 1963, from Ministry of National Defense, Belgium, to Captain Denegre, U.S. Navy, chief Naval section MAAG/BELUX-----	75, 142	(*)
61C. Letter Ser: 105, dated September 17, 1963, from chief, Navy Section, Military Assistance, Advisor Group, Brussels, Belgium to Headquarters, U.S. European Command, Military Assistance Department, Navy Branch--	75, 142	(*)
61D. Letter Ser. 68-64, dated May 15, 1964, from Chief, Navy section, Military Assistance Advisory Group, Brussels, Belgium, to Headquarters, U.S. European Command, Military Assistance Department, Navy branch, with attachment-----	75, 142	(*)
61E. Letter No. ZS4/Mat-1/N. 56787, dated July 18, 1964, from Navy Headquarters, Belgium to chief of Navy section, MAAG/BELUX, with attachment-----	75, 142	(*)
61F. Voucher No. D-3319-65, dated August 23, 1964, with attached report of redistributable MAP property-----	75, 142	(*)
62. Sale of Government Property Bid and Award Contract No. O.I. 5237, dated December 16, 1964-----	75, 142	(*)
62A. Letter dated December 16, 1964, from Norman F. Gieseler, U.S. DAC, sales contracting officer to Andre Challe-----	75, 146	(*)
63. End-use certificate completed by Andre Challe-----	75, 147	(*)
64. Letter dated January 12, 1965, from A. B. Challe Co., Inc., to Foreign Excess Sales Office, Germany-----	75, 147	(*)
65. Statement of Captain Ghysel, dated April 24, 1967-----	75, 148	(*)
65A. Release document for contract O.I. 5237, dated December 16, 1964-----	75, 148	(*)
66. Statement of Lewis Becker, dated April 20, 1967-----	75, 148	(*)
67. Report on the <i>Challe</i> case dated May 19, 1965, by Chris G. Petrow-----	75, 148	(*)
68. Letter dated December 17, 1964, from Norman F. Gieseler, sales contracting officer, to chief, Military Assistance Advisory Group, Belgium-Luxembourg-----	75, 149	(*)
69. Release authority for contract No. O.I. 5237 to firm Challe S.A.-----	75	(*)

* May be found in the files of the subcommittee.

VIII

EXHIBITS

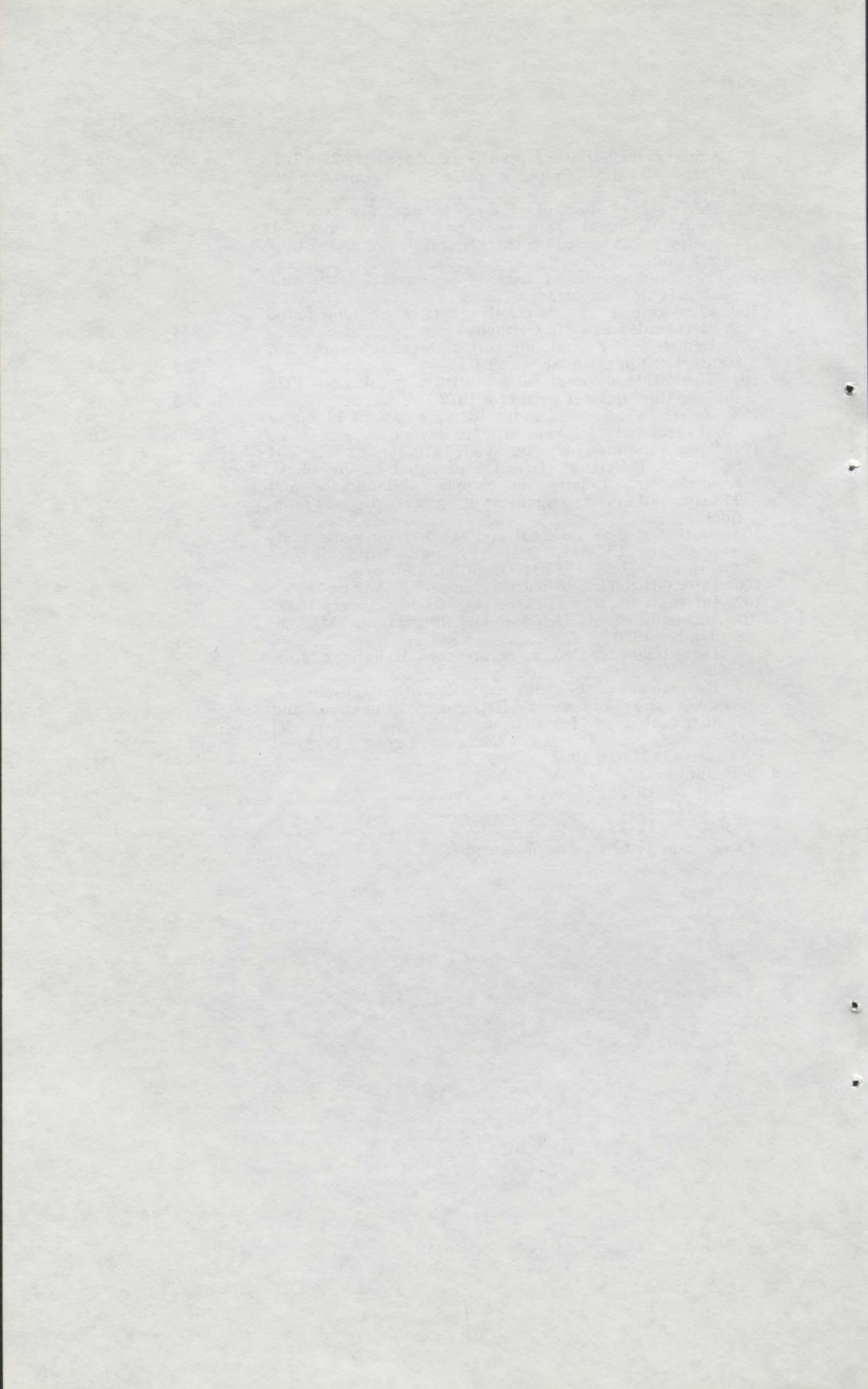
	Introduced on page	Appears on page
70. Verification of liability insurance and full payment received for contracts O.I. 5236 and O.I. 5237-----	75	(*)
71. Notice of default, dated January 21, 1965, contract No. O.I. 5237, to S.A. Challe-----	75	(*)
72. Teletype message dated March 4, 1965, from Chief MAAG, Brussels, Belgium, to Chief, DESO, Germany--	75, 149	(*)
72A. Memorandum for record, dated March 17, 1965, by L. R. Jeffers-----	75, 149	(*)
73. Letter dated March 28, 1966, from W. H. H. Smith, Chief, USAFE R. & M. Field Management Center, to J. F. Tierney, Property Disposal Officer-----	75, 149	(*)
74. Letter dated April 4, 1966, from John P. Tierney, Property Disposal Officer, to S. A. Challe-----	75, 149	(*)
75. Letter dated June 3, 1966, from Curtis W. Barnes, U.S. Embassy, Brussels, Belgium, to John F. Tierney, Property Disposal Officer-----	75, 149	(*)
76. Memorandum for record, dated June 24, 1966, by John F. Tierney, property disposal officer-----	75, 150	(*)
77. Memorandum for record, dated June 28, 1966, by John F. Tierney, property disposal officer-----	75, 150	(*)
78. Letter dated August 12, 1966, Curtis W. Barnes, U.S. Embassy, Brussels, Belgium, to John F. Tierney, property disposal officer-----	75, 150	(*)
79. Teletype message dated December 16, 1966, from commanding general, COMZ, to USAGD, Kaiserslautern, Germany-----	75, 150	(*)
80. Memorandum for record dated December 27, 1966, by Capt. Laurence W. Buffaloe, Property Disposal Division--	75, 150	(*)
81. Statement of Norman Frank Gieseler, dated March 10, 1967-----	75, 152	(*)
82. Statement of CID investigator Thomas E. Graham, dated October 9, 1967-----	75, 152	(*)
83. Survey dated September 2, 1971-----	75, 81	(*)
84. Statement of Sp 5 Hood, dated May 27, 1971-----	75, 81	(*)
85. Statement of Agent Lehrmann, dated September 8, 1971-----	75, 82	(*)
86. Statement of Mr. Fries, dated July 27, 1971-----	75, 82	(*)
87. Statement of Sergeant Winkler, dated July 28, 1971-----	75, 83	(*)
88. Message from the Department of the Army to all commands, dated December 7, 1971-----	75, 84	(*)
88A. Message from the Department of the Army to all commands, dated December 17, 1971-----	75, 84	(*)
89. Internal memorandum from Agent Naumann to Mr. Duffy, re access of suspended/debarred bidders to U.S. Army Property Disposal Facilities PDO-----	75, 84	(*)
90. Photographs of Nike-Ajax missiles sold as scrap-----	108	108
91. Two photographs of rangefinders-----	119	119
92. Photograph of "Honest John" rocket launcher with rockets-----	128	(*)
92A-92F Photographs of "Honest John" rockets, launchers, and carriers-----	128	(*)
93. Photograph of a M37B ¾-ton truck-----	140	140
93A. Photograph of a 5-ton cargo or dump truck-----	140	141
93B. Photograph of a M135 2½-ton cargo truck-----	140	(*)
93C. Photograph of a M151 ¼-ton truck, commonly known as a "Jeep"-----	140	141
94. Photograph of an automatic rifle-----	143	143
94A. Photograph of a .45-caliber machinegun-----	143	144
94B. Photograph of a .45-caliber submachinegun-----	143	145
94C. Photograph of a machinegun-----	143	146
95. Memorandum regarding visit to the Ludwigsburg PDO Yard, Germany, by R.A. Helmer-----	156	156

*May be found in the files of the subcommittee.

IX

	Introduced on page	Appears on page
96. Affidavit of Charlotte Lipporte, dated January 28, 1972	165	165
97. Chart showing property disposal organization in Europe	198	199
98. Thirty-six photographs taken at the Mainz-Kastel Property Disposal Yard showing stacks of material; property being loaded on trucks; and demilitarized tank turret rings	217	218, 219
99. Five photographs of cartons of aircraft parts and photographic equipment	223	(*)
100. Photographs and descriptive lists of material found in PDO yards located in Germany	224	225
101. Redistribution and marketing breakout sheet for transactions in calendar year 1971	232	57
102. Worldwide disposal sales statistics fiscal year 1970 through third quarter fiscal year 1972	233	58
103. Reference map and index listing locations of major PDO yards and satellite facilities in Europe	233	70
104. Memorandum dated August 11, 1970, for the Assistant Secretary of Defense (I. & L.) prepared by Joseph C. Zengerle, Jr., Deputy for Supply Maintenance and Transportation re reassignment of property disposal functions	233	60
105. Statistical data on local and third country nationals employed by USAREUR/USAFE and a listing of non-American employees of PDO facilities in Europe	233	63
106. International traffic in arms regulations, August 1969	233	(*)
107. International traffic in arms regulations, January 1967	233	(*)
108. Department of Defense Demilitarization Manual, September 1970	233	(*)
109. Department of Defense Scrap Yard Handbook, June 1966	233	(*)
110. Department of the Army manual entitled "Disposal of Supplies and Equipment; Reporting, Utilization, and Redistribution of Installation, U.S. Army, Materiel Command, and Oversea Command Excess, Personal Property," March 1967	233	(*)
Proceedings of:		
July 26, 1972		1
July 27, 1972		51
July 28, 1972		155

* May be found in the files of the subcommittee.



U.S. MILITARY SUPPLY SYSTEMS: TRAFFIC IN SURPLUS WAR MATERIEL

WEDNESDAY, JULY 26, 1972

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room 3302, New Senate Office Building, pursuant to section 4, Senate Resolution 258, agreed to March 17, 1972, Senator John L. McClellan (chairman of the subcommittee) presiding.

Members of the subcommittee present: Senator John L. McClellan, Democrat, Arkansas; Senator Abraham A. Ribicoff, Democrat, Connecticut; and Senator Edward J. Gurney, Republican, Florida.

Members of the professional staff present: John P. Constandy, chief counsel; Philip W. Morgan, chief counsel to the minority; La Vern J. Duffy, assistant counsel; William M. Knauf, investigator; Ruth Young Watt, chief clerk; Walter S. Fialkewicz, detailed employee from the Bureau of Narcotics; Richard A. Helmer, detailed employee from the General Accounting Office; James R. Johnson, C.I.D., U.S. Army; James D. Stickler, C.I.D., U.S. Army; Thomas E. Graham, C.I.D., U.S. Army; and Heinz K. Naumann, C.I.D., U.S. Army.

Chairman McCLELLAN. The committee will come to order.

(Members of the subcommittee present at time of convening: Senators McClellan, Ribicoff, and Gurney.)

Chairman McCLELLAN. The Chair will make an opening statement preceding the calling of witnesses.

The hearing which the subcommittee begins today is the introductory phase of an investigation of the complex worldwide operations of the U.S. military supply systems, including the systems through which property originally costing hundreds of millions of dollars is sold as surplus. During this week of hearings we will examine principally the Army's property disposal yard operations in Europe.

Our time available for hearings is obviously restricted by events which affect the working time of the Senate this year, but at appropriate times in future months we will seek to conduct hearings on matters relating to the supply systems and to property disposal. We expect to examine: the international traffic in these surplus armaments that we have sold; the manner in which property made available to other nations under the terms of the military assistance program is disposed of once it is returned to us; and whether collusion and bribery have been an influence in any of these transactions.

We also hope to determine in later hearings whether there are deficiencies in the inventory and accountability of the wholesale military supply systems.

An important question to be examined during these and future hearings is whether our governmental practices in the disposal of surplus U.S. military property are consistent with our national policies. There are a number of agencies in the executive department other than the Department of Defense which exercise a degree of control over the distribution of war materiel, including the five agencies in three departments which administer the U.S. export and import controls.

We should recognize at the outset of these hearings that throughout the world there are countries which have a constant demand for war materiel and its availability is limited. Our Nation has policies and procedures designed to control the flow of this materiel.

One of these procedures prohibits certain items to be sold by property disposal offices without demilitarization, which is the destruction of the item's possible military application. The kinds of war materiel which are in demand are not only tanks or armored vehicles or complete weapons. Components of such items and their spare parts are as important commodities in the international arms marketplace as are the items themselves. Included within the hundreds of millions of dollars of property we sell annually are many of these much sought after complete items, components and parts.

The proliferation of the arms traffic and the huge increases in armament stocks among the world's nations since the end of World War II obviously are matters of grave international concern. The traffic and the stockpiling apparently are amplified and extended by the escape of serviceable war materiel through property disposal outlets of the American armed services.

Once sales of usable arms and equipment have been made to dealers and traffickers, adequate control over the materiel is lost, and the property—weapons, tanks and tank components, armored vehicles, and thousands of kinds of spare parts—can go to nations anywhere in the world, including some whose national policies may not be in accord with our own.

The importance of the arms traffic, whether the transactions are legitimate or illicit, makes examination of our surplus property disposal practices imperative in this inquiry into the military supply systems. We must determine whether there is impropriety or mismanagement in our disposal operations. We must identify the buyers of our military surplus and find out whether they are disposing of their purchases in the international black market in arms.

In our work thus far we have learned that to some extent property is sent to disposal yards while there still exists a need for it. We will seek to determine in these hearings the degree to which such surplus materiel in new or usable condition does wind up in property disposal yards and is then sold at low returns for the taxpayer. The reasons for such economic losses have been found to be the failure of personnel to adhere to regulations, haphazard recordkeeping and slipshod performance of duty by responsible personnel.

In October of 1971, we initiated the preliminary inquiry into allegations of improprieties, corruption, waste and inefficiency in the disposal

of surplus military supplies in Europe, with particular emphasis on munitions list items.

Early in the inquiry it became apparent that the charges relating to policies, practices and procedures in property disposal operations had some basis in fact. Economic losses to the United States had been suffered, seemingly through deficiencies within the military supply systems. It was alleged also that usable munitions list items, and components and parts of such items were improperly being made available to arms dealers for worldwide sale.

The deficiencies in the systems sometimes manifested themselves in the sale or destruction of serviceable military materiel declared surplus without sufficient screening to determine whether it could be used elsewhere, and the sale, as scrap, of serviceable munitions list supplies without demilitarization.

Our hearings this week are centered upon the operation and administration of U.S. Army property disposal yards in Europe and we expect to hear testimony that major problem areas in the yards themselves include the continued employment of personnel of low capabilities, the lack of appropriate training for disposal employees, and the frequency of larceny, corrupt practices, falsification of documents, and other improprieties.

We expect that the testimony will indicate that deficiencies and improprieties in property disposal operations in Europe had been reported piecemeal for years through routine GAO, Army and Department of Defense audits and through criminal investigations and surveys conducted by the Army's CID.

There was insufficient reaction to these warning signs until the subcommittee started its preliminary inquiry last year. Property disposal, which is not within the mainstream of military service activities, generally has been considered by the Armed Forces as a "junk" operation.

The subcommittee reviewed a large number of criminal cases investigated by the CID during the past several years in Europe. We sought to determine in our inquiry whether the illicit activities were continuing. We selected from many cases six which will be discussed in these hearings. The testimony about them will relate generally to sales of weapons, vehicles, equipment, components of such items, and spare parts for them.

The sessions this week will also raise questions about other aspects of the complex sales process. I wish to assure members of the subcommittee that later hearings will provide the opportunity to study these related activities.

Our investigation has been unusual in one respect I would like to comment on. From its beginning, a unique relationship was developed and maintained with the Department of Defense and the several military services. This relationship of mutual trust, cooperation, and participation, by both the subcommittee's staff and officials of the services, has already produced significant corrective programs which ultimately will save the taxpayers a considerable amount of money and will provide the services with improved management control over an inventory of many billions of dollars.

The form which the arrangement took went well beyond simply accommodating the subcommittee's staff in a wide variety of requirements and readily making available the persons and documents nec-

essary to conduct the investigation. The military establishments themselves actively participated in the investigation by assigning personnel to pursue parallel investigative and audit activities, and they were instructed to be sensitive to direction of the subcommittee's staff.

The commitment was unusual because it placed the military services in the role of helping actively to develop the material for their own criticism. To the considerable credit of the services and their officials, they, in this unique experience, were shown to be more willing to help define the problems and correct them than they were sensitive to the criticism their efforts surely would produce.

During this week's hearings, our witnesses will include officials of the Department of Defense and the Department of the Army, who will give us information about how the disposal system functions and will testify about the significant corrective programs that I mentioned previously. Other witnesses will be officers of the Army's CID, a young officer who has been in charge of a property disposal yard, and member of the subcommittee's staff.

I want to express my appreciation to the members of the services and officials who have been willing to and who have cooperated with our subcommittee in conducting this investigation.

I think already, as will be developed, it can be conceded that a great deal of change in management has taken place—changes that improve and make more efficient the system of handling and disposing of surplus war materiel and war equipment, and changes that will produce in the future considerable improvement.

I think as a result of these hearings there will be developed information reinforced by facts that will be established from witnesses that additional and considerably great improvement is needed and can be made.

Based on my experience in the past in handling this committee and conducting investigative hearings, this may well prove to be one of the most important hearings this committee has conducted, particularly as related to management improvement and dollar savings that will ultimately accrue through the years by reason of the improvements that we contemplate can and will be made after the disclosures of what has been happening in the past.

Senator Ribicoff, do you have any statement?

Senator RIBICOFF. I have a short statement, Mr. Chairman.

I want to commend you, Mr. Chairman, for ordering these hearings. These hearings will bring into public notice an aspect of the international black market in armaments that few Americans knew existed.

But it is an aspect of this illicit traffic which all Americans will be appalled to learn. That is a significant role which American war surplus plays in the international black market in armaments.

The executive branch has neglected its responsibility in surplus sales. All manner of armaments, ranging from howitzers to machine-guns to armored vehicles and the component parts thereof, have, for many years, been allowed to be smuggled out of surplus depots throughout Western Europe and all this occurred while representatives of the executive branch of this Government stood by, apparently unable to cope with this massive problem.

I find it most unfortunate that the executive branch of this Government could not keep track of its surplus weapons of war. It was only

when this subcommittee, under the able leadership of Chairman McClellan, began to investigate surplus sales, that the executive branch initiated its own investigation and began to implement corrective actions on its own.

It is a sad commentary that the Congress was required to open an investigation to this Government's operations before the executive branch acted on its own.

The failure of the executive branch to administer the crucial surplus sales program demonstrates the necessity of the work of the subcommittee. It is my belief that this overall inquiry of these hearings will result in tighter, more effective control over American military surplus property, and a new determination in the executive branch to achieve efficiency and competence in this sensitive area.

Mr. Chairman, the Finance Committee, of which I am a member, is presently involved in hearings of revenue sharing, the importance of this legislation to my State and yours and all of the other States and cities of this Nation means that unfortunately I will not be able to attend all of these hearings.

Thank you very much, Mr. Chairman.

Chairman McCLELLAN. Thank you, Senator.

Senator GURNEY, do you have a statement?

Senator GURNEY. Thank you, Mr. Chairman, and I want to associate myself with the remarks that you have made and what Senator Ribicoff has said, which is that it is not only a worthwhile investigation, but one that ought to bear a great deal of fruit in stopping the hole in the dam in the sale of surplus military property.

I would like to ask at this point to leave a space in the record for remarks by Senator Percy, the ranking member of the full committee, and the subcommittee. He was unfortunately unable to be here today, but he does have a statement which he will submit in due time.

Chairman McCLELLAN. Did you want to submit it now?

Senator GURNEY. He will submit it for the record himself.

(Senator Percy's statement appears on p. 85.)

Senator GURNEY. Mr. Chairman, our parent committee, the Committee on Government Operations, in July of 1969, held hearings on a most important bill, S. 1707 of the 91st Congress, first session, to establish a Commission on Government Procurement.

I mention this because that Commission has been busily engaged for the past 2½ years in studying all phases of Government procurement, in the interests of achieving overall economic benefits. This includes, of course, procurement that is undertaken by the Department of Defense.

A far-reaching report, along with suggested legislative changes, will be forthcoming from the Commission soon. However, it is my understanding that there has been no real emphasis on the subject of what happens to the items once they have been purchased, except to determine that they are functional. This pertains to "munitions list" items as well, a subject which we are particularly looking into.

It seems to me, therefore, that while the subject of Government procurement is an important one and that a study on the subject has been long overdue, it is equally as important that an efficient and properly supervised property disposal program be in existence at the same time.

This is especially so as to the military supply system because one need only read the daily newspaper to see that the military budget request for fiscal year 1973 approximates \$80 billion, of an entire \$246 billion budget.

Therefore, the days when officials at collection point-supply depots could simply load the expendable items onto a cargo vessel and then proceed to take them out into the ocean and dump them—as was done after World War II—are over.

The chairman has indicated several abuses in the property disposal procedures. A few others that I have noticed include the sale of uncrated war materiel to arms brokers who eventually sold the same item back to the United States. On another occasion, brokers bought used and excess equipment, reconditioned it, and again sold it back to the United States. Thus, our Government paid a double price for the same items.

Undoubtedly, many more examples will be explained to the subcommittee. I wouldn't be too surprised to learn that some of these arms traffickers supplied both sides of "brush wars" through our military property disposal system, nor to learn that the same traffickers offered to supply certain of our excess European military materiel to the North Vietnamese, to the Vietcong, or to both.

Thus, there is no question but that these brokers are frequently working at cross-purposes with American policy. In effect, then, we are being opposed with our own weaponry.

Whether the individuals, from the lowest level of yard employees to the highest officials who had several instances of irregularities in the property disposal program pointed out to them really understand this, one can only conjecture.

However, it should not take a great deal of deduction to realize that when munitions list items, with a military potential, are removed from a disposal yard surreptitiously that those individuals involved in such collusion must have some understanding as to what will happen to that property.

I trust that before these hearings are concluded, we will get to the bottom of all this so that we can determine exactly what has happened, who is responsible, and why these matters have not been corrected until now and how they will be corrected in the future.

There is no doubt but what a new system of checks and controls is needed over what our staff members have encountered. I, too, have learned that the Department of Defense is making some much-needed changes. This is good because the system as our investigators found it was a jerry-built, complex, unwieldy, wasteful monster. It invited abuse and corruption and its inefficiencies were equaled only by its resistance to reform.

A part of this resistance has resulted from jurisdictional confusion that has come about from the various departments of the executive branch having bits and pieces of the responsibility to control the flow of military surplus items from the property disposal yard to this country, and beyond.

These include the Department of State, the Department of Defense, the Department of Commerce, and the Department of the Treasury. The information that I have is to the effect that each of these Departments has pointed the finger to another Department whenever

our subcommittee has attempted to attach responsibility to the property disposals.

In that regard, I would like to make one early recommendation. The General Service Administration through its Property Management and Disposal Service has had a wealth of experience—ranging from nuts and bolts to large airports—in acquiring, storing and otherwise managing inventories of materials essential for military and industrial use in times of national emergency, and in disposing of such materials when they are no longer needed.

I understand that the military establishment is giving some thought to developing a closer working arrangement with GSA in property disposal matters. I must say that not only does this sound feasible, but it seems to me that it should have been undertaken long ago because the GSA officials are the real experts in this field.

Before closing, I would like to commend the hard work and fine performances of the group of CID agents who were assigned to assist the subcommittee staff, under the supervision of LaVern Duffy, subcommittee assistant counsel, in developing this investigation in Europe. Two of them, James R. Johnson and Thomas E. Graham, will be witnesses in these hearings.

Mr. Chairman, I would like to conclude by saying that I look forward to an active participation in these hearings and I am confident that they will be searching and objective as this committee has always done under your chairmanship and leadership, and that a good deal of good will come from them.

Chairman McCLELLAN. Thank you very much.

Our first witnesses this morning I believe are Mr. Buzhardt, General Counsel to the Department of Defense and the Under Secretary of the Army, Kenneth BeLieu.

Gentlemen, will you stand and be sworn. Under the rules of this committee, all evidence received for the record must be under oath.

Do you and each of you solemnly swear that the evidence you give before this Senate subcommittee shall be the truth, the whole truth and nothing but the truth, so help you God?

Mr. BELIEU. I do.

Mr. BUZHARDT. I do.

TESTIMONY OF J. FRED BUZHARDT

Chairman McCLELLAN. Mr. Buzhardt, you may identify yourself for the record, please.

Mr. BUZHARDT. My name is J. Fred Buzhardt. I am general counsel of the Department of Defense.

Chairman McCLELLAN. How long have you held this position?

Mr. BUZHARDT. Approximately 2 years.

Chairman McCLELLAN. You have a prepared statement and you may proceed with it, if you like.

Mr. BUZHARDT. Mr. Chairman and Senator Gurney, I appreciate the opportunity of appearing before the subcommittee in connection with its investigation of the U.S. Military Supply Systems. I understand that the first phase of your hearings will have to do with property disposal operations in the European theater as they relate to the public sale of military surplus property.

As the subcommittee indicated in its release last week, and as you related this morning, the inquiry into the subject has been on the basis of mutual cooperation and participation between the Department of Defense and the subcommittee. This joint accord was established at the beginning of the subcommittee's investigation last fall by an exchange of letters between you, the chairman, and the Secretary of Defense. A cooperative approach was set up in which the DOD made available extensive records and reports connected with the inquiry. This information included the findings of previous and current DOD audits and investigations.

In addition, the DOD itself took on parts of the investigation while other aspects were handled by the subcommittee staff. The investigative resources of the internal audit organization in the Office of the Secretary of Defense and the audit and investigative services of the military departments were made fully available to the extent needed. As our respective efforts proceeded, information was exchanged as appropriate and leads were pursued by both our staffs.

It is apparent that poor management and other deficiencies within the military utilization and disposal systems have resulted in numerous problems which have persisted despite fragmented efforts designed to correct them. Although many actions were taken to correct individual problems as a result of previous audits and inspections, permanent solutions to many deficiencies in the property utilization and disposal systems were not achieved.

Usable property was not effectively redistributed among using activities to the degree it should have been before being classified as disposable and then, when sold, often the sales return was not commensurate with its value.

Furthermore, sensitive military items have often been sold intact contrary to regulations requiring their demilitarization prior to sale. As to the latter, one of the reasons has been a lack of adequate procedures to identify military sensitive items which cannot be readily determined as lethal or as having a military application. Because specific items were not properly identified, procedures intended to control their disposition were not applied.

As the current investigation by our respective staffs has progressed and conclusions could be drawn on particular facets, corrective action has been instituted not only by the military departments and the Defense Supply Agency under the close monitorship of the Office of the Secretary of Defense, but also by the Office of the Secretary of Defense itself.

In order to provide greater single management and control over actual disposal operations, a directive was issued last April which will result in transferring to the Defense Supply Agency, worldwide responsibility for the Department of Defense disposal program. Concurrent with this transfer, utilization reporting and screening procedures are being strengthened to assure compliance by all DOD organizations.

In addition, in May, the military departments and the Defense Supply Agency were directed to develop a better system for identifying and controlling the disposal of militarily sensitive items. Due to the volume of different items in the supply systems, this may be a difficult and long-range effort. However, if this proves to be the case,

interim action will be considered which would identify categories of items which can be freely disposed of without critical review because they have no military sensitive potential, leaving the balance in a retained status until they are demilitarized or until ad hoc review has been made to assure that they can be freely disposed of without demilitarization or control. Further actions involving probable changes in DOD policy and procedures are currently under consideration.

In conclusion, I wish to express the Department's appreciation for the constructive approach adopted by the subcommittee and its staff in pursuing its investigation. The inclusion of the Department of Defense in the investigative efforts has afforded us considerable assistance in attacking this complex management problem. I believe that the Military Supply Systems have and will continue to benefit from this joint approach.

That concludes my prepared statement, Mr. Chairman.

Chairman McCLELLAN. Have you in following this investigation, the legal aspects of it particularly, and in evaluating the difficulties that have appeared in the management and disposal of surplus property, particularly military equipment, determined whether, in your judgment, the present laws are adequate or if additional legislation may be needed?

Mr. BUZHARDT. It is probably premature to draw any permanent conclusion, but at this point in time I am inclined to believe that at least a drawing together of the laws to better fix responsibilities, to more clearly define responsibilities, and in some cases to assign responsibility for a more detailed monitorship by executive agencies of certain facets of this, would probably be in order.

Chairman McCLELLAN. In other words, what I am trying to ascertain—I can appreciate you would keep an open mind on this and would be responsive, I assume, to any developments that indicated more legislation was needed—what I am trying to ascertain is, have you found up to now as chief legal counsel for the Defense Department, that there is lacking of authority or power within the Defense Department, legal authority and power to issue such orders as are necessary, executive orders as are necessary to control or to correct deficiencies that you have already found to exist?

Mr. BUZHARDT. No, Mr. Chairman; we haven't.

Chairman McCLELLAN. In other words, up to now, so far as you know, you do have the power, you have the means to correct matters by executive orders rather than to require additional legislative authority, so far as you know now?

Mr. BUZHARDT. That is correct, Mr. Chairman, with one possible exception, and I would like to note this. There is a great deal we can do that we have not yet done. I think most of the problems can be handled within existing authority.

There may be some problem in the area of suspension or disbarment.

Chairman McCLELLAN. The what?

Mr. BUZHARDT. There is some problem with the authority to suspend or disbar prospective purchasers we have found in the past were guilty of some type of deficient conduct.

Chairman McCLELLAN. You are not sure about your authority to bar them from being eligible or to declare them ineligible to participate or submit bids in the future?

Mr. BUZHARDT. Yes, sir; we do have some litigation in process at the moment that will probably shed more light on what our authority really is.

Chairman McCLELLAN. Well, in your opinion as chief legal counsel for the Defense Department, do you have that authority now to bar a potential bidder or an applicant bidder on the grounds that he has proven undesirable in the past, and that he has committed some fraud or deception in connection with past transactions with the Government, or that he is making use of this opportunity to get his material into the hands of those who are undesirable from our standpoint.

Mr. BUZHARDT. That is correct, Mr. Chairman. I think there is some question as to our authority at this point. I think it may well develop that we will need additional authority if we can work it out within a constitutional framework.

Chairman McCLELLAN. In other words, it is quite problematical that you will need additional legislation in this field?

Mr. BUZHARDT. Yes, sir.

Chairman McCLELLAN. You think that as of now? Has any question been given to the right of the Congress to pass such legislation?

Mr. BUZHARDT. Yes; my office is making a study now of the entire question of suspension and disbarment of people who do business with the Department. There is litigation pending on subjects that bear on this, in this country.

Chairman McCLELLAN. Is that over transactions that have occurred in Europe or abroad—the litigation?

Mr. BUZHARDT. The litigation pending affects cases in this country.

Chairman McCLELLAN. Not any of these transactions in foreign business?

Mr. BUZHARDT. Not in these, but it may shed some light on our total authority as the courts look at it, and we will continue to review this to determine if we need to come back to the Congress.

Chairman McCLELLAN. That is very well that you will do that, but in the meantime, it may take years for that issue to be settled. What are we going to do? Are we going to give attention to what may be needed now in the interim or even after that legal issue is decided? What I am trying to say now is that if this problem has occurred, if there is any doubt about it, such doubt as now puts it in litigation—if you feel you need the power to bar them or to take any other action, to improve the management and disposal of this property, I don't know why we should hesitate.

It seems to me that your office should come up with a recommendation of the legislation that you need now to make certain.

Mr. BUZHARDT. Mr. Chairman, we are proceeding administratively at present as if we have the power, and on the assumption that we do.

Chairman McCLELLAN. Are you taking all of the actions now under existing law that you think are necessary to take to remedy the conditions that prevail?

Mr. BUZHARDT. Yes.

Chairman McCLELLAN. So your only position is that you are just hopeful that you do have the authority and you are acting accordingly.

Mr. BUZHARDT. That is correct.

Chairman McCLELLAN. Well, if you have any doubt about it, I would urge you, in your position of responsibility, to submit some recommendations, or at least confer with members of the staff of the committee here and members of the committee, to see what may be needed.

I don't think we would have any trouble getting the Congress to enact legislation. I think it could be enacted rather expeditiously if the Department says it needs it.

Can you give us at least some general statement of the progress that is being made, and give us some instances of specific actions of Executive orders that have been issued or actions taken since this investigation began to correct conditions that have been revealed.

Mr. BUZHARDT. Yes, Mr. Chairman. I mentioned some of them in my statement. In April the Secretary of Defense issued a directive which began the process of transferring all of the property disposal arrangements to the Defense Supply Agency under centralized control and management.

We have used various services as executive agents in the various geographical areas to handle the problem. This has not proved satisfactory.

Secondly, we have begun work on a system to better identify and control through stock numbers, if you will, the various parts and pieces of military weapons systems or items that have a military use, in order to be better able to identify, because one of the problems has been identification.

This will take some time to complete, but we are presently working on that process.

Chairman McCLELLAN. That has not yet been put into effect?

Mr. BUZHARDT. It has not yet been designed, Mr. Chairman.

Chairman McCLELLAN. What is that?

Mr. BUZHARDT. The system has not yet been designed to be able to identify all of the items.

Chairman McCLELLAN. In the interim, are we going on with the same inefficient procedures we have had in the past, or have we suspended sales until we get this straightened out?

Mr. BUZHARDT. The various services have been directed to make changes, to stop the process that has been historically followed. That is in order to make the individual corrections.

Chairman McCLELLAN. Can you identify what those changes are? Are you just delegating authority down there to do whatever you think is necessary to stop it? Is that just a general order, or are you issuing something specific that gives guidance, and something that would be a directive to them of what you have in mind that they should do?

Mr. BUZHARDT. Yes. We have given them directions in identifying the items themselves. Each of the services in turn has responded to that by corrections at the individual disposal yards.

Chairman McCLELLAN. Has this been done by Executive order?

Mr. BUZHARDT. No; it has been done by orders of the Secretary of Defense.

Chairman McCLELLAN. What is that?

Mr. BUZHARDT. By directives of the Secretary of Defense.

Chairman McCLELLAN. Are these directives in writing?

Mr. BUZHARDT. Yes, Mr. Chairman, they are.

Chairman McCLELLAN. That is what I meant by an Executive order. A directive would be the same thing from the Defense Department. It would be an Executive order. You call them directives.

Mr. BUZHARDT. Yes.

Chairman McCLELLAN. It is a matter of terminology, but you do have them in writing?

Mr. BUZHARDT. Yes.

Chairman McCLELLAN. And you could make those available to us?

Mr. BUZHARDT. Yes; we would be glad to if the staff doesn't already have copies of them.

Chairman McCLELLAN. They do already.

Mr. BUZHARDT. I believe that they do.

Mr. CONSTANDY. We do have some of them, Mr. Chairman.

Chairman McCLELLAN. I think it would be well for you to submit them, not making them a part of the record at this time, but submit to the staff, copies of all of these orders that have been issued since this investigation got underway, so that they could be evaluated and we might be able to determine from them not only the actions taken, but the progress as a result of these orders.

Mr. BUZHARDT. We will be glad to provide those, Mr. Chairman.

(See comments of Mr. Constandy on p. 14.)

Chairman McCLELLAN. You can provide them to the staff for examination at least, and later we may want them in the record.

Senator GURNEY. I was going to ask him the same thing, Mr. Chairman. I wonder, too, if we couldn't have the responses to the directives from the commanders in the field to whom the directives were sent. Then we ourselves can follow up later and find out what has or has not been done.

Chairman McCLELLAN. I wanted an evaluation of them and then I assume that the staff would follow on its own initiative and check to ascertain whether these orders have been carried out.

I wonder if you can do that, too. You can make your own report on it.

Senator GURNEY. We can have the responses as well as the directives.

Chairman McCLELLAN. I don't know whether they respond in writing or by performing.

Mr. BUZHARDT. Hopefully by action.

Chairman McCLELLAN. Do your directives require any response in writing? I suppose they would require reports on how they are proceeding.

Mr. BUZHARDT. Mr. BELIEU will provide these, and he has them in the annexus to his statement.

Chairman McCLELLAN. Mr. Secretary, you may respond.

TESTIMONY OF KENNETH BELIEU

Mr. BELIEU. Mr. Chairman, I do have appended to my statement a list of the asset control actions being taken. I believe they have been furnished to the committee prior to the hearing.

(The document referred to follows:)

LIST OF SIGNIFICANT ACTIONS INITIATED BY THE ARMY SINCE
NOVEMBER 1971

PART I—PROPERTY DISPOSAL

1. Reviewed investigative reports provided by the General Accounting Office, Army Audit Agency, Criminal Investigation Command, and Inspector General to determine areas in need of improvement. As a result of this review projects were initiated in areas of training, systems standardization, and career development.
2. Reviewed property disposal regulations to determine adequacy of policies and procedures. As a result action was initiated to develop a standardized operating handbook for use at the disposal yard level. Based on the impending reorganization of the disposal function, this action was transferred to the Defense Supply Agency in June of this year.
3. Action was initiated to develop a career program for civilian employees associated with the disposal program. This project was transferred to the Defense Supply Agency in June 1972.
4. A review of the Armed Services Procurement Regulation was concluded to ascertain adequacy of procedures for the contractor debarment. The review indicated that procedures contained in the Regulation are adequate.
5. Directed improvements in current Disposal Training Course Circular and the expansion of Disposal Orientation Training to all Army Service Schools.
6. Directed a review of the Defense Demilitarization manual. This action which is continuing is intended to provide more definitive guidance on identification and control of munitions list items. In May of 1972 the Assistant Secretary of Defense (I & L) directed the Services and the Defense Supply Agency to completely review the DOD demilitarization policy and procedures.
7. To improve the commanders' knowledge and understanding of property disposal operations, a commanders' disposal review guide was provided major commands worldwide.

PART II—ASSET CONTROL

DISTRIBUTION MANAGEMENT

1. Development of an automated 5-year version of the Major Item Distribution Plan (MIDP) to project requirements and deliveries to Army customers through a 5-year time span.
2. Institution by the Air Force, as Executive Agent for the Department of Defense, of the Materiel Asset Redistribution Center Europe (MARCE). MARCE is an intensive management effort modeled after the Project for Utilization and Redistribution of Excess Materiel in the Pacific Area (PURM), for which the Army is the Executive Agent. Army participation in MARCE commenced in May 72.
3. Initiation of the development of the Standard Army Ammunition System (SAAS) which will result in automated redistribution control studies, automated supply control studies, automated lot number accounting, and automated financial and supply performance evaluation.

WORLDWIDE ASSET POSITION

4. Development of a new continuing balance concept for preparing the Worldwide Asset Position (WWAP) used to support distribution planning and the budget (scheduled for implementation in Dec. 72).

ASSET REPORTING AND VISIBILITY

5. Development of a simplified unit asset reporting system.
6. Implementation of Project SCRUB CLEAN WORLDWIDE designed to reduce the problem of excess assets in units (to be completed by 31 Dec 72).
7. Establishment of a uniform loss reporting system to provide asset data on selected materiel lost from (or recovered by) the Army inventory.
8. Implementation of the first phase (CONUS depot to oversea commands) of an intransit control/intransit accounting system.
9. Development of procedures to obtain visibility over assets located in US Army Europe war reserve accounts.

10. Development of an expanded direct exchange system to control reparable/recoverables requiring general support and depot level maintenance.

11. Implementation in Europe of procedures to recover items from property disposal holding activities to satisfy current requirements. These procedures involve the maintenance of records by item managers of what has been shipped to property disposal holding activities.

CATALOGING

12. Publication of a new regulation which, when fully implemented, will reduce the tremendous number of changes made each month to the Army Master Data File (AMDF).

RESOURCE PLANNING AND MANAGEMENT

13. Implementation of what is known as the "two man rule" (a double check on important management decisions) in logistic decision making, particularly as it pertains to property disposal actions (e.g., transfers to disposal will be reviewed by the item manager and one echelon of management above him prior to release).

Mr. CONSTANDY. Mr. Chairman, as this has progressed, the services have furnished us with copies of the directives and orders that they have undertaken.

Chairman McCLELLAN. You have them?

Mr. CONSTANDY. Yes, sir.

Chairman McCLELLAN. Is that all of them?

Mr. BELIEU. All that we have to date. It is a continuing thing and as the hearing goes along, we will have more.

Chairman McCLELLAN. I wanted to know that the committee has these orders and has the opportunity to examine them and become informed of what action is taken and the results that we are getting from them.

Very well. Are there any further questions of Mr. Buzhardt?

Senator GURNEY. I have some when you have finished.

Mr. Buzhardt, on page 1 of your statement, you mentioned how the investigation was proceeding, that our committee staff was doing some of it and your own people were doing some of it.

Would you explain what your Department is doing on this investigation.

TESTIMONY OF J. FRED BUZHARDT—Resumed

Mr. BUZHARDT. Yes, Senator Gurney. For one thing, of course, we may divide this project into two parts, really. The Department furnished to the committee a number of personnel in the areas they requested.

Second, the Office of Internal Audit of the Secretary of Defense undertook audits of the various aspects of the supply system. These were all in Europe, because that is where the investigation began.

One of these was a very broad audit. Subsequently we have undertaken, or are in the process of considering additional audits suggested by the committee staff.

Senator GURNEY. When was this audit undertaken?

Mr. CONSTANDY. I believe it was in January.

Senator GURNEY. Let the witness reply.

Mr. BUZHARDT. I believe this audit began in January.

Senator GURNEY. Of this year?

Mr. BUZHARDT. Yes, sir.

Senator GURNEY. How many people did you have on this audit and where did you audit?

Mr. BUZHARDT. Senator Gurney, I don't have the specific number of people utilized in the audit. It was done by the European branch of our Office of Internal Audit and they were augmented by the Army audit division. It was a very large undertaking.

Senator GURNEY. What is the difference between these two auditing units?

Mr. BUZHARDT. The Army has its own audit agency. The Army Audit Agency. But the Office of the Secretary of Defense has a separate and independent audit agency, Internal Audit, which is a management tool of the Secretary of Defense.

From time to time audits are scheduled by the Internal Audit Division, either of an activity or of an organization.

Senator GURNEY. These audits were undertaken in January, both of them by Defense and by the Army?

Mr. BUZHARDT. I am speaking of one audit here. The Internal Audit of the Office of the Secretary of Defense, which is in the Office of the Comptroller. They actually conducted the audit, but in the process they supplemented their work with personnel also from the Army Audit Agency.

Senator GURNEY. The Army didn't do a separate audit. It was done by the Department of Defense with personnel from the Army.

Mr. BUZHARDT. That is correct.

Senator GURNEY. So you only have one audit.

Mr. BUZHARDT. This is one audit. Subsequently we have considered undertaking two more.

Senator GURNEY. What are they and when were they undertaken?

Mr. BUZHARDT. Senator Gurney, I couldn't be precise about it. I would have to furnish it for the record. These were at the request of the committee staff.

Senator GURNEY. First of all, would you tell us or submit a memorandum for the record, about the Department of Defense audit?

Mr. BUZHARDT. I will be glad to.

(The memorandum submitted follows:)

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., August 18, 1972.

MEMORANDUM FOR RECORD

Subject: Audit of Property Disposal Activities in Europe.

The purpose of this memorandum is to provide information requested on July 26, 1972 by the United States Senate Permanent Subcommittee on Investigations of the Committee on Government Operations, concerning the subject matter.

The audit of Property Disposal Activities in Europe was undertaken to review the adequacy of actions taken to resolve problems disclosed by previous audits, inspections and investigations and evaluate the effectiveness of the current management and control systems. In accordance with arrangements made by the Secretary of Defense, the audit work was coordinated with the efforts of the Senate Permanent Subcommittee on Investigations that was inquiring into allegations of irregularities in the disposal of surplus U.S. military equipment in Europe.

In order to cover the many facets of the redistribution and disposal functions in Europe, work was performed at 33 activities in Europe and the U.S. A list of activities visited is attached.

The audit was started on January 11, 1972, and the field work and draft report were completed on June 16, 1972 and July 13, 1972, respectively. The results

of the review are presently being staffed with Army and Air Force Commands in Europe, the Military Department Headquarters and OSD offices.

Auditors from the Office, Deputy Assistant Secretary of Defense (Audit), U.S. Army Audit Agency (USAAA), and U.S. Air Force Audit Agency (USAFAA) participated in the audit. The offices of the U.S. Navy Auditor General and the Defense Supply Agency (DSA) Auditor General also provided some assistance. The number of personnel assigned to the audit varied as they were phased into and released from the audit, as necessary, during the period January through June 1972. At the peak of the effort, 25 auditors worked on the subject audit. The preliminary results of the audit are summarized below.

The most serious problem encountered in transferring usable property to disposal activities and then to buyers has been the inability to identify Munitions List items that are lethal or have a strictly military application. These items should either be demilitarized or sold under closely controlled conditions. Because the specific items have not been properly identified, procedures intended to control the disposition of Munitions List items have been generally unworkable and many Munitions List items have been sold to unauthorized purchasers without being demilitarized.

Action was taken by the Assistant Secretary of Defense (I&L) in May 1972 to have DSA and the Military Departments develop a system for identifying and controlling militarily sensitive items. Due to the volume of line items in the DoD supply system, this may be a difficult and long range effort. If so, interim action should be taken to identify categories of items by Federal supply class that can be freely disposed of without critical review because they have no potential of being classified as Munitions List items. Items in questionable Federal supply classes should be retained in the supply system until they are demilitarized under controlled conditions or critical reviews have been made to assure that the items can be freely disposed of without control. Controls should also be established to assure that undemilitarized Munitions List items are sold only from the supply systems to approved purchasers under Foreign Military Assistance Sales procedures and controls.

Only about 30 percent of 500,000 transactions processed in calendar year 1971 by the disposal systems in Europe were adequately controlled from receipt to final disposal of the item. The major impediment to establishing an acceptable and workable accounting and control system has been the inability to identify and segregate Munitions List items from common use items. As a result, many common items were unnecessarily accounted for and controlled while control over many Munitions List items was lost and they were disposed of without regard for Security Trade Control requirements.

We concluded that it was not feasible to control and administer the thousands of transfers from U.S. Army, Europe (USAREUR) and U.S. Air Forces, Europe (USAFE) supply systems to the disposal system on a line item basis. In conjunction with the takeover of the Defense Disposal System in Europe, DSA should revise the system for turning in low dollar value nonsensitive items. DSA should also revise or develop new procedures to provide positive control and accountability over sensitive and valuable items. To the maximum extent feasible, disposable property should not be physically moved if it can be more economically left in place pending final sale. Better controls should be established to assure that militarily sensitive items are not accepted by disposal yards until a competent authority has certified that demilitarization has been completed and that the items can be handled as scrap.

Substantial improvements could also be made in lotting and merchandising disposable property for sale in Europe through better use of supply management data. Many lots of new unused parts and supplies, valued at up to \$200,000, were offered for sale as miscellaneous items while low value used items in poor condition were advertised in detail. As a result of inefficient merchandising procedures, returns on some sales were not sufficient to defray administrative costs.

Better screening procedures and practices could have resulted in the redistribution in calendar year 1971 of an estimated \$34 million of materiel that was excess to the local needs of USAREUR and USAFE activities and Military Assistance Program (MAP) supported countries. Neither USAREUR nor USAFE supply activities were fully participating in established programs for utilization of local excesses. In some cases, available excesses were not reported for screening and in other cases foreseeable requirements were not considered for utilization. Better controls were needed to make sure that all requisitions initiated

in the Theater are screened as appropriate before being passed to CONUS supply sources. Details are presented in the following paragraphs:

1. If the USAREUR inventory control point had routed all requisitions submitted to CONUS through the intra-Theater screening agent, about \$6 million of excesses could have been redistributed. About \$2.9 million of USAREUR materiel was disposed of although it could have been used for future depot maintenance programs or economically retained for foreseeable demands. Also, about \$280,000 of hand tools that should have been automatically returned to CONUS were disposed of improperly.

2. If all USAFE supply accounts had routed their requisitions for intra-Theater screening, \$2.2 million of excesses could have been redistributed. Because some USAFE supply accounts had not reported \$26.4 million of local excesses, about \$9.1 million of materiel was requisitioned unnecessarily from CONUS. As of March 1972, about \$1.6 million of open requisitions could have been filled from unreported excesses.

3. Demands were subsequently received for about 30 percent of the line items disposed of by USAFE supply accounts in calendar year 1971. These premature disposal actions could have involved \$7.8 million of usable materiel.

4. Another \$2.5 million of excesses could have been used if a broader range of USAREUR and USAFE excesses had been reported to the Defense Logistics Services Center for screening against worldwide requirements. Better screening and use of MAP excesses could have increased utilization by another \$2 million.

New procedures should be developed to: assure that all requisitions are properly screened by restricting the routing of requisitions directly to CONUS; preclude the transfer of items to disposal activities unless authorized by the screening agent; fully automate the excess materiel management system in Europe; streamline and integrate the screening of MAP excesses; and maximize the usage of excesses prior to authorizing disposal action.

M. B. WOODBURY,

(For Joseph P. Welsch, Deputy Assistant Secretary of Defense).

Enclosure.

DOD ACTIVITIES INCLUDED IN THE AUDIT

ARMY

Headquarters, U.S. Army, Europe and Seventh Army, Heidelberg, Germany
 Headquarters, U.S. Army, Theater Support Command, Worms, Germany
 Headquarters, U.S. Army, Materiel Command, Europe, Zweibruecken, Germany
 U.S. Army Posts/Stations:

Kaiserslautern, Germany	Mainz, Germany
Einsiedlerhof, Germany	Germersheim, Germany
Pirmasens, Germany	Ludwigsburg, Germany
Boebliigen, Germany	Fischbach, Germany
Schwaebisch Gmuend, Germany	Hanau, Germany
Mannheim, Germany	Giessen, Germany
Nabollenbach, Germany	Nuernberg, Germany
Miesau, Germany	

NAVY

U.S. Naval Station, Rota, Spain.

AIR FORCE

Headquarters, U.S. Air Forces, Europe, Wiesbaden, Germany
 U.S. Air Force Bases/Stations:

Wiesbaden, Germany	Molesworth, England
Rhein Main, German	Bentwaters, Eng'and
Ramstein, Germany	Alconbury, England
Bitburg, Germany	Lakenheath, England
Mainz Kastel, Germany	Torrejón, Spain
Zweibrücken, Germany	Hahn, Germany

Defense Logistics Services Supply Center, Battle Creek, Mich.

Senator GURNEY. How many people were involved and what you audited and how long you audited and what you discovered, and what

happened to any recommendations that you may have made. Have you finished the audit?

Mr. BUZHARDT. I will be glad to furnish you the preliminary findings of the audit.

Senator GURNEY. Have you finished the audit?

Mr. BUZHARDT. It has been finished.

Senator GURNEY. When was that finished?

Mr. BUZHARDT. I believe I received the report of the audit about 2 weeks ago, Senator Gurney. It was 2 or 3 weeks ago.

Senator GURNEY. And this was a continuous audit from January until you got the report 2 weeks ago?

Mr. BUZHARDT. Well, it was continuous to the extent that the report was furnished at that time. How long it took in compiling the report, I don't know.

Senator GURNEY. You aren't able to tell us exactly what was done?

Mr. BUZHARDT. No; I am not. I would be glad to furnish you a copy of the Army audit, the OSD audit agency report.

(See comments of Mr. BeLieu, Under Secretary of the Army, on page 54.)

Senator GURNEY. Can you tell us later, Secretary BeLieu?

Mr. BELIEU. I have some information concerning it.

Senator GURNEY. Now, the other two. You said there were two other audits by the Army.

Mr. BUZHARDT. There have been two other audits planned, internal audits, that may have been commenced, of the disposal and supply systems.

Senator GURNEY. Of the Army?

Mr. BUZHARDT. The Army, and I believe one of them touches the Air Force, but I am not sure. I made the arrangements for these and relayed the requests from the committee to Mr. Welch, who is the head of Internal Audit, to go ahead and do these audits and he worked directly with the committee staff.

Senator GURNEY. When were these begun?

Mr. BUZHARDT. I do not know.

Senator GURNEY. How many people were involved?

Mr. BUZHARDT. I don't know that.

Senator GURNEY. Could you give us some information on that?

Mr. BUZHARDT. I would be glad to.

Senator GURNEY. And have they been finished?

Mr. BUZHARDT. They have not.

(See testimony of Mr. BeLieu on p. 54.)

Senator GURNEY. What other investigations have you done besides the audit?

Mr. BUZHARDT. There are extensive numbers of investigations undertaken by the Army CID, but I would leave these to Secretary BeLieu to cover, because I have not followed them in detail.

Senator GURNEY. Can you give the committee any other information on this part of your testimony, which says, "the DOD itself took on parts of the investigation"?

Mr. BUZHARDT. I could give you some broad general statements, Senator Gurney.

Senator GURNEY. Go ahead. The reason I am asking the questions is I am interested to know what is going on. That is what this investigation is all about. I am just trying to find out what is taking place.

Mr. BUZHARDT. Well, let me say the general approach was that we undertook, as I say, the audit of the system; subsequently there were requested one or two aspects of the audit to follow up what should also be audited. This came out of the investigation. And the services, the Department of Army, particularly, furnished to the committee some CID investigators.

In other cases where leads were turned up which indicated that there should be an investigation, these were undertaken by the CID, the Army CID. I believe in one or two cases the Air Force OSI has undertaken investigations along the same line. This is the general pattern that was followed.

In addition, the Army has a continuing audit process which was re-oriented, I am sure, by the Army Audit Agency, to focus on the same problem. In addition, the Army formed a task force.

Senator GURNEY. This continuous audit process, is this something new, begun recently?

Mr. BUZHARDT. I think it has been refocused and I am sure Mr. BeLieu will address that in his testimony.

Senator GURNEY. Obviously, it didn't do anything before or otherwise we wouldn't be here today.

Mr. BUZHARDT. I think one of the productive forces leading to the investigation was prior audits that were undertaken, where no action was taken.

Senator GURNEY. I don't want to take up a lot of time on this. As I understand it, this DOD part of the investigation was the audit that we have talked about, plus the loaning of CID personnel or making them available to the committee, as well as some CID matters done by the Army itself. Is that what we are talking about?

Mr. BUZHARDT. Basically.

Senator GURNEY. Is there anything else?

Mr. BUZHARDT. Well, Secretary BeLieu will mention they started a task force on this and he will touch on those things.

Senator GURNEY. On page 2 you mention the fact that usable property was not effectively redistributed among using activities to the degree it should have been before being sold, and when sold the terms weren't commensurate with their value. Would you like to amplify that some?

Mr. BUZHARDT. I can give you some examples.

Senator GURNEY. Would you do that.

Mr. BUZHARDT. And I am sure Secretary BeLieu may treat these in more detail. In one case, for instance, the Army was in the process of reducing its number of items in the inventory. It is necessary in the system to prevent manipulation of the system, to establish a cut-off level when they dispose of items which they no longer get from the inventory.

Now that prevented units who needed a portion of the cutoff level, but not the total, from being able to acquire the items, through requisition prior to their going to the disposal. Many of them crept into the disposal system and there were cases where we were ordering identical or very similar material at the same time that material was being sold.

It is a defect in the system. This is the type of thing that we have. We have other instances.

Senator GURNEY. Has this been corrected?

Mr. BUZHARDT. This is in the process of being corrected. I am sure Secretary BeLieu will address this.

In other instances, we have great problems with identification. We find that property is being sold, and the people who are selling it aren't really aware that they are selling something that is needed. There is a lack of identification.

I think if there is one big problem, that is the largest of all the problems.

Senator GURNEY. Could you talk a minute about the sales return. Why was it so low?

Mr. BUZHARDT. When an item is not identified and it is sold as scrap without the people responsible in the yard knowing what it is and it is sold by weight value, quite obviously you do not get the return on the item that you would if it was separately sold and identified, so that it would bring its useful value, whatever that value might be. This has happened on a number of occasions where the people absolutely didn't know what it was and they put it in a pile of junk.

I suspect in some cases that is done intentionally for one reason or the other.

Senator GURNEY. What corrective action is being taken on this?

Mr. BUZHARDT. We are working to develop a system to identify the items as far down as possible to the disposal yards. This is not an easy problem. We are talking in many cases about spare parts. To be able to trace them all of the way to the disposal yard, these items, by stock number, require a very elaborate and complex management information system. It is not very easy to develop.

We also have the problem of training the people to recognize the item, when they are in such great variety, in order to be able to identify them.

Senator GURNEY. I would understand that. I am sure you have probably hundreds of thousands of items of property in the Defense Department.

Mr. BUZHARDT. That is correct.

Senator GURNEY. I am sure it is a large problem. Has anything been done to plug a hole or two in the dam before renovating the entire structure?

Mr. BUZHARDT. Yes, Senator Gurney, it has.

Senator GURNEY. Can you give us an example?

Mr. BUZHARDT. I think it would be better for Secretary BeLieu to address this because he is more familiar with it than I am because most of this is in the Army. The Army has had a task force in Europe working on the specific problem.

Senator GURNEY. Now on page 3 of your statement I see that you have stated that a whole lot of the corrective actions have been instituted by the Defense Supply Agency which now will also have the responsibility worldwide, for DOD's disposal program. Why will this help? Where is the program being administered now by the way?

Mr. BUZHARDT. At the present time the disposals are handled inside the United States primarily by the Defense Supply Agency.

Senator GURNEY. In other words, it is being handled in the United States by the persons that you have now recommended to handle it worldwide.

Mr. BUZHARDT. Yes sir; outside the country in each theater one service is designated as the executive agent of the Department of Defense to handle the disposals.

Senator GURNEY. Let us take Europe, for example.

Mr. BUZHARDT. In Europe the Air Force is the executive agent.

Senator GURNEY. Who handles it inside the Air Force?

Mr. BUZHARDT. We channel within their supply system.

Senator GURNEY. It is administered by their supply people?

Mr. BUZHARDT. Yes, sir. This also creates a problem of identification when it goes from the disposal yard to the Air Force for sale. I am not real sure how the Air Force came to be the executive agent because the Army itself generates most of the surplus property in Europe, an obvious problem.

Senator GURNEY. Has the disposal in Europe now been transferred to the Defense Supply Agency?

Mr. BUZHARDT. It has not at this time. We began with the history of the Defense Supply Agency and the fact that it is not in operation outside the continental limits. At the present time, they don't have the capability. They are in the process of developing the capability to take this over. Meanwhile we are making corrections on the system where it is.

Senator GURNEY. When do you anticipate that they will do it in Europe?

Mr. BUZHARDT. As rapidly as they can acquire the capability.

Senator GURNEY. Is that in August, 1972 or August, 1973?

Mr. BUZHARDT. I would guess that it would be—we have witnesses here who can answer it more precisely than I can, Senator Gurney. I am not sure. I would not think it would be within this calendar year.

Senator GURNEY. Sometime in 1973 then?

Mr. BUZHARDT. Possibly.

Senator GURNEY. I must say it always amazes me how bureaucracy does not work. That is not criticism of you, it is a criticism of the bureaucracy.

I do not have any other questions.

Chairman McCLELLAN. These things intrigue me here. You say we are working to develop a capability? What is it?

Mr. BUZHARDT. A better system of identification through the disposal system, Mr. Chairman.

Chairman McCLELLAN. How long do you anticipate it is going to take to develop that system?

Mr. BUZHARDT. It will be a continuing thing. Parts of it will begin very shortly. We will improve the capability to identify these things. It is going to be a continuing process.

Chairman McCLELLAN. Well, you will continue to try to make improvements. In the meantime before you get these improvements, get better control of it, are we continuing to dispose of our surplus property under the present inefficient, wasteful system that we now have? Are we continuing to dispose of it or have we suspended the sale of surplus property until this is straightened out?

Mr. BUZHARDT. We have not, at this point, suspended. But within the particular services, for instance, the Army in Europe where most of the property we are talking about is generated, they have developed a task force approach, an ad hoc approach in dealing with the yards to

prevent this type of abuse. It is not a system exactly, but it is a control to keep this from happening.

Chairman McCLELLAN. Are you telling us now that the abuses that have been revealed in the past and that have existed up to now are now corrected by these task forces that are on the job?

Mr. BUZHARDT. Some of them are. Some of them have not yet been corrected.

Chairman McCLELLAN. All I am trying to ascertain is if this is a problem that will yield to reasonable solution or substantial solution. I know there will always be some areas of inefficiency in all human administration, but this is something that you feel will yield to reasonable solution.

In the meantime, until you get that reasonable solution and determine what it is and get it established and implemented, it seems to me that there should be a suspension of the further disposal of this property.

It will be sometime next year, you indicated, before something will be effective. In the meantime you are still selling millions and millions of dollars worth of this property under the old system without adequate controls or protection for the Government.

Mr. BUZHARDT. Mr. Chairman, as I indicated, the corrections are being made on an ad hoc basis until a better system can be developed. If the system itself, which we are trying to construct to identify items, proves to be too lengthy a process to maintain the ad hoc control kind of system—a matter of setting people out to watch the things and make sure it does not happen—then we will consider eliminating from the disposal system or searching out only those items which we are sure there is no problem in disposing of and holding all the rest.

Chairman McCLELLAN. What do you consider too long? How long are we going on until we get it corrected?

Mr. BUZHARDT. The immediate problem is being corrected, Mr. Chairman, through ad hoc means. I am trying to distinguish between a task force approach that goes down into the field and keeps an eye on the yard, putting high level people looking continuously and diverting them from their usual tasks. I am contrasting that ad hoc approach, which is not a system and which would not last forever because you can't keep attention on this kind of thing, with the permanent system.

Chairman McCLELLAN. Do you feel that the ad hoc effort now, whatever it is, is effective and is preventing the abuses that we are trying to correct?

Mr. BUZHARDT. Yes, Mr. Chairman; I think we are doing everything conceivable at the moment to stop it and I believe it is relatively successful.

Chairman McCLELLAN. The sales are continuing, but under the more effective supervision, would you say, of the ad hoc task forces that are supervising it now.

Mr. BUZHARDT. That is correct, Mr. Chairman. Rarely has an operation of this type had more attention at all levels of command.

Chairman McCLELLAN. So you are using this means as an interim until a better system, a more effective system overall is developed.

Mr. BUZHARDT. That is correct.

Chairman McCLELLAN. Is that what you are telling us?

Mr. BUZHARDT. That is correct, Mr. Chairman.

Chairman McCLELLAN. One other thing. You say the Army generates most of this surplus property in the military.

Mr. BUZHARDT. Yes, Mr. Chairman.

Chairman McCLELLAN. Why is the Air Force designated as the disposal agency?

Mr. BUZHARDT. Mr. Chairman, I have been unsuccessful in determining why that decision was made. It was made some years ago.

Chairman McCLELLAN. Maybe that is one thing that should be corrected right now. You say you have trouble identifying them. It seems to me that the Army could identify its own equipment better than the Air Force.

Mr. BUZHARDT. When I say the Air Force has the disposal responsibility, they handle the sale. The Army takes care of the identification problem because they have the yards on which the property is located.

Chairman McCLELLAN. You mean the Army does the identification and the Air Force does the selling?

Mr. BUZHARDT. That is correct, Mr. Chairman. That is one of the situations we are changing.

Chairman McCLELLAN. How are you changing that?

Mr. BUZHARDT. We are going to make the Defense Supply Agency responsible for disposal worldwide.

Chairman McCLELLAN. The Defense Supply Agency.

Mr. BUZHARDT. The Defense Supply Agency.

Chairman McCLELLAN. You already have that agency in existence?

Mr. BUZHARDT. Yes, sir.

Chairman McCLELLAN. Have you issued that Executive order now to place this all under this agency?

Mr. BUZHARDT. Yes, sir.

Chairman McCLELLAN. That order is now in effect?

Mr. BUZHARDT. The order is in effect. They have not yet actually accomplished the takeover.

Chairman McCLELLAN. It has not yet been fully implemented by actual takeover?

Mr. BUZHARDT. It is in the process of implementation.

Chairman McCLELLAN. They are in the process of taking it over?

Mr. BUZHARDT. Yes, sir.

Chairman McCLELLAN. You think this will be a major improvement in the matter of administration?

Mr. BUZHARDT. Yes, sir.

Chairman McCLELLAN. I believe it might be.

Senator GURNEY. I have one or two other questions, Mr. Chairman, if I may.

Chairman McCLELLAN. Yes.

Senator GURNEY. How many disposal yards do you have in Europe?

Mr. BUZHARDT. I believe the Army has 70 worldwide. We have about six sales offices, I believe, in Europe.

Senator GURNEY. You say 70?

Mr. BUZHARDT. Yes, sir, worldwide.

Senator GURNEY. You have six sales offices in Europe?

Mr. BUZHARDT. I believe so; yes.

Senator GURNEY. How about yards?

Mr. BUZHARDT. A total of 11 yards in Europe, I believe.

Senator GURNEY. You said the Air Force was in charge in Europe. I take it the Air Force is in charge of these yards.

Mr. BUZHARDT. No, the Air Force is in charge of the disposals. The Army is in charge of its yards.

Mr. BELIEU. I am going to get into the organization in my statement, Senator, if it meets with the chairman's approval.

Senator GURNEY. Perhaps we had better defer questions until then. When we come around to that my first question will be, what personnel changes have been made in these yards and what personnel changes have been made in these sales offices? That, obviously, is where our problem is. I would just like to know what has been done.

Now the other question I have to ask you is this: You mentioned problems in taking care of the bad guys who buy this equipment and sell to both sides in a "brush war" or attempt to sell to the Vietcong or do all of these things we are trying to stop. You mentioned that you did not know whether you had the authority to do anything about it, or not, and yet you apparently have done something about it.

Now what is this "something" you have done about it?

Mr. BUZHARDT. Let me, if I may, cover the problem, Senator Gurney. The Department of Defense for years has had procedures which have been changed from time to time which are used to accomplish a suspension or disbarment of contractors who do business with the Department of Defense. This applies not only to the people from whom we buy, but in certain respects the same law generally applies to people to whom we sell.

Now, the criteria for suspension and disbarment are primarily drawn for the people from whom we buy not to those to whom we sell. As a consequence, there are few grounds in the law by which we can suspend an organization which misuses property or does not agree to the terms of sale.

In addition, we have the problem with foreign corporations—

Senator GURNEY. What grounds are they? Let us pin those down.

Mr. BUZHARDT. At the present time, in some cases the company, itself, agrees to do the demilitarization and to make certain reports concerning the demilitarization.

Senator GURNEY. You mean the people you sell to do the demilitarization?

Mr. BUZHARDT. That is correct. They contract to do it.

Senator GURNEY. The Army, Air Force, Defense Department does not do it at all?

Mr. BUZHARDT. No, sir. In many cases they do it themselves.

Senator GURNEY. You should plug that gap. Is that still going on?

Mr. BUZHARDT. I believe it has been stopped.

Senator GURNEY. Has it been stopped?

Mr. BUZHARDT. I don't know at this point.

TESTIMONY OF KENNETH BELIEU—Resumed

Mr. BELIEU. This is not an easy subject. The best thing we can do is bring all this gear home and bring it here and do it in the United States, but that is too expensive. The next thing is to assign people who know it. You and I know what a half-track is or .40 caliber and we know how to take a blow torch and cut it. There is a manual which tells how to do this, but I think it needs to be redone.

What has happened over the past is that people either have not followed the manual accurately or sometimes where we demilitarize something it would not be good for the U.S. Army or the Russian Army or a modern sophisticated military force, but the merchant in weapons could sell it to a backward country where a half-track without armor plate on it but with tracks and rifle on it would be probably an equally good machine for war.

So you get into all these complications. I think the fault that we are discussing is lack of adequate supervision by an inspector, as would happen in a contract here if we gave a contract to somebody to do something and my inspectors did not follow through. I am certain this is one of the faults.

We are not even bordering yet on the fringes of criminality where somebody would swear something was demilled and it not be done. That I think has also happened.

Obviously it is going to take a while to plug these loopholes. I am not an expert in this field, but I know enough now to know that every time we depend on indigenous personnel overseas for these types of things, we get into trouble.

In most of the cases I have seen and I am intruding here on somebody else's time, but it has been a combination of an American who may have been there too long and a local who found a way to him and then some outlet for the sale.

In many cases it has been people whom we have employed for many years and finally found out about them. They slip and get into bad habits. We follow this track all the way down in each instance.

If we read history, you know, we talk about the Boxer Rebellion, the old China hands, they stayed there too long. We get some of this, some homesteaders. It almost follows a pattern. The staff and investigators working with the staff have a real excellent mosaic on this, and I know they are going to bring it out for the committee as you develop it case by case through the rest of the hearings.

Senator GURNEY. Mr. Secretary, I appreciate that. Certainly nobody holds you responsible for this. You have been there only 10 months.

Mr. BELIEU. We are always responsible in these kinds of positions.

Senator GURNEY. Really, I am appalled that the demilitarization of military equipment that might be used by a foreign power against another or even against the United States should be in the hands of somebody other than the U.S. Army or some other part of the Defense Establishment which owns the equipment.

My question was: Is anything being done to have us demilitarize these things?

TESTIMONY OF J. FRED BUZHARDT—Resumed

Mr. BUZHARDT. In most instances, we do do the demilitarization ourselves. In some cases, the contractor as a part of the purchase price, and I don't know how frequent this is, I think this is infrequent, may contract to do the demilitarization. Some of it has to be done by contract. Through either bad inspections, as Mr. BeLieu indicated, or through breakdowns in the procedures—

Senator GURNEY. Could you furnish for the record what percentage of the surplus military equipment demilitarization is being done by people other than the Defense Department and what, if anything, is being done to make sure that we do it?

The easiest thing in the world is to say to a purchaser, "You demilitarize this." The purchaser later sends you a report stating, "Yes, I have demilitarized it." Unless there is some way to plug this loophole, we are out of business so far as demilitarizing property is concerned.

(Material supplied by Mr. Buzhardt, together with a letter of clarification follows:)

In fiscal year 1971, 2681 disposal contracts were let. Only 36 were demilitarized by the contractor, although the exact number of contracts requiring demilitarization is unknown. In fiscal year 1972, 2868 contracts were let, 53 of which involved demilitarization by the contractor. Again, the precise number of contracts requiring such action is unknown.

ATTACHMENT 7—DEMILITARIZATION

Demilitarization.—When demilitarization of property by the purchaser is required, whether on or off Government premises, the following special conditions will be included in the Invitation for Bids for Property located in the United States or outside the United States, as appropriate.

a. "Article —: Demilitarization. Item(s) — are required to be demilitarized by the purchaser in the manner and to the degree set forth below: —"

b. Insert item number(s) and specific demilitarization requirements in the above Article for item(s) as shown in DoD 4160.21-M-1, Defense Demilitarization Manual.

c. "Article —: Demilitarization on Government premises. The property requiring demilitarization will not be removed from Government premises and title will not pass to the purchaser until demilitarization has been completed by the purchaser and approved by the Contracting Officer or his authorized representative. Demilitarization will be accomplished as specified elsewhere in the contract. Component parts essential to the military or lethal purpose of the item will be rendered unusable as prescribed herein. The purchaser agrees to assume all costs incident to the demilitarization and further agrees to do any necessary work to restore the working area to its present condition after completely removing the demilitarization required by the terms of this offering, the Government reserves the right to perform additional mutilation of the demilitarized items by its own personnel or otherwise at no cost to the Purchaser."

e. "Article —: Demilitarization on other than Government premises. The property requiring demilitarization will be demilitarized by the purchaser under the supervision of qualified Department of Defense personnel and title will not pass to the purchaser until demilitarization has been completed by the purchaser and approved by the Contracting Officer or his authorized, representative. Demilitarization will be accomplished as specified elsewhere in the contract. Component parts essential to the military or lethal purpose of the item will be rendered unusable, as prescribed herein. The purchaser agrees to assume all costs incident to the demilitarization. Upon completion of the demilitarization required by the terms of this offering, the Government reserves the right to perform additional mutilation of the demilitarized items by its own personnel or otherwise at no cost to the purchaser."

f. "Article —: Failure to demilitarize. If the purchaser fails to demilitarize the property being sold herein in accordance with the terms of this contract the Government may, at its option and upon ten days written notice (calculated from date of mailing) to the purchaser:

"(1) Possess the property, complete the demilitarization thereof, and return the property to the purchaser. The purchaser hereby agrees to pay to the Government prior to the return of the property to the purchaser all costs incurred by the Government in repossessing, demilitarizing and returning the property to the purchaser.

"(2) Repossess the property, complete the demilitarization thereof, resell the property, and charge the defaulting purchaser with all excess costs occasioned the Government thereby. The Government will deduct such costs from the purchase price and refund the balance of the purchase price, if any, to the purchaser. In the event the excess costs incurred by the Government in repossessing, demilitarizing and reselling the property exceed the purchase price, the defaulting purchaser hereby agrees to pay such excess costs to the Government.

"(3) Repossess the property and resell it under similar terms and conditions. In the event this option is exercised the Government will charge the defaulting

purchaser will all excess costs occasioned the Government thereby. The Government will deduct such excess costs from the original purchase price and refund the balance of the purchase price, if any, to the defaulting purchaser. Should the cost to the Government of repossessing and reselling the property exceed the purchase price, the defaulting purchaser hereby agrees to pay such excess costs to the Government.

"Provided, however, that irrespective of the actual costs to the Government and irrespective of the option exercises, in no event will the purchaser's liability to the Government for failure to comply with the demilitarization requirements of this contract be less than 20 percent of the contract price of the items concerned."

g. The following article is authorized for use in overseas areas only:

"Article ———: Evaluation of bids for demilitarization on other than Government premises. In evaluating bids and making awards on Item (s) ———, the Contracting Officer will consider all factors involved in providing surveillance and inspection of the required demilitarization, including the cost thereof to the U.S. Government, when such demilitarization is to be performed at a location other than a U.S. military installation. Consideration of cost will include, for each bid received, cost of necessary travel and administrative support of surveillance and inspection personnel for the time required to complete the prescribed demilitarization, including removal, transportation to designated demilitarization or storage sites, demilitarization operations, and disposal of residual powders, if any. Awards will be made on the basis of greatest overall advantage to the U.S. Government, after evaluation of each bid and the costs and other factors associated therewith."

h. Change in Contract Requirements. Special condition in Attachment 9 will be included in Invitation for Bids containing property requiring demilitarization.

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE,
Washington, D.C., August 17, 1972.

HON. JOHN L. McCLELLAN,
Chairman, Committee on Government Operations,
U.S. Senate, Washington, D.C.

DEAR SENATOR McCLELLAN: I am returning herewith the transcript of your Committee's hearing of July 26, 1972, on the U.S. Military Supply Systems: Traffic in Surplus War Material. Editorial corrections have been provided and the requested material for insert has been included.

I do find upon checking that my responses to the questions of Senator Gurney on Pages 51-53 of the transcript were inaccurate and are in need of clarification. The questions were directed at the requirement for demilitarization in the United States. At the time of my appearance, I concurred with Senator Gurney that demilitarization regulations do not apply in the United States. Upon checking, I find that this is not the case.

Demilitarization is required for both overseas and CONUS, but items overseas will be demilitarized to a degree *not less than* that prescribed for the same item in CONUS (Pg. 3-1-3, Paragraph A, Defense Demilitarization Manual). The requirements for the demilitarization of items overseas are usually more severe in that they include the CONUS requirements plus other specified key points. This is done to comply with country-to-country agreements and Security Trade Controls. An example of this would be Artillery and Projectors found on pages 2-1-9 of the Defense Demilitarization Manual which specifies standards for these items located in the United States, and page 3-1-7 of the same reference which specifies standards for those items demilitarized outside of the United States. Other examples are Tanks and Military Vehicles plus Military Aircraft.

In addition, the regulations give the overseas commander or his authorized representative the authority to require additional demilitarization, if necessary (Pg 3-1-3, Paragraph B, Defense Demilitarization Manual). An example of this would be the case of the turret rings or traces for tanks in USAREUR. These rings are not required by DoD standards to be demilitarized. However, there is the possibility that these items could be used by arms dealers. The Command, therefore, has directed that they be demilitarized in Europe.

Please accept my apologies for the confusion but as I am sure you realize the subject under discussion in the hearings was not a matter with which I am familiar in detail as I had earlier indicated in the testimony.

Sincerely,

J. FRED BUZHARDT.

Mr. BUZHARDT. It is not quite that way. There are exceptions when the property does not have to be demilitarized. For instance, if they are bringing the property back into this country—

Senator GURNEY. I am talking about when it obviously has to be done.

Mr. BUZHARDT. In that case, they have to demilitarize or bring it in. They have to certify that they are going to bring it back to the United States. If they decide they aren't then it is supposed to be demilitarized.

Senator GURNEY. Suppose you bring it back into the United States, my information is that demilitarization regulations do not apply in the United States at all, but only abroad. Is that correct?

Mr. BUZHARDT. That is my understanding.

Senator GURNEY. All right. So we bring it back to the United States and then we don't have to demilitarize it at all.

Mr. BUZHARDT. It cannot legally be sold outside the country then. Then we have a problem of whether we can force the prohibition against exports.

Senator GURNEY. My information is that quite a bit of military equipment sold in the United States ends up in other places.

Mr. BUZHARDT. That is my understanding also.

Senator GURNEY. If that is your understanding and it is my understanding—obviously there is need for demilitarization of surplus equipment within the United States, too. Is that right?

Mr. BUZHARDT. Either a demilitarization within the United States or a better system of keeping it from leaving the United States, one or the other. And you have economic matters concerned here. If you can assure it will be kept in the United States where it will not be used for military purpose, a greater return can be had on the property to use it for some other purpose, if you can sell it intact rather than cutting it up, a form that demilitarization often takes.

So it would be much more to the benefit of the taxpayer if we could sell it without cutting it up and then prevent it from getting out of the United States. If that is not possible, there is no alternative but to have demilitarization in every case.

Senator GURNEY. Let me ask this. Who is really responsible for this demilitarization business?

Mr. BUZHARDT. The military services that generate the property or the sales disposal office.

Senator GURNEY. I know that, but where does the buck stop, as Harry Truman used to put it? Who is in charge? Is it the man at the supply depot who is in charge of selling it?

Mr. BUZHARDT. I think one of our problems has been that in the past this was not always precisely fixed.

Senator GURNEY. Is it precisely fixed now?

Mr. BUZHARDT. It is on an ad hoc basis now. It is not permanently fixed. It will be when we get the Defense Supply Agency into it; they will have the responsibility.

Senator GURNEY. On an ad hoc basis who is the ad hoc in charge of demilitarization?

Mr. BUZHARDT. Most of the time the people who have the property on the yards. The Army or whoever generates the property. The military service that generates the property.

Senator GURNEY. In other words, these 11 Army yards in Europe,

the man who is in charge of those is the man who is in charge of demilitarization; is that right?

Mr. BUZHARDT. I think in most cases.

TESTIMONY OF KENNETH BELIEU—Resumed

Mr. BELIEU. He should. If it is a tank, for instance, and it is too big and he does not have the equipment to demil, you have to do something else, like getting a contractor to come in with a sledge or whatever kind of destructive gear he uses. I guess what makes this thing so difficult to comprehend, and it has been for me, has been the multitude of equipments involved.

We have been engaged in Europe for two decades at least. We have modernized our divisions' equipment several times. Some of it wears out and it is not worth shipping home. It is not worth more than scrap value and yet it is worth something to a small country perhaps.

Complicating the fact is that our manpower utilization—these are not Americans who do the work. We have the responsibility, but in many cases, we have third country nationals. Maybe in Germany we have Italian or imported labor doing this kind of work. So we have a people and communication thing. It is not a good situation, but it is something which has not only been preyed on by unscrupulous people, it has also grown inside our system.

So, it is difficult to say as a general thing, yes; the thing should be demilled before it gets into the system for disposal as junk, so-called. There are equipments where it cannot be done that way. Somebody will on purpose say they demilled it or maybe cut it someplace where it can be welded back together again and still be used by a nonsophisticated country as a weapon.

These are the types of things that when you begin to give it top attention, these are some of the things that the committee brought out that I don't think people thought of before.

Senator GURNEY. Who is in charge of one of these disposal yards? Is it an officer of the U.S. Army?

Mr. BELIEU. Let me answer the question if I may, although I have never been in one. I have been on this job 10 months and I have been to Europe for a week. If I was in one I did not recognize it. In looking at my backup material last night the average civilian is about a GS-11. It should be about a \$15,000 a year job.

Senator GURNEY. In other words, an Army officer is not in charge?

Mr. BELIEU. In some places they are captains, it varies. A captain it would be, you know what he gets, about \$11,000. The average workman in the yard is about \$267 a month, U.S. money. I have looked at some of the cases here. There is no question we are depending on undertrained personnel. In one case I remember the American captain assigned to the place could not speak the local language very well. He depended on a foreman who spoke the language and they in turn gave orders.

Senator GURNEY. Could you furnish for the record the names of these disposal yards in Europe, who is in charge of each, whether he is an officer or a civilian, his capability—that is, whether this specialty is that of a mess officer, whether he is an ordnance officer, or what his background is so that we will have some idea of who is in charge of this operation. That is extremely important in any operation.

Mr. BELIEU. It certainly is, sir.

(The information requested follows:)

KEY PERSONNEL IN PROPERTY DISPOSAL, EUROPE

I.—STAFF MANAGEMENT

Activity	Name	Position title	Grade	MOS	Additional duties	Time in property disposal		Training
						years	months	
HQ USAREUR	Louis R. Jeffers	Property disposal officer.	GS-13			15		Basic property disposal course, Lengries 1957; Armed Forces disposal management course, Fort Lee 1967.
HQ USTASCOMEUR	Robert C. Duschek	do	GS-13			21		Basic property disposal course, Lengries 1957; property disposal management course, Lengries 1959 and Fort Lee 1962; defense disposal executive seminar, Fort Lee 1966.

II.—HOLDING ACTIVITIES

Dachau	Steven R. Eagleburger	Installation coordinator	Captain	64823	Property disposal officer.	5		Basic officer course, Fort Eustis, Va.
Kaiserslautern	Louis Van Varick	Property disposal officer.	GS-11			15		Basic property disposal course, Lengries 1959, Fort Lee 1962, Lengries 1964.
Hannau	Jack B. Nelson	do	GS-11			16		Advance disposal management course, Fort Lee 1969.
Fuerth	Robert W. Seaman	Assistant director for supply and maintenance, IG.	Major	4010	Property disposal officer.	1		Basic officer course, Fort Eustis, Va.
Bremerhaven	Fred G. Rush	Program manager for supply and maintenance.	GS-11		do	6		Post engineer management course, management/administration course.
Berlin	Bruno J. Winkler	Property disposal officer	GS-8		Custodian for abandoned private property.	5		Basic property disposal course, Oberammergau 1968.
Ludwigsburg	Leeland B. Kratzer	do	Captain	4600	Surveying destruction officer for commissary.	1		Quartermaster supply operations course.
Seckenheim	Donald A. Jahraus	do	Lieutenant	4600	Price verification and disinterested officer	8		Basic property disposal course, Oberammergau 1971; course, Seckenheim 1972; supply management officer course, Fort Lee, Va.

Giessen..... Eugene E. Moreland..... GS-12..... Executive assistant to SUPACT Commander, ordering officer for SUPACT Gessen..... Property disposal officer..... 10..... Basic supply operations course.

Kagnew Station..... Christopher Bell..... Major..... Property disposal officer..... 9..... Installations management course; supply management course.

Livorno..... Leslie A. Erlandson..... GS-10..... do..... 20..... Basic property disposal course, Lenggrnes 19 4.

III.—SATELLITE POINTS

Germerstheim..... Karl Schalber (GN)..... Property disposal agent..... C-6a..... 2..... Basic property disposal course, Oberammergau 1971.

Baumholder..... Leo Lang (GN)..... do..... C-7..... 15..... None.

Bad Kreuznach..... Rudolf Soukup (GN)..... do..... C-6..... 10..... Basic property disposal course, Oberammergau 1968.

Pirmasens..... Rudolf Scheer (GN)..... do..... C-6..... 15..... None.

Missau..... Heinrich Decker (GN)..... do..... C-6..... 3..... Basic property disposal course, Oberammergau 1968.

Schweinfurt..... Gordon G. Fisher..... Staff Sergeant..... 64C40..... 1..... None.

Grafenwoehr..... David C. Winn..... Chief service, division 7 ATC..... 2625..... Property disposal agent..... 2..... 6..... Basic officer course, Fort Eustis, Va.

Darmstadt..... Rudolf Jandl (GN)..... Property disposal agent..... C-4b..... 5..... Basic property disposal course, Oberammergau 1970.

Nellingen..... James H. Hughes..... Sergeant..... 76P20..... 6..... Tire inspection course, Ludwigsburg 1972.

Schwaabisch-Gmuend..... Willibald Scholz (GN)..... Surplus property disposal clerk..... EC-5..... 8..... None.

Vicenza..... Willie S. Rudd..... Captain..... 76P20..... 1..... Basic property disposal course, Oberammergau 1971.

Chievres..... Pierre D. van Iseghem (GN)..... do..... BA8222..... 4..... Basic property disposal course, Oberammergau 1969.

Oberramstadt..... Fritz Barth (GN)..... Maintenance supervisor..... EC-5..... 10..... None.

Bamberg..... John D. Cain..... Lieutenant..... Property disposal agent..... 9..... Supply management course, Fort Lee, Va.

Hothenfelds..... Artie D. Johnson..... do..... do..... 9..... Basic officer course, Fort Eustis, Va.

Senator GURNEY. If you have a tank, obviously the officer ought to know that destroying a tank sight is fairly important. Certainly tank sights ought not to be sold. If you destroy the sight you can't aim the gun very well. These are all simple little things, but somebody has to know something about them.

Mr. BELIEU. That is right. It is exactly the reverse of buying the Brooklyn Bridge.

Senator GURNEY. Now one other question—and I am now back to the point I earlier was talking about. What is being done about these bad guys that are buying surplus military property and disposing of them to both sides in a "brush war" or disposing of them somewhere else?

Mr. BUZHARDT. As I said—

Senator GURNEY. I remember clearly what we said. What are we going to do about it?

TESTIMONY OF J. FRED BUZHARDT—Resumed

Mr. BUZHARDT. We are going to continue—where we have a company guilty of abuses, such as, mishandling the property, false statements, refusing to report, whatever—to suspend the company or disbar it. This might or might not be totally effective.

As you recall, in some of our other dealings with foreign companies, it is very easy for them to change their names, and to maintain a trail on the people involved in the trade is very difficult.

Senator GURNEY. What are we doing about it? That is really what I am interested in.

Mr. BUZHARDT. We are at present suspending. Whether we will be successful in maintaining all these suspensions and debarments depends on how the court cases come out. Because you have to have cause and you have to make it stand up when they sue.

Senator GURNEY. We have a military authorization bill on the Senate floor right now. It would be entirely germane to offer an amendment to that bill to plug this gap. We are going to have an appropriation bill shortly after that. We will have a supplemental appropriation bill early on next year. Any one of these bills can be a vehicle for that kind of amendment.

Mr. BUZHARDT. Senator Gurney, maybe I have misled you, but it is not quite that simple. You have the requirements of due process that are involved. As I said earlier, we have litigation cases pending on our suspension and debarment procedures. Depending on how they come out we may need additional legislation because they are currently under attack.

I can give you one—

Senator GURNEY. Let me ask you this question. I don't mean to interrupt, but I want to get at the nub of the problem. My understanding of your testimony was that the legislation you presently have is directed mainly not at people who buy, not the people who buy this surplus property, but people who sell property to you; isn't that correct?

Mr. BUZHARDT. That is correct.

Senator GURNEY. My impression also was that the legislation you have now is inadequate. It may be that these court cases will prove

that. Why wait until the court cases prove they are inadequate? Why not get some legislation now?

Mr. BUZHARDT. In the meanwhile we are acting on the assumption our authority is adequate and we are suspending.

Senator GURNEY. I know. I commend you for that. That is good.

Mr. BUZHARDT. What I am saying to you is that it may prove in subsequent litigation, in the court's opinion, that we did not have the authority. In that case, we are going to have to come back for legislation. This is what I am saying.

Senator GURNEY. Why don't you get the legislation now? Get a double-barrel approach to it.

Mr. BUZHARDT. We have to find out what some future court is going to say is the nature of our lack of authority. If it is due process, then we have difficulty in drafting legislation which will give us something. If it is a defect in procedure that the court will find wrong, then we can probably correct that administratively. That is the nature of the problem.

Chairman McCLELLAN. Will you yield?

Senator GURNEY. Yes, I will yield, Mr. Chairman.

Chairman McCLELLAN. Do we have any law on the statute book that compels our Government to sell our property to a foreign contractor, foreign bidder, if we don't want him to have it, for any reason? We have a suspicion that this fellow is in the business of buying this equipment and then disposing of it to some country that would not meet with our approval. Can't we stop it? Have we lost control of the management of our own affairs to the extent that we cannot control them against an undesirable purchaser from abroad?

Mr. BUZHARDT. In many cases, Mr. Chairman, we have requirements for selling by advertised bid to the highest bidder. The law does not say who that bidder will be, but the law generally requires us to sell on the basis of return primarily on the dollar.

Now in order to prevent any particular would-be purchaser from participating in the sale, we must suspend him or declare him ineligible to bid in advance. We are assuming that we have that authority. But we anticipate that it will be questioned in court in some cases.

Chairman McCLELLAN. Thank you for yielding, Senator Gurney.

Senator GURNEY. My only suggestion is that it seems to me that we have a critical problem here. I think we all recognize that. The Army recognizes it. I certainly congratulate you on recognizing it, as do we. But I would think that it might be sensible to devise some legislation to take care of this rather than relying on uncertainty as best I gather here from the testimony. That is all I suggest.

Why don't we put something on the statute books? It cannot take forever to dream that up. You have all kinds of bright lawyers in the Government. I should think we could devise some legislation that we could start out with anyway and revise it later if it is not adequate. That is what I am suggesting.

Chairman McCLELLAN. One other thought, if you will yield Senator.

Senator GURNEY. Yes.

Chairman McCLELLAN. I just cannot conceive of a practice of pursuing a general policy or an exception to such policy of giving a purchaser a contract to demilitarize. Would there not be a definite con-

flict of interest ever present? He wants to purchase the property for resale.

Mr. BUZHARDT. Not necessarily, Mr. Chairman. He might be purchasing for a specific use.

Chairman McCLELLAN. For what?

Mr. BUZHARDT. For a specific use. We could have, for instance, a half-track or some vehicle that had a military use which might be repurchased by the company, itself, to be remade into a commercial product.

Chairman McCLELLAN. Let me ask you this: Do you have any followup inspection procedures now to assure that the property will be demilitarized?

Mr. BUZHARDT. Yes, Mr. Chairman.

Chairman McCLELLAN. Are they adequate, these procedures?

Mr. BUZHARDT. Not over the long term, but over the short term; yes. I think we will have to have more adequate procedures for the long term.

Chairman McCLELLAN. If they have been adequate, how could they be abused?

Mr. BUZHARDT. I am speaking of the ad hoc procedures we have instituted in recent months. In the past we have had regulations, but they have not proved adequate.

Chairman McCLELLAN. That is what I thought. That is why we find ourselves with this problem.

Mr. BUZHARDT. That is correct.

Chairman McCLELLAN. Again, you are attempting to at least temporarily improve the situation by the ad hoc procedures.

Mr. BUZHARDT. And while we have the ad hoc procedures in process, we are trying to devise a more foolproof system on a permanent basis.

Senator GURNEY. Just one final question. I asked who is in charge of the disposal yards and we are going to have that information supplied to us.

Now, I would like to ask one other question and that is: Who is in charge of taking a look at these disposal yards to see that the person in charge of each yard is doing his job? Now that is an extremely important item in any operation, whether it is in or out of the Army, where you have somebody that can shake a big stick and look around and roll some heads if they are needed. Or do these yards sort of go on their own like the PX's used to do in Germany and South Vietnam and a whole lot of other places? In other words, there are some operations within the services that are considered sort of as country cousins and nobody pays much attention to them, I am not criticizing the various services—some officer in charge who is making sure he is ready for a possible attack by the Russians or anybody else is not particularly interested in a disposal junkyard, I understand that.

My question is: Is any high-ranking responsible officer in charge of these disposal yards and does he make occasional trips around to find out what is going on?

TESTIMONY OF KENNETH BELIEU—Resumed

Mr. BELIEU. I can answer that if you want it now. Obviously the chain of command is the top guy in Europe that has it, but he has a

supply general. In addition to that, we have teams going around checking them. The heat has been on in the last few months.

Senator GURNEY. You have plugged this hole.

Mr. BELIEU. I think so. One hole we have not plugged yet, and it will take us a long time, is the people one. We have bled Europe of talented, capable people and sent them to the Far East. It is going to take us a while to get capable people back. Of course, procedures are only as good as the people: bad procedures are good with good people and good procedures are bad with bad people. That is axiomatic and it goes on.

Senator GURNEY. That is all, Mr. Chairman.

Chairman McCLELLAN. Mr. Counsel, do you have any questions?

Mr. CONSTANDY. Yes, sir.

Mr. Buzhardt, in the first paragraph on page 2, you state deficiencies have persisted despite fragmented efforts to correct them and permanent solutions were not achieved. Can you tell us why this is so and why current activities will be more successful?

TESTIMONY OF J. FRED BUZHARDT—Resumed

Mr. BUZHARDT. I believe so, Mr. Constandy.

In going back over the record, not having been there at the time, it appears to me that when a criminal investigation was made which revealed an abuse in the system on an individual basis, even when the audits were made, they were dealt with at a fairly low level of command and they were dealt with on a case-by-case basis, rather than on a comprehensive basis to reform the system overall.

The value of the approach which has been used by the committee and the value of the close cooperation is that we have managed to get attention to this at the highest level.

Now, even service changes we do not believe will be enough. We don't believe the changes within the services, their own regulations, will be enough. They will have to be made defensewide. These changes we are making and are prepared to follow through in execution.

Mr. CONSTANDY. The sales responsibility you mentioned in the United States was handled by the Defense Supply Agency; in Europe it is by the Air Force. Is it not true that the Navy handles it in Hawaii and the far Pacific, and in the Far East it is handled by the Army?

Mr. BUZHARDT. I believe so, yes.

Mr. CONSTANDY. Will the takeover by DSA of this activity relieve them of this responsibility and will it be done hereafter by DSA?

Mr. BUZHARDT. Yes. DSA will have the primary responsibility, the fixed responsibility throughout. The services will still have the responsibility for the supply system which generate this material. There will be defects there that will be also corrected.

Mr. CONSTANDY. The DSA has not in the past played a role in the disposal activities. Do you anticipate a review as to the adequacy of their past performance in the areas they have been responsible?

Mr. BUZHARDT. Yes, we anticipate a review in great detail and we anticipate a number of changes, some of which are already in progress. For instance, as you note, there has been no adequate procedure to identify these materials so that they could be traced down through the system, not only to identify them, but have them marked so that a man

wouldn't have to depend on his ability to recognize them for what they are throughout the system. That takes the development of an information system, a data system and a control system, and is about the only way to insure that, for instance, military sensitive items are not regarded somewhere as a piece of junk and sold.

Mr. CONSTANDY. I believe you state that the present munition list adequately describes the principal end items over which controls should be exercised. Would you not agree that the munition list is vague as to the components and parts also to be controlled?

Mr. BUZHARDT. It is very vague. This is one of the problems in developing a system to identify the parts that are military-sensitive. It is fine to say that a tank is militarily sensitive—I don't think we have a problem with anybody recognizing that—but to recognize all of the parts which might be usable in a number of types of vehicles and interchangeably in the tank as well is a very difficult problem.

We don't always know. We might have parts that were used on a nonmilitarily sensitive item at present in the Army, but it might fit well into a military type item that was used previously.

These are some of the problems of developing the system so that we can determine what is and what is not militarily sensitive.

Mr. CONSTANDY. If we can address ourselves then to the components and parts which will subsequently be identified as to what they are, the demilitarization manual as it is presently written may provide sufficient guidance to assure that the listed item when demilitarized will no longer be functional for its original purpose. That is, a tank once it has been demilitarized according to the manual may not thereafter be used as a tank.

But do not the listed items provide many parts that still function in themselves and which can be bought and sold—powerplants, drive trains, suspensions, trucks, tractors?

Mr. BUZHARDT. That is correct.

Mr. CONSTANDY. Will revisions of the demilitarization manual then attempt to define the necessary demilitarization of these components and parts?

Mr. BUZHARDT. It will have to and we intend to do it.

Mr. CONSTANDY. Is that one of the areas, Mr. Buzhardt, that may amplify the record: We had a conversation in January of this year when we discussed the prospect of the Defense Audit Agency undertaking an audit in Europe. Do you recall that?

Mr. BUZHARDT. Yes.

Mr. CONSTANDY. At that time, you informed me that there would be assigned to a combined audit effort people from the Defense Audit Agency, the triple "A" and from the Air Force Audit Agency and they would be in some numbers, 27 of them. I believe, if you recollect, the scope of that order was to include all processes and procedures from the time an item was defined as being excess, following that through the screening processes, the sale, demilitarization, and related activities. Is that not correct?

Mr. BUZHARDT. That is correct. I do not remember the number of people.

Mr. CONSTANDY. Does that describe one effort?

Mr. BUZHARDT. That is the effort.

Mr. CONSTANDY. More recently made, not discussed, the prospect of triple "A" or Defense Audit undertaking an audit of the wholesale inventory and accountability in Europe, that is, MATCOM.

Mr. BUZHARDT. Yes.

Mr. CONSTANDY. That was one of the other audit areas.

Mr. BUZHARDT. Yes. That is correct.

Mr. CONSTANDY. I think to some extent that question still remains to be resolved whether that audit will be necessary in the light of the task force activity in DCSLOG, is that correct?

Mr. BUZHARDT. That is correct.

Mr. CONSTANDY. In that same context, did we not have conversations relative to CID agents pursuing ongoing investigations in cases arising from property disposal?

Mr. BUZHARDT. That is correct. It is being done.

Mr. CONSTANDY. That is material being referred to as being part of the joint effort being undertaken by the staff and the Defense Department.

Mr. BUZHARDT. That is correct.

Mr. CONSTANDY. There have been a number of individual cases, some of which were included within the scope of the investigation, some which were not, but during the course of the investigation those cases were pursued by CID detachment people assigned to a special task force on disposal properties, is that true?

Mr. BUZHARDT. That is correct.

Mr. CONSTANDY. I have no further questions.

Chairman McCLELLAN. Thank you very much. I think you wanted to be excused, did you?

Mr. BUZHARDT. If I could, Mr. Chairman.

Chairman McCLELLAN. We took longer than we anticipated. It appears to me and I think we will all agree from the beginning that we have a monumental task here to get this problem corrected.

Mr. BUZHARDT. I certainly agree it is one of the most complex problems we have had to address.

Chairman McCLELLAN. I hope we are going to address it with vigorous attention from now on to see if we can get this thing corrected. It looks as if it is kind of disgraceful in the shape it is in now.

Very well. Thank you very much.

Mr. Secretary, I have a biographical sketch of you here. With your permission, I will have it inserted in the record at this point so that it may be available to those who want further information about your qualifications and so forth.

Without objection, it will be inserted in the record and you may proceed, Mr. Secretary, with your statement.

BIOGRAPHICAL SKETCH OF KENNETH E. BELIEU, UNDER SECRETARY OF THE ARMY

Kenneth E. BeLieu was born in Portland, Oregon on February 10, 1914. He received his B.A. degree from the University of Oregon in 1937 and attended the Harvard Business School Advanced Management Program in 1955. He volunteered for active duty as a 2nd Lieutenant in the Infantry in 1940, and participated in the Normandy Landing and campaigns in France, the Battle of the Bulge, Germany and Czechoslovakia. He was awarded the Silver Star, the Legion of Merit, the Bronze Star, Purple Heart and Croix de Guerre.

Following World War II, he served in various assignments with the Army in the War Department and Department of the Army General Staff. In 1950, during the Korean Conflict, he lost his left leg below the knee as a result of wounds

received in combat. Upon his discharge from the hospital he was assigned to the Office of the Secretary of the Army where he served as Executive Officer to two Secretaries of the Army before his retirement as a Colonel in 1955.

From 1955 to 1960, Mr. BeLieu was a professional staff member of the Senate Armed Services Committee, the first Staff Director of the Senate Aeronautical and Space Sciences Committee and at the same time Staff Director of the Preparedness Investigating Subcommittee of the Senate Armed Services Committee.

In February 1961, he was appointed Assistant Secretary of the Navy for Installations and Logistics. In February 1965, he was appointed Under Secretary of the Navy, during which time he was awarded the Navy's Distinguished Civilian Service Medal.

During the period of July 1965 to January 1969, Mr. BeLieu held positions in private industry.

On January 21, 1969, Mr. BeLieu was appointed Deputy Assistant to the President for Congressional Relations, the position in which he served until his appointment as Under Secretary of the Army. Mr. BeLieu has served as Under Secretary of the Army since September 22, 1971.

TESTIMONY OF KENNETH BELIEU—Resumed

Mr. BELIEU. Thank you, Mr. Chairman.

I am privileged to have the opportunity of appearing before this committee and I would like to associate myself with the remarks of the chairman and the general counsel. I share their strong belief in the importance of this effort.

Before continuing with the subject at hand, I hope the committee will forgive me if I digress briefly, for I would be remiss if I did not emphasize that I am especially pleased to testify before this committee.

I first appeared before it some 18 years ago; and during the intervening period my relations with the chairman, its members, and with the staff have been cordial and rewarding. In the past 10 months during which I served as Under Secretary of the Army, I have found the committee concerned, as is the Army, with helping the Army to be a more effective and efficient instrument of national policy.

Chairman McCLELLAN. Will the Secretary identify his associates? If they should testify, they will have to be sworn. If you want to identify your associates with you with whom you may counsel during your testimony, you may do so at this point.

Mr. BELIEU. Thank you, Mr. Chairman. I have on my right, Lt. Col. Arthur T. Buswell, logistics staff officer, Office, Deputy Chief of Staff for Logistics here in Washington, Department of the Army and an expert in his own right on the PDO situation.

On my left is Lt. Col. Wendell L. Pelham, logistics staff officer, Office, Deputy Chief of Staff for Logistics, USAREUR. He comes from Europe. If the committee has no objections, I would appreciate the opportunity to confer with them.

Chairman McCLELLAN. Very well.

Now may we ascertain if you are going to read your prepared statement in full.

Mr. BELIEU. I do not have to, sir.

Chairman McCLELLAN. If you are, very well. If you omit any part of it, I will direct that the reporter insert it in the record at the place that you omit it.

Mr. BELIEU. Thank you, sir. I would like to stress very strongly the importance of the new relationship which you mentioned between the committee and the Army during the course of this investigation. I guess

it is natural for an organization whose conduct is under scrutiny to be a little self-conscious and probably try to fight the problem which led to the scrutiny in the first place.

Chairman McCLELLAN. The Chair may observe that there have been occasions, there have been investigations when we had no cooperation from the Defense Department. I say no cooperation, I mean we did not get adequate cooperation to enable us to expedite our work. It is gratifying to me at least that there is a different attitude here in this investigation compared with some that we have experienced in the past.

I think it is worthy of commendation that after all we are public servants, the Department, the Army, all the military services, this committee; we are servants of our Government and in these areas where there are problems I think it behooves us to work together cooperatively to the end that these problems may be diminished or resolved.

It is very gratifying to the chairman that apparently without question that attitude and cooperation has been present in the course of this particular investigation. I want to express my appreciation—I know all members of the committee join me—in this sentiment that it is refreshing and very gratifying to have this attitude prevail.

Mr. BELIEU. Thank you very much, Mr. Chairman.

Chairman McCLELLAN. You may proceed.

Mr. BELIEU. I know I have been privileged to work with both the majority and minority counsel of the committee, the members and the chairman and I think we are blazing a new trail toward better government. This is an example of it. This is the only country we have and the Army is an institution in it.

As any individual, I find it difficult sometimes for self-criticism. It is difficult for a government bureaucracy to do that, but we are doing our best. I think it is correct to say that at the time the committee initiated the investigation, the attention to the subject was not as high as it has been since. That probably is an understatement.

We have been proud to assist the committee in the investigation. I am going to skip through this in the interest of time.

Chairman McCLELLAN. I will direct the reporter if any part of the prepared statement is omitted to please insert it in the record in its appropriate place.

Mr. BELIEU. Mr. Chairman, I wanted to get the order of magnitude of what we are talking about here fixed in my own mind because we are dealing with new equipment as well as junk that is hard to put a price tag on.

If we talk in terms of improving efficiency and effectiveness, we would find that that alone would be worth the effort. I believe that considerable financial savings will also be achieved as a result of actions we are engaged in today.

It was true of the committee's investigation of the Army's operations of clubs and messes, and it will be in this. It is not possible with any certainty to say how much money would be saved, but here we have a program that has an annual sales throughout the Defense Department in excess of \$124 million for property having an acquisition cost of better than \$5 billion.

Of course, that amount is depending on what is in the system.

Now the constructive criticism by the committee, together with our own investigations, certainly will cause savings to the Government in

both dollars and efficiency that will exceed by many orders of magnitude the investment in both time and money which members of your committee and the Army have made.

While I can't claim to be an expert in the workings of this complex system, I don't know that one person can, nevertheless witnesses who have this expertise will be made available all during your hearings.

I would like to describe in brief terms how the property disposal system works. Under the delegation of authority from the General Services Administration, the Department of Defense manages its own disposal program. We have talked before about the Defense Supply Agency. It administers the programs and formulates policies regarding the receipt and disposition of property. Each military service supervises its own assigned activities and issues implementing instructions in conformity with defense regulations.

Each one of these things needs a little explanation, I think. I will come to that shortly. But when property becomes surplus and when it is excess to the needs of a given military unit which has this property and when it is no longer functioning or not economically repairable, at that point the property is screened to determine whether somebody else can use it in the Defense Establishment or some other governmental agency. It is sort of like excess property—real property, I mean.

Now, if no governmental agency has a need, then by statute—my statement says certain charitable organizations—although incorporated municipalities cannot be considered charitable organizations they also have a crack at this type of property if they need it or want it and if they can lay a claim to it, they get it.

It is collected at centralized holding facilities. In most cases bids are requested. Or it is sold by auction, sometimes by negotiation. It is always done in accordance with a regulation. The problem here is whether regulations have kept up with the time or not.

My statement before you says none of the services operates its own property disposal system. Well, that should be modified by "none of the services completely operates," this is one of our problems.

Each service is charged only with its own holdings such as depots and yards. A single service is designed by Defense to operate the sales facilities in each major geographical region. For example, we discussed the Air Force as sales agent in Europe, the Army in other areas and I believe the Navy in a couple.

To me—I think Senator Gurney put his finger on it a while ago—this is an example of authority and responsibility being split. There you always get something dropping between the cracks when that happens.

Now we do have joint staffing in these things, so that hopefully we will have somebody to advise an Air Force man what an Army piece of gear looks like and vice versa. DSA is a joint agency. But I think there should be more centralized control of authority and responsibility. Sales are made in accordance with the disposal manual. Then in order to prevent war materiel from reaching the wrong hands, we have the munitions list items previously discussed.

In order to sell items, "hardware" as I call it, they must be demilitarized or rendered useless for war in accordance with the manual.

The problem with the manual was well brought out awhile ago; it

may well be descriptive of equipment printed in there or described in the manual, but the amount of gear to be handled sometimes probably has suffocated the manual.

I have been told by the Defense Supply Agency, it is quite obvious from the experiences brought out this morning, that the property disposal activities have not been as well managed as they could have and should have been. I think it is proper though that we understand that property disposal was not the first priority during recent years, nor perhaps should it have been, but that is no excuse.

Also, the bulk of property disposal operations have been conducted probably in accordance with regulations.

As I indicated before, either the people did not understand the regulations or the regulations might not have covered the situation which they were in. But the deviations have been sufficiently numerous and serious so that we can't take comfort from any of those facts.

There is substantial room for improvement and indeed a substantial portion of the activities in the field have been qualitatively inadequate. I think probably the greatest percentage of time, I can't really define that, is in undertaking to discover the causes of our problems. We do that first and then take the actions to eliminate them.

The committee's efforts have accelerated our own and they have illuminated the severity of the problem.

In general terms, the Army has focused on two broad areas, first, procedures for defining what is surplus and second, the procedures for disposing of surplus property.

With respect to the first, we need to insure that only those items which are truly surplus enter the property disposal pipeline. I won't go into all the problems. Our investigators working with you have pulled out some lusus. In one instance, I remember talking with one of the staff members where 11 days were required for an indication of whether the item should go into the pipeline of disposal. On the 12th day, somebody found they could use it but that was too late; it had already gotten into the machinery.

It is sort of like trying to clear up your credit card billing at the end of the month if the machine does not recognize your handwriting.

We need to maintain better control of items stored in yards and depots. I think much of this problem stems directly from criminal acts including such matters as illegal sales, theft and failure to demilitarize in accordance with regulations.

The root cause—we have many causes—is the fact that unscrupulous individuals can make substantial profits by engaging in these activities.

While we will always have such people with us, the system has to be made as foolproof and theftproof as we can. To a great extent this is due to lack of adequate on-site managerial control.

This lack of control manifests itself in inadequate adherence to policies and procedures and especially in accounting for property in yards and depots. It manifests itself in dilution of responsibility which is in turn aggravated by the fact, as I mentioned before, that one outfit has been assigned the sales responsibility and another something else. To a great extent, this problem is further compounded in some instances by poorly trained or poorly motivated people. This has been one of the major problems across the Army in toto, I think, in the last 2 or 3 years.

The results have not been surprising, but they have been unfortunate. Physical security at some yards has been lax; records have been inadequate. Procedures required by statute or by regulation have not always been followed. Items which should have been demilitarized before sale have not been.

In short, the criminals or the sharp dealers' path to profit has been paved in certain cases by shortcomings within the property disposal system.

I would not want to leave the impression that we have been standing by idly. We had a long discussion on that this morning. We have been moving to eliminate these inefficiencies but more needs to be done.

I would like to talk for just a moment or two about general measures which the Army has taken in the broad area of property disposal.

As mentioned before, we have had the full benefit of this committee's cooperation. It has been most helpful. We have detailed some 21 full-time investigators from the Army staff, U.S. Army Criminal Investigations Command, to aid the staff. We have encouraged the commands to make records available. The chairman has referred to that. I will not go on any further on this subject.

At the same time, we have also acted internally. The Deputy Chief of Staff for Logistics has established a task force to review the effectiveness of procedures in the field. That task force started last November. It has made significant recommendations; many of which are being implemented. In addition, the Army's new criminal investigations command, the Army Audit Agency, and the Inspectors General have continued to make studies.

With regard to the CID, I propose actually to broaden its scope in the field of supply management because I think the property disposal and supply management are linked together. This will be something that the committee will want to look at later. I think the effort of the staffs, your staff and ours, has resulted in concrete action and plans in several respects. Some have not been implemented or in fact made final, pending completion of these hearings. Although I have categorized this review as a cooperative venture, I have also recognized the need to preserve the integrity and the impartial perspective of the committee's investigation and in some instances I have specifically requested that certain results of committee investigations to date be made available only to a select few in order to preserve the integrity of the review.

So, when we get through with this and we have a chance, the Army and the committee together, to evaluate all of our actions, I know that we will have materially bettered the situation. As you may recall, I indicated that our first area of concern was the sufficiency of the procedures for defining what is surplus. This is really a problem of the sufficiency of our data systems. We are considering such measures as centralized screening procedures and modification of the criteria for declaring items surplus.

Incidentally, I mentioned before, I don't know whether you have distributed them, Mr. Constandy, the committee members should have available to them two lists of items that could be reviewed at leisure or later on to see if they fit within the criteria of this hearing. We are also considering changes in our data systems.

Our second area of concern involves the procedures for disposing of surplus property after it is classified as surplus. In this regard, the Army's property disposal task force has reviewed regulations to determine whether changes would aid in this endeavor.

As a consequence, appropriate modification resulting in improved controls were made. For example, now we require at least two people at different management levels to certify that demilitarization has indeed taken place before a sale can be made. Incidentally, this requirement is also being applied to the transfer of property into the disposal system in the first instance. We are reviewing the feasibility of transferring the obligation to demilitarize from the holding facility to major Army commands.

That, Senator Gurney, will get to the thrust of one of your queries awhile ago.

In addition, we are considering changing the demilitarization procedures themselves in order to make them more stringent and to insure that such property may never again be used for military purposes.

Most importantly, we are attempting to insure that this area get the managerial attention in the future which it has lacked in the past. I really think I should change the term managerial to command, because in the military system it should be command. You can bet when we get back we will make sure that word command is in here, not managerial, because this is the line of command, it is the only way we get attention.

We have, for example, created a supply management task force at the headquarters, U.S. Army in Europe, and similar task forces at the major subordinate commands. These task forces are designed to monitor disposal activities in order to guarantee that the procedures actually used comply with regulations and that commanders in the field devote sufficient attention to this aspect of the Army's activities.

We have also created in Europe a theater inspection team. This team together with vigorous investigative field activities by the Inspector General, by the U.S. Army Criminal Investigations Command and Crime Prevention teams, in fact by all our resources, should go far to correct the situation that we have found ourselves in.

I know it is well and good for me to outline these changes to the committee, but no system is desirable if it only exists at a committee hearing or on paper. Because we are determined that we shall not have a paper system, the Criminal Investigations Command has made a comprehensive survey of the property disposal installations and it is going to continue to do so.

In addition, the Army Audit Agency and the Inspector General will conduct periodic audits. These surveys and audits not only will help to unearth the problems, but they will give us the basis for correcting them. They can only work if they are combined with the command supervision I mentioned earlier. It will work.

I guess we can never always guarantee that we won't have criminality in places where we don't expect it. But if tightening our regulations, command supervision, continually going back and looking again and again will do it, this will take care of it.

I mentioned people before and that is the real concern I have. It takes people to operate this system and it can't be better than the people.

I mentioned that I believe that the transfer to the DSA will help, it will go a long way toward reducing this problem. I pointed out some of the steps we have taken, Mr. Chairman, many with your assistance and cooperation.

I guess I can't close without saying that this system or any system will not be perfect unless men are perfect. The unscrupulous will seek to turn the system to their own ends. So long as a system depends on people, errors in judgment will occur. But we are going to make the best "SOP" we can and you can bet your bottom dollar they are going to know about this in the Army and understand what they need to do.

I would like to summarize, Mr. Chairman, that we have been more than pleased and honored to work with your committee and your committee staff. We recognize the current system has serious flaws and requires prompt improvement. Money has been lost, but perhaps even more serious would be the danger of materials of war getting into the wrong hands. To that end we intend with your help at these hearings to produce profitable results.

I thank you for the opportunity of being here. I apologize for the hoarseness of my voice. If you have any questions, I will try to answer them.

(The prepared statement submitted by Mr. BeLieu follows:)

STATEMENT OF KENNETH E. BELIEU, UNDER SECRETARY OF THE ARMY

Mr. Chairman, I am privileged to have the opportunity of appearing before this Committee and to discuss the Army's property disposal interests and problems.

I would particularly like to associate myself with the remarks of the Chairman and the General Counsel of the Department of Defense. I share with Senator McClellan and Mr. Buzhardt a strong belief in the importance of our mutual efforts in this field.

Before continuing with the subject at hand, I hope the Committee will forgive me if I digress briefly; for I would be remiss if I did not emphasize that I am especially pleased to be testifying before this Committee. I first appeared before it some eighteen years ago; and during the intervening period, my relations with its members and with its staff have been both cordial and productive. In the ten months during which I have served as Under Secretary of the Army, I have found the Committee concerned, as is the Army, with helping the Army to be a more effective and efficient instrument of national policy.

I also want to take a moment to thank the Committee and to express the Army's appreciation for the Committee's constructive criticism as a result of its investigation of our clubs and messes. While I wasn't in this job at that time, I have reviewed the hearings and seen the resultant actions. The Committee and staff members who participated can take pride in their work, and we can all be proud of the more efficient organization that is emerging.

With regard to the subject at hand—a detailed review of the property disposal operations in the European Theater—the Army appreciates the opportunity of working with the Committee and welcomes the Committee's continued assistance and recommendations.

I cannot stress too strongly, Mr. Chairman, the importance of the new relationship which has been forged between the Committee and the Army during the course of this investigation. It is natural for an organization whose conduct is under scrutiny to become defensive and to attempt to maintain the appearance of perfection at the expense of ignoring the very problems which led to the scrutiny in the first place.

It is difficult for an individual with a strong character and well nigh impossible for a large organization—especially if it is proud and has a tradition that demands strong elements of self-sufficiency—to generate constructive self-criticism.

It's hard for a capable, self-sufficient individual to acknowledge problems and to admit mistakes—and sometimes well nigh impossible for a government entity to do so.

I guess that it's no secret that our Army has some of these traits.

Yet for almost a year now, the Army and the Committee have been mutually blazing what we hope will be a new trail toward better government—and incidentally toward a more efficient Army. Army investigators (some twenty-one) have been assigned to work under the direct supervision of the Committee staff to investigate the nation's surplus property disposal operations. The goal has been the improvement of the property disposal system.

When the Committee initiated this investigation, we in the Army knew that it was in the interest of everyone that procedures which required correction be corrected and that the Committee had no desire to attack or to embarrass the Army but only wished to help the Army improve itself. So we have worked with the Committee staff in an atmosphere of cooperation. We have assisted the Committee in its investigation. The Committee has in turn assisted us with our own studies. I believe that this somewhat unique attitude of cooperation is imperative for good government. I commend the Committee and its staff for its concern, for its thoughtfulness, and for its assistance. And I hope that this spirit of cooperation will long continue in our relationships with this Committee and with the Congress of the United States.

Efficiency and effectiveness are important to all of us because they aid us in meeting our mission. But considerable financial savings can also be achieved. As was true of its investigation of the Army's operation of its clubs and messes, the Committee's efforts in this area of asset control serve as an example of its concern for the Army and for our taxpayers. It is not possible for me to state with any certainty how much money will be saved. Suffice it to say that in a program having annual sales throughout the Defense Department in excess of \$150 million for property having an acquisition cost of approximately \$5.5 billion dollars, the constructive criticism of the Committee, together with our own investigations, can provide a tremendously beneficial impetus in the attainment of our joint goals. If through our combined efforts the projected improvements in property disposal procedures are attained, the cost savings to the Government will no doubt exceed by many orders of magnitude the investment in time and money which members of your Committee and which we in the Army have made.

As you well know, some time ago, members of your Subcommittee's staff began investigating the Defense Department's property disposal procedures. As a result of that investigation, the Services turned their attention to this area, which until that time had been under-emphasized because of more immediate problems which had to be faced during recent years.

I do not and cannot claim to be an expert in the intricate workings of all the complex systems which make up the property disposal operations. Witnesses who have this expertise will be available to testify later about specific aspects if the Committee desires. At this time, however, Mr. Chairman, I would like briefly to describe in broad terms the way in which property disposal works.

Under delegation of authority from the General Services Administration, the Department of Defense manages its own disposal program. The Defense Supply Agency administers the program and formulates policies and regulations regarding the receipt and disposition of property by each military service. Each military service supervises its own disposal activities and issues implementing instructions in conformity with basic Defense Department regulations.

Property becomes surplus when it is excess to the needs of the unit in which it is located or when it is no longer functioning and is not economically repairable. At that point the property is screened to determine whether another unit, another defense component, or another government agency has a need for the property. If no governmental agency has a need, then by statute certain charitable organizations have the next priority; if they request the property, it is donated to them. If no such organization requests the property, it then enters the property disposal system. It is collected at centralized holding facilities and in most cases bids are requested or the property is sold by auction, negotiation, or retail sale, in accordance with regulation.

None of the Services operates its own property disposal system. Each Service is in charge only of its own holding facilities—depots and yards—in all parts of the world. A single Service is designated by the Defense Department to operate the sales facilities in each major geographical region. Thus, for example, the Air Force is responsible for all sales taking place on the European continent; the Army is responsible for certain areas in the Pacific, including Vietnam.

Sales are made in accordance with the Defense Disposal Manual. The procedures established by that manual are designed to insure both fairness to those wishing to purchase the property and maximum return to the Government. In

order to prevent war materiel from reaching the wrong hands, items on the Munitions List, established by regulation in implementation of statute, must be demilitarized, or rendered useless for war, in accordance with the Defense Demilitarization Manual.

Although the Services presently play a role in the property disposal process, that role will shortly be reduced, as the Secretary of Defense has recently directed the Defense Supply Agency to begin planning for unified control under its aegis of all property disposal operations worldwide. Pending implementation of that directive, however, the wisest course for each Service is to attempt to resolve the problems which affect its present operations.

Experience to date has shown that property disposal activities have not been managed as well as they could and should have been. To be sure, property disposal was not our first area of priority, nor should it have been; but that is no excuse. To be sure also, the great bulk of property disposal operations have been conducted in accordance with regulations; but the deviations have been sufficiently numerous and sufficiently serious that we cannot take comfort in that fact. There is substantial room for improvement. Indeed, a substantial portion of the activities in this field have been qualitatively inadequate. We have undertaken to discover the causes of our problems and we have begun to take the actions required to eliminate them. The Committee's efforts have accelerated our own and have illuminated the severity of the shortcomings.

In general terms, the Army has focused its concern in two broad areas; first, the procedures for defining what is surplus; and second, the procedures for disposing of surplus property after it is so classified.

With respect to the first, we must insure that only those items which are truly surplus enter the property disposal pipeline. At present, sometimes one unit declares an item surplus and we sell it to the public when another unit, albeit separated in distance and command, may have a need for such an item or for an item serving a similar purpose. Moreover, accepting that even the best conceived and operated systems will permit random errors, today an item sometimes erroneously enters the property disposal system and we are unable to locate it and to take the measures necessary to guarantee that it is returned to an American line unit.

With respect to our second problem, we must maintain better control of the items stored in yards and depots. Much of this problem stems directly from criminal acts, including such matters as illegal sales, theft, and failure to demilitarize in accordance with regulations. The causes of the problem are many. Undoubtedly the root cause is the fact that unscrupulous individuals can make substantial profits by engaging in such illicit activities.

Unscrupulous persons seeking ill-gotten gains will always be with us. But the present system as implemented makes it easier for such persons to succeed in their plans than it should.

To a great extent this is due to a lack of adequate onsite managerial control. Such a lack of control manifests itself in inadequate adherence to policies and procedures, especially in accounting for property in the yards and depots. It manifests itself in dilution of responsibility, which is in turn aggravated by the fact that in Europe the Air Force is assigned responsibility for sales and the Army responsibility for its holding activities only.

To a great extent also this problem is further compounded in some instances by poorly trained or poorly motivated personnel. If anything, this problem renders even more serious the problem of poor managerial techniques.

The results have not been surprising, but they have been unfortunate. Physical security at property disposal yards has been lax. Records have been inadequate. Procedures required by statute or by regulation have not always been followed. Items which should have been demilitarized before sale have not been. In short, the criminal's or sharp dealer's path to profit has been paved in certain cases by shortcomings of the property disposal system.

Having said all this, please do not allow me to leave you with an erroneous impression. We have not been waiting idly. We have been moving with due speed to eliminate inefficiencies in the property disposal system.

Let me first address the general measures which the Army has taken in the broad area of property disposal.

As mentioned before, the Army has had the benefit of full cooperation from your Committee's staff, and in turn the Army has cooperated with the Committee. We have detailed twenty-one investigators from the U.S. Army Criminal Investigations Command assigned solely to aid Committee staff members in their inquiry. We have encouraged those in command to make records available and

to discuss all matters with Committee representatives candidly and openly. In turn, we wish to thank members of your staff for the cooperation they have given us. As a result of this innovative, but cooperative, relationship, we believe that we will be able better to meet the mandate given us by the Congress.

At the same time, the Army has also acted internally to remedy problems perceived in this area. The Deputy Chief of Staff for Logistics, General Heiser, has established a task force to consider the effectiveness of procedures in the field of property disposal. That task force commenced its exhaustive study in November of last year, and it has made significant recommendations, many of which are already being implemented.

In addition, the Army's new Criminal Investigations Command, the Army Audit Agency, and the inspectors general have continued to make studies and to investigate both allegations of criminal misconduct and potential sources of inefficiency in the property disposal field. Incidentally, I plan to expand the Criminal Investigations Command's responsibility to appropriate aspects of supply management.

The cooperative effort of the Army staff and of the Subcommittee staff has resulted in concrete action and plans in several respects. Some of these measures have not yet been implemented or in fact made final pending completion of these hearings. Although I have categorized this review as a cooperative venture, I have also recognized the need to preserve the dignity and impartial perspective of the Committee investigation. Accordingly, I have specifically requested that certain results of the Committee investigation be made available only to a selected few prior to this hearing. When the Army evaluates this information, together with any recommendations of the Committee, we will be able to implement our plans fully. I anticipate that when all the actions are taken, significant improvement will result.

In somewhat more specific terms, let me indicate to you the corrective measures planned in our two broad areas of concern. As you may recall, I indicated that our first area of concern was the sufficiency of the procedures for defining what is surplus. This problem is largely one of the sufficiency of our data systems. We are presently considering such measures as centralized screening procedures, modification of the criteria for declaring items surplus, and changes both in the Munitions List and in the demilitarization manual. We are also considering changes in our data systems, including changing to a computerized system in the property disposal area. Already we have created a data retrieval system at the inventory control center at Zwiebrucken to insure visibility and easy retrieval of needed property from disposal activities. We are reviewing regulations in order to ascertain their weaknesses and to correct these weaknesses insofar as we, as a Service under the Defense Department, can do so.

Our second area of concern involved the procedures for disposing of surplus property after it is classified as surplus. In this regard, the Army's property disposal task force has reviewed applicable regulations to determine whether changes would aid in this endeavor. As a consequence, appropriate modifications, resulting in improved controls were made. For example, we now require that at least two people at different management levels certify that demilitarization has taken place before a sale can be consummated.

Incidentally, this requirement also is being applied to the acceptance of property in the disposal system in the first place. We are reviewing the feasibility of transferring the obligation to demilitarize from the holding facility to major Army commands. In addition, we are considering changing the demilitarization procedures themselves in order to make them more stringent and to insure that such property may never be used again for military purposes.

Most importantly, we are attempting to insure that this area receive the managerial attention in the future which it has lacked in the past. To this end, for example, we have created a Supply Management Task Force at the headquarters of U.S. Army, Europe, and similar task forces at the major subordinate commands. These task forces are designed to monitor disposal activities in order to guarantee that procedures actually used comply with regulation and that commanders in the field devote sufficient attention to this aspect of the Army's activities.

Furthermore, we have created in Europe a theater inspection team. This team, together with vigorous investigative activities by field inspectors general, by the U.S. Army Criminal Investigations Command's crime prevention teams, by the Provost Marshal's physical security teams, and by the Army Audit Agency

should go far to remedy many of the problems in property disposal operations.

I could describe other measures which we have undertaken. But because of the limitations of time, Mr. Chairman, I ask that a more specific listing of Army actions in the property disposal area be included in the record as an appendix to my statement.

It is all well and good for me to outline these changes to the Committee today. But we realize that no system is desirable if it only exists at a Committee hearing or on paper. Because we are determined that we shall not have a "paper" system, the Criminal Investigations Command has made comprehensive surveys of property disposal installations, and it will continue to do so on a spot basis. In addition, the Army Audit Agency and the inspectors general conduct periodic audits. These surveys and audits not only help to unearth criminal conduct and failure to adhere to existing regulations but also indicate areas in which the Army's procedures can be improved in order to reduce the likelihood of its recurrence. Efforts have also been made to tighten physical security. The Army simply will not tolerate laxity in this field.

Underlying the entire area is our concern with the people who operate the system, since, as we all realize, no system can be better than the people who make it function. We believe that the transfer to the Defense Department's Defense Supply Agency of the disposal function, and the concomitant establishment of career patterns in this field, will go far toward reducing our problem in this regard. In the interim, please be assured that we are taking necessary measures to improve training and hiring and to increase motivation; in short, to obtain better performance than heretofore in the property disposal area.

Having just pointed out to you, Mr. Chairman, the steps which we have taken and, with your assistance and cooperation, are taking, I would like to emphasize one point: No system, and certainly not this system, will ever be perfect. So long as men are corruptible and there are profits to be made, the unscrupulous will seek to turn the system to their own ends. So long as the system depends on people and people are not perfect, errors in judgment will occur. But the fact that the system cannot be perfect will not deter us in our commitment to optimize its operation.

To summarize, Mr. Chairman, we in the Army have been pleased to work with your Committee and with your Committee's staff in this cooperative endeavor to improve the property disposal system. We recognize that the current system has serious flaws and requires prompt improvement. Not only has money been lost, but controls on war materiel have not been as stringent as we would like. We believe that this situation must be changed. To that end, we have taken vigorous measures to insure that it will change. I believe that the changes which we propose are well conceived. However, due to the nature of property disposal operations—which involves the participation and interrelationships of all of the Services—the implementation of our program cannot be accomplished immediately. Appropriate action has been initiated and we are confident of attaining our objective at the earliest possible date. With your assistance, we are convinced that our property disposal system will change so that it may function as those who originally established it had intended it to function.

Mr. Chairman, let me thank you once again for this opportunity to explain our property disposal system to you, and let me express, on behalf of the Department of the Army, our thanks for your Committee's cooperation and our desire for this relationship of cooperative effort to continue for a long time into the future.

Chairman McCLELLAN. Thank you very much, Mr. Secretary. I note the hour is 20 minutes past 12. After a brief conference with Senator Gurney, he advises me that he cannot be here this afternoon. I have a conflicting problem, too. I have a Senate Judiciary Committee meeting this afternoon at 2:30. It is going to be difficult to proceed.

I think it will be advisable for us to recess the hearings until the morning under the circumstances. I shall do that and request that you come back tomorrow morning for us to interrogate you if that is convenient—come back tomorrow morning at 10 o'clock.

Mr. BELIEU. Thank you, sir.

Chairman McCLELLAN. In the meantime, do you have any initial questions you want to ask?

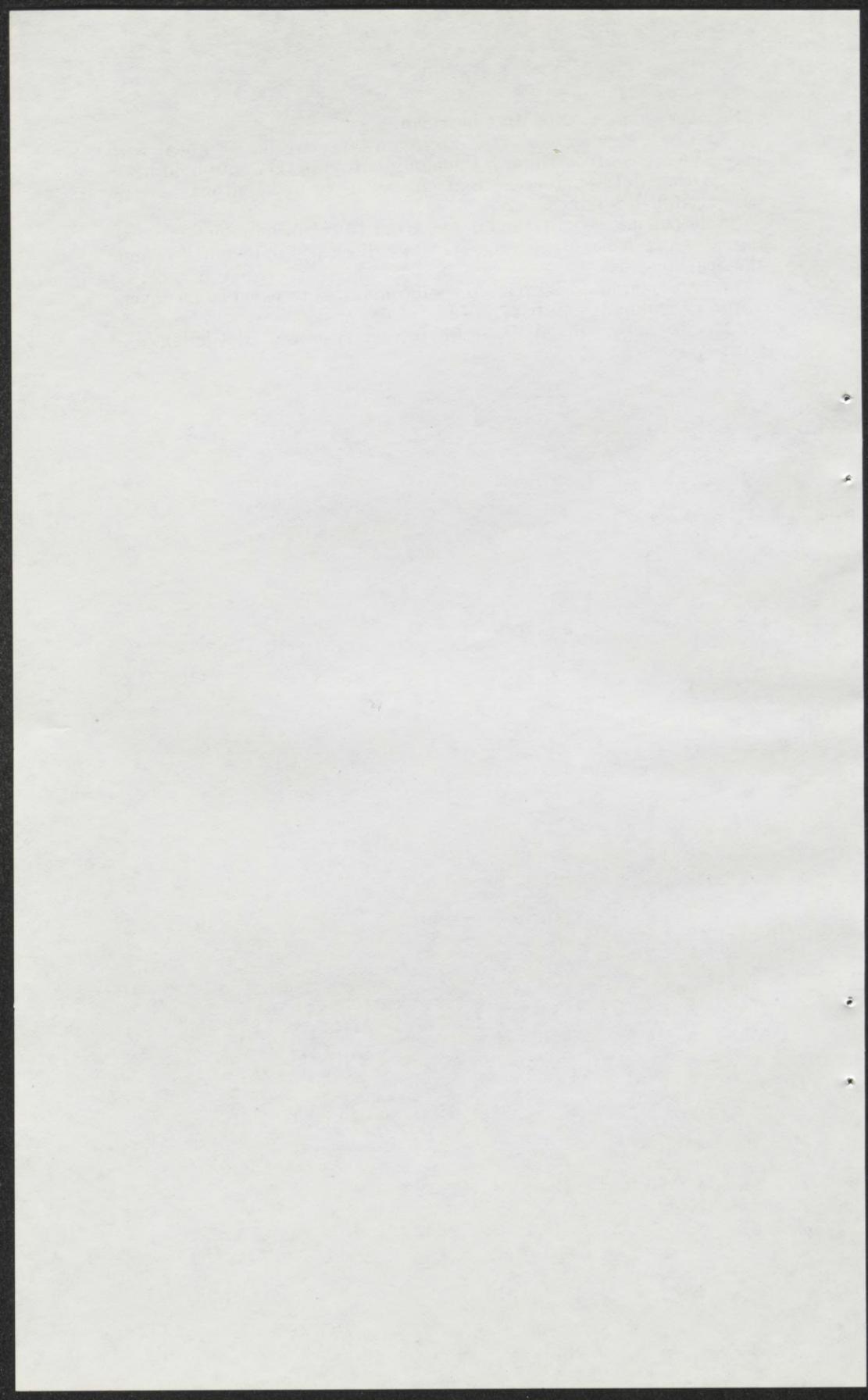
Senator GURNEY. No, Mr. Chairman.

Chairman McCLELLAN. It is a circumstance we have to deal with here. We are confronted with them quite often in trying to hold hearings. Other duties intervene that compel us to make adjustments in our scheduled hearings.

So the committee will stand in recess until 10 o'clock tomorrow morning, at which time, Mr. Secretary, you will return and we will resume the hearings.

(Whereupon at 12:20 p.m., the subcommittee recessed to reconvene at 10 a.m., Thursday, July 27, 1972.)

(Members present at time of recess: Senators McClellan and Gurney.)



U.S. MILITARY SUPPLY SYSTEMS: TRAFFIC IN SURPLUS WAR MATERIEL

THURSDAY, JULY 27, 1972

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met at 10 a.m. in room 3302, New Senate Office Building, pursuant to section 4, Senate Resolution 258, agreed to March 17, 1972, Senator John L. McClellan (chairman of the subcommittee) presiding.

Members of the subcommittee present: Senator John L. McClellan, Democrat, Arkansas; Senator Charles H. Percy, Republican, Illinois; and Senator William B. Saxbe, Republican, Ohio.

Members of the professional staff present: John P. Constandy, Chief Counsel; Philip W. Morgan, Chief Counsel to the Minority; LaVern J. Duffy, Assistant Counsel; William M. Knauf, Investigator; Ruth Young Watt, Chief Clerk; Walter S. Fialkewicz, Detailed Employee from the Bureau of Narcotics; Richard A. Helmer, Detailed Employee from the General Accounting Office; James R. Johnson, CID, U.S. Army; James D. Stickler, CID, U.S. Army; Thomas E. Graham, CID, U.S. Army; and Heinz K. Naumann, CID, U.S. Army.

Chairman McCLELLAN. The committee will come to order.

(Members of the subcommittee present at time of convening: Senators McClellan and Saxbe.)

Chairman McCLELLAN. Mr. Secretary, we regret that we had to ask you to return this morning, that we could not conclude with you yesterday. There is such a volume of work today in Congress, particularly in the Senate, that we get conflicts and we just have to adjust to them.

We appreciate your appearing again this morning. I understand you have some statements you would like to make for the record.

TESTIMONY OF KENNETH BELIEU, ACCOMPANIED BY LT. COL. ARTHUR T. BUSWELL, LT. COL. WENDELL L. PELHAM, AND LT. COL. JAMES GREEAR—Resumed

Mr. BELIEU. Thank you, Mr. Chairman.

I am delighted to come back this morning. If I may first introduce the people with me today as I did yesterday. I have one additional gentleman. For the record, on my right is Lt. Col. Arthur Buswell, Logistics Staff Officer, Office of the Deputy Chief of Staff for Logistics, Department of the Army. He was here yesterday. On my left is

Lt. Col. Wendell L. Pelham, Logistics Staff Officer, Office of the Deputy Chief of Staff for Logistics, U.S. Army, Europe. He was here yesterday.

On his left is Lt. Col. James Greear. He is Demilitarization Officer, U.S. Army Weapons Command, Rock Island, Ill.

I thought perhaps because some of our testimony might need clarification, I dictated a few remarks that might help answer some of the questions posed yesterday in better vein.

Chairman McCLELLAN. Very well; could we have a copy of it?

Mr. BELIEU. We do have some copies with us.

Chairman McCLELLAN. We would appreciate a copy.

Mr. BELIEU. We talked on debarment problems yesterday. There were some questions asked. Again, I am not an expert, but based on what I believe I understand, debarment is not necessarily a panacea to the problem of unscrupulous purchasers. Those debarred can easily circumvent their debarment by changing their corporate form or by acting through an agent, be it a foreign or an American corporation.

The real question which must be addressed is not who to debar but rather it is, how we can prevent munitions list items from being sold to anyone without their being demilitarized. This question involves enforcement of our administrative procedures and controls.

Yesterday, Mr. Chairman, I provided the committee with a list of specific measures which the Army has taken in the property disposal area. I neglected to emphasize sufficiently one such measure which I think of considerable significance. The Army's Criminal Investigations Command is already taking vigorous action to expand its capabilities to be able to deal with what in civilian society is commonly known as "white collar crimes." This would include frauds in the property disposal area.

Thus, they are in the process of adding to their staff, in addition to the CID agents who make up the bulk of the investigative personnel, persons from such branches as Finance, the Adjutant General's Corps, Quartermaster, and the combat arms.

In this way, they will have a broader understanding of the operational level of the Army, and, in addition, will be able, for example, to conduct indepth audits when such audits are required. We are in the process of preparing a 4-week course on Procurement Crimes Investigation which is focused on fraud matters. We currently plan to send 230 investigators through this program in this fiscal year. It is too soon to evaluate how effective these changes will be in deterring this type of collusive activity. However, I am sure that the awareness that we are taking positive steps will have a considerable favorable impact.

I would also like to clarify one point on page 3 of my prepared statement that I presented yesterday. I stated some 21 Army investigators have been assigned to work under the direct supervision of the committee staff. Yesterday also I mentioned that we had 21 Army investigators assigned to the Committee.

In dictating this last night, the young lady taking the dictation wanted to know if I included her in it. I said no. Actually we had about eight full time, total 21 supporting. Sometimes I think I have been working full time for the committee the last few months.

So, I did not include my office in that. I wanted the record to be crystal clear.

Chairman McCLELLAN. I don't think anyone suggested that the investigative force has been overstaffed.

Mr. BELIEU. I did not want to detract from the committee's credit either.

Chairman McCLELLAN. I know it is a terrible job to ferret this whole problem out and get it in proper perspective.

Mr. BELIEU. It will take a combined mutual effort for sometime I think.

I'd now like to amplify our comments about demilitarization.

Demilitarization is designed to prevent the unauthorized use of military items; to render harmless that property which is dangerous; to protect the national interest; and to preclude the compromise of security requirements.

Actually I think the best description of demilitarization I found in the books last night was written in 1960 on the subject from the Navy's standpoint. Demilitarization, it said, meant that items could not be used for purposes of war, but could only be used for civilian purposes. That is that type of equipment which we sell which must be demilitarized.

Various methods are employed, including mutilation, dumping at sea, scrapping, melting, burning, or alteration designed to prevent the further use of this equipment and material for its originally intended military or lethal purpose.

The Defense Demilitarization Manual indicates by pictures and/or written description just how and where items are to be cut or torched in the demilitarization process. The manual does not require all components and parts to be cut, but restricts destruction to "key points" on the item.

"Key points" are parts, components, alinement points, attachment fittings or areas which, when demilitarized, cannot readily be repaired, restored, replaced, improvised or commercially procured and which are necessary factors in restoring the next higher assembly to design capability.

This year the Army Materiel Command was directed to review its portion of the Defense Demilitarization Manual to determine if its provisions were adequate. It has recommended some rather extensive changes designed to strengthen controls and to preclude the rebuilding of equipment. These changes will be implemented shortly.

Probably the weakest point in our demilitarization methods was a matter to which your committee directed our attention: the identifying and coding of munitions list items, so that our technicians in the field would realize that these items, when determined excess or removed from end items, required demilitarization. Reports from the field indicated that there was some confusion as to what items were munitions list items and what items were not.

As a result, we have directed the Army Materiel Command to identify, code and disseminate to all concerned the identity of munitions list items by Federal stock number.

Normally, the property disposal yard or depot is responsible for the physical act of demilitarization. However, for certain items, and in certain circumstances, most notably when the PDO yard lacks the necessary facilities, we contract with the purchaser physically to demilitarize the equipment.

If all our employees were totally honest and totally efficient, there

should be no greater danger of failure to demilitarize under this system, since a property disposal official must certify that the demilitarization has taken place after a personal inspection of the demilitarized items.

After all, it is just as easy to certify falsely that demilitarization has been consummated by American employees as it is to certify falsely that it has been consummated by the purchaser's employees.

Now, we are trying to make it even more difficult for inefficient or dishonest personnel falsely or erroneously to certify that demilitarization has taken place, since we have instituted the requirement that two persons, at different echelons of command, so certify.

Moreover, we have also been considering placing the responsibility for demilitarization with the originating unit. Again, lack of facilities may impede implementation of this concept.

Finally, Mr. Buzhardt yesterday mentioned certain audits being carried out by the Defense Department. I have some further information about these audits, and I wish now to present it to you.

The main audit of which Mr. Buzhardt spoke was conducted from January 11 until June 16 of this year. During that period, seven auditors from the Defense Department, with assistance from 18 auditors from the Army and Air Force audit agencies at times, conducted a thorough audit of property disposal facilities. At this time the findings are in draft form and are being circulated to the Army and Air Force agencies concerned for comments.

Mr. Buzhardt alluded to two other audits which had been planned. After consultation with the subcommittee's staff, these audits, which were to have been conducted of the Army Materiel Command, Europe, and of our ammunition facilities in Europe, have been postponed for a period of approximately 1 year.

This postponement was initiated because of the present state of flux in supply management procedures and in the belief that an audit at a later date would provide a truer picture of how these commands were functioning.

That, sir, completes the statement that you so kindly allowed me to read this morning.

Chairman McCLELLAN. Before we go to the interrogation on your original statement, there is one thing in this statement I wish to clear up.

On page 5, you say, "However, for certain items and in certain circumstances, most notably when the DOD yard lacks necessary facilities, we contract with the purchaser physically to demilitarize the equipment."

Is there presently any followup on that to know definitely that he has actually performed, or do you just take his word for it, a certification from the purchaser?

Mr. BELMONT. I have not personally seen this type of action. I asked that the other day. There are inspectors. The contractor also is supposed to certify. This is one of the places where we have a problem. The type of equipment that this would be, as I mentioned yesterday, would be a tank or something so large that it could not be done in the PDO yard itself.

I think we have had a couple cases where this equipment then has to go someplace where you have heavy cranes, torching and all the things that would be necessary to handle it. They can do it night or

day. So that it lends itself to a certain amount of lack of follow-up procedures.

But a representative is required to follow this equipment and certify it. I think where the loopholes might be—I am guessing at this, but it sounds logical—if they award a contract to demilitarize, let us say, 20 tanks, he can do it night and day and if he takes out certain spare parts or sighting devices that might be worthwhile, it might be hard to follow through.

Chairman McCLELLAN. You say you contract with a purchaser to do the demilitarizing.

Do you pay him? You say you contract with him. Do you pay him to do it?

Mr. BELIEU. As I understand that, sir, when he acquires the equipment, there would be a stipulation in the contract that he would have to do this.

Chairman McCLELLAN. He does that in addition to what he bids? You don't pay him specially for doing it? That is a part of the consideration of his bid for the equipment? Am I right?

Mr. BELIEU. Yes, sir. That has been the situation in the past.

Chairman McCLELLAN. I would like to know about that. It seems to me he puts a bid on the equipment and he says, "I will charge you as much as I paid for the equipment to demilitarize it."

Mr. BELIEU. He might have 10 tanks. He could not bid on 10 whole tanks. He would bid on 10 tanks as junk. The residual value would be the value he got out of this after he demilled.

Chairman McCLELLAN. I know, but if you were going to pay him to demilitarize the tanks he might get all his money back in making junk out of it.

Mr. BELIEU. In effect, he is paid because he buys the tanks for junk.

Chairman McCLELLAN. He buys them on condition and with the understanding that he will thereafter demilitarize?

Mr. BELIEU. The new regulations will require that all this demilitarization be done on government installations. This is where we have had the problem in the past. I still think there may be conditions where we may have to bring in equipment to do it.

Chairman McCLELLAN. I don't know whether I make myself clear or not. I think I understand what happens. Here he comes in and he buys a junkpile that has a dozen tanks in it. It should be demilitarized. He pays blank dollars for this pile of junk. The bid is accepted. Now, he is required in order to carry out the contract of purchase to demilitarize it at his own expense.

Mr. BELIEU. We do not pay him a stated sum, no. I was not clear in my answer. We do not pay him to demilitarize. That is a condition of his contract when he acquires the equipment.

Chairman McCLELLAN. That is what I was getting at.

Very well.

Mr. CONSTANDY. Perhaps one of the gentlemen can answer this. At times the contractor buys heavy equipment in large numbers. When he bids for it he agrees to purchase it for a given price as scrap derived from those vehicles. One of the conditions of the contract is that he will reduce it to scrap before he has fulfilled the contract; in other words, for that one bid process he is obliged to demilitarize. Have there been requirements which would prohibit the contractor from removing that equipment from the military installation?

Mr. BELIEU. I think Colonel Buswell could answer that question.

Colonel BUSWELL. Basically, until he fulfills the obligations of his contract, he is not authorized to remove. If he is to reduce the vehicles that you have mentioned, sir, to a state of scrap, until that has been accomplished he has not fulfilled the terms and conditions of his contract; thus, title does not pass to the contractor and removal is not authorized.

Mr. CONSTANDY. So if we present information in the course of these hearings that at times the contractor was permitted to take the tanks as tanks to his own yard where he had equipment to handle them and demolish them, that would have been improper; is that correct?

Colonel BUSWELL. Yes, sir; unless it was at that time a condition under which the contract was let, either for removal to a certain specific location, demil under U.S. Government supervision at that location, under the contract.

Mr. CONSTANDY. So at times that was permitted, is that correct?

Colonel BUSWELL. I would believe, until the change we have previously discussed in the regulations, the contract itself would establish the parameters under which the demilitarization was to be performed.

Mr. CONSTANDY. This becomes very significant later on because we will have situations where it will be shown that the contractor was permitted to take large items in fairly large numbers to his own yard. We have to reflect on it for a minute. You cannot have an inspector present 24 hours a day watching that materiel while it is in his yard. He has the opportunity during the night time or Saturday or Sunday to do what he wants with it.

Now, if the equipment is in the numbers that we have learned of, it sometimes takes him from 4 to 6 months to completely demolish that equipment, and to be able to effectively control the demilitarization of it would have required an inspector, not just a guard, an inspector would have had to have been present with that equipment from the time it was taken from the military installation until he finalized the demilitarization.

I think we will be able to show the situation when that was not done and during the hours when the inspector was not present he continued to work, removing components from the equipment and spiriting them away. When the inspector returns the next day or following Monday, he is looking at what remains, each time less the critical components.

Mr. BELIEU. This is the contract I had in mind when I was responding to the Senator's question a moment ago. I don't know whether the colonel knows about it, but you and I talked about it before.

There is no question that is a wrong procedure and should not be allowed to happen. It has happened in the past. I do not know whether in that particular case it has happened on the basis of the lack of follow-up regulations, but the new regulations should plug that hole.

Mr. CONSTANDY. I think that there is one further point we will show in the course of the hearings.

On occasion, the equipment is retained on the American base and the inspector is not physically present during the entire time the contractor's employees are.

They, again, remove such things as breechblocks and other critical components from the pile of junk.

Mr. BELIEU. There is no question it has happened. We even have it on new equipment at times when we are building new equipment.

Mr. CONSTANDY. You fully appreciate one has to get a picture of what takes place in these yards when there is a constant coming and going of contractors moving about the yard in an unrestricted way and they are free to do pretty much as they please. At least that has been the case.

Chairman McCLELLAN. Mr. Secretary, I have just a few questions here. On the middle of page 4 of your statement yesterday, you said, "Annual surplus sales throughout the Defense Department are about \$150 million for property which originally cost approximately \$5½ billion."

Am I correct that those figures are for fiscal 1970?

Mr. BELIEU. That is correct.

Chairman McCLELLAN. The figures for 1971, I believe, were \$122 million.

Mr. BELIEU. You are correct, Senator.

Chairman McCLELLAN. For property originally costing \$5.9 billion?

Mr. BELIEU. That is approximately right.

Chairman McCLELLAN. These figures are worldwide; this is the total received from the sale of surplus military property, am I correct?

Mr. BELIEU. That is correct, sir.

(The following documents were introduced as exhibits on pp. 232, 233.)

EXHIBIT No. 101

The following listed figures apply to dollar values of R. & M. transactions in Europe during calendar year 1971:

I. Property reported to R. & M.:

	<i>Million</i>
A. MAP-----	\$175.1
B. Army-----	149.3
C. Navy-----	6.3
D. Air Force-----	117.2
Total -----	<u>447.9</u>

II. Dedistributed through R. & M.:

A. MAP-----	57.9
B. Other ¹ -----	30.3
Total -----	<u>88.2</u>

III. Abandoned:

A. MAP-----	31.3
B. Other-----	1.5
Total -----	<u>32.8</u>

IV. Total acquisition cost of sales:

A. MAP-----	85.9
B. Other-----	243.3
Total -----	<u>329.2</u>

V. Total value of unsold property----- 2.3

VI. Total returns realized:

A. MAP-----	3.5
B. Other-----	7.7
Total -----	<u>11.2</u>

¹ Refers to combined Army, Navy, and Air Force totals.

All of the above figures were provided to the subcommittee through the Washington offices of Deputy Comptroller for Internal Audit, Office of the Secretary of Defense (OSD).

EXHIBIT No. 102

BREAKOUT SHEET ON WORLDWIDE PDO TRANSACTIONS—TOTAL PROCEEDS

[Millions of dollars]

	Usable		Scrap		Total	
	DOD	Army	DOD	Army	DOD	Army
SALES						
Fiscal year 1970.....	52.0	22.0	72	30.4	124.0	52.4
Fiscal year 1971.....	65.1	25.2	57.1	32.0	122.2	57.2
3d quarter 1972.....	45.7	17.9	32.9	17.7	78.6	35.6
ACQUISITION COST						
Fiscal year 1970.....	1,471.0	493.2	3,612.0	574.5	5,083.0	1,067.7
Fiscal year 1971.....	1,251.0	504.9	4,696.0	586.1	5,947.0	1,091.0
3d quarter 1972.....	1,300.9	391.5	2,296.4	395.6	3,597.3	787.1
PERCENT RETURN						
Fiscal year 1970.....	3.54	4.46	1.99	5.29	2.44	4.91
Fiscal year 1971.....	5.20	4.99	1.22	5.46	2.05	5.24
3d quarter 1972.....	3.51	4.57	1.43	4.47	2.18	4.52

Chairman McCLELLAN. These figures show a gross return on all usable materials and scrap sold in 1970 of 2.5 percent and 2 percent for 1971. In other words, a return, if this is correct, a return of only 1 percent higher, 3 percent, or 3½ percent on the original investment. On an acquisition cost of \$5 billion, that would bring from these sales \$50 million more income a year.

Mr. BELIEU. Yes, sir, if we could get 1 percent more.

Chairman McCLELLAN. So we are not dealing here with pennies.

Mr. BELIEU. Not a bit.

Chairman McCLELLAN. We are dealing with millions and millions of dollars.

Mr. BELIEU. No question about it.

Chairman McCLELLAN. Do you not believe that greater efficiency will produce a substantial increase in the recovery of the original cost from the sale of scrap and surplus property?

Mr. BELIEU. Based on the figures we have to date, sir, if we could increase by efficiency or increase the income from sales at least 1 percent, that would be \$50 million.

Chairman McCLELLAN. Don't you think that is possible?

Mr. BELIEU. I hope it is. I think it is if we can get that price. I don't want to hedge. On the other hand, this has something to do with the market, of course.

Chairman McCLELLAN. Apparently there is a pretty good market. It is just a question of what we are getting out of it.

Mr. BELIEU. If we look at the fact that the people who buy this sometimes sell it for quite a lot larger amount of money than we would anticipate, the answer to your question is absolutely yes, we ought to get more money for it.

Chairman McCLELLAN. I am not at the moment trying to be critical. I am trying to be objective. I am trying to evaluate whether the time we spend here—the Congress, their staff, yours, too, and ours, working together—whether we are really accomplishing anything or whether this is just a useless exercise or whether we are actually in line of producing something of value to our Government in the way of savings or in the way of recouping more from the loss that we have sustained.

Mr. BELIEU. I don't think there is any question but that this is a most valuable effort and it has a potential, as I said yesterday, beyond the dollar volume. I personally believe that the handling of surplus not only is an entity in itself but it is also related to our normal supply function. In addition to that, I believe that we have to be very careful as to what kind of surplus war material might get into unauthorized hands.

Chairman McCLELLAN. For instance, for tanks or machineguns or other equipment, whatever may be declared surplus, while not up to our standards of weaponry—there is quite a demand for them in underdeveloped countries and in countries where there are revolutionary movements, and so forth. Is there not quite a demand for that equipment?

Mr. BELIEU. I am certain there is, sir. I am not familiar with the market itself. As I mentioned yesterday, something that wouldn't work or could not be used in the U.S. Army or that no sophisticated nation would use, the Russians wouldn't, the French wouldn't, the English wouldn't, may be quite valuable to an underdeveloped nation. Maybe even if it were demilled according to our standards.

Chairman McCLELLAN. I think you agree that we need to take every precaution, employ every safeguard that we can to prevent this material in a usable state from getting into the hands of those elements that would be interested in buying them just from the standpoint of continuing their use as a weapon of war. Isn't that true?

Mr. BELIEU. No question about it, sir.

In the first paragraph on page 7 of your statement you state that the Defense Supply Agency would have unified control. This is also referred to on page 9. Do you think that the services would have the responsibility or should have the responsibility for screening and demilitarization and operation of holding facilities?

Would the Defense Supply Agency have that responsibility?

Mr. BELIEU. I am not sure exactly what the services would end up with because right now at this present time DSA, the Defense Supply Agency, is going through a specific study to come up and delineate each activity. The Army in August 1970 made the recommendation to Defense that DSA take this over because of the fragmentation of responsibility that I mentioned yesterday. At that time the Army said these are the kinds of things that should happen. I can read them, or I can submit this document to the committee for inclusion in the record, if it likes.

However, I would guess that the DSA would take over after the services have declared the item surplus to their own use.

(The following was introduced as an exhibit on p. 233.)

EXHIBIT No. 104

DEPARTMENT OF THE ARMY,
OFFICE OF THE ASSISTANT SECRETARY,
Washington, D.C., August 11, 1970.

MEMORANDUM FOR THE ASSISTANT SECRETARY OF DEFENSE (I&L)

Subject: Reassignment of Property Disposal Functions

The purpose of this memorandum is to outline and recommend consideration of a concept whereby responsibility for performance of certain property disposal functions would be reassigned from the Army and other Military Services to another Federal agency.

It is recommended that DoD make a study to determine the feasibility of the General Services Administration (GSA) or the Defense Supply Agency (DSA) taking over the entire management and operation of all property disposal holding activity and surplus sales office functions in the United States, its territories and possessions. This concept also might be extended to include overseas areas contingent upon the approval of the overseas commanders concerned. In the case of GSA, extension to foreign areas would depend on whether or not GSA has or can be given the authority to conduct operations of this type in areas outside the United States, its territories and possessions. The authority for DSA to conduct operations outside the United States could be given by DoD and would not depend on the existing authority of any civilian agency. If the study should conclude that disposal functions should be transferred to GSA or DSA, it is considered that physical space at inactive or phased down military installations could be made available to them for this purpose if needed, or that GSA or DSA disposal activities could be established as tenants on military installations.

With regard to disposal operations in Vietnam, a proposal concerning civilian management and operation is being submitted by the cognizant command to the Department of the Army. Upon review and evaluation of the proposal further recommendations concerning that area will be forwarded to your office.

The inclosure to this memorandum contains further discussion of some of the advantages and disadvantages of the GSA/DSA management and operation concept. The Army will be glad to provide representation and assistance in the conduct of a feasibility study of this concept as recommended above.

JOSEPH C. ZENGERLE, Jr.,
Deputy for Supply, Maintenance, and Transportation.

Chairman McCLELLAN. Would they have the full responsibility on their own for the disposal, demilitarization, and so forth?

Mr. BELIEU. Not the demilling, no. The demilling, I guess, would be the services' responsibility. Screening, in my estimation, would come in two parts. We obviously would have to screen within the Army if the Army were doing this. The Air Force would, too. I would think that we would probably ask the Air Force. Within the military, you ask the other services, "Do you need what we are giving up?" It would be a simple thing to ask the Marine Corps. We would say, "We have excess rifles. Do you need excess rifles?" They would say no or yes.

After it got out of the military channels, GSA would have to do some screening, too, in other governmental agencies beyond the scope of each individual service's responsibilities.

Chairman McCLELLAN. When excess property is made eligible for disposal as junk or scrap, who makes the determination whether any other agency of the Government has need for and can use the property? Whose responsibility is that? Is that GSA's or is that the service, itself, the branch of the service that has the property?

Mr. BELIEU. We would do it within the Army. It would go to Battle Creek, the Defense Logistics Supply Center. The Defense Department would do it throughout the Defense Department.

Chairman McCLELLAN. Is that done before all this property is declared surplus?

Mr. BELIEU. Supposedly, yes.

Chairman McCLELLAN. Supposedly. What can you tell us about that? Is it really being screened?

Mr. BELIEU. Yes, I would think so. I wouldn't say there weren't mistakes in it. There are several layers of screening. First, within the Army commands, where we determine whether property is excess to the requirements of any other unit of the command. Then there is screening at the theater level, as well, in the current process. There we determine whether any other service or Government agency or foreign government can utilize it. The third screening is DOD, Department of Defense-wide, through the Defense Logistics Service Center at Battle Creek, Mich.

The final screening is agency-wide through Defense Logistics Center, and General Services Administration gets into it then.

Only after it is determined not usable by any of these agencies or entities is it declared surplus. That is the process. It takes awhile. It should be going on all the time.

Chairman McCLELLAN. How long does it take?

Mr. BELIEU. I am not sure I can answer. It depends on the equipment. For real property, it takes about a year. It averages 90 to 100 days, depending on the equipment.

Chairman McCLELLAN. In the last sentence of the first paragraph on page 11, you refer to a plan to expand the Criminal Investigation Command responsibility to appropriate aspects of supply management. I am not sure what this means. Does this mean that the CID will have the capability for long term fraud investigations on a permanent basis in procurement supply systems and disposal?

Mr. BELIEU. That is my concept of it, sir.

Chairman McCLELLAN. Is it anticipated that there will be some routine feed-in of their activity to the DSA and the other supply organizations?

Mr. BELIEU. There would have to be; yes, sir. This is what I meant awhile ago when I said we needed to expand their capability. I think this is all part of the whole supply management function.

Chairman McCLELLAN. In the second paragraph on page 14 you spell out the efforts which will be undertaken to audit an investigation. Do you agree that in the past these units have been reporting individual findings or shortcomings, but that those reports were not being reviewed in their entirety at a level high enough to cause management reaction designed to correct them? In other words, the reports have been made in many, many instances but no action ever taken to correct the conditions that needed correction.

Mr. BELIEU. I think there is no question that some of the reports did not come up the ladder fast enough or high enough. As you know, sir, as a result of some of the committee action on clubs and messes, we reorganized the CID and structured it vertically about a year ago. At the time prior to that—and, of course, this reorganization is about completed, it took awhile to do—prior to that the reports of such investigations were supposed to go directly to the theatre commander or to the local military top commander in a given location. Now they come all the way in here.

In addition to that, last October—I came on board in September—we began to get into this in the depth that I can speak of personally.

Shortly thereafter, I designated the Assistant Secretary of the Army for Installations and Logistics as the one in charge of reviewing this from topside. So, these reports are coming up. We do not intend to take the local commanders out of the chain. They still must maintain that responsibility.

This change in organization will bring forward the reports and guarantee that they get attention and action.

Chairman McCLELLAN. You think there will be greater diligence on the part of those responsible in that area now to follow up on those reports and take appropriate corrective action?

Mr. BELIEU. There had better be, sir.

Chairman McCLELLAN. At the top of page 15 you refer to plans for improved training. What training are you referring to there, for personnel working in property disposal yards? Aren't a lot of the people who work in those yards foreign nationals?

Mr. BELIEU. That is correct. When I look at this training bit, I must say it is in all aspects of personnel management. We have established schools here but the new training programs have to go right down to the yard itself.

As I mentioned yesterday, we do have a problem; but it is not a problem that is insurmountable. We have been doing this for many years in many areas, but it is one that continues because, you have language problems; you have third nation individuals working in the yards. Really everything should be translated into two or three languages. However it is not feasible or practical to do that in all cases.

Chairman McCLELLAN. I guess you have trouble getting competent help?

Mr. BELIEU. I can't speak personally on that, but I have been told this is true. One of these gentleman may be able to.

Chairman McCLELLAN. I would assume you do have. I don't know what you do about that except to employ them and give them some training.

Mr. BELIEU. That is correct. I have only been in Germany once this year. They have an economic expansion going on there and it is awful hard to get people, in the technical trades especially.

To more specifically answer your question, on the subject of demilitarization and security controls, for instance, we have added new courses in our schools, courses designed to cover some of the problems that have come up in the last few months.

Chairman McCLELLAN. Tell us a little more about this asset control task force which was established on March 1, 1972. I believe it has completed its work with the report dated June 1972, last month. Is that correct?

Mr. BELIEU. Yes, sir. I have not personally had a chance to review the report yet. I would, if it meets with the committee's approval, like to have someone who has particularly seen the report describe it, sir.

Chairman McCLELLAN. Our staff has a copy of it. We may want further information.

Mr. BELIEU. Yes, sir. I have not personally had a chance to review for identification.

Chairman McCLELLAN. The staff seems to have the impression, the committee staff, that if these recommendations contained in this report are implemented they would improve management considerably.

Mr. BELIEU. Everyone I have talked to about it, including the staff, are enthusiastic about this study. As I said, I haven't had a personal opportunity to go through it in detail.

Chairman McCLELLAN. Later during the hearings we will probably go into this more fully. For the moment, I think there is some hope that this report does point to areas where corrections can be made and no doubt will be made.

Senator SAXBE. Mr. Secretary, the testimony yesterday indicates that this practice is so widespread that I don't see how you are going to be able to correct it unless you just have a housecleaning of these people involved. I don't see anyplace where there has been prosecution, where there has been a suspension. There was one person suspended, but for other reasons it said.

They have been involved in pretty serious business here, involving rangefinders; Nike missiles. There are all kinds of hanky-panky going on here. Yet presumably this has not interfered with military careers or in the case of civilians, with their continuation as classified civilian employees.

Has there been any attempt to clean that up?

Mr. BELIEU. I have read those cases, too, sir. I cannot specifically answer as to detail because I have just begun to look at the procedures and details. That is where you have to start.

Now on people, we have approximately 2,700 personnel involved in the disposal operations. There are about 100 military, 1,000 Department of the Army civilians, and 1,600 foreign nationals. These are the recent figures I have. I hope they are correct. Some actions have been taken. I know that in one case in Germersheim Depot personnel changes have been made. But I cannot answer specifically on the details.

(The following document was introduced as an exhibit on p. 233.)

EXHIBIT No. 105

*Statistical data on local and third-country nationals employed by USAREUR/
USAFE*

Employees, local national or third-country national at USAFE R. & M. Center (information provided by Lt. Col. Schmidt)-----	68
Employees, local national or third-country national at USAR DCS/LOG (information provided by Mr. Steinhoff, Civilian Personnel Office, Heidelberg) :	
Headquarters -----	4
Field -----	3
Employees, local national or third-country national at TASCOC, as of June 30, 1972-----	26,162
Employees, local national or third-country national at USAREUR and 7th Army Support Command-----	1,960
Employees, local national or third-country national at MATCOM ¹ -----	8,225

¹ The 8,225 of MATCOM are included in the figure of 26,162 of TASCOC.

NOTE: The above information relating to TASCOC, MATCOM, and the depots was provided by Mr. Schnurr of the Civilian Personnel Office, TASCOC.

The following figures represent local, national, or third country national employees at depots: Burtonwood, 483; Germersheim, 2,748; Kaiserslautern, 2,803; Miesau, 2,032.

A breakdown of the local national or third-country nationals employees working in the disposal yards (throughout Europe) follows:

Headquarters TASCOM/PDO	3
Berlin	5
Bremerhafen	4
Giessen	18
Hanau	28
Darmstadt	2
Dachau	14
Ludwigsburg	41
Nellingen	1
Schwaebi Gmuend	3
Seckenheim	13
Kaiserslautern	67
Bad Kreuznach	8
Baumholder	18
Germersheim	14
Miesau	12
Pirmasens	8
Fuerth	16
Schweinfurt	3
Grafenwoehr	2
Livorno	8
Vincenza	1
NATO/SHAPE (Chieveres)	4
Kagnew	1
Ankara	5
Karamurzel	2
Ramstein	16
Zaragoza	3
Bitburg	14
Adano	4
Mainz-Kastel	18
Molesworth	31
Aviano	9
Torrejón	13
Moron	2
Athens	8

Mr. BELIEU. I do know in some cases some military people have been tried by court martial and found guilty. Some of the cases go back to 1964. The one I have in front of me is 1968. I have an idea this has not been given the priority through the years that it should have. You are right, the system needs to be looked at from top to bottom, every facet all the way down through.

Senator SAXBE. Some of these statements are in 1972 as to things that have been happening in the last few years. Not 1964, but 1970 and 1971. I would guess that as this turnover of property increases, that it is going to increase the problem rather than diminish the problem.

I get the picture from reading the testimony that you have a bunch of wheeler dealers over there that are kind of running the scrap-yards out of their hip pocket. I have had enough military experience to know that this is a kind of growing affliction, that you get a little publicity on it, then it slows down, but nothing really changes.

As soon as the heat is off, it starts right back up again.

It is rather frightening to think that missiles, complicated range-finders, and other weaponry show up in the hands of dealers. They are not junk dealers. They are armaments dealers. The fact that there is a payoff in the yards—there is a payment for the guy to be inefficient, maybe—has to be straightened out. This is a first-class scandal here, if continued.

Mr. BELIEU. I would not attempt to defend those actions. Some of the cases I have seen scare me, to. I thought at one time maybe we could stop the whole thing, shut it down. But that is not quite feasible. The actions of making two people certify for screening, two people certify that things have been demilled, sort of a buddy check system, if you please, the fact that we have increased our inspections, in some cases from once a year to once every 3 months, we have teams out moving around and the new procedures we are establishing should do this.

As I said yesterday, it will take a long time to defend ourselves against dishonesty in high places or wherever it is found.

Senator SAXBE. I call your attention to page 26 of the transcript.

Mr. BELIEU. Page 26?

Senator SAXBE. Page 26. "In the course of the investigation we proved conclusively that (1) the Fuerth property disposal yard was managed inefficiently and waste and corruption were common. (2) The Zinks . . ."—

Mr. BELIEU. These must be cases I don't have. These are the ones I believe that your investigators have. I probably know of them, but haven't read them.

Senator SAXBE. You haven't seen these?

Mr. BELIEU. I have not seen these. As I indicated in my statement yesterday, there were some bits of information I did not allow to be disseminated throughout the Army because it was the property of the committee staff.

As I understand, you will go through these in detail and we will be called in to furnish witnesses to discuss them later.

Senator SAXBE. The thing that disturbs me about these is the way they always wind up saying, "the lieutenant was a decent upstanding young officer not properly trained." Well, the jails are full of people like that who because of, maybe stupidity, committed crimes.

We are talking about very serious crimes that appear in these cases. I won't continue further until you have copies of these cases.

Thank you, Mr. Chairman.

Chairman McCLELLAN. Mr. Counsel, do you have any questions?

Mr. CONSTANDY. No, sir.

Chairman McCLELLAN. Mr. Secretary, thank you very much.

By the way, Senator Percy wanted to ask the Secretary some questions. Does anybody have any information about whether he is on his way?

Senator SAXBE. In the meantime, I would like to ask a general question.

Chairman McCLELLAN. Go ahead. In the meantime, check on Senator Percy and see if he is available.

Senator SAXBE. Mr. Belieu, you have not been over there very long, have you, sir?

Mr. BELIEU. About 10 months.

Senator SAXBE. How recently was this matter called to your attention?

Mr. BELIEU. I guess a couple of weeks after I got there we began talking about that. I went to Europe, if I remember correctly, in October—in January.

Senator SAXBE. Was there an investigation then proceeding under your predecessor or somebody at the level of the command that you are?

Mr. BELIEU. I can't answer that. The Army was aware of the problem because in 1970 it recommended to Defense that DSA be put in charge of the whole thing because the responsibilities and authorities were fragmented. I know that various surveys were underway.

In about October or November, I made contact with your staff after finding that Mr. Duffy was over there and then we began to have other long discussions, several of us, at one time or another.

That is about the time we began to assign Army people to the committee staff and decided we would go into a joint venture. We were already really in one. I guess Europe began its investigations and surveys in 1971. There is no question, however, that the impetus from the committee's action brought it to the front stage center.

Senator SAXBE. Who has command responsibility for this in Europe?

Mr. BELIEU. Mike Davidson would be the commanding general. I think it is only fair, while I am not trying to gild anything as far as glossing over the importance of this investigation, the commanding general had major problems in Europe and as commanding general had to look at the status of his troops, its readiness.

We were bleeding Europe of people who were going to Vietnam. Actually our total experience in Europe or throughout the Army basically, excepting Vietnam, no private big business could have operated that way, turning over top command, your middle managers, foremen, middle command, 100 percent a year.

Senator SAXBE. What is his command?

Mr. BELIEU. U.S. Army, Europe. His man in charge of that would have been his logistician, Major General Conroy. He has been there 2 years.

Senator SAXBE. This has not happened in the last 2 years. You don't have a four-star general out there watching a junkyard, but you have somebody who is responsible for this area. You know the old Army saying, you can't delegate responsibility. If the guy is stealing down there, it is someone's responsibility.

Mr. BELIEU. I have looked at the list of people who have been in command and high positions over there. General Polk was there before Davison. He has been the longest there. I could provide the committee the list. The turnover of top command has not been as great as the lower commands.

Senator SAXBE. Have you contacted these generals in the last 8 months?

Mr. BELIEU. Yes; General Davison has put all his resources at my disposal. It is his resources that are doing the task force operation in Europe now.

Senator SAXBE. It seems to me to get to the bottom of this, we are going to have to get back to the main generals who have been there within the last 10 years, whether retired or whatever and wherever they are, and ask them, "Did you know they were stealing from you?" The buck has to stop someplace. I mean this fine upstanding lieutenant does not know what is going on upstairs. The buck doesn't stop with him.

Mr. BELIEU. You are correct. The buck should be put on the back of the man who has the responsibility and authority. It is not only, however, an individual. It is a systematic weakness. I tried to look up some background on this.

A Navy writer in 1959 talking about excess property disposal said, "Disposal in this category has always been described in newspapers as a giveaway, a throwaway program because of the small return realized on the original cost and because much material is sold at a low price to friendly foreign nations for their military services. The problem is a large one."

He is talking now in 1959. This has been a national weakness in the disposal of military surplus property, I think. It is interesting that he shows some comparative figures, Department of Defense totals. They sold \$1.7 billion worth of surplus in fiscal 1955. Now that was acquisition cost.

In 1956, \$4.1 billion; in 1957, \$6 billion; \$8 billion in 1958. Now those figures in the 1956 to 1957 time frame are about the same I have quoted in my statement. He does not have any comparative analysis of what the return was in those years although there is one; I don't think this could be considered a key. In 1958 ships valued at \$106 million were sold for \$2.4 million, which is 2.4 percent roughly, about what the current average is.

So, we weren't doing well then. Speaking from experience in 1960 to 1965 I was Assistant Secretary and for a while Under Secretary of the Navy. The emphasis was not so much on disposal, handling it, as I remember it in the administration at that time. It was more, we have too much in the warehouse, get rid of it, it is costing too much to handle.

I think because we had Korea, Lebanon, and Vietnam and only a short period of so-called peace, the emphasis was on a different aspect. Now, the committee has rightly initiated the emphasis that should have been on it for a long time. This is one of the principles I have found very worthwhile in working with your committee staff. They have been most helpful in, I think, nurturing the institution of our defense establishment, the institution, the Army, which belongs to all of us. We have agreed that if we find malfeasance in individuals, we will go after them. If we find malfeasance in systems, we will stop it, and change it. That is the rule.

In some cases, I have kept this away from other parts of the Army so I can only blame myself in many cases for lack of action because we also wanted to protect the integrity of the investigation until such time as you started your hearings, and so forth.

This is what we have done.

Senator SAXBE. I think we have to isolate what we are looking for because this is as old as warfare, the fact that when you beat the swords into plowshares some of them don't make it. I do not think that we are going to necessarily find fault with \$150 million worth of ships that only sell for 2 or 3 million dollars. We can have all kinds of talk about that, but that will not do any good. Maybe that is all they are worth.

What we are interested in and should be interested in is when a Nike missile is supposed to be junk and then it shows up being shot at

somebody—that is serious business because somebody was paid off back at the junkyard. Or a machinegun or a complicated electronic device for missile guidance, and so on. This is where it gets to be a pretty dangerous game.

Now, I have had enough military experience to know—and I know that you have—that it is sometimes pretty careless the way this is handled. But if it is going to be controlled at all you have to make quite a show of effort and force.

I recall my first instance where the instructor came around, and I was in a cavalry unit. He shot three or four horses and he built a little fire and he burned the saddlebags, stuff that he had declared surplus. It was quite a show of property disposal as to this military equipment which had served its usefulness. I thought, what a waste this was, to shoot a horse or burn a saddlebag.

Later, in World War II, we saw whole shiploads of stuff that were just thrown away. The supply sergeant of the company was keeping books like crazy to account for one field jacket and back at the depot they were shoveling them out the back door by the truckload. So, some place between that company level and this final depot disposal level there is a lot of slippage.

I am just gratified that since you have been there you have seen fit to spend a substantial part of your time in trying to get this straightened out.

Now, what is TASCOM?

Mr. BELIEU. It is Theatre Army Support Command. It handles the logistics warehouses and supply systems behind the so-called frontline—if you had a frontline over there.

I must apologize. I am having a problem with Army terminology even after 10 months.

Senator SAXBE. We will get around to making you feel at home.

Mr. BELIEU. I said to a general, "These acronyms, I don't understand any more. They have changed the language."

The general said, "Ain't it awful? I went back to my office and said to my staff, what does ETC stand for? They said that is et cetera, general."

TASCOM is the organization that would supply—for some of us who are as old as the plowshare statement, the COMSEC kind of thing you will remember in World War II.

Senator SAXBE. How do they tie into this disposal in Europe that we are talking about now?

Mr. BELIEU. They have the operation capability while the logistics top man is the staff type of thing. It is roughly comparable to the materiel-type command here as opposed to the Deputy Chief of Staff for Logistics.

Senator SAXBE. Who commands this TASCOM in Europe?

Mr. BELIEU. General Eifler.

Senator SAXBE. What is his rank?

Mr. BELIEU. Three-star general.

Senator SAXBE. Isn't that where we are going to have to start?

Mr. BELIEU. I think probably in the basic area that is the operating entity; yes. Policies and procedures, staff supervision, command would be at the Mike Davison level. The operating entity would be TASCOM and below.

Senator SAXBE. They run the depots? The personnel who run those are assigned to TASCOM?

Mr. BELIEU. Yes. Of course, he has organizational structures below him. Tactically regiments, battalions, brigades. He has MATCOM, materiel command, and so forth, below that. I think your staff has a well-defined outline of this. If not, we can provide one for the record so that it will show.

I would say, if the Chair and committee so sees fit, on the way over I thought I might have been remiss, we could provide a glossary of terms and technical data if it would help anything, for the appendix, for later review. This is a very complicated subject.

Senator SAXBE. Do we have a military structure graph of this?

Mr. CONSTANDY. Yes, sir; we have several of them.

Senator SAXBE. Is it in this material?

Mr. CONSTANDY. It is not, yet. We anticipated introducing that later. There is a glossary, Senator, attached to the folder.

(See exhibit No. 97, p. 199.)

Chairman McCLELLAN. Is there anything further?

Mr. BELIEU. We can furnish any kind of staff command function chart. If we looked at an organizational chart with Mike Davison at the top, Conroy is the staff officer assigned. Below that would be Eifler's TASCOM and below that his subordinate structures.

Senator SAXBE. Just to straighten it out in my mind—you have been over there—are these surplus yards or junkyards, generally run in conjunction with larger military installations, or are they isolated?

Mr. BELIEU. Maybe I can answer it from the list I have here.

There are 11 disposal activities in USAREUR. In Berlin, it is by itself. Baden, Wurttemberg is second. Germersheim is part of the support activity.

Senator SAXBE. For instance, is the tank junkyard area in the ready area? I have seen that. Is that where you have your 6,000 tanks over there?

Mr. BELIEU. This would be back in the hands of troops.

Senator SAXBE. It is more in the tactical deployment areas?

Mr. BELIEU. I have not been in one of the disposal yards.

Mr. CONSTANDY. Senator, we have a map which shows the disposition of each of the principal yards, of which there are 11. Those yards, in turn, have 18 satellites. They are generally geographically located in the same general areas, as are the other military installations. They are normally related to a specific installation. Usually, a depot.

(The following documents were introduced as an exhibit on p. 233.)

EXHIBIT No. 103

MAJOR PROPERTY DISPOSAL YARDS AND SATELLITES IN GERMANY



USAREUR PROPERTY DISPOSAL LOCATIONS

Support district	Supporting PDO	Areas supported
Sud Bayern	Dachau	Munich, Bad Toelz, Berchtesgaden, Bad Aibling, Garmisch, Oberammergau Murnau, Lenggries, Augsburg, New Ulm.
Nord Bayern	Fuerth	Ansbach, Nuernberg, Fuerth, Illesheim, Erlangen, Bayreuth, Bamberg, Grafenwoehr, Hohenfels, Schweinfurt, Wildflecken.
	Bamberg	Bamberg (POV's and scrap).
	Grafenwoehr	7th Army Training Area (scrap).
	Hohenfels	7th Army Training Area (POV's and scrap).
	Schweinfurt	Schweinfurt, Wuerzburg, Bad Kissingen, Kitzingen, Wertheim.
Hessen	Hanau	Hanau, Frankfurt, Gelnhausen, Buedingen, Aschaffenberg, Darmstadt.
	Darmstadt	Darmstadt, Badenhausen, Dieburg.
	Oberramstadt	USA Maintenance Plant (tire rebuild).
	Giessen	Giessen Support Center, Giessen, Kassel, Fulda, Hersfeld, Kirchgoes Bad Nauheim, Freidberg, Butzbach, Marburg, NATO/SHAPE Chievres, Belgium.
Rheinland Pfalz	Kaiserslautern	Kaiserslautern Army Depot, Nahbollenbach, Baumholder, Pirmasens, Germersheim, Miesau, Kaiserslautern, Bad Kreuznach.
	Miesau	USA Ammo Depot, Miesau.
	Pirmasens	Pirmasens, Zweibruecken, Dahn, Fischbach, Salzwug, Muenchweiler, Pirmasens Army Depot, Clausen, Massweiler.
	Germersheim	Germersheim Army Depot, Bellheim, Landau, Germersheim, Grinsheim.
	Baumholder	Nahbollenbach Army Depot, Baumholder, Nuebruecke, Idar-Oberstein.
	Bad Kreuznach	Bad Kreuznach, Mainz, Dexheim, Finthen, Wackerheim, Baumholder, Wiesbaden, Nahbollenbach.
Baden Wuerttemberg	Ludwigsburg	Boeblingen, Ludwigsburg, Stuttgart, Heilbronn, Schwaebisch-Hall, Crailsheim, Goepfingen, Moehringen, Vailhingen, Schwaebisch-Gmuend, Kornwestheim, Nelligen, Neckarsulm.
	Nellingen	Nellingen (2 cann points only).
	Schwaebish-Gmuend	Schwaebish-Gmuend Maintenance Plant.
	Seckenheim	Heidelberg, Mannheim, Karlsruhe, Worms.
Nord Deutschland	Bremerhaven	Nord Deutschland.
Ankara	Adano	Ramstein.
Karamurzel	Molesworth	Bitburg.
Athens	Aziano	Mainz-Kastel.
Zaragoza		
Torrejon		
Moron		

Mr. BELIEU. I guess adjacent to the ready alert equipment.

Senator SAXBE. Are these broken down into hardware and clothing?

Mr. CONSTANDY. No, sir.

Senator SAXBE. They are general?

Mr. CONSTANDY. Yes, sir. A depot existing in a geographic area will receive from whatever units are in that area whatever type of surplus material they have. If there are more armored units in that area, they would tend to get more armored equipment. Some of the depots, I believe, are designated to receive specific kinds of equipment, such as electronic equipment, and there has been a tendency to generate such equipment at property disposal yards which handle that type of equipment.

Senator SAXBE. Is most of the surplus coming back to the States, or is it disposed of over there?

Mr. BELIEU. I understand it is disposed of over there although we have had some cases where it has returned here.

Senator SAXBE. I know we have a lot of surplus clothing that has shown up in the Far East.

Mr. BELIEU. I would not be surprised to see cases where someone might have falsified or utilized a bill of lading or shipping piece of paper through here. It may never have gone through here.

Senator SAXBE. You don't try to designate where it goes?

Suppose they sell a truckload of field jackets, you don't care where they go?

Mr. BELIEU. Not if they are legitimate purchasers.

Senator SAXBE. The same way if it is classified as junk?

Mr. BELIEU. There is the key to it, I think. Military hardware, according to law, which is broad, is supposed to be sold only to those nations who meet our foreign policy. It is a good system except I don't know how a captain of a disposal yard is going to know what our foreign policy is. I have a hard time knowing what it is here. But the thing is that it should be demilled. Anyway, if it is not militarily operational hardware at the end of its cycle, you don't care who you sell it to.

Senator SAXBE. That equipment sold for military usage is not what we are talking about here.

Mr. BELIEU. No, I don't think it is. It does have an impact on it. We sell tanks under the foreign assistance program in line with the Foreign Military Sales Act. If it is not a tank in our current inventory we do not stock normal spare parts; the American Army does not use them any more. Therefore the foreign country has to get them where they can. That is where the pressure is on these yards if we happen to have something going through them. It could be anything that some guy does not think should be demilled, like a cylinder. But it would be of value to you as a foreign nation who had an inventory of a hundred or thousand old tanks that many of us have forgotten about. That has happened. I am sure.

Senator SAXBE. The 500 trucks that we sold to Pakistan, for instance—weapons carriers and personnel carriers, which were obsolete items for us, of course, were military items for them. We are not talking about those kinds of sales. What we are talking about is material that is declared either worthless to us or worthless to anybody else from a military standpoint or is so sensitive that we don't want to get into anybody else's hands. That is what winds up, supposedly demilled, and that is what we are talking about in this investigation—that this demilitarization did not take place, or that it took place in such a way that it was ineffective.

The reason it did not take place is because there was hanky-panky in the junkyard.

Mr. BELIEU. Or human error. Either one of them would have the same result.

Senator SAXBE. Or gross negligence.

Mr. CONSTANDY. I think as we go through these hearings we will find that for some of the equipment we will be surprised as to its quality. Some of it is first-rate, operable equipment before demilitarization is supposed to take place on it. In fact, some of it is new equipment. It may be outmoded as to our own inventory but it is well within the standards of most of the rest of the world.

Mr. BELIEU. There are types of equipment well beyond the military hardware we are discussing. There could be things such as this (a drinking glass) that armies use. One of the things I have an apprehension about, but I can't prove, we depend now on machines to do our computing for us.

Chairman McCLELLAN. Very well.

Is there anything further?

Thank you very much, Mr. Secretary. You may be excused with the thanks of the committee for your cooperation.

Call the next witness.

Mr. CONSTANDY. Warrant Officers James Johnson, Thomas Graham, and Henry Naumann.

Chairman McCLELLAN. Do each of you solemnly swear that the evidence you are about to give before this Senate subcommittee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. JOHNSON. I do.

Mr. GRAHAM. I do.

Mr. NAUMANN. I do.

Chairman McCLELLAN. Gentlemen, be seated.

TESTIMONY OF JAMES ROBERT JOHNSON, THOMAS EDWARD GRAHAM, AND HENRY NAUMANN

Chairman McCLELLAN. Mr. Johnson, Mr. Thomas Graham and Mr. Naumann.

Gentlemen, will you each identify yourself for the record and give us a brief summary of your present position, occupation and responsibilities. Mr. Johnson.

Mr. JOHNSON. Mr. Chairman, I am James Robert Johnson, Chief Warrant Officer in the U.S. Army.

Chairman McCLELLAN. Chief what?

Mr. JOHNSON. Warrant officer.

Chairman McCLELLAN. How long have you been in the service?

Mr. JOHNSON. Nearly 27 years.

Chairman McCLELLAN. How long have you been a warrant officer?

Mr. JOHNSON. Twelve years.

Chairman McCLELLAN. Mr. Graham.

Mr. GRAHAM. Mr. Chairman, I am Chief Warrant Officer Thomas Edward Graham. I am in the Mannheim Field Offices, Second CID Region.

Chairman McCLELLAN. How long have you been in the service?

Mr. GRAHAM. Twenty-six years.

Chairman McCLELLAN. How long have you been a warrant officer?

Mr. GRAHAM. Nine years.

Chairman McCLELLAN. How long?

Mr. GRAHAM. Nine years.

Chairman McCLELLAN. Mr. Naumann.

Mr. NAUMANN. I am Chief Warrant Officer Henry Naumann. I am presently assigned to the CID Command in Europe, Heidelberg, Germany.

Chairman McCLELLAN. How long have you been in that assignment?

Mr. NAUMANN. I have been in the Army 16 years.

Chairman McCLELLAN. You have been in the Army 16 years. How long have you been in your present assignment?

Mr. NAUMANN. Present assignment, 6 years.

Chairman McCLELLAN. I forgot to ask you, Mr. Johnson, how long have you been in your present assignment?

Mr. JOHNSON. I have been assigned by the CID to work with the committee since March. I have been in my present assignment since January 1969.

Chairman McCLELLAN. 1969.

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. Where is that assignment?

Mr. JOHNSON. In Heidelberg, Germany.

Chairman McCLELLAN. Yours, Mr. Graham?

Mr. GRAHAM. I have been in Germany at Mannheim for the last 11 months.

Chairman McCLELLAN. Mr. Johnson, I understand you have a brief statement or request you wish to make.

Mr. JOHNSON. Mr. Chairman, we have prepared statements which are 54 pages in length.

Chairman McCLELLAN. That means that three of you are participating in this one prepared statement.

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. It is 54 pages in length.

Mr. JOHNSON. Yes, sir. I request permission to read the first five pages of the statement and then turn to page 48. At that point, Mr. Graham and Mr. Naumann will read the last six pages of the statement to bring the subcommittee up to date on the current development in the problem areas of surplus property disposal in Europe.

Following the testimony of Mr. Graham and Mr. Naumann I suggest that we respond to questions of the subcommittee members.

Chairman McCLELLAN. Do I understand you would like to read that much of your prepared statement before responding to questions?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. All right.

Mr. JOHNSON. Yes, sir. In addition, we have 89 exhibits relating to our testimony.

Chairman McCLELLAN. Eighty-nine exhibits.

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. Are they covered in the prepared statement?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. But you are going to skip those until you get to the substance of your prepared statement which discloses the present situation in the record and then you will go back to the exhibits, am I right? Is that what you propose?

Mr. JOHNSON. Yes, sir. In our prepared testimony the exhibits are mentioned.

Chairman McCLELLAN. They are numbered?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. You may proceed with your statement.

Mr. JOHNSON. Our testimony today relates to six—

Chairman McCLELLAN. Wait a minute. You say the exhibits are numbered in sequence as referred to and described in your statement at the point at which they appear. Will you proceed to read the rest of the statement in the record so that the record will reflect what we are doing.

Mr. JOHNSON. Certain exhibits consisting of a number of separate documents and these are lettered first with a single exhibit number and then with a series of letter designations. For example, exhibit 23,

23A, 23B, 23C. Most exhibits are official documents or true copies which have been taken from CID investigations. Others are affidavits taken by the subcommittee staff from persons involved in the various cases.

We request permission to submit the exhibits now for the record with the suggestion that the record make appropriate reference to them as they are described in our complete prepared statement.

Chairman McCLELLAN. Without objection the exhibits as presented in the prepared statement will be received by the committee and marked according to their designation in the prepared statement. They will be exhibits for reference unless they are ordered printed in the record.

(The documents referred to were marked "Exhibits 1 through 89" for reference and may be found in the files of the subcommittee.)

Chairman McCLELLAN. Without objection then, you may proceed to read that part of your prepared statement as you have requested.

Mr. JOHNSON. Thank you, sir.

Our testimony relates to six CID investigations into property disposal operations in Western Europe in the 1960's. We worked, supervised or had direct knowledge of each case. While each case is different, the six revealed common patterns of inefficiency, waste and corruption in PDO operations in Europe. The problem areas were:

1. Management.
2. Personnel.
3. Receipt and storage of property.
4. Segregation and classification of property.
5. Demilitarization procedures.
6. Sales.
7. Screening of contractors.
8. End-use controls.
9. Problem-solving.

In each area there was inefficiency and waste and evidence of corruption. I will summarize our findings.

1. MANAGEMENT

Excess property operations generally were poorly managed. Property disposal yards kept no reliable inventories of materiel. Property disposal yards functioned separately from one another, each operating independently, largely as if the others did not exist. An acceptable practice at one depot was not allowed at another. Job requirements were not clearly defined. Recordkeeping procedures were incomplete. Depots were managed carelessly. Morale was low. Controls against theft and inefficiency were weak.

2. PERSONNEL

Executives, clerical help and yard personnel were not properly trained. Young, inexperienced officers—usually lieutenants—were put in charge of property disposal yards without being prepared. They were often given other jobs as well. They had neither the time nor the training to carry out their duties properly.

The executives were assisted by foreign or third country nationals who knew something about PDO work. Often this meant that they—

not the Americans—decided how rules and regulations were to be interpreted and executed. Inexperienced officers and noncommissioned officers were forced to rely on the foreign assistants, who frequently abused their responsibilities or were incompetent themselves.

The local and third country nationals often admitted that they did not know proper procedures. They knew only what they had learned in the field. It was frequently more than the Americans knew, but was still not adequate. The Americans, however, had to rely on them to manage the depots.

The foreign employees were often underpaid and some stole property or accepted gratuities or cash from contractors.

Dishonest or incompetent employees were often kept on the payroll because the Americans did not wish to terminate them. Incompetence and corruption were not always considered sufficient grounds for dismissal.

3. RECEIPT AND STORAGE OF PROPERTY

Inefficient procedures were used to receive property. Storage methods were equally poor. Documentation on incoming materiel was insufficient. Sometimes there was no documentation.

Warehouses were ineffectively organized. Yardmen could not find items on hand, and they wasted time looking for items which were not in stock.

The ability of the PDO yards to supply American troops in Europe and elsewhere with needed equipment was severely limited. The entire concept of local screening—that is, supplying local troops and allies—was just a concept which didn't work.

Depot security was inadequate. Valuable fire control equipment was stolen. Property was stored in unsecured, unfenced areas.

4. SEGREGATION AND CLASSIFICATION OF PROPERTY

Property disposal depots did not properly segregate and classify property. Depot personnel lumped diverse categories of property into lots identified as miscellaneous scrap. Often valuable property, sophisticated fire control equipment and costly automotive parts were mixed with the scrap.

This property—particularly the weapons and the fire control devices—should have been sold as scrap only after thorough demilitarization procedures had been inflicted on it. Demilitarization procedures, when properly carried out, meant that weapons, fire control equipment and other munitions list items, which require demilitarization, would be cut in two or crushed or mangled so completely that future military application was out of the question.

In addition, for these automotive parts that did not require demilitarization, property disposal depots could have earned for U.S. revenues considerable returns by selling these parts for what they were. Instead, through the haphazard system of miscellaneous of mixed lotting, property of all categories—from serviceable weapons to usable carburetors—were piled upon one another and sold by the pound. It was wasteful, costly, and resulted in weaponry getting out of American PDO yards in significant numbers.

So blatant was the failure of segregation and classification systems that contractors would at times buy a certain lot of property, take from it those items which were serviceable and were not scrap and then abandon the genuine scrap behind because they were not scrap dealers.

Many so-called scrap dealers would bid on miscellaneous scrap piles with bids so high that they could only lose money in the market. They wanted the valuable components hidden inside those mixed lots. That obvious point seems to have been evaded or ignored by responsible PDO personnel.

5. DEMILITARIZATION PROCEDURES

This was a major area of inefficiency and wrongdoing. Employees charged with performing demilitarization procedures often had never been briefed. One employee thought he was demilitarizing periscopes by breaking the lenses and mirrors. Such damage is only an inconvenience for arms traffickers. Defense Department regulations call for cutting, crushing or mangling periscopes.

Not only were depot personnel ignorant of demilitarization procedures, PDO executives and their assistants did not know what items required demilitarization and which did not. Their response to this dilemma was frequently just to avoid all demilitarization work. At one satellite depot, it was found that only one demilitarization procedure had been carried out in about 5 years.

Often property would arrive at the depot without adequate identification. Yard personnel would be in doubt as to whether or not demilitarization was required, and if required, what procedures they were to follow.

PDO officials often assumed a trustful attitude toward contractors. They left demilitarization requirements to the contractors and did not check to determine if the work was done. Often verbal assurances were acceptable.

We found an instance, which we will document at some length, in which one acknowledged gun merchant—a man in the business of selling weapons—bought a large shipment of undemilitarized small arms. He agreed to demilitarize the arms and then to sell them as scrap. Only an extremely trusting person would leave it up to that gun merchant to demilitarize these weapons without checking. But the PDO officials were extremely trusting and they used the honor system with the gun merchant.

Simple commonsense should indicate that a merchant in the gun business wants to buy guns not for scrap but because he intends to sell the property as guns. Anyway, thanks to the Belgian police, the gun merchant was caught selling the undemilitarized armaments.

Administrative procedures in demilitarization work were poor. One document particularly abused in the PDO yards was the inventory adjustment report. One PDO official declared 44 vehicles to be scrap when the report was signed. Nothing physical happened to the vehicles. It was strictly a paper transaction. Property that could have been sold for significant returns was classified as scrap. One German national admitted he had invoked an inventory adjustment report on 109 vehicles without even inspecting them.

6. SALES

Under the category of sales, we placed bidding practices, weigh-in procedures with scrap and percentage of return on surplus property. We found collusive bidding in which contractors agreed not to bid beyond a certain price. We found contractors having access to documents which indicated what contraband materiel was in certain lots. When a contractor noted that certain undemilitarized equipment was missing from a scrap lot, he complained to PDO officials and the auction was canceled. In general, we found PDO personnel motivated by inordinate concern for the contractors. They seemed to be worried not at all about Defense Department procedures.

Truck weights and scrap load weights were often falsified where scales were used—in tare (or empty truck) weights, in loaded truck weights, in railroad car weights. We found counterfeit or falsified weight vouchers on the person of one contractor. We found poor controls in certain weigh-in procedures that allowed contractors to record their own truck weights. Contractors sometimes were allowed to attest to the authenticity of their weight vouchers. In scrap sales, weight is vital.

It wasn't sufficient for contractors to smuggle items out of PDO depots classified as scrap. They went a step further. They wanted to doctor weights of serviceable items they were buying as scrap. In other words, they would first arrange to have an item such as a serviceable machinegun or a valuable automotive engine hidden away aboard a scrap load. Then they would arrange to pay through a false weigh-in, deflated prices for the scrap—that wasn't even scrap in the first place. They were buying valuable weaponry and equipment by the pound—and still cheating on the scales.

7. SCREENING OF CONTRACTORS

The U.S. Government had a system of integrity and reliability checks on contractors, but background checks were carried out superficially. Often contractors received reliability and integrity sanction and then engaged in corrupt practices. When they were discovered to be corrupt, only rarely did they lose their integrity and reliability clearances.

The designation "scrap dealer" was a misnomer for many contractors. They were arms traffickers. Simple investigation could have established them as arms traffickers. Yet PDO officials treated them as scrap dealers. Many contractors exercised their PDO yard entrance privileges freely.

Contractors fraternized with PDO employees. They often gave them "beer money" and other gratuities. They hired them for special after-duty-hour projects. Virtually no controls existed as to when and where contractors were allowed to go on PDO depots.

8. END-USE CONTROLS

In end-use control certificates, contractors spelled out how they would use the property they were buying. They invariably wrote that they intended to reduce the property to scrap and sell it as scrap. Sometimes they stipulated "spare parts" as the end-use. But they

were not required to provide any more details after that. There was no indication, for example, where they would sell the scrap and to whom or to what specific uses the spare parts were to be directed.

We found very few indications that PDO officials followed up on validity of end-use certificates to make sure contractors were telling the truth. End-use certificates enabled PDO officials to point out they had end-use controls but they did not constitute adequate controls.

9. PROBLEM SOLVING

Here we had no adequate Defense Department rules, regulations or directives to refer to or with which to measure honesty and efficiency in PDO operations. What we looked for was an attitude, a spirit, if you will, that motivates responsible officials to want to improve their operations, to make them more efficient and more responsive to the mission they are supposed to fulfill. We found an attitude all right. But it was not a good attitude.

It was an attitude that said, in effect, there is nothing wrong with our operations. Our contractors, this attitude seemed to be saying, are honest and straightforward and when they say they are in the scrap business that is the business they are in. Their assertions of propriety should be taken at face value.

(At this point Senator Percy entered the hearing room.)

Mr. JOHNSON. The attitude seemed to say that PDO managers and executive yard personnel are all conscientious and knowledgeable and are running surplus operations strictly by the book. And the foreign employees are efficient and hard working and would never be compromised.

In short, the attitude said, hear no evil, see no evil, speak no evil.

PDO officials accepted end-use certificates without checking them. They relied on integrity and reliability checks that were certainly not accurate. There seemed to be a presumption that everyone was operating in good faith.

Contractors were stealing from and cheating PDO depots. Rarely was anything done to protect American interests. Rarely was a crooked contractor barred from future sales. Rarely were compromised employees fired. Property disposal operations in Western Europe were inefficient, wasteful and corrupt, and little effort was made by PDO officials to correct these conditions.

Chairman McCLELLAN. You want to skip to page what?

Mr. JOHNSON. I would now like to turn to page 48, Mr. Chairman. Mr. Graham will read the conclusions and give some updates.

Chairman McCLELLAN. We will now go to page 48 and then we will return to the specific cases and let you identify them and comment on them. You may read your conclusions.

Mr. GRAHAM. Mr. Chairman, the many problems of CID found in the mid-1960's in property disposal operations were not corrected. They were allowed to continue through the late 1960's and into the 1970's.

The extent to which the improper conditions were allowed to continue is seen in the documents, exhibits mentioned before.

The documents are:

1. An "in-depth crime prevention survey" begun in 1970 by the CID at the direction of the Department of the Army.

2. Department of the Army cables of late 1971 listing defects in the property disposal operation.

3. A survey in February 1972 showing that debarred contractors still had access to PDO depots.

4. Subcommittee review of operations at the PDO depot at Ludwigsburg.

The crime prevention survey:

On July 23, 1970, Maj. Gen. Kenneth G. Wickham, the Adjutant General of the Army, acting on behalf of the Secretary of the Army, directed the CID to conduct an immediate "in-depth crime prevention survey" into property disposal activities throughout the world.

In Europe, the responsibility for this survey was given to Detachment A, 9th Military Police Group (Criminal Investigation), U.S. Army/Europe and 7th Army Headquarters, Heidelberg, Germany.

WO Robert W. Moody headed the survey group. I was the operations officer of A Detachment at the time Mr. Johnson was the commanding officer of the detachment. Since I had experience in property disposal matters, I worked with Mr. Moody on the survey under the supervision of Mr. Johnson.

All PDO depots and satellite yards in Germany were studied.

The survey is completed. But only the study of the Ludwigsburg PDO has been written up. Therefore, we will quote from the final report on Ludwigsburg in this presentation.

Then we will summarize selected sections of the working papers from the survey of other PDO depots. These working papers were written by Mr. Moody, by myself, and by other CID investigators.

CID inquiry at Ludwigsburg in connection with the survey began November 14, 1970, and was concluded March 5, 1971.

The findings included assertions that:

1. Ludwigsburg employees ignored regulations on the correct documenting of property as it was turned in to the depot. Major discrepancies existed in recording of quantity, condition, and description of surplus property as it arrived at the depot.

2. Segregation of property and scrap was poor. Property was not stored in orderly fashion as required. High-value scrap was combined with scrap of lower value. This mixing resulted in reduced financial return to the United States.

3. Contractors were permitted to enter and move about the yard without escort.

4. Contractors stole property.

5. Weigh-in procedures were inefficient. Security of weight tickets and supervision over the scalemaster was lax. Control over railshipment weigh-ins was inadequate.

6. The barbed wire fencing and lighting system were inadequate and did not provide sufficient security.

7. There was no key-control system. Possession of keys to the depot and critical facilities was not limited to selected employees.

8. Serious pollution and fire hazards existed due to the improper storage of wet-cell batteries and used engine oil.

9. At the Ludwigsburg satellite yard in Nellingen, Germany, improper conditions also existed as it was noted that:

(a) Barbed wire fences did not provide security.

(b) Internal security lighting did not exist.

- (c) No system of key-control was used.
- (d) Supervision of scales and weigh-ins was insufficient.
- (e) Contractors were allowed to cannibalize spare parts and components from the chassis and bodies of military type automotive vehicles.

CID investigators spoke with one contractor who told them that security was so poor at Ludwigsburg and thievery so easy to accomplish that collusion between contractors and depot personnel was not necessary (exhibit 83 is survey, dated September 2, 1971).

The crime prevention survey working papers:

Improper procedures and conditions were found in other depots. The Ludwigsburg situation was the rule, not the exception.

It was noted, for example, that the depot personnel at the Germersheim PDO depot were grossly negligent and indifferent to existing regulations on demilitarization of munitions list items.

On munitions list items, an inspector is required to be present and witness the demilitarization of each item. The inspector then signs a demilitarization certificate. But at Germersheim, this procedure was sidestepped.

One inspector, Sp5c Donald Hood, Jr., in a sworn statement May 27, 1971, told the CID how he and other Germersheim personnel conducted demilitarization procedures. At this point in the interview, Specialist 5 Hood was discussing the responsibilities of a Sergeant Quales, the noncommissioned officer in charge of demilitarization.

Following are the questions and Mr. Hood's answers:

Q. Did you ever have occasion to take any demilitarization certificates to him (Sergeant Quales)?

A. Yes, two times . . .

Q. Can you explain to me what reason you had for taking these certificates to Sergeant Quales?

A. They told me that since I was going down to DQ to take them down to Sergeant Quales which I did. While I was there I gave them to Sergeant Quales. When I gave them to him, these items, he told me he didn't have an inspector's stamp with him and he asked me to stamp them for him and then he signed the certificates.

Q. When you placed your inspector's stamp on these demilitarization certificates, what did this represent?

A. This represents that the inspector was physically there and seen them cut these items up.

Q. Was this the policy in effect at this time that the inspector would stamp the demilitarization certificate saying it has been cut and that the demilitarization NCO would sign it later?

A. All the time I was there we never did really go by the policy they had set up, the SOP. Ain't nobody gone by it.

Q. These items he asked you to stamp which were reflecting that you had seen the items demilitarized, were they in fact demilitarized?

A. This I don't know because I never saw the items.

Q. Have you ever seen any items demilitarized?

A. No.

Q. So if I would find a number of demilitarization certificates with your sump number 65, this would mean in actuality that you never did see them demilitarized, is this correct?

A. Right, I just stamped them and he signed them.

(Exhibit 84 is statement of Specialist 5 Hood, dated May 27, 1971.)

One noncommissioned officer at Germersheim, S. Sgt. Baltazar F. Garcia, refused to go along with the improper demilitarization procedures. In a statement to the CID, May 27, 1971, Sergeant Garcia

said that during the previous November he has been approached by a Mr. Rueffel, who worked in the Germersheim inventory division.

Mr. Rueffel asked him to certify to the demilitarization of certain property listed on 200 documents, Sergeant Garcia said, adding that Mr. Rueffel then explained that this was standard procedure. He again refused to certify.

The sergeant reported the incident to Colonel Rudd, the depot commander. Sergeant Garcia said Colonel Rudd told him to certify to demilitarization procedures only on those items he had actually observed being demilitarized.

(Exhibit 85 is statement of Agent Lehrmann, dated September 8, 1971.)

The situation at the Kaiserslautern depot was no better. For 6 months, in fact, demilitarization procedures were stopped completely.

Gerhard Fries, an inspector for excess materiel and for demilitarization work at Kaiserslautern, gave CID a sworn statement July 27, 1971. CID questions and Mr. Fries' answers follow :

Q. Can you explain to me in your own words how the demilitarization program operated at the KAD (Kaiserslautern Army Depot)?

A. The demilitarization program in this depot was a stepchild, meaning that it was neglected inasmuch as there were not enough people, transportation and equipment available for it. There was no control and paperwise we couldn't keep up with it. It has happened that for a six-month period nothing was done at all on the whole program. There was no demilitarization for a six-month period. Then all of a sudden the depot commander or someone would see all the stuff awaiting demilitarization and then at random they would take people from here and there, whoever was available, and for a two week period nothing was done except demilitarization. Then, of course, the paper work had to be caught up on so 500 or 1,000 documents were prepared and stamped at the same time and went with the scrap to the salvage yard.

Q. If the documentation on the materiel to be demilitarized was processed to PDO, how could you keep control of the items left at the demilitarization point?

A. The whole section had no control over what was going on and if there were any questions later on, no one could answer it with the exception of large and bulky items such as trucks or tanks. In those cases they kept the documents as long as the item was there at the demil point.

Q. Also in security warehouse they keep missile components and they require demilitarization. Did you also stamp the documents on the missile components reflecting that they were demilitarized when in fact you did not actually see them demilitarized?

A. That is true, too.

(Exhibit 86 is the statement of Mr. Fries, dated July 27, 1971.)

Sgt. Dale D. Winkler was the noncommissioned officer in charge of the warehouse at Kaiserslautern. Sergeant Winkler gave a sworn statement to the CID on July 28, 1971.

Sergeant Winkler said a large quantity of weapons that were supposed to have been demilitarized were placed in a corner of the warehouse without being demilitarized. The numbers grew as the weapons accumulated for a year.

In addition, he said, demilitarization certificates were signed and sent to the U.S. Army/Europe Materiel Command (MATCOM) that asserted the materiel has been demilitarized and shipped to property disposal yards.

Here are excerpts from the CID interview of Sergeant Winkler :

Q. Have you ever been missing any weapons from the security warehouse?

A. That's a hard question to answer because so far as I know, I myself have never known what's physically in the warehouse. I couldn't give you a quantity on anything there.

Q. In other words what you're telling me is you really don't have accurate records of what weapons you physically have in the warehouse.

A. That's true sir. That's definitely true.

Q. How about the records which are maintained by the inventory division which reflects what you should have in the warehouse? Are these accurate?

A. No, sir, definitely not.

(Exhibit 87 is statement of Sergeant Winkler, dated July 28, 1971.)

The CID survey working papers reflect the fact that four German nationals employed at Germersheim accepted gratuities from contractors. The employees, in sworn statements, said they received gratuities ranging from 5 Deutsch Marks to 1,500 Deutsch Marks.

CID investigators also asserted that:

Substantial shortages of copper wire, zinc, and battery lead were discovered at Ludwigsburg in November of 1970. Investigation revealed that copper wire, zinc, and battery lead contracts were won by contractors who had bid substantially higher than they could expect to sell the property for. This indicated the contractors could show a profit only if they were taking from the depot more copper wire, zinc, and battery lead than they were paying for. This lent credence to allegations contained in an anonymous letter found in the Ludwigsburg files that the scalemaster at the depot was manipulating weight slips in favor of certain contractors.

A review of more than 300 sales contracts pertaining to sale of property from Ludwigsburg disclosed gross discrepancies in tare (empty truck) weight of contractors' trucks. It was found that in 66 contracts inflated tare weight had been reported and that 17 sale contractors had probably taken scrap metals of a value of 195,619.80 Deutsch marks (about \$55,000).

Problem areas cited by Department of the Army:

The staff of the investigations subcommittee arrived in Europe November 17, 1971. Shortly after their arrival, the Department of the Army began sending out directives calling for reform and improvement in property disposal operations worldwide.

A December 17, 1971, wire from the Department of the Army to the U.S. Army/Europe and to other commands throughout the world said:

A review of survey reports on disposal activities worldwide substantiates the need for intensified surveillance and management.

Then the wire listed those property disposal procedures which were inadequate. They included depot security, demilitarization, receipt and storage, segregation and lotting of property, weigh-in, bidding, property condition coding and control of military assistance program (MAP) property.

A second wire on property disposal operations went out from the Department of the Army December 18, 1971, to the U.S. Army/Europe and to other commands worldwide.

The wire called for command reviews of property disposal operations "to insure that they conform" to Army Department policy and regulations regarding more staff visits to PDO depots, improved inventory procedures, more responsiveness to the need for corrective actions as cited by the CID and audit reports, better depot security, strengthened personnel training program and more efficient depot organization and review of end-use checks.

The wire concluded by saying:

Command synopses will be used as part of an intensive review of PDO policy and directives being conducted at this headquarters on a high priority basis.

(Exhibit 88 is message from Department of the Army to all commands, dated Dec. 7, 1971.)

(Exhibit 88a is message from Department of the Army to all commands, dated, Dec. 17, 1971.)

Mr. NAUMANN. When I was assigned to work with this subcommittee, I reviewed the visitation records of Army property disposal facilities in Germany for the period of July 1971 to February 1972. I found that the representatives of six suspended or debarred firms visited PDO depots to inspect surplus property offered for sale in invitations for bid (FB).

At Kaiserslautern, representatives were allowed on the depot grounds from the following debarred or suspended firms—Hermann Fink GmbH of Boeblingen, Germany; Claude Faure Enterprises of Saint Jean de la Ruelle, France; and Ernst Bertram, GmbH of Lange-nargen, Germany.

Representatives of the Hermann Fink GmbH firm and Emil Hopt of firm Ernst Bertram were allowed on the PDO grounds at Ludwigsburg.

Hermann Fink representatives visited the facilities of the PDO maintenance plant at Boeblingen, Germany.

The PDO yard at Germersheim was visited by representatives of Hermann Fink, GmbH, Huizer Tennis of The Netherlands; Barth A. J. N. V. of the Netherlands; and P. L. Baris of The Netherlands.

I interviewed employees of the PDO yards. Almost all of them were not aware that the firms had been debarred or suspended.

According to the visitors log of maintenance depot at Boeblingen, Mr. Gerhard Fink of the firm Hermann Fink entered the depot 79 times from July 1971 to October 1971 and Fink trucks drove on the facility 66 times to remove scrap which had been purchased by other contractors. The firm Fink had been debarred and removed from the cleared bidders' list April 30, 1971.

The Redistribution and Marketing Center at Mainz-Kastel advised the subcommittee that suspended or debarred firms are not eligible to bid on sales of excess property. Resale of such property is also disallowed.

The debarment or suspension does not preclude representatives of these firms from attending auctions of the property or from inspecting it beforehand.

This review indicates, therefore, that debarment and suspension procedures have little effect. Debarred or suspended firms have access to yards, are allowed to inspect property and, through cleared bidders, can actually buy property. We must ask, what then is the purpose of debarring or suspending certain firms? Except for the inconvenience of having to work through an intermediary, they are permitted to conduct business as usual.

It is apparent that the inability of property disposal officials to exercise adequate controls over contractors first noted by the CID in the mid-1960's, still prevails today.

(Exhibit 89 is internal memorandum from Agent Naumann to Mr. Duffy, undated. Subject: Access of suspended/debarred bidders to U.S. Army property disposal facilities PDO.)

Chairman McCLELLAN. Now, gentlemen, you have omitted several pages in your prepared statements dealing with six cases. Am I correct?

Mr. JOHNSON. Yes.

Chairman McCLELLAN. This we will want, of course, to get in the record. I believe you preferred now to be questioned on these overall statements, is that right?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. The statements that you have given this morning.

I am going to proceed for just a few minutes and then we are going to come back.

Senator, do you wish to make a statement?

Senator PERCY. Yes, sir.

Chairman McCLELLAN. We reserved in the record yesterday morning, Senator, space for your opening statement if you like. After we hear the Senator's opening statement, we will recess and come back at 2 o'clock.

Senator PERCY. I would like to begin my statement by thanking our distinguished chairman for commencing these hearings. I regret very much not being able to attend yesterday's session. Having studied the testimony presented by Secretary BeLieu and Mr. Buzhardt on behalf of the Department of Defense, I am further convinced that our investigation is an important one.

From yesterday's statements and those we will hear today, we know that the U.S. Government's policies and practices with respect to the disposal of surplus military property are complex, misunderstood, inefficient, in some cases wasteful, and frequently place our military property system in a position of vulnerability to theft, bribery, collusion, and illegal arms trafficking.

In many ways the inadequacies of our military supply and disposal system are a matter of managerial control and administrative responsibility. Mr. Buzhardt testified yesterday that with the exception of the DOD's authority to suspend and disbar bidders in disposal negotiations, there does exist within the Department the appropriate authority to correct problems that now plague the system.

Our investigation and hearings will examine some of the system's basic shortcomings. We will look more closely at the questions of inventory control, auditing, demilitarization of sensitive war material, the monetary return received from surplus sales, et cetera, and perhaps suggest additional ways that the Department could take corrective action administratively.

I, for one, am appalled at the potential for waste that has been touched on only lightly in the first day of our hearings. I think that the American public will and should be equally disturbed. We are not talking about a "nickel and dime" operation. Secretary BeLieu testified that annual sales throughout the Defense Department are in excess of \$150 million for property having an acquisition cost of approximately \$5.5 billion. If the economics of this situation were the only criterion for holding an investigation, it would be justified.

Yet there is another vitally important aspect of this question, and it is to what extent our foreign policy is being weakened and manipulated by the sale of valuable, militarily sound surplus property to

international arms traffickers through which it is subsequently sold on the black market to unfriendly nations.

During the course of our hearings we will identify and examine the methods used by known arms traffickers. I am hopeful that we can then formulate appropriate means to prevent this practice in the future. We cannot continue to acknowledge that this practice does exist and fail to take strong action in its face.

I know that the Department has begun to take steps that will tighten the procedures and initiate a system for the identification and disposal of property. This is commendable. Yet, it appears that no real undertaking was made until our subcommittee began its investigation last fall. This fact again emphasizes the important role of oversight that the Congress has to carry out.

We have the responsibility of bringing situations such as this before the public eye and of examining them from the standpoint of the legislative process and the budget-setting powers of the Congress.

As in other investigations, we may find that there are a number of ways that the military surplus property disposal operation could be improved through new legislative authority. Or the case may simply be that a further open and frank discussion of the problems will clear the way to constructive action from within.

In any event, Mr. Chairman, I know that these hearings are going to be fruitful and that our time will be well spent in an examination of the executive branch's policies with respect to military property disposal.

I know, Mr. Chairman, since I have spent a good deal of my life in business, and I think this is a business problem, we are dealing with taxpayers' money, it is a readily understandable problem faced by any industry.

When you have surplus you try to get rid of it with the greatest possible return to stockholders. In this case, the stockholders are the taxpayers. I know as a procurement officer many years ago in the Navy, we ran into problems where we overbought and we had to dispose of those products.

I will try to put the same diligence that I put into business and into those military jobs into this job.

We are very, very dependent on our staff. Our staff has done a thorough investigative job. As I understand it, we have the full cooperation of the Department of Defense and certainly the expert witnesses that appear before us today.

I certainly know that this committee, as has been true during the years of its history of these hearings and investigations is totally non-partisan.

We will let the chips fall where they may, whether they fall on one administration or another. We are trying to see what we can do to find the faults that have occurred in the past, to correct them, and to make certain that they will never recur.

We hope most of the corrective action will be initiated by the Department of Defense itself as they have as result of many of our other investigations. We have responsibility in this committee as one committee that has that oversight responsibility to carry on as thorough an investigation as we can and then make certain that what we find is made available to the public and the Department.

That is our purpose and intent. I intend to cooperate in every way I possibly can with our distinguished chairman in this regard.

Chairman McCLELLAN. Thank you very much, Senator Percy. It does occur to the chairman, however, in view of the contents of your statement it would be more appropriate to appear in the record here, since you referred to yesterday, have it appear in the record at this point.

So, without objection, it will appear in the record here.

Thank you very much.

You gentlemen will return at 2 o'clock and we will resume hearings at that time.

(Whereupon, at 12:05 p.m., the subcommittee was recessed to reconvene at 2 p.m., the same day.)

(Members present at time of recess: Senators McClellan and Percy.)

AFTERNOON SESSION

U.S. SENATE

COMMITTEE ON GOVERNMENT OPERATIONS—SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, JULY 27, 1972

Pursuant to Rule 5 of the Rules of Procedure which was amended by the Committee on Government Operations for its Senate Permanent Subcommittee on Investigations on June 3, 1965, and reaffirmed March 28, 1972, permission is hereby granted for the Chairman to conduct open hearings without a quorum of two members for the purpose of taking testimony in connection with U.S. Military Supply Systems: Traffic in Surplus War Materiel on July 27, 1972, under the Subcommittee's jurisdiction as set forth in Senate Resolution 258, Section 4, Subsection 1, 92nd Congress, 2d Session.

JOHN L. McCLELLAN,
Chairman.

CHARLES H. PERCY,
Ranking Minority Member.

Chairman McCLELLAN. The Committee will come to order.

(Committee member present at convening of the afternoon session: Senator McClellan.)

Chairman McCLELLAN. I am going to ask counsel to proceed with the interrogation of the witnesses.

Proceed, Mr. Counsel.

TESTIMONY OF JAMES ROBERT JOHNSON, THOMAS EDWARD GRAHAM, AND HENRY NAUMANN—Resumed

Mr. CONSTANDY. Mr. Johnson, we will go back over the material that you three have just covered in the 11 pages. There are a few questions we would like to ask on that material.

On page 2 of your statement, under the section of Management, you make reference to the records being kept in the disposal yard. Can you tell us why it is necessary to keep records in the disposal yard?

Mr. JOHNSON. Not only do they provide you with a record of your debits and credits, but it helps you keep track of what you have received, what you have on hand, what is to be sold, what has been sold. It provides an audit trail so that management can come back and check on the effectiveness of the disposal activity. Good records in property disposal are a must.

Mr. CONSTANDY. If a person intends to manage the disposition of this material in any sense, he would have to have adequate records to rely

on to at least assure that the functions are being carried out properly, is that correct?

Mr. JOHNSON. That is right.

Mr. CONSTANDY. Even though it may be considered by some as a junk yard, that facility has just as much need for records to be kept in the course of business as any other business?

Mr. JOHNSON. That is right, sir.

Mr. CONSTANDY. On page 2, under the section Personnel, you make reference to the assigned officers not having time to carry out their duties properly. Could you elaborate on that and perhaps give an example?

Mr. JOHNSON. Yes, sir. When we were at Nuremberg in 1966 and 1967 there was an officer in charge of the PDO. In addition to his PDO responsibilities he was also a hotel officer in downtown Nuremberg, managing a rather large hotel. He was responsible for appropriated and non-appropriated funds. In addition to that, he was a class VI officer, responsible for sale of wines and liquors sold to the military. We surveiled this particular operation from July to October, 6 days a week, and a half day surveillance on Sunday.

This poor fellow was running from one place to the other all the time. He was on the move constantly.

Mr. CONSTANDY. So he had little time to be able to invoke the proper management of the property disposal yard?

Mr. JOHNSON. That is correct.

Mr. CONSTANDY. What kind of training is peculiar to the property disposal yard operation?

Mr. JOHNSON. First of all, it is like any business. The people working in property disposal have got to know what they are doing. One of the things we found was that the employee is unable to recognize exactly what is being turned in, not only the ferrous and nonferrous metals, but also the material that is being turned in. He must be able to recognize equipment or parts of equipment that must be demilitarized. He must be able to recognize vehicle parts that should be separate and not thrown into scrap piles. The only way this can be done is an effective training program, sitting down with the individual and showing him exactly what must be done, not leaving it to happenstance for the man to learn his job in due time. In due time is when he commits the errors which may be costly.

Mr. CONSTANDY. He may even learn the wrong thing and apply it the wrong way.

Mr. JOHNSON. That is right.

Mr. CONSTANDY. When we are talking of training we are referring not only to the officer in charge of the facility, but the yard personnel as well?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. And the office personnel whose function would be to maintain adequate records?

Mr. JOHNSON. That is true. The office personnel should be able to pick up mistakes they see in documentation. When documentation is inadequate they should be able to point it out rather than let it slide through because of a lack of knowledge.

Mr. CONSTANDY. On the subject of personnel is there a problem of language in the operation of these yards?

Mr. JOHNSON. Yes, sir. Right now in Germany we have an economic boom. We have longtime German employees who have been with the system for some years but the majority of the people working in the yard I would say right now are third country nationals: Italians, Spaniards, and Turks. It is very difficult for the supervisor such as the officer or noncommissioned officer to communicate with these people.

Mr. CONSTANDY. You have an officer in charge of the yard. Have you found that they are generally fluent in German?

Mr. JOHNSON. No. Most of them are not.

Mr. CONSTANDY. Are the German employees fluent in English?

Mr. JOHNSON. Most of them are but they are not fluent in Turkish, Spanish, or Italian.

Mr. CONSTANDY. How do they communicate with those employees?

Mr. JOHNSON. By pointing, show and tell.

Mr. CONSTANDY. How do you mean that?

Mr. JOHNSON. They will point out and shake their head and say "Don't do that." Whether it is understood or not is something I can't explain.

Mr. CONSTANDY. There is no communication between management and employees?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. How about the contractors, do the contractors all speak English?

Mr. JOHNSON. No.

Mr. CONSTANDY. They could be from many countries?

Mr. JOHNSON. Very true.

Mr. CONSTANDY. When they come to the yard to pick up their equipment they are to be directed by the personnel at the yard, including the American officer, if he is present?

Mr. JOHNSON. That is true, sir.

Mr. CONSTANDY. We again have the inability to communicate with the contractor to make sure that he is doing things in a manner satisfactory to the officer and the supervisor of personnel?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. On page 2 under the section you have "Receipt and Storage of Property," you make reference to "ineffective procedures." Can you tell us anything more about that?

Mr. JOHNSON. Well, materiel being turned in is not being properly lotted as to identity. I might give you an example. A support unit responsible for giving direct support to an armored unit generates much scrap or many used parts that are not being put back in a vehicle or back in the system.

Mr. CONSTANDY. Do they always hold used parts?

Mr. JOHNSON. Not all of them. Some are obsolete.

Mr. CONSTANDY. Some are new?

Mr. JOHNSON. Yes. These parts wind up in a junkpile. The junkpile is occasionally picked up—I say occasionally, very often it is picked up, loaded on a truck, taken to a PDO yard where in many instances it is given a visual inspection. The documentation on the load may say light or heavy steel scrap, or just steel scrap.

Mr. CONSTANDY. What may actually be in it?

Mr. JOHNSON. A number of things including nonferrous metals. There could be sights for tanks. There could be a machinegun barrel. There could be any number of things included in this scrap.

Mr. CONSTANDY. Including munitions list items, components, or parts?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. What happens to that load once it gets there?

Mr. JOHNSON. Our experience is that it is pushed off the truck in one big heap. It usually winds up in most cases, as our experience has shown, in a scrap pile.

Mr. CONSTANDY. We begin to recognize something you have already mentioned, the recordkeeping is impossible once you start that way.

Mr. JOHNSON. That is true.

Mr. CONSTANDY. The yard receives equipment parts and components for which there is no document?

Mr. JOHNSON. That is right.

Mr. CONSTANDY. As a result, the records of the yard can't reflect what has been received, what is in inventory, what it has to dispose of or sell?

Mr. JOHNSON. That is right.

Mr. CONSTANDY. We will get to some of the other things that flow from that a little bit later.

Can you explain the term "local screening"?

Mr. JOHNSON. Yes, sir. Equipment is turned in to the property disposal people at that yard. During an approximate 10-day period the units in the area have a chance to come in and examine what is on hand and pick up those items which they need for their mission.

Mr. CONSTANDY. Are they notified that that equipment is on hand?

Mr. JOHNSON. Yes, and no. Sometimes they are notified and sometimes they are not.

Mr. CONSTANDY. Of course if they are not notified it is not likely they will show up to see if the items are needed?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. If they are notified, does the time frame of 10 days allow them to ingest that information and recognize they do have a need for it?

Mr. JOHNSON. No.

Mr. CONSTANDY. What happens to it once the 10 days pass?

Mr. JOHNSON. It goes into the surplus to be sold.

Mr. CONSTANDY. Thereafter can a unit obtain any of the equipment back out of the property disposal yard?

Mr. JOHNSON. From my experience; no. There has been difficulty trying to retrieve stuff after the 10-day period has gone by.

Mr. CONSTANDY. So a unit can have an actual need for something that exists or may even exist in good or new condition in the yard, yet they can't get it?

Mr. JOHNSON. That is very true.

Mr. CONSTANDY. They then would make a requisition for the same item in the supply system?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. You mentioned valuable fire control equipment. Can you enlarge on that term?

Mr. JOHNSON. Yes, sir. As I spoke about the direct support unit aiding the armored division, I have some pictures here of this which I can pass up. For instance, a sighting device or a vision block or periscope which might have been concealed under this heavy load of scrap

which is being turned in, gets into the load of scrap and it is not detected by the PDO personnel.

Mr. CONSTANDY. That equipment can be somewhat exotic, can it not?

Mr. JOHNSON. Very exotic. Some of it costs several thousand dollars each.

Mr. CONSTANDY. I think we have reference to particular parts that we will get into later in a discussion of the six cases where the optical equipment in units was worth \$9,000 to \$10,000 each. Are these things very much sought after by the arms traffickers?

Mr. JOHNSON. Yes, sir; they are.

Mr. CONSTANDY. Do you know why that is?

Mr. JOHNSON. Yes, sir. They need these because the arms traffickers are supplying spare parts to people who have our old equipment, they are able to supply their customers.

Mr. CONSTANDY. I recognize one which we will be discussing weighed something on the order of 207 pounds. While it is optical it can be a substantial piece of equipment.

Mr. JOHNSON. Yes, sir. It is probably something operated electrically. This piece of equipment you are speaking of could very easily work its way into the scrap pile either by neglect on the part of the people turning it in, neglect of somebody within PDO, or some person who wants to be gracious to a contractor.

Mr. CONSTANDY. To give you an idea of the cost of these things, if a person bought one that weighed approximately 200 pounds he would be paying roughly \$2 for that, would he not, at the going rate of scrap, as scrap?

Mr. JOHNSON. If they were selling by the short ton it would be one-tenth of whatever the price of heavy scrap would be. If it is running \$20 a short ton, that would be \$2; yes, sir. But he would not be buying it as an item—

Mr. CONSTANDY. I understand. He would acquire a piece of optical equipment for \$2 or \$3 which he would expect to sell, as we will see in later cases, for some \$9,000 or \$10,000?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. There is an appreciable markup.

Mr. JOHNSON. Very appreciable markup.

Mr. CONSTANDY. On page 2 under the section entitled "Segregation and Classification of Property," can you explain those terms and their importance?

Mr. JOHNSON. Yes, sir. Segregation is separating equipment or materials as they come in. A unit may turn in mixed metals. The mixed metals may be brass, aluminum, and iron scrap. Brass and aluminum being precious metals should be separated from iron because they bring a much higher return to the Government. Iron, depending on its thickness, whether it is light scrap or heavy scrap, brings a much lower return.

Mr. CONSTANDY. Remembering that problem you just mentioned, they brought the truck from the unit with a mixed load of scrap that was described that way. The turn-in document simply said so many tons of mixed scrap. Once he dumps that, to properly segregate it what would you have to do?

Mr. JOHNSON. You would have to go through it piece by piece.

Mr. CONSTANDY. By hand?

Mr. JOHNSON. By hand, or with a magnetic crane.

Mr. CONSTANDY. Then you would have some hope of identifying items that had not just the inherent quality of being a different metal but parts for vehicles which if known might produce a higher yield when sold that way and those items which would require demilitarization then would surface; would they not?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. Segregation becomes a very important part of the function of the yard?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. Unless it is done you would run the risk of having the function just the way we found that it has been—items requiring demilitarizing are not being demilitarized, items that have a market value as an item, a carburetor or axle for a truck or various parts that we would sell in that condition get sold instead, without being segregated, just by their weight as metal.

Mr. JOHNSON. That is right. What I would like to say, Mr. Constandy, the contractor, the man buying the pile of scrap as we sometimes call it, takes the time to segregate it. He takes the time.

Mr. CONSTANDY. When he buys it.

Mr. JOHNSON. When he buys it he segregates it. He goes through and he takes out the good stuff. He puts the ferrous metals in one pile according to size and description. He puts the nonferrous metals in the other according to what they are. He takes out any usable parts. That is where he makes his big profit.

Mr. CONSTANDY. On the usable parts?

Mr. JOHNSON. On the usable parts; yes, sir.

Mr. CONSTANDY. What about classification? Why is that important?

Mr. JOHNSON. Classification, as to what the item is and as to condition. If the vehicle is washed out of the system, it is no longer in the inventory and it is turned into PDO and it is relatively new or can be driven, it does not have too many dents in it or the motor is very functional and the drive train is very functional, it should be classified as in good condition. If they don't properly classify the vehicle naturally the return to the Government goes down. We have various classification codes. If the vehicle is not properly classified, even though it may have been classified outside, if it is not properly classified by PDO personnel sometimes it slips through the screen and we don't want it because it has not been classified as being in good condition.

Mr. CONSTANDY. Have you had an opportunity to observe a contractor that bought such a mixed load on some occasion in Munich?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. Can you tell us about that?

Mr. JOHNSON. Yes, sir. There was a contractor who purchased some 20 tons of mixed automobile parts and heavy steel scrap. The price he paid for the 20-odd tons was in excess of what he could expect to receive.

Mr. CONSTANDY. There was an indication he was looking for something more when he was willing to pay more for the scrap than he could sell it for?

Mr. JOHNSON. Very true. When he bid higher there was something in that scrap pile that he wanted much more than scrap.

Mr. CONSTANDY. Is that what alerted you?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. What did you do then?

Mr. JOHNSON. We placed him under surveillance. During an 8-hour period we had three or four employees hand-segregate some 20 tons of mixed heavy steel scrap and automotive parts. But prior to this, prior to placing this lot of materials under surveillance, the investigator who was with me, and I, went to the PDO yard and tried to find out what it was the fellow was bidding on. We couldn't determine it. It was a huge pile of scrap. As he went through it and as the pile reduced itself, we went back and looked and we found out what he wanted.

Mr. CONSTANDY. What was that?

Mr. JOHNSON. It was a 105-millimeter gun underneath the scrap.

Mr. CONSTANDY. In what kind of condition?

Mr. JOHNSON. It didn't have the tires and wheels, nor did it have the breach block. The recoil mechanism was there. The tube was there, and the block.

Mr. CONSTANDY. That is really what he was looking for. He bid on scrap but he intended to buy a 105-millimeter cannon?

Mr. JOHNSON. I am sure of that.

Mr. CONSTANDY. Once you discovered that what did you do?

Mr. JOHNSON. I stopped him and I said this particular piece of equipment had to be demilitarized. The contractor at first claimed he was unable to demilitarize it, he didn't know how. I said "That is all right, we will call the people in ordnance at Augsburg and they will demilitarize it." At that time he acknowledged the fact he knew how to demilitarize the cannon and he proceeded to demilitarize it.

Mr. CONSTANDY. He first said he didn't know how, but when you pressed him you found out he knew.

Mr. JOHNSON. When I stopped the operation he went ahead and demilitarized it.

Chairman McCLELLAN. When a situation like this develops where obviously they have overbid for a scrap pile, that is, they bid more than it would be worth as scrap, suspicion is aroused that there is something there that should not be sold as scrap. What recourse does the Government have or what recourse action can it take in those circumstances to prevent the sale of the part that was not intended for scrap?

Mr. JOHNSON. Mr. Chairman, I would like to try to answer your question this way: I don't know what recourse they have and what recourse we have. But if they were bidding that high on a particular pile of scrap and I knew it was far above the market price, I would send my inspectors out to the yard to look to find out what was in that pile of scrap that the contractor wanted.

Chairman McCLELLAN. Do you know of any instances where the sale has been canceled?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. And the property recovered?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. That shouldn't have been sold?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. Is that a general practice? Do they do that when they discover this situation?

Mr. JOHNSON. When they discover that the property is poorly segregated they stop the sale of the lot.

Chairman McCLELLAN. Then what happens? Is the whole transaction rescinded?

Mr. JOHNSON. They will withdraw this particular lot from the sale.

Chairman McCLELLAN. What if he has already moved away three-fourths of the tonnage?

Mr. JOHNSON. It is gone, sir. For all intents and purposes, it is gone.

Chairman McCLELLAN. You can't recover the cannon?

Mr. JOHNSON. We did recover the cannon in this case, sir.

In October of 1967 there was a lot of light and heavy steel scrap being offered for sale in Nuremberg. It had already been offered and one firm had already bid on this thing. We picked out these 50 some tons, we, the agents, hand segregated this material out. Now, the contractor, when we took all the good things out of the pile and put them in the pile they should have gone in, was quite upset. He said, "I bid on that particular lot. I bid that high and now you are taking the things out."

We said, "That is your problem. You bid on light and heavy steel scrap."

So when we took out the generator and starter scrap, the vision blocks, machinegun barrels, copper and so forth, he wasn't interested in it.

Mr. CONSTANDY. He bid on certain scrap, did he not?

Mr. JOHNSON. This is a different case, Mr. Constandy. This had been offered for sale, had been sold. The contractor had purchased this. When we went into the depot we picked out this particular lot of materials. When I say we, I am speaking about the CID agents themselves, hand-segregated this material out. I have pictures of the segregation to show you. When the contractor came back during the investigation, while we were there he complained, "I purchased that material, I bid on that material there as it was prior to your removing certain items." He was quite upset about this. He was quite upset because what we in fact had done, he had bid on light and heavy steel scrap and that is what he got. He got no extras.

Mr. CONSTANDY. What were the things you found?

Mr. JOHNSON. For instance, we found vision blocks—

Mr. CONSTANDY. What is a vision block?

Mr. JOHNSON. A vision block is a periscope affair that a tank crewman uses to see out of a tank.

Mr. CONSTANDY. Part of the optical equipment?

Mr. JOHNSON. Yes, sir. We found brass, we found aluminum, we found machinegun barrels, we found generator and starter scrap, we found differentials, drive trains, we found cast aluminum engines.

Mr. CONSTANDY. As to the vision blocks and the .50-caliber machinegun barrels, he was not supposed to have been able to get them in the first place in that condition, was he?

Mr. JOHNSON. Not in the condition we found them. They had not been demilitarized.

Mr. CONSTANDY. They were not?

Mr. JOHNSON. No, sir.

Mr. CONSTANDY. You had another situation in Nuremberg, did you not?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. Can you tell us about that one?

Mr. JOHNSON. Yes, sir. We also made a very close examination of everything while we were there. In the rubber scrap we found a new starter for an armored vehicle. We found a radio—

Mr. CONSTANDY. A starter for an armored vehicle?

Mr. JOHNSON. Yes, sir, like a car.

Mr. CONSTANDY. To start the engine?

Mr. JOHNSON. Yes, sir. We also found a radio hidden in the rubber scrap. When I say hidden, I mean hidden. It was not something that accidentally fell off a truck and wound up there. This is a piece of equipment that was in the rubber scrap.

Mr. CONSTANDY. The rubber scrap was what?

Mr. JOHNSON. Old tires.

Mr. CONSTANDY. Large tires?

Mr. JOHNSON. Truck tires, jeep tires.

Mr. CONSTANDY. Where relative to the tires did you find this equipment?

Mr. JOHNSON. It was hidden in the pile.

Mr. CONSTANDY. Inside the pile?

Mr. JOHNSON. No, sir. Well inside the round of a tire.

Mr. CONSTANDY. Mr. Chairman, we have some photographs of that which have been made an exhibit for this testimony.

Chairman McCLELLAN. The exhibits were appropriately numbered by the witness before the exhibits were submitted so they are part of the record.

Mr. CONSTANDY. On page 3, Mr. Johnson, the demilitarization procedures—hasn't the demilitarization been the responsibility of the unit that is turning in the equipment?

Mr. JOHNSON. On most small items, yes, sir. Machinegun barrels, small arms, yes, sir, it is their responsibility.

Mr. CONSTANDY. If they don't do it might that material go to a depot for their use?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. Then is it the responsibility of the depot to do it?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. If the depot doesn't do it but forwards it on to a property disposal yard is it then the responsibility of the property disposal yard personnel to demilitarize it?

Mr. JOHNSON. As I understand it; yes, sir. The last person to have it in their hands is the responsible person.

Mr. CONSTANDY. What did you find was the attitude of the employees in the yard relative to whether they should accomplish demilitarization or not?

Mr. JOHNSON. For many of the employees it was a sort of "I don't care, if it winds up there it is their problem, not mine."

Mr. CONSTANDY. It was somebody else's responsibility.

Mr. JOHNSON. Somebody else's responsibility.

Mr. CONSTANDY. Once it is there, it runs some likelihood of being sold undemilitarized?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. You distinguish between light equipment that might be demilitarized when a unit gets rid of it. And how about heavy equipment?

Mr. JOHNSON. If the services are disposing of large equipment, armored vehicles, for instance, these vehicles are sold with the stipulation in most cases, I will not say in every case, that the demilitarization of the equipment will be performed by the prime contractor.

Mr. CONSTANDY. Where?

Mr. JOHNSON. On the base, on the Army base where it can be supervised and guarded.

Mr. CONSTANDY. How did you find that works out? What problems are there in that type of demilitarization when it is actually done on the base?

Mr. JOHNSON. Well, there should be very little problem. Of course, we have found problems and this is going to be covered in subsequent testimony, Mr. Constandy, about this particular area.

Mr. CONSTANDY. I think you related a situation to me where an inspector on a military base was assigned inspection of demilitarization but while doing that was assigned additional chores. Is that correct?

Mr. JOHNSON. That is correct.

Mr. CONSTANDY. He had occasion to leave the base while the contractor was working. You had some observations to make relative to the behavior of the contractor's employees in his absence. Could you explain that?

Mr. JOHNSON. Yes, sir. Mr. Naumann and I were at a certain base not long ago. There was demilitarization of some self-propelled guns. The contractor was demilitarizing the equipment and there was an inspector there. But the inspector had other chores. One day he was in the south of the country, the next day he was in the west of the country. The contractor demilitarized certain items, and I think I used this term with you, it is like stirring up vegetable soup and trying to pick out all the beans, to find out what particular equipment was on hand. The contractor could have secreted these items among the heavy scrap without its ever having been demilitarized.

Mr. CONSTANDY. Is that a current situation?

Mr. JOHNSON. Yes, sir, it is still under investigation.

Mr. CONSTANDY. Even when it is done on the base there are some problems in being able to keep track of what he is up to?

Mr. JOHNSON. That is right.

Mr. CONSTANDY. He sometimes spirits the equipment off the base; is that not true?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. When the materiel requiring demilitarization is turned in to the yard it should be accompanied by a document; is that true?

Mr. JOHNSON. Materiels that require demilitarization coming in the yard, as I said before, mixed with this truckload of scrap, come in described as to what they are on the turn-in document.

Mr. CONSTANDY. In words or numbers?

Mr. JOHNSON. In words and numbers, sir. Now, the paperwork of all units is not good. This is where the training comes in, for the experienced person receiving the equipment which would only have a Federal stock number on it the PDO personnel should be able to check to see what particular item is being turned in. If it has a particular word description, to be sure to check that it is an item either requiring or not requiring demilitarization.

Mr. CONSTANDY. How would the person make that check if he had only the stock number or he also had the word description?

Mr. JOHNSON. He could go back and check and see what it is for. If it is a sighting device for an artillery piece he should be able to find this out if there is adequate reference materiel at hand. But this is not always the case.

Mr. CONSTANDY. That record or the description of the materiel is not always at the property disposal yard?

Mr. JOHNSON. It is not always in the hands of the person who has to make the decision.

Mr. CONSTANDY. Sometimes the materiel comes without any documentation, in which case it is left to the chance of his recognition?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. But when it comes with the document he may have some additional work he has to do on each item to be able to select from them those that might require demilitarization?

Mr. JOHNSON. That is correct.

Mr. CONSTANDY. Sometimes the turn-in document bears a stamped letter to indicate that it is fire control?

Mr. JOHNSON. That is a local situation. That is done in only one instance, as I understand it.

Mr. CONSTANDY. That would enhance the possibility of the person to recognize it for what it was?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. That is not being done routinely in all cases?

Mr. JOHNSON. No, sir.

Mr. CONSTANDY. Can you explain what an inventory adjustment report is?

(At that point Senator Percy entered the hearing room.)

Mr. JOHNSON. If an inventory is conducted once a year and they determined they have certain shortages or certain overages, by use of an inventory adjustment report they adjust the inventory to show the correct figure. It can also be used to change the word description of a particular item. For instance, a truck which comes to PDO and it only has a chassis or maybe a part of a body, maybe it is received as a truck when in fact it is only scrap. By using an inventory adjustment report they can change the word description of the truck to miscellaneous light and heavy steel scrap.

Mr. CONSTANDY. And the inventory adjustment allows the responsible official to reduce the accountability of certain material he is charged with, is that true?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. If he has conducted an inventory and finds that he is short he can reflect or release himself from that accountability by making up an inventory adjustment report?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. Is he permitted to do this on his own?

Mr. JOHNSON. Only to adjust the inventory. The responsible officer signs the adjustment report, thereby adjusting his inventory.

Mr. CONSTANDY. It is like having a wild card in a poker game, or a blank check.

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. He is charged with the accountability, but he can avoid the accountability if he executes an inventory adjustment report?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. This accountable officer could be what rank?

Mr. JOHNSON. Second lieutenant to captain.

Mr. CONSTANDY. The man in charge of the property disposal yard?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. He has a pretty easy way of life, then, as far as being responsible for what he is beholden to. He can adjust the paperwork to conform to what is left. Is that true?

Mr. JOHNSON. He can adjust his inventory by use of the inventory adjustment report; yes, sir.

Mr. CONSTANDY. When that inventory adjustment report is made out, you mentioned it could be applied to a good truck, a truck which was driven into his yard—by the execution of this document he has transformed that truck into so many pounds of scrap metal. Is that true?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. If he sold it as a truck it would bring one price?

Mr. JOHNSON. True. If he sold it as scrap it would bring a lesser price.

Mr. CONSTANDY. Is that a commonly used process, the inventory adjustment?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. How detailed are the checks made to establish the contractor's integrity and reliability?

Mr. JOHNSON. They are superficial, at best. In one of the cases which we are going to cite, we have a case at hand where the marketing center requested an I. & R. check, a reliability check on a particular firm wanting to do business with the Government. They requested this from our Embassy in Bonn.

Mr. CONSTANDY. Let's take it a step at a time. When the marketing center is about to entertain the bid of a contractor they would want to establish his integrity and reliability, there is a process that can be followed for that, is that correct?

Mr. JOHNSON. That is correct.

Mr. CONSTANDY. They would contact either the Embassy or consul's office?

Mr. JOHNSON. In our case, it is the economic attache in Bonn.

Mr. CONSTANDY. What do they ask him?

Mr. JOHNSON. They want to know if this fellow is reliable, is he of good integrity.

Mr. CONSTANDY. How would the economic officer in Bonn know whether he was or was not?

Mr. JOHNSON. To the best of my knowledge, sir, he simply runs a name check on the fellow.

Mr. CONSTANDY. What would that mean?

Mr. JOHNSON. Is there any evidence at hand that this fellow's integrity is bad or is not reliable?

Mr. CONSTANDY. That would suggest that the Embassy would then make a check with the police?

Mr. JOHNSON. No, sir; that is not right either. It is simply is there anything at hand. If there is nothing at hand they come back with "there is nothing at hand," and in most cases, the I. & R. check is accepted as proof.

Mr. CONSTANDY. What would you expect to be at hand in the Embassy that would disclose to the men doing it whether that particular contractor has the integrity and could be relied upon?

Mr. JOHNSON. I don't know. I am sure there is nothing there.

Mr. CONSTANDY. Whatever it is is reflected back to the marketing center and it is established based on that communication whether they will do business with this man or not?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. Can that kind of work give any assurance that they can rely on the men they are doing business with?

Mr. JOHNSON. No.

Mr. CONSTANDY. Not in the way you described it, it can't.

Mr. JOHNSON. Mr. Constandy, it isn't a survey. It is a name check type of thing.

Mr. CONSTANDY. We will get into a case in a few moments in which the inquiry to the Embassy produced an answer by them that they never heard of this person at that address, yet that sufficed to the R. & M. sector there was no derogatory information and as a consequence they felt they could go ahead and have reliance on the contractor's integrity and reliability. Is that correct?

Mr. JOHNSON. That is right.

Mr. CONSTANDY. Have you found contractors have had to give large sums of money to induce PDO employees to do favors for them?

Mr. JOHNSON. We found in one of our recent surveys that Mr. Graham spoke of this morning that they have given gratuities of 5 to 1,500 marks to get PDO yard employees to do certain things for them.

Mr. CONSTANDY. On page 4 of the statement the section "End Use Controls," can you describe what an end use control is intended to do?

Mr. JOHNSON. An end use control is a declaration the contractor makes at the time he bids on the material. He declares what the end use or final disposition of the property will be. This is well and good. We can go back to the prime contractor who purchased the material and say, "What did you do with it?" He can say, "I sold it to contractor B." So at the time the material leaves the prime contractor we are almost at a loss to determine the final disposition of the material. We don't know what happens to it.

Mr. CONSTANDY. He makes a certificate of intention to dispose of what he has bought in a certain way?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. Is there any followup to see whether he actually did dispose of it in that way or not?

Mr. JOHNSON. There is an occasional followup. Very, very, rarely.

Mr. CONSTANDY. It is infrequent.

Mr. JOHNSON. Infrequent.

Mr. CONSTANDY. Can there be?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. Can it be effectively done?

Mr. JOHNSON. It can be effectively done.

Mr. CONSTANDY. How can it be done?

Mr. JOHNSON. Either of the respective services should have an end-use surveillance team, or they can give it over to their investigative

arms and ask them to determine what happened to a particular piece of material and through investigations they can find out what happened to it.

Mr. CONSTANDY. You mentioned that it is not frequently done. If it is not done, how can there be reliance on it?

Mr. JOHNSON. There is no reliance on it.

Mr. CONSTANDY. His statement as to intention is taken at face value?

Mr. JOHNSON. That is true.

Mr. CONSTANDY. I know in some of them he is bidding on scrap. No one really cares if it is truly scrap what he does with it?

Mr. JOHNSON. That is true, sir.

Mr. CONSTANDY. Does it not often appear that even though it is scrap derived from the demilitarization of some commodity, let us say tanks, he fills in that he intends to make a resale of that material to NATO countries?

Mr. JOHNSON. That is true, sir.

Mr. CONSTANDY. What is the sense of that? Can you explain it?

Mr. JOHNSON. Well, there is one case at hand. The document was filed that it was to be sold in a NATO country. The investigation determined it was not sold to a NATO country, it went through a friendly country to an Iron Curtain country. In that case it was scrap?

Mr. CONSTANDY. In that case it was scrap?

Mr. JOHNSON. Yes, sir.

Mr. CONSTANDY. Sometimes he is bidding on material which, as he bids on it, still retains its identity. If it is a tank it is described as a tank but what he is buying is the scrap from it?

Mr. JOHNSON. That is right.

Mr. CONSTANDY. You find frequently that the fellow bidding for such scrap is a scrap dealer or arms dealer?

Mr. JOHNSON. In our experience those that are bidding on large items such as the tank or the halftrack are after parts. They are armaments dealers.

Mr. CONSTANDY. Do they bid the normal going price for scrap or a price higher than that?

Mr. JOHNSON. They bid high enough to be sure they get the item.

Mr. CONSTANDY. If they do bid and become the successful bidder and the processes were properly followed, it should not make any difference where the scrap would go, to the exclusion of iron curtain countries?

Mr. JOHNSON. None whatever.

Mr. CONSTANDY. Mr. Graham, on page 38 of your statement you refer to a crime prevention survey. Will you explain what a crime prevention survey is?

Mr. GRAHAM. Well, a crime prevention survey first of all is an inspection of the physical plant to determine whether or not there are physical security measures there such as internal barriers, and so forth, to prevent people from moving in and around the installation freely. It is a physical control.

Mr. CONSTANDY. Does it go beyond that? Does it concern itself with the operation of the plant?

Mr. GRAHAM. It goes into the internal operations of the installation, whether or not essentially they are conforming to current rules and regulations concerning the disposition of property.

Mr. CONSTANDY. So it is both a look at the physical security of plant and a concern for the procedures that are followed in the operation of the plant, to insure that those things that are supposed to be done are being done?

Mr. GRAHAM. That is right.

Mr. CONSTANDY. I have no further questions, Mr. Chairman.

Chairman McCLELLAN. Senator Percy?

Senator PERCY. Thank you, Mr. Chairman.

From the standpoint of personnel, I wonder if you could give us some idea as to the local nationals' rate of pay. What was the level of compensation of personnel that would be working in the property disposal yards?

Mr. JOHNSON. Sir, the last time I had contact with this I think their salaries were a little in excess of \$250 a month for labor. That works out now to 750 to 800 marks.

Senator PERCY. How does that stack up in a tight labor market which Germany has had? How did that rate of compensation stack up with what those men could be earning in other comparable types of work, in private industry, for instance?

Mr. JOHNSON. It is considerably lower. It is 300 to 400 marks lower a month.

Senator PERCY. Do the personnel have a good deal in seniority and continuity in those jobs?

Mr. JOHNSON. Some do, sir.

Senator PERCY. Could you elaborate as to why you feel they would stay on for 5, 10, 15 years in those jobs at considerably less pay than they would receive in private industry? We are not able in this Government to hold people in Government service without paying comparable wages. We finally realized that. We are paying comparable wages now and we are holding more people.

How were they able to hold people? Was it patriotism or loyalty to the American Government that caused these foreign nationals to work for less pay than they could get in private industry?

Mr. JOHNSON. Some have long term service with the Government and they are looking forward to retirement. Some are very loyal individuals. They enjoy the work, they are conscientious. Some stay with us because there is not too much pressure on them. They sort of float through the thing.

Senator PERCY. Were they able to moonlight in these jobs, possibly?

Mr. JOHNSON. Some of them moonlighted and some of them don't have to moonlight. Some were stealing from us. They made up for their loss in wages.

Senator PERCY. Could you stand on that?

Mr. JOHNSON. We found cases where one fellow was carrying out brass on almost a daily basis. He was selling the brass. Others were taking clothes, others were taking food. I can also say they were accepting gratuities from contractors.

Senator PERCY. Can you give us any idea as to what proportion of the people might be involved? I suppose every company and every government office has a certain amount of pilferage and so-forth. Are we talking higher than 1 or 2 percent? What proportion of employees might be receiving some form of compensation other than their direct wages?

Mr. JOHNSON. Let me use the Nuremberg case as an example. All the yard employees including the supervisor were dismissed for dishonesty.

Senator PERCY. All of them?

Mr. JOHNSON. All of them.

Senator PERCY. So it was virtually a hundred percent and it was a way of life, almost, with them?

Mr. JOHNSON. Yes, sir.

Senator PERCY. Is this an isolated case? Is it most unusual? Or is it a pattern that developed?

Mr. JOHNSON. Senator, these were the ones we detected. These were the ones who were able to surface. The assistant property disposal employee who was a German also was discharged. We found he was accepting gratuities from contractors. When the German police searched his home they found materials and equipment which had originated from the PDO yard. When we questioned him as to where he got the materials he stated he had received them from a contractor. This was a prime contractor with whom he had daily contact.

Senator PERCY. Were you able to establish in the course of your investigation the standard of living of the personnel you observed either through automobiles they owned or homes they lived in, the way they entertained? Was it somewhat higher than normally would be associated with people earning the figure you used, \$250 monthly?

Mr. JOHNSON. We had the opportunity to go to one, the assistant's home. I am not saying that he stole the money with which he built the home, but he did the materials which he built gates for the home. We took pictures of that. The materials he had in the basement, he admitted some of them were pilfered from the yard. He had a very nice home, a nice little villa-type home.

Senator PERCY. Should it have been possible for the supervisor of personnel in the Military Establishment to make these same observations you made, working with them day in and day out?

Mr. JOHNSON. Let me answer the question by saying this: The turnover in personnel at this particular facility, laborers, was not too great. We had a lieutenant who was in charge of the facility who had several jobs. I think the several jobs probably precluded him from paying the attention he should have paid to the particular PDO operation. Now, whether he was an individual with a suspicious mind or not, I don't know. If I were running a PDO yard and I knew that an individual was making only 600 to 800 marks a month and he suddenly comes up with a brandnew automobile, it would behoove me to ask him, "Gee, what a nice car, how much was the downpayment?" "How much are the payments a month?" or "Did your wife inherit some money?" or "Did you hit the lottery?" These questions I would ask. If the fellow did not have a plausible answer, then I would call someone and say, "This fellow has a brandnew car. What is happening?"

Whether the lieutenant would have done this or not I don't know. But the lieutenant didn't have 22 years in the CID.

Senator PERCY. What would be the rank of the military officer in charge of a property disposal yard?

Mr. JOHNSON. My experience has been lieutenants and captains.

Senator PERCY. What would be the grade level of the top ranking civilian personnel?

Mr. JOHNSON. GS-11's through to about 13, sir.

Senator PERCY. How large an operation are we talking about in some of these yards? How many personnel are involved?

Mr. JOHNSON. Some are very large, Senator. I would say they would have 35 to 40 employees. Some of the smaller ones, the satellites, maybe three or four.

Senator PERCY. I think this subcommittee established during the course of its investigation in messes and post exchanges, that there was a certain group of sergeants that fought very hard to stay in this business because they found it exceedingly profitable to do so. They went to extraordinary measures to see that they were assigned to that same type of duty. It was a fraternity that developed. We know for instance in Latin American countries it is a way of life for civil servants to be paid pennies but live at a much higher level and have kickbacks as part of their compensation. They are forced to. It is expected they will do that because they are not compensated enough in the first instance.

Would you say this is an isolated case or was it sometimes the case or frequently the case that personnel receiving less than prevailing wages involved in this kind of work were receiving some form of remuneration in the form of a kickback or pilferage or whatever it may be that made it worth while financially for them to stay in that job in this particular kind of business?

Mr. JOHNSON. The intelligence which we developed through the use of informants in almost every case where we have been involved, Mr. Graham and I, in the investigation of PDO's has shown that the employees were taking gratuities, accepting gratuities. It is not always in money. A big gratuity paid is cigarettes, liquor, beer.

With the contractors it is a way of life at Christmastime to deliver their Christmas presents. This was brought out in several instances where a yard employee was paid——

Senator PERCY. Aren't there Army regulations or military regulations against acceptance of gifts?

Mr. JOHNSON. They can't accept them, sir.

Senator PERCY. They cannot accept them?

Mr. JOHNSON. No, sir.

Senator PERCY. Is it well known by the officers in charge, the top senior civilians in charge, that these gifts are given by contractors and accepted by them and by their employees?

Mr. JOHNSON. These people, sir, are required to sign a certificate concerning the standards of conduct, that they understand the standards of conduct, that they can't accept gratuities from contractors nor can they do business with them. This is a form that they sign. It is even included in their records. The fellow who is doing the work, this is the fellow not being paid very much. He knows he is not supposed to take 300 marks to hide a piece of expensive equipment in the pile of scrap but we do not compensate him and he takes the 300 marks.

He fails to segregate or fails to classify certain items because he is favored by the particular contractor who has either a one-time contract or term contract. He favors him. By favoring him we found that he receives remuneration for his efforts. Not that he hid anything. It is just that he didn't do anything.

Senator PERCY. When we come to the training of personnel, is there in theory a training program for working yardmen?

Mr. JOHNSON. Yes, sir.

Senator PERCY. In actual practice what was your experience as to the implementation of the theoretical training program? Was there a thorough indoctrination? Was the training continued and kept up to date so that they were, you might say, in a position to be experienced in the work they were undertaking?

Mr. JOHNSON. The training program—I will answer it this way: There were certain classes given but in my observation the training program is on-the-job training. He learns from doing.

The man may learn or be shown something that is wrong and he could repeat this for years without knowing it is wrong. We had a lot of third country nationals with whom we have difficulty of communicating. We were unable I feel to train these people properly. Now, again we are not able to bring aboard people who are of a very high caliber—these people don't work in a junk yard for 600 or 700 marks a month. If they were intelligent they would go out on the commercial market and get a better job.

Senator PERCY. In the private sector, so called junk yard dealers are very resourceful, they place a high premium on training and education. The difference between profit and loss many times is their judgment factor and the skill with which they carry out their work.

We are talking about hundreds of millions of dollars worth of material and equipment and judgment factors that have to be rendered as to what you do with it, how you dispose of it, how you prepare it for disposal. Did you find what you considered to be adequate, prudent, reasonable training programs executed for the working yardmen in effect in the yards that you visited?

Mr. JOHNSON. No.

Senator PERCY. You did not?

Mr. JOHNSON. No.

Senator PERCY. Would you feel that there was a dereliction of duty considering the large sums of money involved?

Mr. JOHNSON. Yes, sir.

Senator PERCY. I wonder if you could tell us whether you did conduct surveillance at any particular time of property segregation during the course of the period that you were there in the winter of 1966 or 1967? Can you recall any specific instances where you actually did survey what was being done, the work that was being carried on, how you should carry on such a survey if you did, and what results did you have?

Mr. JOHNSON. Senator Percy, at the end of July or the first week of August we began a constant surveillance of one PDO yard. There were three of us and then later four who ran this surveillance. This surveillance was carried out by watching what was going on, taking photographs. We watched not only comings and goings of the property disposal officer but also the comings and goings of the employees and contractors. We had an informant also at the same time working inside the PDO yard who was coming out daily and telling us exactly what was going on and what was being segregated. We went into the PDO yard surreptitiously and we examined for ourselves what was being hidden as scrap and what wasn't being segregated.

When we moved into the yard in October 1966 we had segregated

approximately 50 tons of light and heavy steel scrap, recovering from it munitions list items, nonferrous metals, weapons that had to be demilitarized, some new equipment, such as snow chains. We found equipment which was needed and there was a demand for.

After we had gotten into the thing and agents themselves had hand-segregated this material we notified the proper authorities at the Army level—excuse me. We started the surveillance at the end of July, first of August of 1966. We moved into the depot on I believe the 27th of October 1966, and we continued the investigation with one exception through February of 1967. We hand-segregated this material. The contractor involved came there while we were hand-segregating it, he became quite upset that we were taking the items out of the pile and placing them in the proper categories where they should be. We also observed a contractor stealing. This was on the 27th of October. We knew what he had taken. We knew what he was about to take. We observed the contractor missing the scales instead of weighing in. We checked all the freight shipments out of the depot for an 18-month period. We knew what boxcars had been paid for, what boxcars had not been paid for. We did a breakout of all weight slips for one contractor. We knew how many times he had achieved this by manipulation of the scales. We determined his true weight by going to the vehicle registration people. We did a surveillance of his yard before we moved on the people.

We got hold of a helicopter. We knew where the materials were being hidden in his yard. We knew everything about his yard, we felt, that was necessary for us to mount our operation.

When we did get through, everything we had reported such as the larceny and manipulation of the scales, manipulation of the rail cars, and so forth, proved to be true.

Senator PERCY. I wonder if you could tell us a little more about the policy on the contractors. We learned in our hearings on messes and PX's that this is a process that has an effect. Was the debarment of the contractor effectively used in surplus property disposal? What did a contractor have to do to actually warrant debarment?

Mr. JOHNSON. In the cases I am aware of the primary thing they were looking for was did we have a conviction in a civil court for an offense. If we had a conviction they were debarred. If they didn't have a conviction—now my job is not to worry about what happens. I present the facts. I do know this because I was required to write supplemental reports as to what action had been taken. I know that one contractor, the contractor we were talking about in Nuremberg was suspended for several months. Since there was no litigation, he was placed back on the active bidder list.

Senator PERCY. What was the process of justice from the time accusation is made, evidence is accumulated against the person, and is actually brought to trial and convicted? How long does it take? Do they have a speedy justice? Do they bring justice more swiftly or do they have a logjam that we have in the courts over here where it sometimes takes years

What do they do in the meantime with a contractor on whom there is a heavy suspicion of guilt?

Mr. JOHNSON. In this particular instance, this case report was forwarded to the responsible authority for review. After reviewing they did not feel there was sufficient evidence to debar. As to the speedy trial, the Germans do have a speedy trial motion. Their dockets are as

full as ours. This case was investigated jointly by the CID and the German authorities in Nuremberg. Some of it was done by the Nuremberg City police and some by the State police. Their investigation paralleled ours. It took October to February to complete.

They presented their case to the German courts. What the decision to prosecute was, sir, I don't know. I know the man was never tried.

Senator PERCY. This subcommittee and committee has a peculiar and direct responsibility with respect to how we organize our Government to carry on the functions. We are more interested to see that there is proper organization rather than trying to run any particular aspect. A good organization sometimes does not end up with a lot of problems.

Secretary BeLieu indicated in his testimony the property disposal function would soon be taken over by the Defense Supply Agency. From your own experience as a long-time military law enforcement officer, do you feel that merely by transferring that function to that particular agency we have solved our problem, or would you have any recommendations you would like to make with respect to how at the same time we transfer the problems to that agency we strengthen it to the point where we know the same kind of problem is not going to just recur under another structure or organization?

Mr. JOHNSON. Sir, we discussed this. We feel there has to be a strong surveillance team reporting directly to the person responsible for the operation of it. By this I mean they are able to communicate directly to the man responsible and tell him this is wrong in property disposal in this particular area. In other words, not flood the market with a lot of paper work or through too many headquarters.

To be able to go to the proper person and say, "In Washington we have this particular problem of property disposal, in my hometown we have this particular problem." So he is knowledgeable of it and he can react to the problem.

What I am trying to say is to cut out as many middlemen as possible.

Senator PERCY. I would like your answer to the next question to be as carefully thought out as possible.

I wonder if you would care to comment on what effect the investigation of this subcommittee and the very fact that we have entered into this field has had. Has it had a good effect? Has it acted as a catalyst and do you feel that the continuing interest of this subcommittee on a periodic basis and the staff might be justifiable, and might yield a high return on investment, or at least a reasonable return on investment if we continue our interest as these functions are now transferred to a new agency with a new organizational setup?

Mr. JOHNSON. I would have to answer that yes, because I had the PDO investigative responsibility in Europe at the time the subcommittee came in. When they came in I became very, very alert to the problem.

Senator PERCY. Do you have any idea or could you put together with your colleagues any kind of figure as to what you might look to as an annual return on investment? Just pull a figure out of the air and we can supply a figure of what this has cost this committee. I imagine several hundred thousand dollars would certainly be a reasonable figure. How much of a return on investment can the people of the United States expect to get by tightening up procedures,

cooperating with the Department of Defense in seeing that we button down the hatches in this particular area?

Could you supply now or later a ballpark figure as to your best estimate as to what the potential savings are if we improve our operating procedures?

Mr. JOHNSON. I heard this morning's testimony from Secretary Belieu that if we were able to increase our profit by 1 percent a year I think the increase in return would be some \$50 million more a year to the U.S. Government if sales were effectively managed. If we could increase by 1 percent we would have \$50 million more revenue.

Senator PERCY. I thank you very much indeed.

Chairman McCLELLAN. Thank you very much.

Now let us go to the prepared statement which you omitted.

Do you have any other questions?

Mr. CONSTANDY. No, sir.

Mr. JOHNSON. Mr. Chairman, we would like to summarize our testimony here and these six cases we spoke of.

Chairman McCLELLAN. Do you have a summary of this testimony?

Mr. JOHNSON. Yes, sir. We have a prepared statement of it.

Chairman McCLELLAN. You may proceed.

Mr. CONSTANDY. May I just say this will be material contained within the prepared statement that runs from page 6 to page 47. Is that correct?

Chairman McCLELLAN. Do you want to give that summary after you give that testimony?

Mr. JOHNSON. I am sorry, sir. I misunderstood.

Chairman McCLELLAN. I was going to have you proceed with your prepared statement beginning on page 6.

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. Then you want to summarize it after you conclude, I suppose, not before.

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. I understand that this material dealing with the cases and so forth is to follow your overall statement and conclusions which you presented this morning, and about which you have been interrogated, that this will now follow and that you will only read a part of it.

Mr. JOHNSON. That is true, sir.

Chairman McCLELLAN. The rest of it, that which is not read, Mr. Reporter, will be printed in the record as if read at the proper places.

Now you may read just that part if it that you want to read. If you want to stop and comment you may do so.

Mr. JOHNSON. Mr. Graham will read the first case, Mr. Chairman.

Chairman McCLELLAN. Mr. Graham, you are recognized.

Mr. GRAHAM. The Nike-Ajax guided air defense missile is a two-stage surface-to-air military rocket with a payload of three high-explosive fragmentation-type warheads.

Its first stage powered by solid propellant, its second by liquid, Nike-Ajax is 34 feet 1 inch long, 18 inches in diameter, weighs 2,259 pounds equipped and fueled and can be tracked from ground-based radar stations.

Four hundred eight excess Nike-Ajax missiles and components were turned in to the Germersheim property disposal yard from March 10, 1965, to September 16, 1965. Nike-Ajax missiles had been declared

obsolete in terms of America's defenses and were being phased out of U.S. air defense units.

However, Nike-Ajax missiles were not obsolete for other nations. There is demand for them and for components and parts. This consideration, and the fact that the missiles were potentially dangerous, led Army officers to apply strict demilitarization requirements for the rockets, their components and parts.

The demilitarization of the 408 Nike-Ajax missiles became the focus of an Army CID investigation, which showed:

First, demilitarization procedures failed. The missiles were disassembled into components and parts which were taken out of the PDO depot. On the armament black market, they were sold and resold an uncertain number of times.

Chairman McCLELLAN. Is this the weapon referred to here?

Mr. CONSTANDY. I was going to ask if the photographs of the material about which they are testifying could be printed in the record.

Chairman McCLELLAN. You may make that request now so that we have it before us. Is this a photograph of the weapon that you are referring to?

Mr. GRAHAM. Yes, sir. And the model appears on the table.

Chairman McCLELLAN. I can't put the model in the record. If these are correct, I would like to put these pictures in the record. They may be made exhibits at this point, as exhibit No. 90.

(The photographs referred to were marked "Exhibit No. 90" for reference. One of the photographs follows and the other one may be found in the files of the subcommittee.)

EXHIBIT NO. 90



FIGURE 1.—Nike-Ajax guided air defense missile before demilitarization.

Chairman McCLELLAN. I would like to ask you at this point, so that I can keep it in mind as we proceed, what is the original cost of one of these weapons?

Mr. GRAHAM. \$21,000.

Chairman McCLELLAN. You will be able to point out what was received for them and what the contractor, the purchaser, received for them?

Mr. GRAHAM. Yes, sir.

Chairman McCLELLAN. You may proceed.

Mr. GRAHAM. Second, the end-use assurances from contractors are valueless. The contractors for the scrap from the Nike-Ajax missiles asserted on the end-use certificate that the materiel would be sold as scrap. The owners of the Nike-Ajax components and parts engaged in some scrap sales, but undemilitarized missile components and parts were what they bought—and what they intended to sell.

Third, the United States can hope to exercise control over the uses prime contractors make of excess materiel, but American authorities have virtually no say in what subpurchasers do with surplus weaponry. Sold once, U.S. war materiel is traceable and even recoverable. But twice sold, the weaponry is loosed upon the world of illicit armaments like confetti in the wind.

Fourth, weigh-in and weighout procedures in surplus sales are vulnerable to falsification. The loss in revenues is considerable.

Chairman McCLELLAN. Do I understand there were 408 of these sold?

Mr. GRAHAM. They were sold as excess property; yes, sir.

Chairman McCLELLAN. As excess property?

Mr. GRAHAM. Excess to our weapons system—obsolete in our weapons system.

Chairman McCLELLAN. Were they sold as scrap or sold as weapons?

Mr. GRAHAM. They were sold to be reduced to scrap.

Chairman McCLELLAN. They were sold as scrap, they were to be reduced to scrap?

Mr. GRAHAM. Yes, sir.

Chairman McCLELLAN. Was that an instance in which the purchaser contracted to demilitarize them?

Mr. GRAHAM. Yes, sir. The purchaser would be held responsible for complete demilitarization of the weapon.

Chairman McCLELLAN. Is this a case where they didn't demilitarize them?

Mr. GRAHAM. Yes, sir. This is the case.

Chairman McCLELLAN. Did they sell them as weapons?

Mr. GRAHAM. They sold components that could be assembled into a weapons system.

Chairman McCLELLAN. They sold the components to be reassembled into a weapons system?

Mr. GRAHAM. It would be possible; yes, sir.

Chairman McCLELLAN. I am trying to get something related here as to what happened. Declared surplus is supposed to be sold as junk.

Mr. GRAHAM. Originally the weapons were declared obsolete to our weapons system.

Chairman McCLELLAN. That is the same as excess to our needs.

Mr. GRAHAM. Yes, sir. There were sales contracts drawn up that the weapons would be sold as scrap, but a demilitarization process had to be gone through first. That demilitarization process was then under the terms of the contract the responsibility of the purchaser.

Chairman McCLELLAN. What happened to it? It was sold as scrap and supposed to be made into scrap after it was sold. Now what happened to it? I want to follow through and get the connection right here.

Mr. GRAHAM. The original contractor disassembled the weapon and put them into components. He resold the components to a second purchaser, to a man by the name of Teichmann who bought components.

Chairman McCLELLAN. He is the man who originally purchased them and disassembled them. Then he sold the component parts to someone who reassembled them?

Mr. GRAHAM. They weren't reassembled by the second purchaser. He had only taken possession of the components from the first purchaser who had disassembled the weapons.

Chairman McCLELLAN. Were they recovered?

Mr. GRAHAM. Sir, I have a sort of summarization here I would like to present.

Chairman McCLELLAN. I want to get what happened to these.

Mr. GRAHAM. The shorter synopsis would cover the disposition or at least what we determined to be the weapon disposition.

Mr. CONSTANDY. The missile was in two stages, was it not, is that correct? The lower stage is a liquid-propellant missile and the upper stage is a solid-propellant missile?

Mr. GRAHAM. Yes.

Mr. CONSTANDY. At the time they turned it over to the contractor those propellants were removed from the missiles?

Mr. GRAHAM. Yes, sir.

Mr. CONSTANDY. And so was the warhead more or less. Remaining was the tube which contained the propellant initially. The critical components that remained were the guidance system and hydraulics package, is that correct?

Mr. GRAHAM. Yes, sir.

Mr. CONSTANDY. Isn't it true, when the contractor bought these he was to demolish everything he got, the two tubes, guidance package and the hydraulics package?

Mr. GRAHAM. He was supposed to completely destroy the weapon and all the components.

Mr. CONSTANDY. He was supposed to reduce it to scrap?

Mr. GRAHAM. Yes, sir.

Mr. CONSTANDY. Is it not true he did reduce the two missile tubes to scrap, but he removed from them the critical guidance systems and the hydraulics packages?

Mr. GRAHAM. That is right.

Mr. CONSTANDY. Did he not sell them to another person named Teichmann?

Mr. GRAHAM. Yes, he did.

Mr. CONSTANDY. Mr. Teichmann had some number of them in his possession?

Mr. GRAHAM. Yes, sir.

Mr. CONSTANDY. Prior to any time he was able to sell them to anyone for any purpose, you became interested in the case. Is that true?

Mr. GRAHAM. Yes, sir.

Chairman McCLELLAN. Did you recover them or did you see that they were demilitarized? What happened to them? That is what I am trying to find out.

Mr. GRAHAM. They were brought under control to the point where they were demilitarized; yes, sir.

Chairman McCLELLAN. You happened to intercept the transaction after it was made. You intercepted the materiel and components and demilitarized them; is that right?

Mr. GRAHAM. Sir, what happened was that the CID received an anonymous letter or received information from an informant that these parts started to appear on the market or they were available for sale. Then CID intervened and determined the man who had originally purchased the record had disassembled them and sold them to a second purchaser who had them available to the highest bidder.

Chairman McCLELLAN. Did he sell them at a higher price than junk?

Mr. GRAHAM. The Government sold the components as scrap.

Chairman McCLELLAN. What did he sell them at?

Mr. GRAHAM. Sir, I would like to continue here.

Chairman McCLELLAN. Very well. You may continue. Go ahead.

Mr. GRAHAM. Fifth, the integrity and reliability (I. & R.) check on the contractors was ineffectual.

On April 15, 1966, an informant reported to the CID that Herbert Teichmann, a German national, was selling components and parts from Nike-Ajax missiles.

The informant said Teichmann bought the materiel from Gerda and Rudolf Schreurs.

Preliminary investigation indicated that the Schreurs had bought the Nike-Ajax missile components from the U.S. Air Force Redistribution and Marketing (R. & M.) Center at Mainz-Kastel.

Norman F. Gieseler, the contracting officer at Mainz-Kastel, issued an invitation for bid (IFB) February 10, 1965. The IFB said:

* * * mixed metal scrap, to be derived from demilitarization of missile body, GM, M2, M2Ei, Nike-Ajax; fin assembly, rocket motor, M12, M2; control and stabilizer, jato M12; draining kit; (steel containers will not be demilitarized).

(Exhibits 1-3 are "Invitation for BID 61-514-s-65-49," dated February 10, 1965; U.S. Government Bid and Award Form, dated March 10, 1965; and End Use Certificate Statement, Regarding Disposition and Use of Property, dated March 9, 1965.)

The R. & M. Center wrote to the American Embassy in Bonn for a reliability and integrity check on the Schreurs after they became high bidders. The Embassy had never heard of them. On April 15, 1965, the U.S. Embassy wrote:

We have been unable to find anything in our files which would confirm Miss Schreurs' address or kind of business.

(Exhibit 4 is letter, "American Embassy, Bad Godesberg," dated April 15, 1965.)

On April 22, 1965, W. W. H. Smith, of the R. & M. Center, wrote a memorandum:

... Comments contained in the letter from the American Embassy, Bonn, dated 15 April 1965 are insufficient for denial of contract in accordance with security trade control procedures.

... It is recommended that close attention be provided in order to insure that the purchaser performs demilitarization under U.S. Government supervision.

(Exhibit 5 is letter, "United States Air Force, Europe," Redistribution and Marketing Management Center, dated Apr. 22, 1965.)

On April 22, 1965, Norman F. Gieseler awarded the contract to the Schreurs.

Alfred Herrmann, property disposal agent at Germersheim, wrote a memorandum May 6, 1965, to the Quality Assurance Division to request that the division "inspect work in process and check for adherence to all demilitarization regulations" in connection with the missiles.

Master Sergeant John H. Hartman, U.S. Army, wrote back May 7, 1965, to decline the request, pointing out that "this office is not qualified" to check demilitarization work.

"I recommend that qualified personnel from the missile field be requested to assist in this operation," Sergeant Hartman said.

(Exhibit 6 is a "Disposition Form, U.S. Army General Depot, Kaiserslautern," subject: Demilitarization, dated May 6, 1965.)

No further communications have been found relative to securing demilitarization experts.

Several missiles contained nitric acid and propellant. Nitric acid is a corrosive liquid acid used as an oxidizing agent in making explosives. The missiles were decontaminated under the supervision of an Army specialist. This development had not been anticipated in the contract. An adjustment was made, offsetting any financial hardship to the Schreurs for decontamination work.

(Exhibit 7 is "Memorandums for Record," U.S. Army General Depot, Kaiserslautern, dated May 20, 1965; May 26, 1965, and June 3, 1965, respectively.)

On June 21, 1965, the warhead on one missile was found to be "live." The area was cleared. The warhead was disconnected.

(Exhibit 8 is "Memorandum for Record," U.S. Army General Depot, Kaiserslautern, dated June 22, 1965.)

Work continued. All 408 missiles were disassembled, according to the contract. In violation of the contract, few of the components and parts were demilitarized.

Schreurs could not estimate how many guidance packages and hydraulic accumulators he had sold Teichmann. But Teichmann set the figure at 390 guidance packages and 178 hydraulic accumulators, including gyroscopes. The guidance systems stabilize missiles in flight and guide them to their targets. The hydraulic accumulators also are guidance and targeting devices.

(Exhibits 9-10 are "Statement of Mr. Schreurs," dated June 6, 1966, and "Statement of Mr. Teichmann," dated June 8, 1966.)

Another guidance package was sold by Schreurs to a German named Karl Heinz Franke of Germersheim. Mr. Schreurs sold 391 of 408 guidance packages. The other 17 remained in his warehouse.

Mr. Franke, according to a June 14, 1966, interview with the CID, had hoped to buy more than one guidance package. He said:

* * * I brought a Mr. Bonniec, surplus dealer, 10 Av Canot, Maison Laffitte, Paris, France, to Mr. Teichmann. He was interested in purchasing the guidance

packages * * * I delivered a guidance package to Mr. Bonniec on February 27, 1966 and he took it with him to France. Mr. Bonniec wrote me a letter dated April 6, 1966 which is in my files indicating that he had a possible buyer in Israel who was willing to pay one million Deutsch Mark for the guidance packages Teichmann had. Bonniec said they were as good as sold.

Mr. Franke said the deal fell through, possibly because Mr. Bonniec owed the French Government 50 million francs.

(Exhibit 11 is statement of Mr. Franke, dated June 14, 1966.)

CID investigation revealed that Mr. Bonniec was Louis Marie Bonniec, a Parisian with a history of French customs violations.

(Exhibit 12 is investigator's statement by Agent Payne, dated July 15, 1966.)

In a June 6, 1966, CID interview, Rudolf Schreurs said Teichmann bought the equipment for between 20,000 and 30,000 deutsche marks or approximately \$5,000 to \$7,500, and took the materiel from the Germersheim depot.

The CID interviewed Teichmann June 8, 1966.

Teichmann said:

I purchased 178 combination guidance and hydraulic packages from Mr. Schreurs in July 1965 for DM 120 for each unit. The guidance package and the hydraulic package were joined together. I have shown you both of these units and allowed you to photograph them. On January 8, 1966 I purchased 212 guidance packages without the aluminum housing or the hydraulic package * * * For these 212 items I paid DM 30.00 each. This makes a total of 390 guidance packages and 178 hydraulic packages that I purchased. I have stripped the aluminum housings from the first 178 guidance packages I obtained and sold this to Mr. Heinz Buch, a scrap dealer, who resides in Hockenheim, Germany. I still have the 178 hydraulic packages and 390 Nike Ajax guidance packages in my warehouse in Hockenheim. * * *

The interior components such as the gyroscopes and other items in this first shipment were mostly good and in serviceable condition. * * *

Over 50 percent of the housings of the first 178 guidance packages were not damaged. The remainder of the housings seemed to be slightly crushed, but this crushing did not damage the inner components. * * *

Teichmann said the guidance packages had been "handled roughly." The gyroscopes and other components "appeared to be in good condition." The hydraulic packages were in such "good condition," he said, "they looked like new. I didn't notice any damage to them."

Asked what he intended to do with the electrical equipment, Mr. Teichmann said he would disassemble them further and sell them to amateur radio operators, adding:

I do not intend to sell these parts to any Iron Curtain countries.

The CID wanted to recover the equipment. But the law was not favorable. The U.S. Government could take the Schreurs to court, but the Schreurs did not own the equipment. Teichmann did, and he wanted to keep it.

Captain David O. Wentz, an Army Judge Advocate Officer, assessed the American legal position regarding the Nike-Ajax electrical equipment. His findings were not encouraging.

Captain Wentz wrote a "statement of facts and analysis":

* * * the U.S. Government has no contractual remedy against Teichmann in this case, therefore, injunctive relief in the German courts to stop Teichmann from reselling the items would be difficult. * * * Although it is doubtful that Teichmann will agree to return the items to the U.S. Government for scrap value, that avenue is the best initial approach to the problem.

There was another point at issue, Captain Wentz said :

It cannot be stressed too strongly that the initial dereliction of duty on the part of U.S. Government employees (criminal or negligent) enabled the outlined chain of events to occur. * * * This file indicates that property disposal regulations are not being followed, and that proper supervision is not being implemented.

(Exhibit 13 is legal opinion of Captain Wentz, dated June 28, 1966.)

Rudolf Schreurs did not pay for electronic components. He paid for mixed scrap. The estimated scrap weight was 549.056 short tons. Schreurs, as the successful bidder, contracted to pay 231 deutsche marks or \$58 a short ton, a total of about \$31,845.

On September 15, 1965, the demilitarization of all 408 missiles was reportedly completed. All the scrap was removed.

(Exhibit 14 is certificate of Mr. Dahan, dated September 15, 1965.)

Mr. Schreurs submitted weight slips for only 377.091 short tons of scrap. The invitation for bid had estimated 549.056 short tons. The difference was 171.965 short tons or 31 percent.

CID agents established that the Schreurs had falsely said one missile container weighed 1,276 pounds, when it actually weighed about 1,924 pounds.

Using the false weight of this container, the Schreurs set the weight of all 412 containers. (Four containers contained no missiles.) At the contract price of 231 deutsche marks per ton, the Schreurs cheated the United States out of 30,885 deutsche marks or \$7,721.

The Schreurs reached a compromise with the R. & M. Center of 20,384.36 DM. When they paid this sum on November 23, 1966, they were maintained as accredited bidders.

Chairman McCLELLAN. Were they maintained notwithstanding the fact they did not demilitarize that property?

Mr. GRAHAM. Both. They had not demilitarized it and by falsification of weight they had cheated the Government.

Chairman McCLELLAN. They had cheated on weight. Also they had not demilitarized that equipment. Is that correct?

Mr. GRAHAM. They had not completely demilitarized it, that is correct; yes, sir. They had not demilitarized it. They had simply disassembled it.

Chairman McCLELLAN. They had not demilitarized this sophisticated equipment, had they? That is what they were trying to sell in France. Is that right?

Mr. GRAHAM. That is correct, sir.

Chairman McCLELLAN. Notwithstanding this breach of contract, when they were supposed to demilitarize it, and his willful defrauding of the Government, notwithstanding that, he was still retained as an eligible bidder for scrap?

Mr. GRAHAM. Yes, sir; he was.

Chairman McCLELLAN. Can we pinpoint who made that decision and who was responsible for that situation continuing?

Mr. GRAHAM. The R. & M. center administers all contracts.

Chairman McCLELLAN. Sir?

Mr. GRAHAM. The Redistribution and Marketing Center administers all contracts. Any action initiated against or in favor of any contractor would start there.

Chairman McCLELLAN. Whoever made that decision, if these were the facts, should receive a very serious reprimand or punishment in my judgment. That is inexcusable.

Mr. JOHNSON. May I offer something, sir?

Chairman McCLELLAN. Yes.

Mr. JOHNSON. The R. & M. center, the sales people reached an agreement with Mr. Schreurs where they paid back some 20,000 deutsche marks.

Chairman McCLELLAN. I know, but they defrauded willfully. That is getting part of what the Government was entitled to then.

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. From there on, they knew they were dealing with someone who would defraud them if he had an opportunity to do it.

Mr. JOHNSON. That is very true.

Chairman McCLELLAN. Yet they maintained him as an eligible contractor on bidding.

Mr. JOHNSON. That is right.

Chairman McCLELLAN. In spite of the fact they were never able to get all the property demilitarized as the contract provided, is that right?

Mr. JOHNSON. That is right.

Chairman McCLELLAN. That is worse than malfeasance in office. That borders on the corruptible to me.

Senator PERCY. Mr. Chairman, may we ask the final question: Why?

Mr. GRAHAM. I can offer my own opinion why. I have heard from people at the R. & M. Center that their space is limited, they cannot store this property for a great length of time because it accumulates so quickly. Some sales are based simply on, "Let us make room for something else," in effect.

Senator PERCY. Do you mean that they get rid of it regardless of all the reasonable and prudent business practices that should be adhered to in checking whom you are going to sell it to and so forth?

Mr. GRAHAM. I don't agree with what they think. I think they should follow accepted business practices, but I do know, having talked to them on occasions, that they need the space and they will make a sale sometimes, perhaps not in this particular case, simply to make room for other accumulations.

Chairman McCLELLAN. All right. Let us proceed.

Senator PERCY. Is it true that the Air Force is the cognizant responsible service in this case?

Mr. GRAHAM. Yes, sir.

Chairman McCLELLAN. All right. Proceed.

Mr. GRAHAM. In closing the case, the CID alleged that the Schreurs had breached their contract by failing to demilitarize the missiles, by reporting incorrect weight figures, and for reselling the materiel not as scrap but as electrical equipment.

The other targets of CID criticism were U.S. employees.

John Francis Tierney, property disposal officer at the Kaiserslautern depot, was derelict in his duties when he failed to detect the discrepancy between the weights of the scrap recorded by the Schreurs and the IFB estimates.

Paul Guy Dahan, property disposal agent at Germersheim, was derelict in his duties when he failed to properly supervise the demilitarization of the missiles.

Staff Sergeant Robert Louis Reed, quality assurance inspector at Germersheim, was derelict in his duties when he failed to note that the missiles were not being properly demilitarized.

The CID declared that Alfred Herrmann was derelict in his duties when he failed to properly account for missiles and related equipment and to assure that property removed by the Schreurs was correctly weighed. Mr. Herrmann was also criticized for giving the Schreurs 50 55-gallon scrap drums which could have been sold.

Mr. Dahan and Sergeant Reed received administrative nonpunitive oral reprimands. Mr. Herrmann received an administrative oral reprimand from his supervisor, Mr. Tierney. Mr. Tierney was to receive a letter of reprimand.

Mrs. Schreurs was suspended from May to November of 1968. She was again suspended in December of 1969, and that suspension was lifted in March of 1971. Neither suspension was related to this case.

Chairman McCLELLAN. All right. Take the next case.

Mr. JOHNSON. Sir, I would like to read the next case.

Chairman McCLELLAN. Proceed, Mr. Johnson.

Mr. JOHNSON. The Teichmann Case.

On October 22, 1965, an informant reported to the CID that two American Army rangefinders were stored in the home of Walter Weber in Rolandswerth.

Rangefinders are valuable fire control equipment. They enable tank gunners to fire on target. Rangefinders are much in demand among arms traffickers. U.S. Defense Department regulations require that surplus rangefinders be destroyed so that their sole future use can be only as scrap metal.

There were two rangefinders in Mr. Weber's home. They were in his garage.

Each rangefinder had an original acquisition price of \$9,643. They needed repairs. Their lenses were cracked, but they were by no means demilitarized.

I would like to point out a rangefinder is an item that requires demilitarization. You have to reduce it to nothing.

Their lenses were cracked, but they were by no means demilitarized. They were still valuable and after repair would have been serviceable.

The finding of the rangefinders in Mr. Weber's garage demonstrates the inefficient and careless procedures for demilitarizing surplus armaments and sophisticated components.

This case also adds weight to an assertion we will make later in another case—that many contractors who purchase scrap generated by the military are not interested in scrap. In fact, they often lose money on such transactions. However, this is the price they must pay for access to depots.

Herbert Teichmann calls himself a scrap dealer, but he prefers armaments. On August 5, 1964, Mr. Teichmann was awarded the contract on "heavy iron and steel scrap" from the demilitarization of two "Trainer Tank Gunnery T18" and components.

The contract was awarded at the Kaiserslautern depot by the contracting officer, Norman Gieseler.

(Exhibit 15 is invitation for bid 91-569-s-64-106, dated June 22, 1964; exhibit 15a is notice of award, release document and statement, dated Aug. 5, 1964; and exhibit 15b is sale of Government property, bid and award, dated July 16, 1964.)

Teichmann was to perform the demilitarization, under PDO supervision, at the Army depot at Germersheim. Representing the U.S.

Government in the demilitarization was Walter Ceglarek, 56, a German national, who was asked in a December 8, 1965, CID interview if, when he certified the demilitarization of the tank trainers, he had noticed the rangefinders.

(Exhibit 16 is statement of Mr. Ceglarek, dated Dec. 8, 1965.)

Mr. Ceglarek answered:

No, I did not notice the range finders. I only saw scrap. However, it is quite possible that the range finders were hidden underneath the scrap.

Wasn't it his job to look underneath the scrap for just such hidden devices?

To that, Mr. Ceglarek said:

No. Furthermore, we do not have the technical equipment, such as cranes, personnel, etc., at the PDO, Germersheim.

Mr. Ceglarek, who had been employed at the Germersheim depot since 1948, explained how he certifies the demilitarization of war materiel.

He said:

Mr. Herrmann of the PDO telephonically informs me that certain items which have been demilitarized are ready for inspection.

I then proceed to the PDO, usually accompanied by an American soldier, to inspect these items. I am not positive, though, that I took a GI along when I inspected the (two tank) trainers.

Subsequently, Herrmann takes me to the property which has been demilled. I then inspect and determine whether it has been demilled in accordance with TB Ord 412. If this is the case I take all the paperwork to my office and make out a demil certificate.

This certificate authorizes the contractor to take the property out of the depot. I do not have a copy of the contract which prescribes the way parts have to be demilled.

The Herrmann Mr. Ceglarek referred to was Alfred Herrmann, a German national employed at Germersheim since 1951.

Interviewed by the CID on December 8, 1965, Herrmann said he remembered the two tank trainers and the rangefinders. He recalled that the lenses were broken. He stressed that he had no demilitarization responsibilities. He was to let Mr. Ceglarek know when to make his inspection.

Mr. Herrmann noted that because of crowded conditions in the yard the two tank trainers were stored in an open, unsecured area—instead of in a secured, fenced-off region.

(Exhibit 17 is statement of Mr. Herrmann, dated Dec. 8, 1965.)

Mr. Weber was interviewed by the CID on November 16, 1965. He said he helped Teichmann remove the rangefinders from the tank trainers. A firm named Fahnenschreiber tried to sell them to the German army for about 39,000 deutsche marks (about U.S. \$10,000), Mr. Weber said, but the Germans rejected the offer and the rangefinders were then stored in his garage.

In other words, Mr. Weber was acting as agent for Mr. Teichmann. He went to a third party to induce him to sell the rangefinders. The German army rejected the offer and Mr. Weber took control of the things and returned them to his garage.

(Exhibit 18 is statement of Mr. Weber, dated Nov. 16, 1965; exhibit 18a is letter of firm P. H. Fahnenschreiber and Son, dated Aug. 24, 1965; exhibit 18b is photograph of M-12 rangefinder; and exhibit 18c is photograph of T-41 rangefinder.)

The CID interviewed Mr. Teichmann December 13, 1965. He said he and Mr. Weber removed the two rangefinders during demilitarization of the tank trainers. Mr. Weber was to find a buyer for them.

Mr. Teichmann said he paid for the rangefinders as scrap, transporting the fire control components out of the Germersheim depot in a load of "heavy iron and steel scrap."

Mr. Teichmann said he had bought fire control equipment under the guise of scrap on other occasions. He made that admission to the CID:

Question. On 10 May 1965 you offered a quantity of fire control equipment to the Zeiss company in Oberkochen. When and where did you obtain these items?

Answer. I bought this fire control equipment in various lots. I cannot recall any longer when and where I bought these items.

Question. At the time you bought this fire control equipment didn't you know that these items had to be demilled also?

Answer. No, I didn't know this at that time but I think that the U.S. Army should know what property has to be demilitarized. Actually items like this should not be in the lot.

(Exhibit 19 is statement of Mr. Teichmann, dated Dec. 13, 1965.)

WO Maxwell C. Payne, who was a CID agent at the time, checked on the sales of scrap he took from the two tank trainers.

Teichmann had sold 17 tons of scrap to Alfred Wetzka for 90 deutsche marks a ton or a total of 1,534.86 deutsche marks, or about \$400.

CID Agent Payne also found that Teichmann had paid the U.S. Government 135 deutsche marks a ton for the scrap.

Thus, he sold for 45 marks a ton less than he paid originally. Mr. Teichmann entered into that contract for one thing only—fire control equipment. Scrap was his cover.

On December 28, 1965, Mr. Teichmann returned the rangefinders to the custody of the Kaiserslautern PDO.

The rangefinders were offered for sale to the German army, which was said to be in need of fire control equipment for its forces. We do not know if the German army bought them.

(Exhibit 20 is investigator's statement by Agent Payne, dated Jan. 31, 1966.)

The CID's report of February 9, 1966, concluded:

Teichmann did, at U.S. Army Depot Germersheim, Germany, on or about November 1964, breach contract [on tank trainers] by failing to perform the prescribed demilitarization of . . . two rangefinders.

No action was taken to suspend or debar Mr. Teichmann or his employees from further purchases at the surplus depots. The firm was still on the accredited bidders list the time I checked, about the first of April, 1972.

Chairman McCLELLAN. What do they have to do to get off the eligible list, to get debarred? Did you find any instances where they were?

Mr. JOHNSON. This firm, no, sir.

Chairman McCLELLAN. Any firm.

Mr. JOHNSON. Yes, sir; we have found instances where they have been debarred.

Chairman McCLELLAN. But the debarment was not effective because they were able to bid through agents, is that correct?

Mr. JOHNSON. Yes, sir, through the agent principle.

Chairman McCLELLAN. I have here pictures which I understand are pictures of those rangefinders that you referred to.

Mr. JOHNSON. Yes, sir, I would like to get those into the record.

Chairman McCLELLAN. That may be received as an exhibit and appropriately numbered

(The photographs referred to were marked "Exhibit No. 91" for reference. One of the photographs follows and the other one may be found in the files of the subcommittee.)

EXHIBIT No. 91

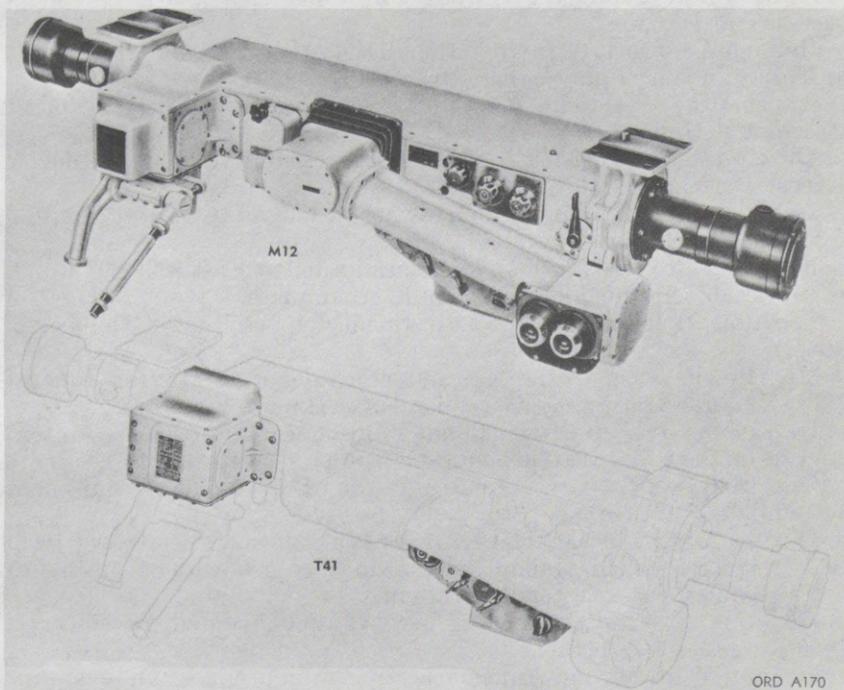


FIGURE 2.—M12 and T41 rangefinders.

Chairman McCLELLAN. Proceed.

Mr. JOHNSON. The next case we refer to by its location, the Hanau Case.

We investigated two matters at the Hanau property disposal depot at Grossauheim/Main.

First, an inexperienced Army lieutenant ran the Hanau depot. He relied on his German subordinates to manage the yard according to Defense Department regulations.

Second, valuable articles of warfare—undemilitarized rangefinders, for example—were concealed beneath miscellaneous scrap piles.

Third, an inventory adjustment report declared valuable fire control equipment was scrap although no physical damage was performed on it.

A civilian property disposal officer—the lieutenant's predecessor—allowed nondemilitarized fire control equipment to accumulate. He

left Hanau without providing for the demilitarization and disposal of the fire control equipment and without briefing his successor, the young lieutenant, about it. Consequently, the equipment, worth more than \$800,000 is still unaccounted for.

Principals involved at Hanau were:

Norman Gieseler, American civilian employee, who left Hanau to become contracting officer at Kaiserslautern. As property disposal officer he was the top official of the Hanau depot. Kaiserslautern had control over Hanau for contracting. Mr. Gieseler was promoted in January 1965 to contracting officer for the U.S. Air Force Redistribution and Marketing Center at Mainz-Kastel.

Army First Lieutenant Harold Ellis Massie, Jr., Mr. Gieseler's successor at Hanau.

Helmut Wegfahrt, German national, the property disposal assistant at Hanau and an employee there since 1948.

Annemarie Sauerwein, German national, also property disposal assistant at Hanau.

Ulrich Buerger, German national, representative of arms dealer Ernest Bertram.

Isaac Moradi, Iranian national, owner of Universal Auto Parts, 163 Exterior Street, New York.

From 1963 to 1964, Norman Gieseler allowed at least \$839,897 worth of serviceable fire control equipment to accumulate.

(Exhibit 21 is "Inventory Adjustment Report," dated October 5, 1964.)

Mr. Gieseler went to the Kaiserslautern depot in May or June of 1964. Kaiserslautern was given control over Hanau.

In June or July of 1964, Hanau started providing Kaiserslautern reports on the value of all property on hand.

One early report gave an accounting of fire control equipment accumulated at Hanau.

During August or September of 1964, a man named Groebel from Kaiserslautern called Hanau several times to ask why so much fire control equipment was stored at Hanau.

(Exhibit 22 is "Statement of Mr. Kauffeld," dated December 8, 1965.)

Helmut Wegfahrt and Annemarie Sauerwein prepared an inventory adjustment report on the fire control equipment October 5, 1964.

(Exhibit 23 is "Statement of Mrs. Sauerwein," dated September 21, 1965.)

(Exhibit 23a is "Statement of Mrs. Sauerwein," dated December 8, 1965.)

(Exhibit 23b is "Statement of Mr. Wegfahrt," dated December 8, 1965.)

(Exhibit 23c is "Statement of Mr. Viel," dated December 7, 1965.)

The report was signed "Lieutenant Massie." He later told the CID that he was on leave from October 3 to October 18, 1964, and could not have signed the document until October 19.

The inventory adjustment report listed \$839,897 worth of fire control equipment as 69 short tons of scrap.

The inventory adjustment report was fraudulent. The fire control equipment was not reduced to scrap, but was still serviceable and very much in demand in the weapons market. No evidence indicated that the fire control equipment was destroyed. It has never been accounted for.

Lieutenant Massie became property disposal officer at Hanau in July 1964.

He was inexperienced, with little knowledge of property disposal. He did not know he had inherited a large inventory of fire control equipment.

Massie did not initially order an inventory because he was "told by personnel in the Quartermaster Section" that an inventory was made in May 1964.

In October 1965, Massie was shown the inventory adjustment report which declared the fire equipment scrap. He said the signature appeared to be his but he did not remember signing the document.

He said he did not sign it on October 5, 1964, because from October 3 to October 18, 1964, he was on leave "getting married." He could have signed it, he said, on October 19.

Lieutenant Massie said he had to take the word of his German subordinates and that he did not have time to examine situations and circumstances described by his staff.

Chairman McCLELLAN. The inventory adjustment report showed the fire control equipment to be 69 short tons of scrap.

Is there any other way to describe or identify that fire control equipment other than by tonnage?

Mr. JOHNSON. Yes, sir. It should have been identified by items and then destroyed.

Chairman McCLELLAN. How many items were involved?

Mr. JOHNSON. I don't have that figure at hand. I can get the figure.

Chairman McCLELLAN. Anyway, the cost of that equipment was some \$839,000?

Mr. JOHNSON. That is right.

Chairman McCLELLAN. It was sold for junk?

Mr. JOHNSON. No, sir. We don't know what happened to it.

Chairman McCLELLAN. The inventory was updated and didn't account for it?

Mr. JOHNSON. He was short that.

Chairman McCLELLAN. You don't know what it was sold for?

Mr. JOHNSON. No, sir.

Chairman McCLELLAN. But it disappeared?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. It was either stolen or improperly sold for some other purpose?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. There is nothing to show it was demilitarized?

Mr. JOHNSON. No, sir.

Chairman McCLELLAN. Is that pretty valuable to get into the hands of an arms dealer?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. What was paid normally for 69 tons of scrap?

Mr. JOHNSON. The scrap value at that time was about a hundred marks a ton for heavy steel scrap. 6,900 marks would be the value of scrap if it were actually reduced to scrap and was all heavy steel. I imagine if it got into the hands of an arms dealer, it brought very close—

Chairman McCLELLAN. I mean if it had been sold as scrap, it would be what?

Mr. JOHNSON. About 6,900 marks.

Chairman McCLELLAN. What would that be in dollars?

Mr. JOHNSON. About \$1,700.

Chairman McCLELLAN. So there was some over \$800,000 worth of fire control equipment that would have sold for about \$1,700 as junk that was completely lost?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. From the inventory?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. You don't know what became of it?

Mr. JOHNSON. No, sir.

Chairman McCLELLAN. All right.

Mr. JOHNSON. Lieutenant Massie said:

Due to the area and amount of property involved, I did not always inspect the property being reclassified. Many times I had to rely on my staff. There is a possibility regarding the property in question, that if my staff answered my questions to my satisfaction, I did not inspect or demand further proof.

(Exhibit 24 is statement of Lieutenant Massie, dated Oct. 27, 1965.)

CID agents could not determine what happened to the fire control equipment after it was declared scrap. Supposedly some had been burned, but no records were found.

Burning does not demilitarize fire control equipment, which can be made usable again after burning. Proper demilitarization by burning would require melting the equipment.

(Exhibit 25 is statement of Agent Crosman, dated Feb. 1, 1966.)

(Exhibit 25a is statement of Mr. Lind, dated Sept. 30, 1965.)

(Exhibit 25b is statement of Mr. Humm, dated Oct. 6, 1965.)

The CID's final report asserted:

"* * * Failure to properly separate property that could be sold from the property requiring demilitarization resulted in a substantial loss to the U.S. Government as many of these items were new and a requirement existed for them by firms rebuilding equipment for NATO countries."

The accumulated fire control equipment had been stored in a section of the Hanau yard that "permitted systematic pilferage." Pilferage leads directly to the second phase of the Hanau inquiry.

Fire control equipment disappeared from the records at Hanau, but we may never know what happened to it.

Ernst Bertram, a German national, is a successful arms trafficker. Testimony about his operations will be presented later.

Ernst Bertram will (1) sell weaponry to anybody anywhere who meets his price. Most of the weaponry, weapon components and spare parts he sells are originally U.S. issue. Among the articles of war valuable to him are rangefinders, which enable gunners in armored vehicles to shoot straight.

Bertram's clients include nations relying heavily on armored vehicles for military strength. They must have rangefinders. Mr. Bertram maintains large inventories of spare parts and components for armored vehicles.

In early November 1964, Ulrich Buerger, Bertram's representative, went to the Hanau PDO to check on items offered for sale. At the

office he checked turn-in documents to determine what was offered. A turn-in document is the standard form used to itemize property being turned in to a supply depot or a PDO. Lot 89 was supposed to contain rangefinders. He checked the lot and found the rangefinders were missing. He complained to Mr. Wegfahrt, the property disposal assistant.

(Exhibit 26 is statement of Mr. Buerger, dated February 14, 1966.)

(Exhibit 26a is statement of Mr. Wegfahrt, dated February 3, 1966.)

Wegfahrt and Buerger could not find the rangefinders. Wegfahrt notified Norman Gieseler, the contracting officer.

Mr. Gieseler approved Mr. Wegfahrt's request to cancel the sale of lot No. 89.

These developments were highly irregular and they should have strongly indicated serious improprieties.

Lot No. 89 was put up for sale in an invitation for bid, (FB) No. 65-49, issued by Norman Gieseler. The IFB didn't mention five rangefinders.

(Exhibit 27 is extract listing item No. 89, spot bid 65-49, bid opening November 10, 1964.)

Many questions arise about the missing rangefinders. Why didn't Wegfahrt simply tell Buerger that rangefinders were not in lot No. 89 because they weren't supposed to be? Instead, Wegfahrt called upon Gieseler to cancel the auction because the rangefinders were missing.

Why did Gieseler agree to the cancellation of the auction? Perhaps he had to since the advertised lot weight had now changed, but he should have said that the rangefinders were not missing because they weren't supposed to be there. As a senior PDO officer, he should have reminded Wegfahrt that it was contrary to policy to sell rangefinders.

Rangefinders are sensitive and valuable components. They are to be sold in Europe, according to Defense Department regulations, only in country-to-country transactions between the United States, its allies and friends.

PDO yards cannot sell rangefinders, but must reduce them to scrap metal.

These events certainly would appear to have put the upper PDO officials on notice that there were serious breaches of policy and procedures.

Mr. Wegfahrt told the CID:

On the day of the sale, November 10, 1964, I informed Mr. Gieseler, a representative of the USAFE/Germany Redistribution and Marketing Center who was conducting the sale, that the rangefinders were missing and that lot No. 89 should be withdrawn. Lot No. 89 was withdrawn from the sale and the remaining property was later reoffered as lot No. 79, IFB 65-35 X, bid opening February 9, 1965, after the acquisition cost and weight of the five rangefinders had been deducted from the total value and weight of the lot.

Later events are equally questionable.

No one reported to the CID that five rangefinders, with an original acquisition cost of some \$48,000, were missing. A serious incident report should have been filed.

The reason the CID went into the case 9 months later was because of information provided by an informant.

Norman Gieseler issued a second invitation for bid for "lot No. 79" under the same title as the withdrawn No. 89, "miscellaneous ordnance hardware."

(Exhibit 28 is Extract listing item No. 79, Spot Bid 65-35X, bid opening date February 9, 1965.)

Mr. Gieseler included in the second IFB the same items, but the total acquisition cost of Lot 79 was reduced by the precise original acquisition cost of the five range finders, \$48,215.

Levy Auto Parts of Toronto, Canada, was the successful bidder. CID investigation revealed that along with "miscellaneous ordnance hardware and repair parts" the firm also received from lot No. 79 \$8,957.42 in fire control equipment, such as periscopes, telescopes and mounts, all items which are not supposed to be sold as items but only as scrap after they have been properly demilitarized.

(Exhibit 29 is statement of Mr. Mentges, dated April 5, 1966.)

(Exhibit 29a is statement of Agent Crosman, dated May 6, 1966.)

The mystery of the five missing range finders was solved. Isaac Moradi, an Iranian who owned Universal Auto Parts, New York, said he found them among miscellaneous scrap lot purchases he had made. But he had no proof. He shipped the range finders to Antwerp where he sold them to Levy Auto Parts. Four of the five range finders were then sold by Levy to the West German Army.

Chairman McCLELLAN. Do you know what they got for them?

Mr. JOHNSON. No, sir; I don't.

Chairman McCLELLAN. Why wasn't he asked about that? Were you not able to find out?

Mr. JOHNSON. I could find out, sir. I just don't have it at hand.

Chairman McCLELLAN. All right.

(Exhibit 30 is statement of Mr. Moradi, unsigned, dated December 19, 1966.)

(Exhibit 30a is letter of Mr. Moradi, dated March 25, 1966.)

(Exhibit 30b is letter of Mr. Moradi, dated December 24, 1964.)

(Exhibit 30c is telegram of Mr. Moradi, dated December 28, 1964.)

(Exhibit 30d is letter of Mr. Speyer, dated February 5, 1965.)

(Exhibit 30e is letter of Mr. Speyer, dated February 19, 1965.)

(Exhibit 30f is letter of Mr. Bradshaw, dated July 15, 1965.)

Mr. JOHNSON. Annemarie Sauerwein, assistant property disposal officer at Hanau, helped Wegfahrt prepare the fraudulent inventory adjustment report on the \$839,897 in fire control equipment. She gave an affidavit to the subcommittee January 26, 1972.

She said:

... I would like to include that while I worked at the PDO from 1962 until 1966, accountability for property from the Mainz Maintenance Plan was not always adequate, however, it is very difficult for me to remember what has happened so many years ago. It was very difficult for us to ascertain by looking at the documents to know whether or not an item was munitions list or required demilitarization, unless the document stated this fact. I personally did not even know what a range finder looked like until after the investigation began.

While I worked at the PDO, Mr. Wegfahrt was the yard foreman and he was supposed to be technically qualified to recognize munitions list items and to determine what items required demilitarization. Also Mr. Gieseler, the property disposal officer, was knowledgeable of what munitions list items were and what items required demilitarization. Mr. Gieseler and Mr. Wegfahrt also were responsible to insure that property at the PDO was properly secured against theft and properly segregated and described when offered for sale.

(Exhibit 31 is affidavit of Miss Sauerwein, dated January 26, 1972.)
 Helmut Wegfahrt, still employed in his 24th year at Hanau, also gave the subcommittee a sworn statement January 26, 1972:

I would like to furnish additional information to support the sworn statements made earlier by me in connection with the investigations conducted by the Hanau property disposal office relative to the lack of accountability for property. During these investigations I was told at one of the interviews that Mr. Gieseler, the former property disposal officer at Hanau, had informed investigators that he was of the opinion that the fire control equipment and related parts from the Mainz Maintenance Plant was being demilitarized when it arrived in Hanau and that he was not aware of any large accumulation of property of this type during 1963 and 1964. I cannot understand how Mr. Gieseler could have made a statement like this because I am sure that he was aware that the property had arrived and he was aware that it was not being demilitarized.

I know he was knowledgeable of the arrival and accumulation of the fire control equipment and related parts because we discussed the problem of demilitarization several times during the period the property was coming in and I asked Mr. Gieseler if we couldn't try to sell the property to friendly nations. Also the property was stored right outside the property disposal office in an open unsecured area, where everyone in the office could see it every day.

Mr. Gieseler also saw the documentation that came in relative to the property and knew it was all marked "F" meaning it was classified as Fire Control Equipment.

I am sure Mr. Gieseler was aware of demilitarization requirements because he was the contracting officer for Military Assistance Program Property sold from Hanau and part of his duties were to certify demilitarization for sales of MAP property.

(Exhibit 32 is affidavit of Mr. Wegfahrt, dated January 26, 1972).
 I would like to read the next case. We call it the Boeblingen case because it transpired at Boeblingen.

An important factor in managing a property disposal yard is how the depot sorts its materiel and lots it. If segregation and lotting are disorganized, munitions list items which should be demilitarized often are found under piles of genuine scrap.

Moreover, if the scrap dealer knows that the lot is not all scrap, he knows that he can get a larger profit. Sometimes the scrap dealer buys the lot, takes from it the items which are not scrap and abandons the rest in the depot.

Segregation and lotting are factors in the case I will now discuss, which dramatized the incredible ineptitude with which many depots are run. In this case, we note a property disposal employee with some responsibility who could not read, an employee charged with the duty to demilitarize periscopes who had never been briefed on how to do it, an entire PDO operation that conducted only one demilitarization procedure in several years and, in general, an incompetent organization of personnel unqualified for PDO work.

The case centered around four lots of "miscellaneous standard hardware," including components to the Honest John rocket system, spare parts to small arms and components and spare parts for vehicles.

The Honest John rocket is a surface-to-surface, free-flying missile used as an artillery weapon. Soldiers can aim it and fire it at a target but they cannot guide it.

The Honest John rocket is still an Army weapon, but some Honest John rocket launchers and other components have been declared excess or unserviceable and sent to property disposal yards where they are to be rendered scrap.

On February 28, 1966, the CID began an investigation into allegations that components to the Honest John rocket system and other war materiel had been improperly offered for sale at Boeblingen.

Investigation by the CID revealed that excess Honest John rocket system components and other equipment had been sold February 9, 1966, at Boeblingen. The materiel was classified as "miscellaneous standard hardware." Total original acquisition value was \$416,442.52.

(Exhibit 33 is extract of invitation for bids 61-514-S-66-68X and list of end items for parts in lots 161-164, IFB 66-68X.)

The missile system components, Honest John rocket ground handling equipment, had an acquisition price of about \$26,000.

Honest John components and spare parts for small arms are munitions list items and must be demilitarized and reduced to scrap before sale.

The munitions list items were not demilitarized. They were sold to Herman Fink, a surplus buyer. Fink bought the four lots for \$9,395.22. This figure was a 2.2 percent return on the original acquisition price.

CID investigators found that demilitarization was virtually nonexistent at Boeblingen. Since January of 1961 demilitarization of surplus property had been performed once.

Rocco Martella said he was "acting property disposal officer" at Ludwigsburg. There was some doubt, even among other employees, as to just what his job was.

Mr. Martella, who had been employed at Ludwigsburg since September of 1962, stated demilitarization was rarely done at Ludwigsburg.

Mr. Martella, an Italian national, said in a March 23, 1966 statement to the CID:

Since I have been employed at the plant the only two items that I can recall (being demilitarized) are periscopes and some machine gun barrels. All other items except some vehicles which were cut in four parts have been sold without demilitarization.

Later on in the same statement, Mr. Martella said:

To my knowledge the only item screened and demilitarized since I came to work here was the vehicles which were cut into four parts.

Mr. Martella explained he was uncertain which items required demilitarization. He discovered on his own that periscopes required demilitarization.

(Exhibit 34 is statement of Mr. Martella, dated March 23, 1966.)

Franz Augustin, a German, received and classified materiel at Boeblingen. He was handicapped because he could not read.

However, Mr. Augustin did know that periscopes should be demilitarized, but nobody told him how to do it. Consequently, he demilitarized by smashing the lenses and mirrors of the periscopes, which does not affect their usefulness once repaired or their value in the armament black market.

(Exhibit 35 is statement of Mr. Augustin, dated Mar. 23, 1966.)

The parts and components that comprised lots 161, 162, 163, and 164 were received at the Boeblingen yard between October 13, 1963, and November 26, 1964. They were not put up for sale until February 9, 1966.

Franz Thoma, a German, worked as a yardman at Boeblingen. Mr. Thoma, interviewed by the CID March 23, 1966, was asked why the four lots were kept for more than a year before being sold.

He said:

Because Mr. Martella never picked up the paperwork and prepared them for sale. I told him that they were there and he always said he had other papers to work on in the office.

Asked who Mr. Martella was and what he did at the depot, Mr. Thoma replied:

He told me he is a clerical employee.

Mr. Thoma was then asked:

We understand Mr. Martella is the property disposal agent at the plant for the Ludwigsburg property disposal yard and is an employee of the U.S. Army. Is that correct?

"I don't know," Mr. Thoma said.

Mr. Thoma described himself as an employee of Daimler-Benz, working for the company at Boeblingen on a contract Daimler-Benz had to provide management services.

(Exhibit 36 is statement of Mr. Thoma, dated Mar. 23, 1966.)

Franz Augustin thought Mr. Thoma managed the property disposal yard at the U.S. Army maintenance plant.

In this atmosphere where personnel were not always sure who was in charge or what correct procedures were, Mr. Martella finally addressed himself to the problem of what to do with the four lots.

On October 19, 1966, more than a year later, Rocco Martella wrote to Charlotte Lippotte, a property disposal assistant at the Ludwigsburg yard.

He requested that Miss Lippotte expedite the processing of wheel and track vehicles, rocket launcher items, and other spare parts so they could be sold by the redistribution and marketing center at Mainz-Kastel.

Mr. Martella said the sale should be expedited because of a new roadbuilding program which called for cutting through a part of the Boeblingen facility. It was best to sell the lots outright, he said, rather than try to move them out of the way of roadbuilders.

Mr. Martella said that Joe Thompson, chief, supply and transportation division and property administrator, U.S. Army maintenance plant, Boeblingen, made the decision to sell.

Mr. Martella's letter to Miss Lippotte shows that PDO officials knew munitions list items were in the miscellaneous lots. There is a clear intent to place these munitions list parts in the lots, under the heading "general miscellaneous automotive repair parts."

Mr. Martella's letter stated in part:

c. We have about 9 ea big lots presently on hand and Mr. Thompson's people have started helping me in order to have all the shipping documents involved processed as soon as possible;

d. It must be emphasized the necessity of advertising all these big lots with the wording, i.e. "general miscellaneous automotive repair parts," so that items pertaining to track and wheeled vehicles be also included in the lot itself, because nobody will be able to build a track or missile vehicle without major components.

Mr. Martella said the purpose of having the items in large lots was to accommodate the buyers from the Netherlands, who did not want to send trucks for small lots.

(Exhibit 37 is copy of DF of Mr. Martella, dated October 19, 1965.)

(Exhibit 37a is statement of Miss Lippotte, dated March 17, 1966.)

(Exhibit 37b is statement of Miss Lippotte, dated March 28, 1966.)

In the March 23, 1966, interview with the CID, Mr. Martella was asked:

You mention that Mr. Thompson did not want to segregate the missile parts from the vehicle parts. Why was this?

He replied:

Mainly because it would take too much time to separate the items and make a separate lot of each type.

The CID report was made available to responsible PDO officials in January of 1967. The only corrective action taken was to administer a verbal reprimand to Miss Lipporte because she had classified the four lots as "miscellaneous standard hardware." She should have identified the four lots in such a way as to attract more bidders—Mr. Fink won over three others—and a higher profit for the United States.

Tillman E. Beal, chief, R. & M. center, Mainz-Kastel, and his assistant, Norman F. Gieseler, were interviewed by the CID. Both Mr. Beal and Mr. Gieseler were critical of Miss Lipporte's classifying the four lots as "miscellaneous standard hardware." They said the lots should have been "miscellaneous vehicle or automotive repair parts." Both were aware that munitions list items were improperly sold. Yet they focused their attention on the identity, not the substance.

(Exhibit 38 is statement of Agent Crosman, dated May 16, 1966.)

Permitting munitions list items to be sold as miscellaneous automotive parts permits contractors to ship these items to the United States and other countries under that designation.

On October 12, 1970, Ernest W. Raabe of the U.S. Army Theater Army Support Command (TASCOM) instructed Miss Lipporte that turn-in documents (form 1348) from Boeblingen did not require end-item designation or noun-nomenclature on automotive parts.

In other words, PDO personnel are no longer required to describe a part or a component. This makes it impossible for employees to classify and segregate a munition list part from other parts prior to sale.

Chairman McCLELLAN. That concludes this particular case does it?

Mr. GRAHAM. Yes, sir.

Chairman McCLELLAN. We have a rollcall vote so we will have to recess for a little while. We will be back as soon as we vote.

(Brief recess.)

Chairman McCLELLAN. The committee will come to order.

You may proceed. You testified here about some "Honest John" weapons, is that right?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. We have some pictures of them. Will you identify them so that they may be made exhibits?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. They will be Exhibits 92, 92A through 92F.

(The pictures referred to were marked "Exhibits No. 92, 92A through 92F" for reference and may be found in the files of the subcommittee.)

Mr. JOHNSON. Mr. Chairman, I will now present the Zink Case.

Alfred and Karl Zink were brothers who operated an automotive spare parts firm in Nuernberg.

They bought scrap and spare parts from the U.S. Army's Fuerth Property Disposal Yard, sometimes referred to as the Nuernberg Property Disposal Office. The Zinks called themselves "scrap dealers."

They represented themselves as scrap dealers only to gain access to the Fuerth depot and to purchase more surplus. For example, the Zinks often paid more for scrap metal than they could sell it for. The Zinks on one occasion paid 197DM for a metric ton of scrap. They could sell it for only about 120DM a metric ton.

The Zink brothers were not really buying scrap. They bought material classified as scrap but which was serviceable and highly saleable equipment. They paid scrap prices and then sold the equipment at whatever the market would bear. Many of the items—carburetors, transmissions, engines, copper wire, and armaments—were in demand.

The Zinks made little effort to conceal their lack of interest in scrap metal, which they often abandoned. A recent survey of contracts awarded the Zink organization over the past several years determined their abandonment rate to be 28 percent.

(Exhibit 39 is subcommittee staff report on abandonments.)

Property disposal personnel should have been suspicious when a contractor did not take from the depot all he had paid for.

The CID opened an investigation into the Zinks' activities and operations at the Fuerth Property Disposal Yard July 27, 1966. I was named to head the investigation. I worked with Chief Warrant Officers Thomas E. Graham and Maxwell C. Payne.

(Exhibit 40 is a summary of investigative activity, signed by Agents Johnson, Payne, and Graham, dated February 28, 1967.)

On November 29, 1965, an informant told us that Karl Zink was paying Fuerth Property Disposal employees to obtain choice items which the employees either secreted in scrap he had purchased or had classified as "scrap." The informant said Karl Zink had 50 U.S. Army one-quarter-ton trucks (jeeps) from the Fuerth yard. On December 2, 1965, 50 one-quarter-ton trucks were noted by CID agents in Zink's storage yard.

One of the first actions we took was to arrange for a German informant to be hired by the property disposal yard at Fuerth.

Principal figures in the investigation were:

Alfred and Karl Zink, both German scrap or surplus dealers; Hans Walther, a German, the Fuerth Property Disposal Yard property disposal assistant; Martin Goelker, a German, the Fuerth Property Disposal yardmaster; U.S. Army 1st Lt. Henry Brown Cribbs was the Fuerth property disposal officer.

(Exhibit 41 is list of subjects.)

In the course of this investigation we proved conclusively that:

1. The Fuerth Property Disposal Yard was managed inefficiently, and waste and corruption were common.

2. The Zinks were guilty of systematic larceny, bribery, and falsification of official documents at the Fuerth Depot.

3. Mr. Walther and Mr. Goelker were guilty of gross negligence and incompetence in their jobs—and that they and most of the other employees of the Fuerth plant were stealing from it.

In short, the yard was ridden with mismanagement, inefficiency, waste, and thievery.

We found Lieutenant Cribbs to be a decent, upstanding young officer, but he had virtually no training in property disposal work. Further, he had too many responsibilities. He was exploited and tricked by the employees.

Lieutenant Cribbs could not have effectively run the property disposal yard even if he had been properly trained. Aside from being property disposal officer for the North Bavarian district, he was also the class VI officer, managing the liquor sales for that area. Additionally, he was transient billets officer, providing Government-sponsored hotel accommodations.

He was forced to leave major decisions to Mr. Walther and Mr. Goelker. They assumed the responsibilities gladly. They ran the depot. They knew property disposal procedures. Lieutenant Cribbs counted on their judgment. He had to trust them.

I asked Lieutenant Cribbs why he had signed a certain document which resulted in the sale of a number of cars as scrap. Lieutenant Cribbs explained he signed the inventory adjustment report because Mr. Walther said he should.

(Exhibit 42 is voucher No. C-1732-65, dated Oct. 21, 1964.)

(Exhibit 42a is inventory adjustment report, dated Feb. 19, 1965.)

(Exhibit 42b is DA form No. 2332 (item No. 44), dated May 18, 1965.)

(Exhibit 42c is inventory adjustment report, dated July 28, 1965.)

(Exhibit 42d is statement of Lieutenant Cribbs, dated Nov. 9, 1966.)

(Exhibit 42e is statement of Lieutenant Cribbs, dated Jan. 16, 1967.)

This young officer was overworked and over his head.

Thus, in the summer of 1966, we found a Property Disposal Depot in disarray. The yard was not managed by U.S. Army personnel at all but rather by the foreign employees, who themselves were suspect. In addition, contractors such as the Zink Brothers were going in and out of the depot whenever they wished, and fraternizing with the yard employees.

In the sale of scrap metal, true weights must be recorded accurately. If they are not, any semblance of efficiency is impossible. At the Fuerth Property Disposal Yard, scales seemed to be always tipped in favor of the contractor.

We looked for patterns in the records of the Fuerth Depot. We discovered that the Zinks' trucks were overweight 32,950 kilograms in 106 separate loads from July 14, 1965, to July 31, 1966, in cargo classified as heavy scrap.

(Exhibit 43 is breakdown sheet, contract No. AF 61(514)s-2547, dated Oct. 28, 1966.)

Contract No. AF 61(514)s-2547 with the Fuerth Property Disposal Office is an illustration of how the Zinks manipulated tare weights. The tare weight is the true weight of the truck before it is loaded. A truck that comes into the depot to haul away scrap is weighed empty. The truck is weighed again when it is loaded. The difference between the tare weight and the loaded weight is what the scrap dealer is charged for.

Under this contract Alfred Zink, from August 1, 1965, through June 30, 1966, stole scrap materials from the Fuerth Depot worth approximately \$1,700. The theft was accomplished by inflated tare weights. In these instances, Zink was even allowed to weigh his own trucks at the depot.

(Exhibit 44 is statement of Mr. Ackermann, dated Oct. 27, 1966.)

(Exhibit 44a is statement of Specialist 4 Johnson, dated Nov. 1, 1966.)

(Exhibit 44b is statement of Private First Class Rankin, dated Nov. 2, 1966.)

The Zinks also cheated on the amount of money they paid for so-called scrap they had hauled away on railroad boxcars. They would arrange for the crane operator in the property disposal depot to overload the boxcars. The boxcars would be rolled along the tracks from the property disposal depot to the railroad scales at the German railway yard.

I learned from railroad workers that the railroad scalemasters would note the overweight. The Zinks would have the excess scrap thrown off the boxcars and loaded on their trucks. The train scalemaster would note the new, acceptable weight of the cargo. This overweight was never paid for by the Zinks.

(Exhibit 45 is extract of railshipment breakdown sheet, dated Oct. 28, 1966).

We discovered that the Fuerth yard had no system of cross-checking weight slips. The real measure of the propriety of a transaction was made not by the property disposal office personnel or the railroad scalemaster but by the Zinks.

The scalemaster would record the weight on a weight slip and have the Zinks return it to the yard. This procedure offered the Zinks—and other contractors—the opportunity to (1) alter the scalemaster's figures, or (2) submit a weight slip of their own. There was no provision for cross-checking.

We found that Mr. Zink had either by design or error failed to turn in two railway weight slips for scrap materials he obtained from the Fuerth PDO. We knew that the Zinks had counterfeit weight slips. We found them on Alfred Zink during a raid on his yard.

In that raid, conducted Oct. 27, 1966, we found some scrap, but also we discovered serviceable generators and other automotive parts and undemilitarized weapons and components.

We also gathered information on employees of the Fuerth depot. Our inside informant working in the property disposal yard made a notation every time he spotted one of the other employees stealing something. Acting on information provided by him, we received admissions of theft from seven employees.

Martin Goelker, the yard foreman, admitted stealing tools worth \$136.64.

(Exhibit 46 is statement of Mr. Goelker, dated Oct. 27, 1966.)

(Exhibit 46a is statement of Mr. Goelker, dated Oct. 27, 1966.)

While these amounts may seem small, they are illustrations of systematic larceny. These examples I will now state are all we know about and could question these workmen about. What else they stole, we would never know. Goelker, for example, had been in property disposal work at this same Fuerth Depot since 1955.

Gustav Mittelstaedt admitted he stole five pneumatic tires. Mr. Mittelstaedt also admitted he had accepted gratuities from Alfred Zink.

(Exhibit 47 is statement of Mr. Mittelstaedt; dated Oct. 27, 1966.)

Josef Richard Poliwoda admitted he and a fellow yard worker, Gerhard Schubert, had loaded automobile parts onto Alfred Zink's truck.

(Exhibit 48 is statement of Mr. Poliwoda, dated Oct. 27, 1966.)

Oskar Hans Roth admitted he stole assorted materiel worth \$5,366.51 from the Fuerth Property Disposal Office. Mr. Roth, a forklift operator

at the nearby 71st Maintenance Battalion, said on visits to the property disposal yard he used his forklift to carry items away. He said Mr. Goelker saw him do this. Mr. Goelker denied it.

(Exhibit 49 is statement of Mr. Roth, dated Nov. 9, 1966.)

(Exhibit 49a is statement of Mr. Roth, dated Nov. 9, 1966.)

(Exhibit 49b is statement of Mr. Roth, dated Nov. 10, 1966.)

(Exhibit 49c is statement of Mr. Roth, dated Nov. 30, 1966.)

(Exhibit 49d is photograph of property recovered from Mr. Roth, exposed Nov. 11, 1966.)

(Exhibited 49e is photograph of property recovered from Mr. Roth, exposed Nov. 11, 1966.)

(Exhibit 49f is photograph of property recovered from Mr. Roth, exposed Nov. 11, 1966.)

(Exhibit 49g is photograph of property recovered from Mr. Roth, exposed Nov. 11, 1966.)

(Exhibit 49h is photograph of property recovered from Mr. Roth, exposed Nov. 11, 1966.)

(Exhibit 49i is List of U.S. Government property recovered from Mr. Roth, undated.)

Walter Anton Schrenk admitted he stole chemicals, hand tools, and a periscope from the Fuerth Property Disposal Office.

(Exhibit 50 is statement of Mr. Schrenk, dated October 27, 1966.)

Gerhard Schubert admitted he stole handtools and copper wire. He also admitted that he loaded automobile parts into Alfred Zink's truck October 24, 1966, and then covered the parts with scrap to conceal the automotive equipment. Mr. Schubert said Alfred Zink had been giving him gratuities for 5 years.

(Exhibit 51 is statement of Mr. Schubert, dated Oct. 27, 1966.)

Hans Walther, property disposal assistant and senior German national employee of the yard, admitted stealing 23 steel rods from the storage yard.

(Exhibit 52 is statement of Mr. Walther, dated Oct. 27, 1966.)

(Exhibit 52a is statement of Mr. Walther, dated Oct. 28, 1966.)

The typewriter we used to take our CID interviews was found in the possession of a property disposal office employee, Albert Jadojan. He explained to German police that he had purchased it from a GI.

(Exhibit 53 is statement of Mr. Jadojan, dated Oct. 29, 1966.)

(Exhibit 53a is list of U.S. Government property recovered from Mr. Jadojan, dated Oct. 29, 1966.)

We checked his assertion and found that the typewriter had been picked up in the property disposal yard. The typewriter had been declared 30-odd pounds of scrap. Repair work necessary to place the typewriter back on line came to \$4.40.

(Exhibit 54 is voucher D-6815-66, dated June 2, 1966.)

(Exhibit 54a is Department of the Army form 2407, requesting technical inspection of typewriter, dated Nov. 21, 1966.)

(Exhibit 54b is letter of Captain Lipinski, dated Nov. 24, 1966.)

(Exhibit 54c is disposition form, subject: Justification of WABCO/WABTOC equipment, dated May 18, 1966.)

(Exhibit 54d is Department of Defense form 1150, request for issue or turn-in, dated June 1, 1966.)

(Exhibit 54e is statement of Master Sergeant Mahaffey, dated Jan. 5, 1967.)

(Exhibit 54f is statement of Specialist 4 Phillips, dated Jan. 12, 1967.)

(Exhibit 54g is statement of Mr. Wolf, dated Dec. 14, 1966.)

(Exhibit 54h is statement of Mr. Hennings, dated Jan. 12, 1967.)

(Exhibit 54i is statement of Mr. Schrenk, dated Nov. 7, 1966.)

The major fraud the Zinks perpetrated on the U.S. Government was the buying of serviceable items as scrap at unbelievably low prices. By serviceable items, I mean items which still maintain their original identity.

Two methods can convert usable items to scrap without damage. First is the system of segregation which allows usable items to be sold in miscellaneous lots of genuine scrap. The second method is to use an inventory adjustment report. This document, properly executed, turns serviceable equipment into scrap, on paper.

The Fuerth records from January 1, 1965, through June 30, 1966, indicated the Zinks were paying a high price for scrap. This confirmed our suspicions that they were bidding high because it was not scrap they were buying—that beneath the junk was serviceable equipment.

Our informant told us when typical shipments of concealed serviceable equipment could be found beneath piles of scrap. We picked 50 tons of miscellaneous scrap that was to be sold in late October of 1966. We examined the lot October 27, 1966.

Mingled with the scrap were munitions list items and armaments that required demilitarization but which had not been demilitarized. U.S. Army technical inspectors recovered ordnance, engineer, and signal equipment valued at more than \$50,000. Technicians from the U.S. Army Oberramstadt Maintenance Plant recovered \$58,116 in serviceable equipment.

Among the specific items of military value were two gunner's control mechanisms for armored vehicles, 33 periscopes, 21 machinegun barrels, one telescope mount, and 13 head assemblies. None of these had been demilitarized.

(Exhibits 55 through 55E are photographs depicting nondemilitarization of munition list items, exposed Oct. 27, 1966.)

The inventory adjustment report was the other method the Zinks used to buy usable items and pay scrap prices for them. With an inventory adjustment report, a truck or an entire fleet of trucks can be rendered scrap, but the trucks can be driven onto the depot, declared scrap, and thus sold to dealers.

I have already mentioned the 50 jeeps noted in the Zink brothers' yard December 2, 1965. Photographs were taken August 10, 1966, of 10 three-quarter-ton trucks in the Zinks' yard. The trucks were complete.

In both the 1965 and 1966 instances, the trucks were U.S. Army issue, but no records existed showing they ever had been sold. Actually, they were not sold as trucks but as scrap.

Hans Walther, the assistant property disposal officer, arranged for inventory adjustment reports. They required the signature of Lieutenant Cribbs.

Mr. Walther admitted to me that for 109 vehicles which had been rendered scrap by an inventory adjustment report he had estimated the weight of the vehicles without having seen them. When a truck is

thus declared scrap, its service jacket is destroyed. There is no record of that truck thereafter.

On January 16, 1967, I asked Lieutenant Cribbs about an inventory adjustment report of February 19, 1965.

Q. To do this (declare 44 vehicles scrap) properly you would have had to strip the vehicles. Is that correct?

A. Yes.

Q. Did you strip the vehicles?

A. I do not know. I do not recall.

Q. Did you sign this inventory adjustment on the advice of Mr. Walther?

A. I am sure I did so because I was still relatively new and dependent on his advice quite a bit.

Q. In other words, you did not know if these vehicles were segregated or not? You acted strictly on the advice of your assistant?

A. Right.

Q. Your records indicate that you had 44 POV's (civilian cars) "as each" items which had been received by your facility as items. The IAR (inventory adjustment report) further indicates that these "as each" items were dropped and reclassified into heavy iron and steel scrap and miscellaneous iron and steel scrap less than 1/8-inch in thickness. Do you agree that to have done this segregation as the adjustment report indicates you would have had to disassemble each vehicle to accomplish this?

A. Yes.

D. Do you recall having ever segregated POV's?

A. On a few occasions. We do work on them but not most recently. Normally not because of the labor problems we have had. We do not have the people to do it.

It was apparent that Lieutenant Cribbs was not properly trained in and did not have enough time to learn property disposal procedures. He was surrounded by personnel not inclined to help him.

Hans Martin Goelker supervised the workmen. He checked all incoming property against accompanying supply documents. He also was charged with segregating items properly.

Mr. Goelker made several admissions which confirmed our findings that valuable weaponry and materiel were being sold as scrap with no demilitarization procedures. Mr. Goelker also confirmed that he was not segregating materiel properly.

(Exhibit 56 is "Statement of Mr. Goelker," dated November 2, 1966.)

He said he didn't know Army regulations required him to reject munitions list and other military items if they were not demilitarized. He later acknowledged that he would not know "many items that require demilitarization" if he saw them. He said he did not have catalogs or reference books spelling out which items require demilitarization.

Hans Walther worked under Lieutenant Cribbs as his assistant. Mr. Walther claimed to know little about demilitarization. He made it clear that he didn't care about demilitarization and had no intention of changing attitudes.

He was asked on November 1, 1966:

This investigation has indicated there were quite a few items which required demilitarization in the PDO yard. Some of these items could be recognized by PDO yard employees and others could not. Do you feel that the yard personnel should have a list of items which do require demilitarization so they could recognize them if they turn up in the scrap?

Mr. Walther replied: "Yes, that would be a good thing."

He was asked: "Do you know why this was not done in the past?"

Mr. Walther said: "No."

(Exhibit 57 is "Statement of Mr. Walther," dated November 1, 1966.)

He did not say anything else, but I can assure you he was tight-lipped only with the CID. He was the true manager of the Fuerth Property Disposal Yard and he had plenty to say to his people.

On October 11, 1966, the CID team at Fuerth requested help from the U.S. Army Audit Agency (AAA). Certain transactions we had discovered required the expertise of AAA auditors.

We also wished to have the judgment of the auditors about our conclusions on the gross inefficiency of the Fuerth Property Disposal system. The audit began October 27, 1966, the same day we dismantled the 50-ton lot that had weaponry and valuable items in it.

(Exhibit 58 is photograph depicting scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58a is photograph depicting close-up view of scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58b is photograph depicting automotive parts in scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58c is photograph depicting items segregated from scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58d is photograph depicting tank road wheels segregated from scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58e is photograph depicting copper coils segregated from scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58f is photograph depicting automotive starters and generators segregated from scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58g is photograph depicting automotive starters, generators, and electric motors segregated from scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58h is photograph depicting electric motors segregated from scrap ready for sale at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58i is photograph of improper segregation (automotive radiators and transfer cases) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58j is photograph of improper segregation (fire control component) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58k is photograph of improper segregation (tank vision blocks) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58-l is photograph of improper segregation (automotive parts) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58m is photograph of improper segregation (electric motors) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58n is photograph of improper segregation (cast aluminum engine block) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58-o is photograph of improper segregation (cast aluminum cover) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58p is photograph of improper segregation (brass valve) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58q is photograph of improper segregation (tank road wheels) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58r is photograph of improper segregation (tank road wheels) at the Fuerth PDO, exposed October 27, 1966.)

(Exhibit 58s is photograph depicting generator control assembly found secreted in the Fuerth PDO rubber scrap, exposed October 27, 1966.)

(Exhibit 58t is photograph depicting radio power pack found secreted in the Fuerth PDO rubber scrap, exposed October 27, 1966.)

(Exhibit 58u is photograph depicting 24-volt tank starter found secreted in the Fuerth PDO rubber scrap, exposed October 27, 1966.)

(Exhibits 58S, 58T, and 58U follow :)

EXHIBIT NO. 58S

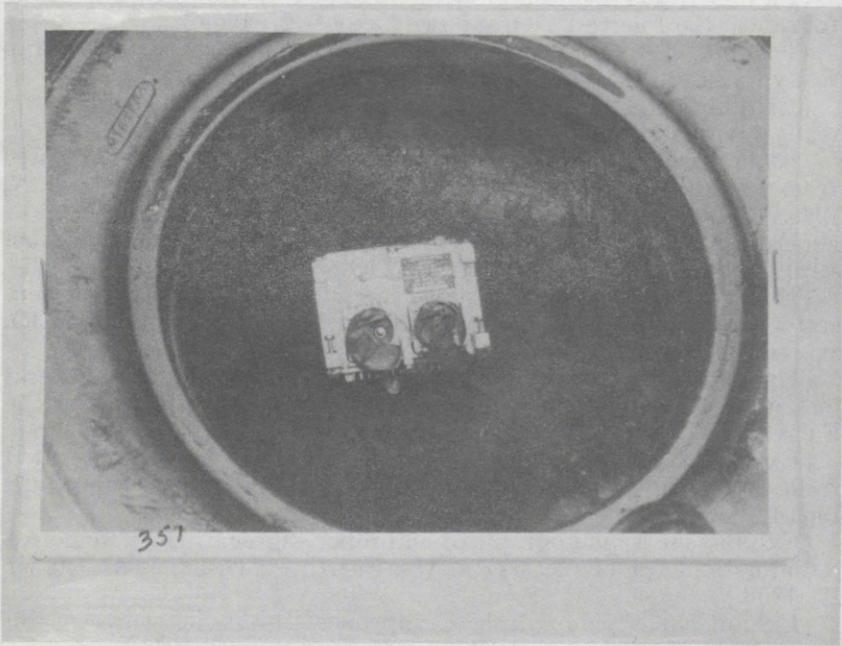


FIGURE 3.—View of a generator control assembly in Fuerth POD's tire scrap.



FIGURE 4.—View of a radio power pack in Fuerth PDO's tire scrap.

EXHIBIT NO. 58U



FIGURE 5.—View of a 24 volt tank starter in Fuerth PDO's tire scrap.

The AAA people conducted an audit and issued a report which estimated that inefficient management of the Fuerth Depot resulted in a \$300,000 loss to the U.S. Government during fiscal year 1966.

The AAA report found "effective procedures were not established to control the removal of Government property from the yard."

The audit noted that post engineer scale tickets had been found in the possession of Karl Zink. This referred to our seizure of the weigh-in tally sheets. The report went on to say :

We also found completed scale tickets which showed significant differences between the official registered truck weight and the tare weights printed on scale tickets of the same contractor's trucks. This also leads to the conclusion that the government scale was improperly used.

The AAA cited 200 military trucks which had been classified scrap by the Fuerth Depot. There were 125 2½-ton trucks. Originally, the United States paid a total of \$791,000 or \$6,324 each. As scrap, the trucks were sold for a total of \$32,000 or \$253 each, a 4-percent return.

Seventy ¾-ton trucks had been bought originally for \$264,000—about \$3,771 each. As scrap, the trucks were sold for \$3,600 or \$52 each, a return of 1.38 percent.

There were five 5-ton trucks bought for \$56,000 or \$11,200 each. Proceeds from their sale were \$3,000 or \$764 each, a return of 6.77 percent.

Overall, the 200 trucks had an acquisition price of \$1,111,000 with the proceeds coming to \$39,400 or a 3.5-percent average return.

The AAA was critical of the manner in which the Fuerth Property Disposal Office had managed the matter :

... During January and February of 1965, 200 military trucks which had been determined to be uneconomically repairable but were in most instances complete with engines, transmissions, transfer cases, axles, and wheels, and with tires, were transferred to the PDO from the Nuernberg Equipment Maintenance Center (NEMC). While the vehicles, due to the required military specifications, exceeded the repair limitations, it is reasonable to conclude that the completeness and condition of these vehicles, even considering the necessity of repairs, would have qualified their sales for commercial use.

Responsible personnel of the NEMC stated that the trucks were inspected prior to the transfer to PDO, but inspection results were not available because inspection reports, which are normally retired, were in this case destroyed. Although as a result of the initial inspections the vehicles were classified as un-serviceable, uneconomically repairable, we are also informed that the trucks were in operative condition in that many of them were driven from the NEMC to the PDO yard by personnel assigned to the Nuernberg Post.

In its summary, the AAA report stated :

... the operations of the (Fuerth PDO) were not effectively managed.
... sufficient internal controls were not maintained to assure reliable accounting and reporting.

... the Government's financial interests were not protected because the available resources were not used to achieve maximum dollar returns. This opinion is based upon the operating results of the Nuernberg (Fuerth) Property Disposal Activity which showed a sales return of only \$363,916 for FY 1966, generated through the sales of 10,034 tons of various property commodities, and represented about 8.3 percent of the \$4.4 million worth of property sold during FY 1966.

We believe, based upon our review of selected property commodities, that an additional return of at least \$300,000 could have been realized by the Nuernberg Property Disposal Activities if effective management practices were used.

(Exhibit 59 is U.S. Army Audit Agency Report of Fuerth PDO, prepared by Mr. Kleinlein, undated.)

(Exhibit 59a is statement of Mr. Frank, dated January 9, 1967.)

(Exhibit 59b is statement of Mr. Frank, dated January 12, 1967.)

On November 1, 1966, Mr. Walther talked about collusive bidding :

Q. I believe that you have had past conversations with Mr. Maukisch, an investigator of the CID, concerning the possibility of bid-fixing by contractors. I believe that you commented to him that bid-fixing apparently does occur. Can you comment on this?

A. Actually, it is obvious that something like that did happen. Of course, by talking to these bidders it has come out that they get together at some hotel up in Wiesbaden before they submit their bids and get together on what they are going to bid.

Q. Have you been told directly that this is being done, or have you gathered this through conversations you have heard and comments that have been made by bidders?

A. I have gathered this through conversations I have overheard and by comments made by bidders.

Q. Have you heard also that these bidders get together after the sales to divide up the property they have bid on?

A. Yes, I have heard that.

* * * * *

Q. You mentioned earlier that you had heard conversations and heard comments being made about bid-fixing and meetings in Wiesbaden. Do you recall any of the contractors who made such remarks?

A. I believe that I heard Mr. Karl Zink and Felix Endzweig make such comments in general conversations.

We closed our case in the spring of 1967. The U.S. Army/Europe logistics people were advised of the findings of the investigation. Brothers were not debarred, although the firm was suspended in November of 1967 and reinstated 2 months later.

Chairman McCLELLAN. I have here some pictures of trucks—photographs. Do you recognize these as trucks to which you have alluded in your testimony?

Mr. JOHNSON. Yes, sir.

Chairman McCLELLAN. They may be submitted as exhibits and appropriately identified.

(The photographs referred to were marked "Exhibit No. 93, 93A, 93B and 93C" for reference. Exhibits 93, 93A, and 93C follow and exhibit 93B may be found in the files of the subcommittee.)

EXHIBIT No. 93

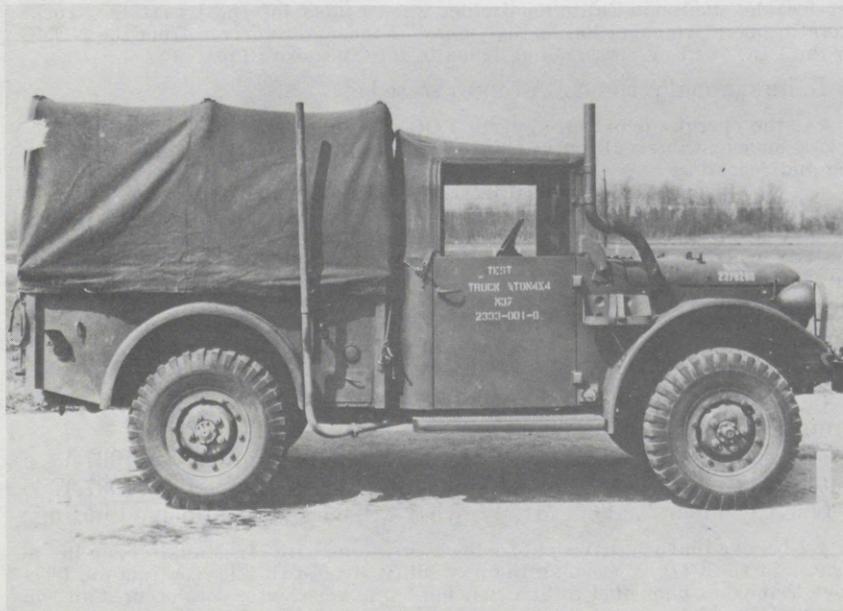


FIGURE 6.—M37B three-quarter ton truck

EXHIBIT No. 93A



FIGURE 7.—Five-ton cargo or dump truck

EXHIBIT No. 93C

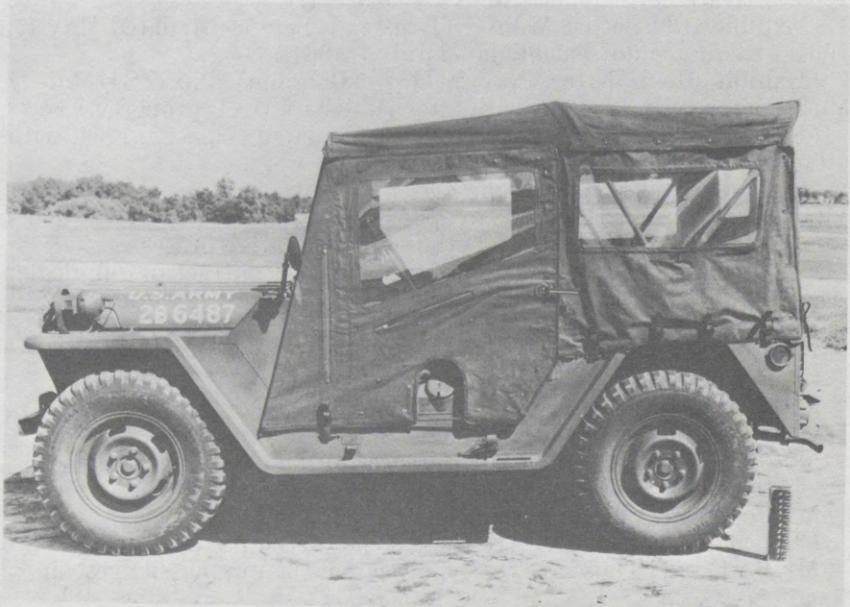


FIGURE 8.—M151 one-quarter ton truck, commonly known as a Jeep

Chairman McCLELLAN. Proceed.

Mr. JOHNSON. The next case is the Challe case.

A Belgian gun dealer named Andre Challe bought a large supply of small arms from the Foreign Excess Sales Office (FESO), then in Kaiserslautern. The weapons were undemilitarized. He promised the American authorities at Kaiserslautern that he would demilitarize the arms.

He had no such intention. Our property disposal officials did not check to see what he was doing with the weapons. The Belgian police foiled Challe's plans to sell the weapons. But even then American efforts to settle the issue were inept.

The Belgian Navy notified the U.S. Military Assistance Group (MAAG), Belgium-Luxembourg, Oct. 29, 1962, that it wished to return 321 submachine guns, 142 M-1 rifles, 24 signal pistols, 70 very pistols, and four shotguns.

(Exhibit 60 is letter, National Defense Ministry (Belgium), No. ZGN 411/60691, dated Oct. 29, 1962, with attached list of MAP property.)

(Exhibit 60a is letter, MAAG (Brussels), Ser. 16062, dated Nov. 16, 1962, with attached Report No. 9-62, dated Dec. 1, 1962.)

These weapons had been given to the Belgians under the U.S. Military Assistance Program (MAP). They were in excellent condition, with an original acquisition value of \$57,415.50. The U.S. Navy did not need the guns, and recommended they be disposed of through the property disposal channels of the U.S. Army/Europe.

(Exhibit 61 is Naval Speed Letter, Ser. 75-63, dated July 11, 1963.)

(Exhibit 61a is Naval Speed Letter No. S72, dated July 24, 1963.)

(Exhibit 61b is letter, National Defense Ministry (Belgium), No. ZGN 411/58089, dated Aug. 16, 1963.)

(Exhibit 61c is letter, MAAG (Brussels), Ser. 105, dated Sept. 17, 1963, with attached Report No. N-9-63-62937.)

(Exhibit 61d is letter, MAAG (Brussels), Ser. 68-64, dated May 15, 1964, with first endorsement, dated July 7, 1964.)

(Exhibit 61e is letter, Navy's Hqs. (Belgium), No. ZS4/Mat-1/56787, dated July 18, 1964, with attached list of MAP property.)

(Exhibit 61f is voucher No. D-3319-65, dated Aug. 23, 1964, with attached Report No. N-9-63-6237.)

Norman Gieseler, contracting officer at Kaiserslautern, issued an invitation for bid (IFB) on the weapons on November 8, 1964. The delay was attributed to screening and other administrative processes.

On December 16, 1964, Gieseler awarded the contract to gun dealer Andre S. Challe, a Belgian national. Fifty U.S. dollars was Mr. Challe's winning bid.

(Exhibit 62 is contract No. O.I. 5237, dated Dec. 16, 1964.)

Chairman McCLELLAN. All those weapons were \$50?

Mr. JOHNSON. Yes, sir. That was his bid.

Chairman McCLELLAN. Was he the successful bidder?

Mr. JOHNSON. Yes, sir; he was the successful bidder.

Chairman McCLELLAN. And got the weapons?

Mr. JOHNSON. Yes, sir; he got the weapons.

Chairman McCLELLAN. Are these some of the pictures of them?

Mr. JOHNSON. Those are the type weapons he purchased; yes, sir.

Chairman McCLELLAN. Let those be filed as exhibits and appropriately identified.

(The photographs referred to were marked "Exhibit Nos. 94, 94A, 94B, and 94C" for reference and follow :)

EXHIBIT NO. 94



FIGURE 9.—Automatic rifle of the same type that was sold as surplus

EXHIBIT NO. 94A

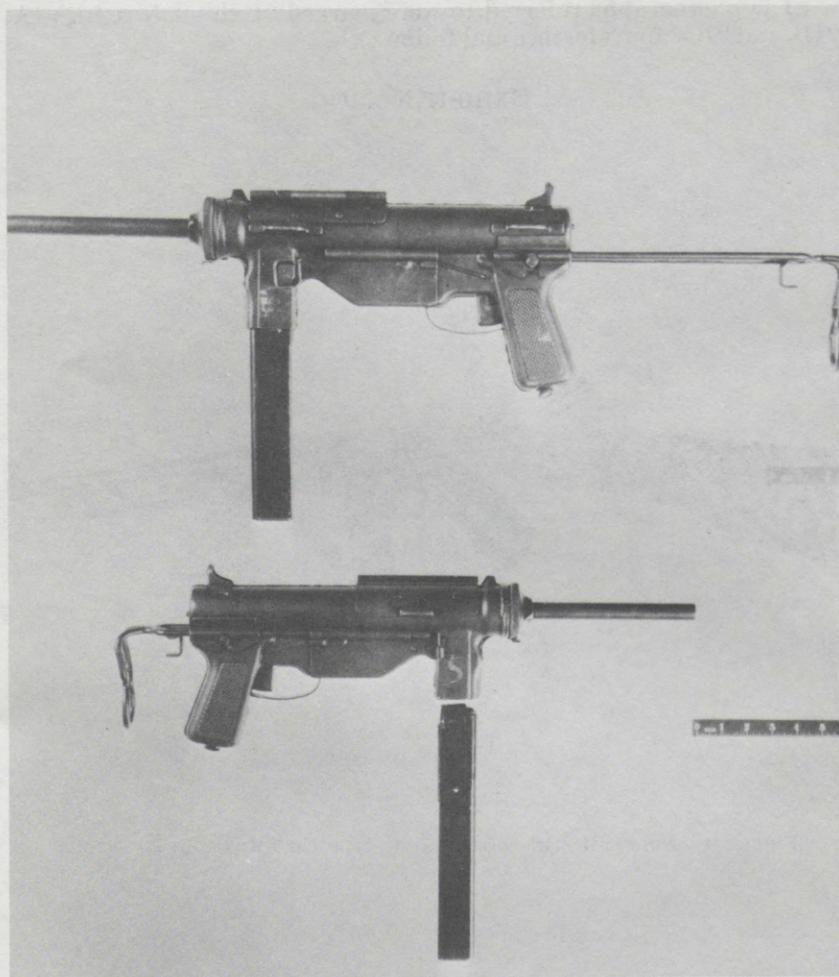


FIGURE 10.—.45 caliber machine gun of the same type that was sold as surplus

EXHIBIT No. 94B



FIGURE 11.—.45 caliber Thompson submachine gun of the same type that was sold as surplus

EXHIBIT NO. 94C

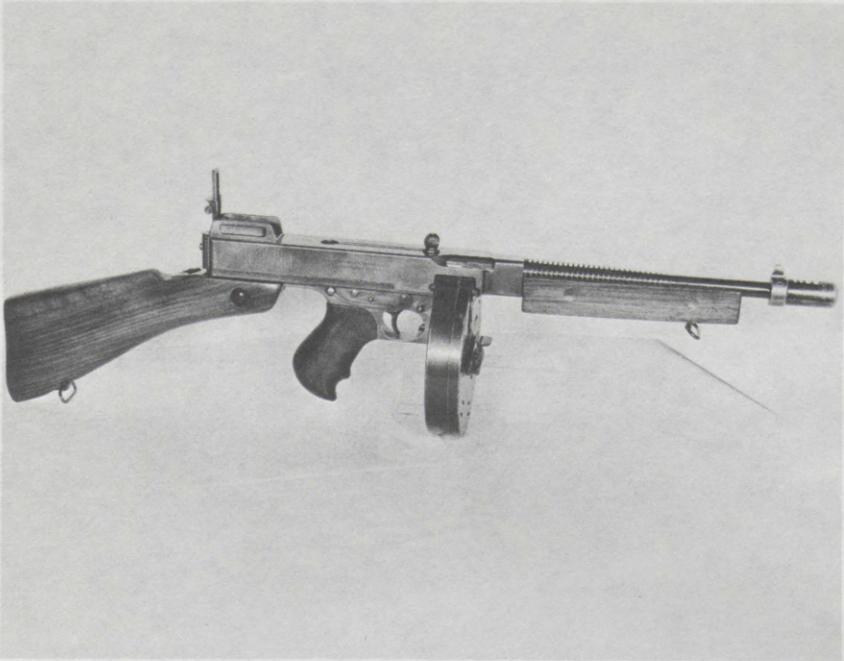


FIGURE 12.—Machine gun of the same type that was sold as surplus

Mr. JOHNSON. (Exhibit 62a is letter, Mr. Gieseler to Mr. Challe, dated Dec. 16, 1964.)

The weapons were at a Belgian military depot at Ostende. Demilitarization would be done by Mr. Challe. The conditions of demilitarization were specific.

The submarine guns were to be thoroughly crushed or cut through by torch or power shear. Cutting was to preclude reweld. Essential and related parts were also to be cut through or crushed. Similar demilitarization requirements were called for on the rifles, the shotguns, and the pistols.

Mr. Challe was to pay for the work, and the contract said that if demilitarization was not complete, the weapons would be returned to the United States. Challe had 45 days to do the work.

On December 16, 1964, Gieseler wrote to Challe. The letter authorized him to take the weapons from the Belgian Navy (in their undemilitarized condition).

Gieseler kept no serial number records for the weapons, and Challe performed no demilitarization work. Even if he had, there was no way to verify it. Without serial numbers there was no way to check the weapons he would have demilitarized against the arms he received.

The question was academic. Mr. Challe did not demilitarize the arms, and Gieseler never bothered to try to find out if he did.

Early in January, Louis Jeffers succeeded Gieseler as contracting officer in Kaiserslautern and took no further interest in Challe's disposition of the weapons.

The contract called for the contracting officer to designate qualified personnel to supervise the demilitarization. Neither Gieseler nor Jeffers directed or requested FESO, MAAG, Belgian, or any other officials to see that Challe did the demilitarization.

It became readily apparent that Mr. Challe bought the weapons intending to sell them. He was in the gun business. Shortly after he received the guns, Challe did sell three of the four shotguns. Someone reported him to the Belgian police. Gendarmes arrested him while he was transporting some of the weapons to his gunshop.

Mr. Challe was charged, tried, and convicted for storage of weapons in an unlawful location. A higher court later reversed that decision. With the reversal, the United States and Mr. Challe entered a lengthy legal dispute over custody of the weapons.

Mr. Challe made it quite clear his intention was to sell the weapons as weapons. He felt that if he obeyed Belgian laws he could do with the weapons what he pleased.

We opened an investigation on this matter on March 3, 1967, and concluded the inquiry on October 10, 1967. We found that Norman Gieseler and Louis Jeffers were both derelict in their duties in failing to assure that Mr. Challe demilitarized the weapons.

In the Challe case, we found several early signs that should have alerted PDO officials that there was something suspicious about Mr. Challe's interest in the submachineguns, automatic rifles, pistols, and shotguns.

In his "end-use" declaration, Challe said he would demilitarize the weapons for scrap. Following a question about his business, he wrote "weapons and ammunitions." You cannot be more obvious than that.

(Exhibit 63 is end-use certificate completed by Mr. Challe, date illegible.)

In a January 12, 1965, letter to the Kaiserlautern PDO, Mr. Challe verified his liability insurance, a routine requirement in such transactions.

(Exhibit 64 is letter, Mr. Challe to FESO, dated Jan. 12, 1965, with attached insurance certificate.)

The January 12 letter was significant because his letterhead said:

Andre B. Challe, Inc., . . . arms . . . ammunitions . . . arms . . . Browning-Beretta Webley-Scot-Remington Winchester-Mannlicher Merkel . . . ammunitions: Rottweil-Coopal . . . Miroju Firearms Mfg. Co., Ltd., Kochi (Japan) . . .

The transaction raised questions in the mind of Belgian Navy Capt. Norbert Charles Ghysel. He released the weapons to Challe, who presented documentation authorizing release of the property. One document was a telegram from FESO at Kaiserslautern to MAAG-Belgium-Luxembourg, approving the pickup.

In a statement of April 24, 1967, Captain Ghysel said:

. . . I voiced my astonishment to my superior and Mr. Challe at the procedure prescribed by Kaiserlautern (PDO) in the sale of the weapons, in effect, the weapons should have been demilitarized on the spot, i.e., in the Logistical Group, prior to being picked up by the buyer, in the presence of a representative of MAAG, Belgium or Kaiserlautern, who would have had to make out a certificate to that effect.

(Exhibit 65 is statement of Captain Ghysel, dated Apr. 24, 1967.)

(Exhibit 65a is release document, contract No. O.I. 5237, dated Dec. 16, 1964, with release action on Jan. 26, 1965.)

Once Challe had the weapons, neither Gieseler nor Jeffers took steps to insure demilitarization. My investigation showed that they issued no requests or instructions to the Belgian Navy, to MAAG personnel, to FESO officials, or to anyone else to check demilitarization.

Lewis Becker, who worked for Gieseler at Kaiserlautern, was disturbed. In a CID statement sworn on April 20, 1967, he said:

This transaction was handled personally by Mr. Gieseler. . . . It is improper and grossly inadequate. Had I written the description I would have listed sufficient information to clearly describe the property, etc. I would not have approved this sketchy description.

(Exhibit 66 is statement of Mr. Becker, dated Apr. 20, 1967.)

Chris G. Petrow, counselor for economic affairs, U.S. State Department, U.S. Embassy, Brussels, reviewed the Challe case on May 19, 1965.

(Exhibit 67 is report of Mr. Petrow, dated May 19, 1965.)

Mr. Petrow found that Mr. Challe would have lost money on the gun contract had he demilitarized the guns and sold them as scrap. Mr. Petrow said:

There is a serious question whether arms such as this shipment should be sold for demilitarization into scrap. In the first place, selling them to an arms dealer invites illegal disposal. Secondly, such a sale has little attraction to a legitimate scrap dealer, particularly if special demilitarizing is required.

One of the big scrap dealers in Brussels told the reporting officer that it cost BF (Belgian francs) 1.00 per kilo for simple cutting of firearms in saleable scrap, BF .10 per kilo to transport it to the scrap user who buys such material for BF 1.50 per kilo.

Therefore, excluding additional transport cost from Ostende either to Brussels or to the location of some other scrap user, Challe's transaction on a legitimate basis would have worked out as follows:

	<i>Belgian francs</i>
Purchase price.....	¹ 2, 500
Transport to scrap dealer.....	250
Simple demilitarization.....	2, 500
Transport to scrap user.....	250
	<hr/>
Total cost.....	5, 500
Selling price to user.....	3, 750
	<hr/>
Loss	² 1, 750

¹ Equal to \$50.

² Equal to \$35.

Mr. Petrow reported Mr. Vossem, the public prosecutor for the Challe trial, asserted that Challe planned to convert the rifles into hunting weapons; and that Challe had offered the submachine guns for sale to Maj. William Robert Turp of T. C. Borrie, Ltd., 302-A Broadway, Bexley Heath, England. The Borrie organization is a very active trader in armaments and shows up in other CID investigations into PDO.

Mr. Petrow added that "it seems sufficiently evident" that Mr. Challe "never intended to convert these arms to scrap."

On December 16, 1964, Gieseler wrote to Challe that the Challe bid had won the award, that the guns should be picked up by January 20, 1965, and were to be demilitarized by January 30, 1965, and that,

since Mr. Challe had accompanied his bid with \$18, would he please send in the remaining \$32.

(Reference exhibits 63 and 63a).

Mr. Gieseler wrote to the MAAG Belgium-Luxembourg office December 17, 1965, to provide "authenticated copies of contracts and release documents" for the property of contract No. O.I.5237 to "the firm Challe S.A."

(Exhibit 68 is letter, Mr. Gieseler to MAAG BELL-LUX, dated Dec. 17, 1964.)

On December 30, 1964, Norman Gieseler wired the MAAG-Belgium-Luxembourg office to OK release of the guns to Challe. Challe picked up the weapons January 26, 1965, and was subsequently arrested and his plans for the weapons became apparent. The long hassle began between the United States and Challe over who owned the guns. (Reference exhibit 65a.)

The MAAG office in Brussels wired Kaiserslautern March 4, 1965, to recommend that the weapons be turned over to the Belgian Government for disposal.

(Exhibit 72 is teletype message, MAAG BELL LUX to FESO, dated Mar. 4, 1965.)

(Exhibit 72a is memorandum for record by Mr. Jeffers, dated Mar. 17, 1965.)

A year went by, and the issue of the ownership of the guns was not resolved. Meanwhile, the Belgian Government held custody. The U.S. Air Force R. & M. Center at Mainz-Kastel felt Mr. Challe should be given another chance to demilitarize the guns.

On March 28, 1966, Air Force civilian employee W. H. H. Smith wrote to J. F. Tierney, the property disposal officer at Kaiserslautern:

It is requested that immediate action be taken to prepare a supplemental agreement to contract O.I. 5237 and forward to Mr. Challe for his concurrence and signature whereby the demilitarization must be performed within 30 days after the guns are returned to the possession of the purchaser.

(Exhibit 73 is letter, Mr. Smith to Mr. Tierney, dated Mar. 28, 1966.)

Smith said this request was based on an Air Force Judge Advocate opinion. The court's reversal of the Challe conviction was significant in this decision.

Tierney then wrote on April 4, 1966, to Challe to propose such a supplemental agreement:

It is further requested that when the property is returned to your possession from custody of the Belgian authorities, this office be notified immediately, in writing, so arrangements can be made to send an inspector to your firm to supervise the demilitarization of the property.

(Exhibit 74 is letter, Mr. Tierney to Mr. Challe, dated Apr. 4, 1966.)

Curtis W. Barnes of the U.S. Embassy in Brussels wrote to Mr. Tierney June 3, 1966, to observe that, since Mr. Challe's earlier conviction had been overturned, the Belgians were returning the seized weapons to Mr. Challe.

(Exhibit 75 is letter, Mr. Barnes to Mr. Tierney, dated June 3, 1966.)

With Van Den Drissche of the R. & M. Center and Mr. Barnes of the Embassy, Mr. Tierney went to Mr. Challe's office June 21, 1966, to "recover the small arms" of contract O.I. 5237.

Mr. Tierney recalled that meeting with Mr. Challe in a June 24, 1966, memorandum for the record :

thorities. . . . He requested in his letter that he be given permission to retain 10 ea. shotguns and 1 ea. submachine gun (which he claims he had already demilitarized).

(Exhibit 76 is memorandum for record by Mr. Tierney, dated June 24, 1966, with attached letter from Mr. Challe to the property disposal officer, U.S. Army General Depot (USAGD), Kaiserslautern, Germany.)

Although Tierney referred to 10 shotguns, Challe bought only four, and sold three.

This is Challe's letter :

GENTEMEN : Pursuant to your representative's visit and the discussion we had, I wish to inform you that I have been completely acquitted by the Brussels Courts. I was fully in my rights, and the mistake was made by the Belgian authorities.

At the present time the situation is as follows: the weapons were seized and are in possession of the Belgian authorities. As far as I am concerned, there is nothing left to me but to suffer a big loss in this transaction; which I do not deserve—and to relinquish the weapons to the Belgian authorities.

However, in this case, I ask you to remove the Winchester shotguns, which are not prohibited in Belgium, and one Thompson submachine gun, which was already demilitarized and is unserviceable.

I hope that you will inform me of the next weapons sales in Belgium and give me a chance to recuperate some of my money.

As you were able to see, my transaction was entirely correct.

Apparently, the weapons would be returned to U.S. custody. John Tierney, in a June 28, 1966, memorandum for the record, said that when the arms were in U.S. control, they should be dumped into the Atlantic Ocean.

(Exhibit 77 is memorandum for record by Mr. Tierney, dated June 28, 1966.)

In July, however, Mr. Challe's lawyer made it clear that Mr. Challe still would not relinquish legal rights to the weapons voluntarily.

(Exhibit 78 is letter, Mr. Barnes to Mr. Tierney, dated Aug. 12, 1966.)

On December 16, 1966, the U.S. Army Communications Zone/Europe (COMZ) wired the Department of the Army Judge Advocate General's Office to recommend hiring a Belgian attorney to fight Mr. Challe in court.

(Exhibit 79 is teletype message, Commanding General, COMZ, to USAGD, Kaiserslautern, dated Dec. 16, 1966.)

The U.S. Department of Justice obtained a Belgian attorney, Marcel Flushny, to represent America. This is indicated by a December 27, 1966, memorandum for the record written by Capt. Laurence W. Buffaloe of the Kaiserslautern PDO.

(Exhibit 80 is memorandum for record by Captain Buffaloe, dated Dec. 27, 1966.)

In all the papers I have seen, no word of criticism was ever directed at Mr. Gieseler for having awarded this contract.

CID Agent Payne and Mr. Graham interviewed Mr. Gieseler March 20, 1967. Pointing out that he was being asked to recall events that happened a long time ago and that "it is hard to remember details," Mr. Gieseler said there was nothing unusual about the award.

Mr. Gieseler admitted that he knew what Mr. Challe's business was while awarding him the contract.

We asked: "At the time of the award did you know Mr. Challe's type of business?"

Mr. Gieseler replied: "Yes, it's listed on the end-use certificate which is submitted with the bid."

His other admission was that as contracting officer he was responsible for having the weapons demilitarized and that he did not assign anyone to assure that Challe had properly demilitarized the weapons.

Here is a sampling of our questions and Mr. Gieseler's replies:

Question. Prior to the mailing of the IFBs covering the sale of this property, did you examine the property where it was stored?

Answer. I recall seeing some shotguns at the Naval yard in Ostende, but I don't recall seeing any machine guns. I don't know if the shotguns I saw were part of the same sale or not.

Question. Do you know if anyone from FESO examined this property?

Answer. I can't recall.

Question. Should someone have examined the property prior to the sale?

Answer. We usually sent someone to examine the property, but I do know that there were times we had no one to send. In this case I cannot recall if anyone went or not.

Question. From examination of the sale IFB it is noted that the property . . . shows "scrap to be derived from demilitarization of approximately 142 M-1 rifles, 321 Thompson submachine guns, 94 signal pistols, and four M1897 shot-guns." Should not the serial numbers of these weapons have been listed?

Answer. I don't recall ever listing serial numbers of weapons sold for demilitarization and don't know of any requirement for this.

Question. Who is responsible for assuring that demilitarization is accomplished in cases such as this?

Answer. The contracting officer; in this case it was me up until 4 January 1965, when I left FESO.

Question. In the demilitarization clause of the contract it is set forth that the property will be demilled prior to 30 January 1965 and will be done on the premises of the purchaser. The date of final release is 20 January 1965. Since the purchaser could have the weapons in his possession for several days, how would you be able to tell if he actually demilled the weapons if no serial numbers were available?

Answer. The inspector would have to count the number of guns to see if the total amount had been demilled.

Question. Could he actually determine if these were the same guns?

Answer. No, just the total amount.

Question. Why in this case was the purchaser allowed to remove the weapons prior to demil?

Answer. Normally the release of the property was coordinated between the MAAAG, the contractor, and the depot holding the property so that an inspector could be present when they were released. I am not sure how Mr. Challe was able to obtain this property, but I think that he probably presented his copy of the release document to the holding activity and they released it.

Question. Did you as contracting officer appoint anyone to inspect the demilitarization?

Answer. I don't recall asking anyone on this particular contract. Normally we tried to get Mr. Hoffman from Giessen as he was familiar with the procedures. We had no inspectors assigned to FESO at that time.

Question. Do you know if anyone ever went to Belgium to inspect the demilitarization?

Answer. I don't know.

Question. Captain Ghysel of the Belgian Navy at Ostende has told us that Mr. Challe had in his possession six-eight copies of the notice of award and a telegram authorizing release of the property. Do you know to whom these documents were sent?

Answer. They should have been sent to MAAAG. Of course, there is a possibility of human error and they might have been mailed to Challe. I can't say if this happened or not.

Question. Who was the person directly responsible for the demilitarization?

Answer. The contracting officer is directly responsible unless other arrangements are made. Of course, the contracting officer does not physically inspect all property as that would be impossible.

(Exhibit 81 is statement of Mr. Gieseler, dated March 20, 1967.)

Mr. Graham interviewed Andre Challe March 14, 1967. Challe would not make a written statement. He told Mr. Graham that he had corresponded with a Mr. Gieseler about the weapons prior to the award of the contract to him and that he knew the characteristics of the property before the contract was awarded to him.

He said when the Belgian police seized the guns he was jailed for 6 days. He said he intended to "plug" the barrels of the submachine guns and sell them as collector's items. He said he had sold four shotguns because Belgian law permitted him to do so.

(Exhibit 82 is investigator's statement of Agent Graham, dated Oct. 9, 1967.)

Mr. Graham went back to interview him April 25, 1967. But on the advice of his attorney he refused to make any statement to Mr. Graham.

Chairman McCLELLAN. Mr. Johnson, the summary statement that you have prepared, is there anything that you would want to add to it?

I am just wondering if it cannot be placed in the record at this point as part of your testimony.

Mr. NAUMANN. It is complete.

Chairman McCLELLAN. The summary statement of the witnesses may be inserted in the record at this point.

SYNOPSIS OF 10 ADDITIONAL CID INVESTIGATIONS

Mr. JOHNSON. Below are brief synopses of 10 additional CID investigations in the field of property disposal operations in Europe, selected from a large group of cases. These are presented in this form to broaden and update the subcommittee's base of information. Since some of these cases are currently active and await either further action or completion of the investigation, they are stated in summary form without identifying specifics whose disclosure could have an adverse effect on their disposition.

1. During 1967 and 1968, motor vehicle parts valued at approximately \$45,000 were stolen from a PDO facility in Germany and were sold by the thieves. Some thefts occurred with the knowledge and assistance of PDO employees.

2. In May of 1967, French authorities requested the serial numbers of 50 undemilitarized radar sets which they suspected had been sold through U.S. surplus channels. Although a sale of 50 radar sets was established, no record of the serial numbers of the sets could be found in property disposal records. Therefore, the lack of demilitarization could not be proved and the matter could not be concluded because the U.S. Government could not prove ownership.

During the investigation it was established that the company that purchased the radar sets could not be located due to the fact that the address in the contract was nonexistent.

3. During the period June–October 1967, fire control equipment, valued at approximately \$23,000 was stolen. Some of the equipment

was sold, but subsequently all of it was recovered by the CID and identified by serial numbers. However, in this case even with serial numbers, investigators could not determine the unit from which the equipment came because supply records were inadequate and incomplete.

4. In September of 1966, French authorities discovered 19 undemilitarized radar sets in possession of an arms dealer, who admitted purchasing them from another dealer who had obtained them through a U.S. surplus sale. Investigation disclosed that the radar sets were received intact by the dealer who bought them from surplus, even though demilitarization had been certified by a PDO official. The official could offer no explanation about why they were found in the possession of the dealer in an undemilitarized condition.

5. In 1966, a scrap dealer formerly employed by the U.S. Army had in his possession a quantity of rangefinders and telescopes. He admitted purchasing one of the rangefinders, valued at \$3,150, with a lot of scrap material at Hanau. About the other items, he would state only that they came from various PDO facilities throughout Europe. The same dealer admitted purchasing tank generators and starters from PDO employees in other facilities.

6. In 1971, a debarred contractor made purchases from a PDO facility through another contractor who had not been debarred. The vehicles used to remove the purchased property belonged to the debarred contractor, and his scales were used to weigh the material, and he gained the financial advantage of the false tare weights which resulted.

7. In 1971, employees of a PDO facility in Europe accepted gratuities from contractors. Subsequent investigation disclosed substantial shortages in property, including some weapons and missile parts.

8. After the CID received information that a U.S. Army vehicle had been stolen from a particular unit, further investigation during 1971 and 1972 identified a number of foreign nationals who were systematically stealing vehicles from various U.S. Army facilities, including PDO's. The continuing investigation disclosed that approximately 200 vehicles had been stolen, smuggled across international borders, and sold to the highest bidders. Although a number of the vehicles were located, they could not be identified positively as U.S. Government property because the supply records did not have full serial number identification for them. Consequently, the vehicles could not be recovered.

9. In December of 1970, a European contractor purchased, as a scrap lot, material from a U.S. Army surplus sale. He later caused the property to be sold to a firm in Czechoslovakia in violation of the terms of the sales contract. The normal end-use checking procedures did not detect the violation, and the contractor was not debarred until a report was made through the CID.

10. A survey made of contracts awarded to several contractors during the period 1968 through 1970 disclosed that they were systematically using false tare weights when loading property at various PDO facilities in Europe. This allowed the contractors to remove substantially more property than they actually were purchasing by weight.

Chairman McCLELLAN. Gentlemen, I understand from counsel that this concludes your testimony. The committee wishes to thank you for your cooperation and for your presence today.

If there is nothing further, Mr. Counsel, the witnesses are excused. Thank you very much.

(Whereupon, at 5 o'clock p.m. the committee was recessed, to reconvene at 10 a.m. Friday, July 28, 1972.)

(Committee member present at time of recess: Senator McClellan.)

U.S. MILITARY SUPPLY SYSTEMS: TRAFFIC IN SURPLUS WAR MATERIEL

FRIDAY, JULY 28, 1972

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room 3302, New Senate Office Building, pursuant to section 4, Senate Resolution 258, agreed to March 17, 1972, Senator John L. McClellan (chairman of the subcommittee) presiding.

Members of the subcommittee present: Senator John L. McClellan, Democrat, Arkansas; Senator Charles H. Percy, Republican, Illinois; Senator Jacob K. Javits, Republican, New York; Senator Edward J. Gurney, Republican, Florida; and Senator William B. Saxbe, Republican, Ohio.

Members of the professional staff present: John P. Constandy, chief counsel; Philip W. Morgan, chief counsel to the minority; LaVern J. Duffy, assistant counsel; William M. Knauf, investigator; Ruth Young Watt, chief clerk; Walter S. Fialkewicz, detailed employee from the Bureau of Narcotics; Richard A. Helmer, detailed employee from the General Accounting Office; James R. Johnson, C.I.D., U.S. Army; James D. Stickler, C.I.D., U.S. Army; Thomas E. Graham, C.I.D., U.S. Army; and Henry K. Naumann, C.I.D., U.S. Army.

Chairman McCLELLAN. The committee will come to order.

Mr. Constandy, call your next witness.

Mr. CONSTANDY. Mr. Richard Helmer.

Chairman McCLELLAN. Mr. Helmer, will you be sworn?

Do you solemnly swear the evidence you shall give before this Senate subcommittee is the whole truth and nothing but the truth, so help you God?

Mr. HELMER. I do.

TESTIMONY OF RICHARD A. HELMER

Chairman McCLELLAN. Be seated please. Identify yourself, your name, position and so forth.

Mr. HELMER. Mr. Chairman, members of the subcommittee:

I am Richard A. Helmer, a Supervisory Auditor with the U.S. General Accounting Office. I have been employed by GAO for the past 9 years. During the last 6 years I was assigned to the International Division's European Branch in Frankfurt, Germany. Most of my employment in Europe was spent auditing programs of the U.S. Armed Forces stationed there.

On December 6, 1971, two of my colleagues and I were assigned to the subcommittee's staff to assist in this investigation.

I appear before you today to provide information concerning some results of our work.

During the course of the investigation we visited five U.S. property disposal yards in Germany to determine the propriety of items located in the yards. Due to the vast amounts of materiel, our examinations were limited to specific groups of items, called lots, which either had been sold, or were being prepared for sale to private dealers. We wanted to find out if the materiel comprising each lot had been properly described and valued, and if sensitive munitions list items had been demilitarized in accordance with Department of Defense requirements.

We examined the turn-in documents for each lot to ascertain what items, and quantities of each, the lot was supposed to contain. We then took a complete inventory of each lot and noted all discrepancies. We also retrieved samples of new items which we felt should not have been in the disposal yards. These samples were later traced into the supply system to see if they were needed.

Our work was done in cooperation with the Department of Defense's current audit of property disposal in Europe. We supplemented their efforts in order to obtain as much coverage as possible, due to the magnitude of the area being audited. All of our findings were made available to the Defense auditors so that they could identify the reasons for the deficiencies noted. This was done so that immediate corrective action could be taken.

I understand that their final report will be a subject of future hearings before this subcommittee.

On January 3, I visited the Ludwigsburg Property Disposal Yard and noted certain deficiencies in the manner in which items were being screened for possible redistribution.

Mr. Chairman, I request my trip report and supporting documents on my January 3, 1972, visit to the U.S. Army Property Disposal Yard at Ludwigsburg, Germany, be placed in the record as Exhibit No. 1 to my testimony.

Chairman McCLELLAN. What does this contain? I do not want to unduly encumber the printed record. Can it be submitted for reference and not be printed in the hearing record?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. Do you have it there?

Mr. HELMER. Yes, sir; I think the best thing would be to submit a copy of my trip report per se. It is very short.

Chairman McCLELLAN. It may be printed in the record and referred to as an exhibit.

(The document referred to was marked "Exhibit No. 95" for reference and follows:)

EXHIBIT No. 95

MEMO REGARDING VISIT TO THE LUDWIGSBURG PDO YARD, GERMANY

Participants: Lt. David M. Wagner, PDO Officer; Miss Charlotte Lipporte, Asst. PDO; Mr. Joseph Pye, CID Investigator; and Mr. R. A. Helmer, Auditor.

On January 3, 1972, the writer and Mr. Pye visited the Ludwigsburg PDO Yard and obtained the following information from the above mentioned Army personnel:

1. All line items with an acquisition value of over \$500 each are reported by the PDO yard to the Defense Logistics Services Center, Battle Creek, Michigan, where the items are screened for 90 days against United States and other worldwide requirements. Once the 90-day screening period has expired, the items are reported to the Mainz-Kastel R&M Center for sale. According to Lt. Wagner, he receives many DLSC requests after the 90-day screening period has expired. But, once the items have been put up for sale—even if they have not been sold—they cannot be made available to DLSC. Also, if DLSC needs an item, they must take either the total quantity offered or none.

2. For line items with a value of less than \$500 each, local screening is used. These items not redistributed are all lumped together by category, i.e. miscellaneous automotive parts and components. Our inspection of several lots (less than \$500 and more than \$500 per line item) gave us the impression that the lots so identified contained items such as tank parts and chain hoists. Most of the items appeared to be in their original crates from the manufacturer.

3. Two memos for the record written by Miss Lippotte which she said were based on telephone conversations from TASCOM officials contain instructions contrary to good PDO management practices. We should follow up these memos with TASCOM personnel.

4. Lt. Wagner said that in the one year he's been at the PDO yard, he has been upset over the amount of new and/or unused equipment that has come into the PDO yard for disposal at a fraction of acquisition cost. In his opinion, the contractors buying the equipment are getting rich at the expense of the U. S. government. He also said that it is almost impossible for an Army unit to get needed equipment from the PDO yard. See W/P_____.

5. Miss Lippotte complained about the fact that some of the items listed as munitions list (ML) items on their declarations had the ML classifications removed in the printed IFB. See W/P_____. The writer discussed this situation with Messrs. Beal and Meth of the Mainz-Kastel R&M Center and was informed that Mr. Meth, Asst. Chief of the Merchandising and Surveillance Branch, had removed the ML classifications because the descriptions provided by the Ludwigsburg PDO Yard did not specifically state which items were ML. Mr. Beal instructed Mr. Meth not to remove the ML without first contacting the PDO yard. Mr. Beal said that he would issue a directive to all PDO yards instructing them to provide more detailed descriptions on ML items.

6. Miss Lippotte has been employed by the U. S. Army for almost 25 years. Most of this time has been spent working at the Ludwigsburg PDO yard. Miss Lippotte said that many people have gotten rich from Army PDO activities. She said that years ago contractors et al had offered her bribes, but once they found out that she was honest, they quit offering. Also, she is going to retire soon for medical reasons. It appears that she would make a good witness for the committee.

7. We also obtained the 1348's for items sold and picked up on IFB 72-B-0035. We will be given the remaining 1348's for this IFB when the remaining assets have been picked up by the contractors. We have also requested the 1348's for some tank transmissions in the PDO yard.

Mr. HELMER. I would like to proceed with a brief explanation of the screening process which is used to redistribute items.

Chairman McCLELLAN. All right, you may proceed.

Mr. HELMER. Screening is a process whereby items which are excess to specific needs of a military unit are checked against other possible requirements, prior to being declared surplus.

For example, if a widget is excess to a given Army unit, other units or services within the European theater are checked to see if they need the widget before it is declared excess. In Europe this process is generally accomplished before the widget is sent to a property disposal yard. Once in the yard, the widget is screened further:

... If the value of the widget and/its total quantity is less than \$500, it is supposed to be offered for 10 days to fill local needs.

Senator PERCY. Could you define what you mean by "value"? Is it acquisition cost or value as surplus?

Mr. HELMER. It is acquisition cost, Senator.

This means that units being serviced by the property disposal yard have 10 days during which they can have the widget if they need it.

. . . If the value of the widget and/or its total quantity is \$500 or more, it is supposed to be offered to the Defense Logistic Services Center in Battle Creek, Michigan. This agency has 90 days to request the widget in order to fill other U.S. Government worldwide requirements.

At Ludwigsburg, however, I found that if during the 90-day screening period a requirement existed for a particular widget, the Defense Logistic Services Center either had to take all of the widgets or it was not allowed to take any. In other words, lots were not allowed to be broken up.

At the end of each of the two screening periods just previously mentioned—the 90-day and the 10-day—the remaining property was required to be reported immediately to the Air Force Redistribution and Marketing Center at Mainz-Kastel, Germany, for sale. Once it was reported for sale, property generally could not be withdrawn from the disposal yard even though a requirement in another unit was then known to exist. By that time the prospective contractors had first claim on the property.

The policy which caused this to be so was stated in a message dated September 22, 1970, from the U.S. Theater Army Support Command (Tascom), Europe, which was found on file at the Ludwigsburg Property Disposal Office.

The subject of the message was "Withdrawal of Property From Invitations for Bids." It said that:

1. Property received in disposal accounts is available for screening by using units and organization for a period of ten working days after receipt of the material.
2. It is imperative that material be prepared for sale immediately after the termination of the screening period.
3. Effective on receipt of this message material which has been reported for sale to the USAFE R&M Center will not be withdrawn from sale unless the request is in writing, contains full justification for the withdrawal, states the material is not available from other sources, must be obtained to fill essential mission requirements, and is signed by a senior officer of the organization requesting the property.

I request that this message, dated September 22, 1970, from the U.S. Theater Army Support Command, Europe, on the subject of "Withdrawal of Property From Invitation for Bids," be made exhibit No. 2 to my testimony.

Chairman McCLELLAN. What is the magnitude of it?

Mr. HELMER. It is very short, Mr. Chairman.

Chairman McCLELLAN. Very well, let it be printed in the record at this point.

22/13007

Sept. 70

FROM CG USTASCOMEUR WORMS GER

TO CG USASETAF VICENZA ITALY (MAIL)

CG BERLIN BRIGADE BERLIN GER (MAIL)

CO SUPDIST NORD DEUTSCHLAND BREMERHAVEN GER (POUCH)

CO SUPDIST HESSEN FRANKFURT GER (POUCH)

CO SUPDIST BADEN WUERTTEMBERG STATTGART GER (POUCH)

CO SUPDIST SUED BAYERN AUGSBURG GER (POUCH)

CO SUPDIST NORD BAYERN FUERTH GER (POUCH)

CO SUPDIST RHEINLAND BEWALZ KAISERSLAUTERN GER (POUCH)

INFO: CINCUSAREUR HEIDELBERG GER (POUCH)

CINCUSAFE WIESBADEN GER (MAIL)

CO 8TH LOG COMD LIVORNO ITALY (MAIL)

CO SUPACT GIESSEN GER (POUCH)

CO SUPACT SECKENHEIM GER (MAIL)

CO SUPACT HANAU GER (POUCH)

UNCLAS

AEZSM-SD

CINCUSAREUR FOR AEAGD-TS-S-1. ALL OTHER COMMANDS FOR PDO.

SUBJECT: Withdrawal of Property From Invitation for Bid.

 DISTR:

 DRAFTER TYPED NAME, TITLE, OFFICE SYMBOL AND PHONE

R.C. DUSCHECK DAC AEZSM-SD WM 7128

KARL A. IANTZKY JR. COL GS ADCSSAM WM 8004

s/ James R. Burkley Lt.

UNCLASSIFIED

JOINT MESSAGE FORM

A. Defense Disposal Manual DoD 4160.21-M.

1. Property received in disposal accounts is available for screening by using units and organizations for a period of ten working days after receipt of the material.

2. It is imperative that material be prepared for sale immediately after termination of this screening period.

3. Effective upon receipt of this message material which has been reported for sale to the USAFE R & M Center will not be withdrawn from sale unless the request is in writing, contains full justification for the withdrawal, states the material is not available from other sources, must be obtained to fill essential mission requirements, and is signed by a senior officer of the organization requesting the property.

Mr. HELMER. Consequently, the Army units and the Defense Logistic Services Center had a virtually impossible time obtaining needed property from disposal yards after it had been reported for sale.

First Lt. David M. Wagner, Ludwigsburg Property Disposal Officer, confirmed that this was true. He said that requirements were so stringent that local units had given up trying to obtain needed items once they had been reported for sale.

Chairman McCLELLAN. This held true notwithstanding the fact that some of the units in that general jurisdiction or that general area wanted it and needed it—once it got in there they could not get it out?

Mr. HELMER. That is correct.

Chairman McCLELLAN. That is, provided it was over the value of \$500?

Mr. HELMER. Either under \$500 or over \$500.

Chairman McCLELLAN. No matter what the value, if it ran into thousands or millions of dollars, it was all the same?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. Go ahead.

Mr. HELMER. Moreover, he said that he received many requests for parts from the Defense Logistics Services Center after expiration of the 90-day screening period. But by then, the items had been reported for sale and were no longer available to DLSC even though they had not been sold and were still in the PDO yard.

To prove his point, Lieutenant Wagner gave me copies of various DLSC requests for needed parts which were refused either because the items already had been reported for sale, or because DLSC had only requested part of the total quantities available.

He also told me that in the year he had been assigned to the Ludwigsburg PDO large amounts of new and unused equipment had come into the PDO yard for disposal at only a fraction of original acquisition cost to the Army. He said contractors buying the equipment were getting rich at the expense of the U.S. Government.

I understand Lieutenant Wagner will be a witness before the subcommittee in these hearings.

During my visit I found another significant message. It was dated August 17, 1970, and again was from TASCOC. Its subject was "PDO Sale of Binnable-Type Items by Weight."

This message would be difficult for lay persons to understand. In effect it says that due to a reduction in theater inventories PDO's are receiving large quantities of very low dollar value items. Delivery is frequently by large containers which have over 500 different kinds of items.

Second, the message points out that PDO's were instructed to reduce backlogs on hand by unloading the containers and segregating any items found in them which in the opinion of the property disposal officer should be sold separately as items.

The message indicated that the balance of the items should be prepared for sale as mixed/odd lots. However, to facilitate sale, they should be separated into logical generic categories, such as automotive repair parts or electronic parts.

Also, sales offerings and accounting will be by so many pounds of material—such as 25,000 pounds of miscellaneous automotive repair parts.

Chairman McCLELLAN. Would that be spare parts?

Mr. HELMER. Senator, it could either be spare parts or any type of component.

Chairman McCLELLAN. It would include spare parts, new spare parts for automobiles?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. Being sold as junk?

Mr. HELMER. By weight, sir.

Chairman McCLELLAN. That is junk?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. Junkyards usually buy by weight?

Mr. HELMER. That is correct.

Mr. Chairman, I would like the full text of this message which appears below printed in the record at this point. I will not burden the committee by reading it into the record.

Chairman McCLELLAN. Do you have that?

Mr. HELMER. It is in my prepared statement, Mr. Chairman.

Chairman McCLELLAN. It appears to be short. It may be printed in the record at this point as a part of your testimony.

Mr. HELMER. Thank you.

Chairman McCLELLAN. Do you want to read any part of it or comment on any part of it?

Mr. HELMER. I think I have commented enough on it, Mr. Chairman.

Chairman McCLELLAN. Very well. It will appear in the record. You may proceed.

Mr. HELMER. The document is as follows:

Subject: PDO Sale of Binnable Type Items by Weight.

References:

A. AR 755-21.

B. AR 735-35, PARA 4-6 (TURN-IN).

C. MSG DA, SPTS-LSPD 191802Z Jun 70, Subj: AUTHO for PDOS to downgrade property to scrap, which auth PDOS to downgrade items to scrap without regard to dollar value.

D. AAA REPT PA70-48, DTD 24 Jun 70, on PDO OPNS at 2nd LOG COMD, which stated procedures for processing receipt for low dollar value items should provide for only minimal verification of turn-in documents because of excessive work involved compared to what is being processed.

E. MSG DA, SPTS-LS 231900Z Jan 70, Subj: PD Statistics which stated that usable property would be converted to weight on the basis of \$2,000 per ton.

1. Purification of Depot stocks by various projects such as Palos, Eurlos, Da. Clean, and OMPL of DA CIR 700-18 and Troop DPL have resulted in PDOS rec large qty of very low dol value items. Divr oftentimes is by CONEXS which contain in excess of 500 different FSNS.

2. REF A ROR PDOS to tally in each item sep, ASG a Desit [sic] you to each item. Because the dol value is so low, as are PRO FR sales, PDOS subq sergregate [sic] these low dol value times [sic] into cmdty groups and sell as mixed lots rather than selling as indiv items. This results in an enormous amt of unnecessary paperwork for low dol value usable items, but which do have a value above scrap, and therefore should not be downgraded to scrap, as outlined in Ref C.

3. In recent staff visit to 2nd LOG COMD, the procedures outlined below were being utilized on a test basis. The [sic] are concurred in by this OFC and are recm to other COMDS which have similar situations.

A. To reduce backlogs on hand :

(1) Unload CONEXS and segregate any items which in the opinion of the PDO should be sold sep as items. These will be acct for by debit you in the usual manner (ref A).

(2) The balance of the items will be prepared for sale as mixed/odd lots. However, to facilitate sale, they should be separated into logical categories, such as automotive repair parts or electronic parts.

(3) One copy of the DD form 1348 will be withdrawn from each item and will be attached to the debit voucher covering the lot. Debit vouchers will not repeat not not [sic] be made for each DD form 1348. The 1348s will support the one debit voucher covering the lot.

(4) Sales offerings and accounting will be by so many lbs of material, such as misc automotive repair parts.

(5) For DD form 1143 reporting purposes and accounting, odd lots will be computed on the basis of one dollar per lb (ref E) unless the PDO has a better figure.

B. To prevent backlogs of future generations from developing :

(1) Storage ships items to PDO by commodity group, e.g., automotive repair parts, etc.

(2) Storage forwards to PDO two groups of DD forms 1348 covering each shipment. The balance of each set of the 1348s remain affixed to items in the shipment.

(3) PDO serially numbers each of the two groups of 1348s.

(4) One batch is returned to storage, acknowledging receipt of the items shipped on 1348s which are serially numbered 1 thru X. This complies with principle of acknowledging receipt.

(5) The second serially numbered batch is assigned one debit voucher number and provides the audit teail [sic] for the items sold by the odd lot method.

(6) The PDO still screens the property as in 3A(1), to insure that saleable [sic] items are not sold by weight.

(4) [sic] Commanders should recognize that selling items by the MISC/ODD lot method is not the most preferable method of merchandising. Further, in a manner similar to down-grading items to scrap, it could be used as a means of selling desirable items as odd lots when they should be sold as items. Therefore, sufficient inspections should be made of PDO lotting actions to be reasonably sure that the spirit and intent of these procedures are being fol.

(5) If the procedures in para 3 above do not fit with those of other COMDS, deviations [sic] are auth within the basic spirit and intent of this MSG.

BT
2393

Mr. HELMER. The interpretation given this message enabled PDO personnel to include many types of parts under the broad generic classifications; that is, tank parts, or truck carburetors could be described as "miscellaneous automotive parts." The interpretation also resulted in the sale of serviceable parts in bulk under these descriptions when they should have been sold separately as items.

Miss Charlotte Lipporte, the assistant property disposal officer at Ludwigsburg, wrote a memorandum on October 12, 1970, relating a telephone conversation she had with Mr. Ernst Raabe of PDO, TASCOC on this subject.

The memorandum stated the following :

"Mr. Raabe of PDO TASCOM called to relay a change in requirements on 1348s"—these are turn-in documents—"from Boeblingen.

Chairman McCLELLAN. What kind of documents?

Mr. HELMER. These are turn-in documents. They accompany the items being turned into the disposal yard. They are as follows:

1. There is no requirement for end-item designation of noun-nomenclature on automotive parts.
 - (a) The prime responsibility for de-milling lies with the turning-in activity (Boeblingen).
 - (b) Label all questionable lots as ML (munitions list) for security purposes.
2. List parts in binnable lots on IFB (Invitations for Bids) as: "Miscellaneous parts derived from automotive vehicles."
3. Refer:
 - (a) Complaints from Mainz-Kastel on descriptions;
 - (b) Gigs from inspectors on de-milling deficiencies; and
 - (c) Complaints of 1L (non-munitions list) parts being in ML (munitions list) classified lots to Mr. Raabe of TASCOM.

I request that this memorandum, dated October 12, 1970, relating a telephone conversation between Miss Charlotte Lippotte, the assistant property disposal officer at the U.S. Army PDO at Ludwigsburg, Germany, and a Mr. Ernst Raabe of the Property Disposal Branch at the U.S. Theater Army Support Command, Europe, be made Exhibit 3 to my testimony.

Chairman McCLELLAN. Did you read all of it? Did you read it in full in the record?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. Well, it is already in the record.

Proceed.

Senator PERCY. Mr. Chairman, I wonder if it would not be an appropriate point for Mr. Helmer to draw a distinction between practices in commercial enterprise where automotive parts are made available to dealers as against how this practice would be used for disposal of comparable parts in the European theater?

Would you also then draw the distinction between military parts and what the market for those is? The significance of this, I think, might escape us if we do not realize the kind of potential market that does exist and is carried out now in commercial trade in respect to automotive parts.

Mr. HELMER. All right, Senator Percy. I would like to say I have had some experience. I spent 5 years in the retail business and a good portion of that was selling automotive parts. So I think I have a little bit of expertise in that area.

I would like to say that a commercial enterprise that would engage in selling their products the way the U.S. Army has been selling theirs would go broke very soon.

As we all know I think, there is a big market for tank parts in some of the underdeveloped countries and the practice of concealing these parts in with other miscellaneous automotive parts, I think, borders on the criminal. That is about all I can say on it.

Senator PERCY. When the chairman mentioned selling it as junk, we think of junk as junk.

Mr. HELMER. Right.

Senator PERCY. You are talking about selling it as junk?

Mr. HELMER. Yes, sir.

Senator PERCY. Whereas in the commercial market they would pull a carburetor out or take a radiator that is reusable and they would list it as one radiator for such and such an automobile and instead of selling it by the pound, it would be sold for \$80 or \$90 or \$100. There is a market for it.

Mr. HELMER. That is correct.

Senator PERCY. Is it that they are so big that they can't handle it? They have enough people to examine and catalog this stuff. We have been training automotive experts for years, turning them out by the thousands.

Mr. HELMER. Senator Percy, I think they have the people and I think they could be assigned and I think they could do the job properly, but to date they haven't done it.

Beginning about January 1, 1970, the Army in Europe inaugurated a program to drastically reduce its stocks of items in Europe. I believe that this policy has resulted in millions of dollars worth of items literally being dumped into the property disposal yards.

Senator PERCY. With these comments we can interpret what you are going to say a little better.

Chairman McCLELLAN. Even if the Army had to employ additional people to separate and catalog these items and prepare them for sale as usable products, would that expense be offset by the recovery that you would get as a result of selling them as a product rather than selling them as junk?

Mr. HELMER. Yes, sir. I think that the amounts of money that could be recovered would be tremendous.

Chairman McCLELLAN. In other words, it cannot be said that the expense of doing that wouldn't be profitable, the expense would be too great?

Mr. HELMER. That would be a very poor defense.

Chairman McCLELLAN. That could not be sustained?

Mr. HELMER. That is correct.

Chairman McCLELLAN. Proceed.

Mr. HELMER. Miss Lippotte said that she wrote the subject memorandum to document Mr. Raabe's instructions, which she thought were contrary to good property disposal practices. She felt that the instructions directed the Ludwigsburg PDO to ignore any items it received from Boeblingen that were not properly demilitarized—because, according to Mr. Raabe, that was Boeblingen's responsibility.

I might add here that Boeblingen rebuilds armored vehicles and they turn an awful lot of tank parts into the Ludwigsburg Disposal Yard. Also it allowed armored vehicle parts to be sold as automotive parts and components.

Senator PERCY. Can you tell us what is significant when they allowed armored vehicle parts to be sold as automotive parts and components? Are you implying that they are taking very high valued parts, that could be sold for considerably more if classified as armored vehicle parts, and selling them as automotive parts, a lower valued category?

Mr. HELMER. That is partially true, Senator. First of all, I don't think the U.S. Government would sell those tank parts to the people that the arms dealers are selling them to. Therefore, I don't think we would realize the profit. But from the U.S. Government's standpoint these parts should be demilitarized. They should not be sold as mis-

cellaneous automotive parts. And, I think that this really gets down to the hearts of the problem, because once they are sold as such, in practice, we find that the security classifications have been removed and items are not subject to the normal U.S. security trade control system.

Senator PERCY. In dealing with the Eastern European countries, for instance, is it possible that we could sell an Eastern European country parts which are classified as automotive parts and components, but which would be barred from being sold as armored vehicle parts?

Mr. HELMER. I believe that is correct.

Senator PERCY. So that by failing to properly classify them they are really, through negligence or other reasons, getting around our national security requirements?

Mr. HELMER. That is correct, Senator Percy.

Senator PERCY. I just wanted to be sure we understand fully the implications of what you are saying.

Chairman McCLELLAN. Proceed.

Mr. HELMER. According to Miss Lipporte, all subsequent Ludwigsburg sales declarations of automotive parts and components were given munitions list classifications if they were known to contain armored vehicles parts. She said that this didn't do any good, however, because someone at the Air Force Redistribution and Marketing Center would subsequently remove the munitions list classification prior to sale. She gave me evidence to support her claims, and I later found that she was right.

Mr. Chairman, I have an affidavit from Miss Lipporte, assistant property disposal officer at Ludwigsburg taken by assistant counsel La Vern Duffy.

Chairman McCLELLAN. Miss Lipporte's affidavit?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. I don't have the affidavit. I have excerpts from it. Do you want to read excerpts from it?

Mr. HELMER. I would.

Chairman McCLELLAN. Do you have the affidavit?

Mr. HELMER. I do not, sir.

Chairman McCLELLAN. Do we have it? Let the affidavit be received as an exhibit for reference and you may read it and comment on it, if you like.

(The document referred to was marked "Exhibit No. 96" for reference and follows.)

Chairman McCLELLAN. Do you want to skip from your prepared statement to the affidavit?

Mr. HELMER. Yes, Mr. Chairman.

Chairman McCLELLAN. You may proceed with the affidavit and then return to the prepared statement.

Mr. HELMER. Thank you.

EXHIBIT No. 96

AFFIDAVIT OF CHARLOTTE LIPPORTE

I, Charlotte Lipporte, freely and voluntarily make the following statement to La Vern Duffy, who has identified himself to me as a member of the staff of the United States Senate Permanent Subcommittee on Investigations of the Committee on Government Operations.

No threats, force, or duress have been used to induce me to make this statement, nor have I received any promise of immunity from any consequences which may result from submission of this statement to the Senate Permanent Subcommittee on Investigations.

I have been working at the Property Disposal Office since 1947. I started at the time as a Stock Record Clerk and worked my way up. For the past 13 years I have been the Assistant Property Disposal Officer here. Lt. Wagner is presently the Property Disposal Officer, and he has been here a little more than a year. There have always been problems at the PDO since I have started. In the first years while I worked here I was offered bribes, but I did not accept them, and the contractors, who talk to each other all the time have given up trying to bribe me. One early attempt was years ago by a man who is dead now. He offered me part ownership in a theater here in Ludwigsburg. Another time about 4 and a half years ago, a contractor who wanted some trailers called me on the phone and told me he would make it worth my while if I could insure that he received the trailers. I didn't even ask his name and I flatly refused. You see, in the PDO yard anything is possible. It is like leaving your wallet on the desk with money in it, you should expect it to be stolen. There is a lot of money to be made in this business but my main ambition has always been to keep the records straight and keep the office out of trouble.

At Ludwigsburg the major portion of the property we receive is from depots. The property should come in with the turn-in documents, which should be screened, vouchered, then sent to the warehouse. When the document goes to the warehouse they are supposed to insure that the property corresponds with the turn-in document. If it is done this way, no document should ever be lost, and the property should be accounted for properly.

We have a lot of short-comings in this system however. For instance, about a year and a half ago, while I was sick, the warehouse foreman, Mr. Drobny changed the system and gave the order that the documents shouldn't be vouchered until after the property was received at the warehouse. By doing this, it is possible to destroy documents and lose all accountability on property, because the depots do not require a return copy of the turn-in document. To make this more clear, let me explain. When the depot makes out the turn-in document to release property to the PDO, they drop this property from their accountable records. It may take weeks after this before the property actually reaches the PDO, and even then the depots do not receive any verification that the property has been received. We always give a copy of the document to the truck driver that delivers the property, but there is no guarantee that he will return the document to the depot. Of course, everyone knows about these loose controls. It seems to me that if proper accountability standards were adhered to each time the property changed hands, it should be identified, counted, and properly receipted.

When Mr. Drobny was here we had no idea what was in the warehouse. He resigned last year because of an investigation and because Lt. Wagner was not satisfied with him, and he now works for the Engineers at Robinson Barracks in the Inventory Section, I believe. He was not our only problem however, when shipments come in, the yard workers only spot check them, and sometimes I think these checks are either not done at all or not done properly. Also we have no real assurance that the property listed on the turn-in documents is what is inside the boxes. Several years ago I used to try to check some of the shipments myself, and I found quite a few discrepancies. I have had turn-in documents which indicate one thing is in the box, and when I opened it the box contained an entirely different item. I have also had property come to the PDO without any paperwork whatsoever. When this happens, I call the depot and try to get it straightened out, but we get very little support. We are known as the "junk yard." Also sometimes we receive documents with the property and the document will show absolutely no acquisition cost for the item. We can only work with the turn-in document when we get property, and if that is not correct then we are in trouble.

We have another problem with screening. When we receive property at the PDO it should have already been screened by the depot to see if there is any further use for it in Department of Defense, but they don't always do this screening. We have no way of knowing what has been screened, so we go through the screening process ourselves. On occasion we have received requirements to ship property after screening that we couldn't find. Also we have been told not to break up a lot to send items that are needed after screening. There have been times when the requirement for property was received after the screening period

had elapsed and the property was on an invitation for bid. On these occasions we have been told that the items cannot be withdrawn from the sale. I have talked to Mr. Beal, at the R&M Center about this problem and have been told that we cannot withdraw the property from the sale because it is too much of a problem. This means that the Army may have to buy this item back or buy a new one if a requirement exists after the item has been sold as surplus.

Senator SAXBE. Mr. Chairman, could I ask a question right there?

Chairman McCLELLAN. Certainly.

Senator SAXBE. Do you have any knowledge of buying back these items?

Mr. HELMER. Yes, I do, Senator.

Senator SAXBE. It is an unusual practice?

Mr. HELMER. No, sir, it is not. In fact, the subcommittee can document several cases where this, in fact, has happened.

Senator SAXBE. How about individual units going to third-party dealers to buy from the surplus dealers out of their own money?

Mr. HELMER. I have heard rumors of a lot of these things in the last 5 years, but I can't document those, sir.

Senator SAXBE. That is all.

Chairman McCLELLAN. Proceed.

Mr. HELMER (continues reading):

Segregation of property for sales is improper. There are many times when munitions list items come from the depots mixed with automotive spare parts. From my experience I would say that 50 to 80 percent of the parts in these mixed lots are munitions list items, however, we list them for sale as miscellaneous automotive parts. We sell them without controls and at lower prices than we could if they were segregated. These parts should be segregated at the depots because they have the catalogues and qualified personnel to perform this task. The people working at this yard are simply not capable of making the distinction on these parts. We ran into trouble on "Project Clean," and I knew this would cause us trouble. When these munitions list items are put up for sale in miscellaneous lots, they lost their identity as munitions list items. When we send our descriptions of the lot to the R&M Center, we include the designation "ML" for the entire lot of mixed parts because we know the lot contains munitions list items, but I was told by personnel at the R&M Center that the "ML" designation was being deleted because it made the lot hard to sell.

The reason, according to the R&M Center for deleting this designation, was that contractors did not want to bother with the added restrictions when they bought munitions list items. These restrictions of course, don't apply to automotive parts. Actually I believe the contractors want the tank parts and would rather have them segregated from the automotive parts, and other parts. We would get more money for them and the munitions list items could be identified and controlled better. The firms in Holland seem to have more of an interest in these items than anyone at present time. I've heard that it is very easy to export these items from Holland to anywhere in the world.

I know there are regulations which say that munitions list items should be properly identified when they are sold, and I'm sure that my superiors, and the people at TASCOM are also aware of these regulations. In October 1970, I had a conversation with Mr. Raabe about deleting the "ML" designation from the description and he advised me to do as the R&M Center wanted.

In evaluating the contractors I would say that most of them are not straight. They make offers to the workers, and I don't have control over the workers. There are about 32 people working here at the yard, that include one Russian, along with Italians, Turks, and Germans. These people don't make as much money as a comparable German worker, they don't have a roof over their head while working, and I would consider them "undesirables," yet they remain here for years, and some of them have nice cars. I believe that some of them are taking gratuities, and probably stealing, although I can't prove it, because they are not receiving sufficient pay to keep them honest. I can say, however, that they are not keeping their eyes open like they should. Every six months we have to sign

a paper saying we won't take any bribes, but when you see some contractors coming into the yard and getting better treatment than others, you know something is wrong. And I can see this sort of thing where I sit. I can't correct the situation because my own people tell me to mind my own business when I say something to them.

Senator PERCY. Have we ever identified what she means by "my own people?" Does she mean her direct supervisor?

Mr. HELMER. She means the people who are making the policies at the Theater Army Support Command, Europe. And she means the people at the redistribution and marketing center at Mainz-Kastel, Germany.

Senator PERCY. Have we identified who those people are by name, rank, and title?

Mr. HELMER. We have some indication, Senator Percy, but it is pretty hard to determine exactly who is responsible for the guidance and the policy as it exists today.

Mr. CONSTANDY. May I state that the testimony we will be getting into later in other situations on the same subject will cover that part of the testimony relating to those people and their activities.

Senator PERCY. Very good.

Chairman McCLELLAN. Proceed.

Mr. HELMER (continues reading):

We also have a problem with demilitarization at the PDO. In the past we did some demilitarization here, but now everything is supposed to be demilitarized before we get it. Now, unless we happen to catch it on the turn-in document we won't know if we have received property that needs demilitarization or not. For instance, if we get a box delivered to the PDO which contains parts for a machine gun that requires demilitarization, and no one recognizes the federal stock number on the turn-in document then the items could be sold in a mixed lot, and we wouldn't know. I wanted the depots to identify all munitions list property prior to turn-in and tell us, what required demil, what didn't need demil, and what had already been demilled. Mr. Raabe told me not to worry about that because there was an ordnance expert, Mr. McSweeny, at the depot who identified all this property before we received it. I would say though, that if you inspected the yard right now you could probably find property that required demilitarization.

The foregoing statement is true to the best of my knowledge and belief.

CHARLOTTE LIPPORTE.

Sworn and subscribed before me on this 28th day of January 1972.

JAMES D. STICKLER.

That, sir, is the end of Miss Lipporte's affidavit.

Chairman McCLELLAN. Now you may return to your statement.

Mr. HELMER. As a result of the above, many undemilitarized armored vehicle parts and other munitions list items were sold simply as "miscellaneous automotive parts and components." Once sold in this form, none of the property was subject to the requirements of the U.S. Security Trade Control System.

This system was developed to protect the U.S. Government by preventing sensitive and munitions list-type items from getting into countries of the Sino-Soviet bloc and others. Under its provisions bidders must provide:

1. A "Statement Regarding Disposition and Use of Property" with their bids stating to whom they will sell the property if they are awarded the contract. If the bidder does not know to whom he will sell the items, he must agree to seek prior approval of the resale if the

items cost \$1,000 or more (bidder's purchase price). The bidder also agrees to inform his subpurchasers of these restrictions.

2. A valid import certificate before the PDO yard will release the property. The import certificate is a document issued by a government which allows the buyer to import the specific property purchased into that country.

3. A delivery verification—usually within 60 days—after the property was picked up. The delivery verification is proof that the property purchased was actually delivered into the country which issued the import certificate. The delivery verification is necessary to insure that property is not diverted to unauthorized countries.

The U.S. Security Trade Control System also provides for certain types of administrative followup actions to attempt to determine the final disposition of controlled property. Any contractor who violates this system can be debarred or suspended from bidding on future sales of U.S. surplus property.

Mr. Chairman, that is the end of my statement.

Chairman McCLELLAN. Are there any questions, Senator Percy?
Senator PERCY. Yes. Thank you, Mr. Chairman.

I should like to see if you can give us some of the conclusions that you have drawn from your experience at this stage, Mr. Helmer.

Did you conclude as a result of your studies that there were favored contractors who were given breaks over and above other contractors?

Mr. HELMER. Well, Senator, again, I have gotten this impression, but I don't have any proof to support that.

Senator PERCY. Did you have any feeling or evidence that if there is a favored contractor, that the favored contractor obtained his position as a result of bribes to employees at the yards?

Mr. HELMER. Well, there is some indication of that. I don't think that I am really the right person to answer your questions.

Senator PERCY. You submitted in evidence and read the entire testimony of a witness who has stated that. Did you submit that with the feeling that this was the true picture that you wanted to give the subcommittee?

Mr. HELMER. Yes, sir; I did.

Senator PERCY. You submitted that evidence because you felt it was valid evidence that should be considered by the committee?

Mr. HELMER. Yes, sir; I feel that way; my own personal feeling being such. However, the person giving me the affidavit had 25 years of experience, and certainly was in a position to see these things much more than I am.

Senator PERCY. Do you concur in the policies of the Congress of the United States and the Department of Defense, that every step should be taken to prevent a potential enemy or an actual enemy, a Communist country, from obtaining military supplies made and manufactured in the United States and paid for by American taxpayers?

Mr. HELMER. Yes, sir; I do.

Senator PERCY. Do you feel that due diligence has been exercised in implementing policies in the disposal of surplus material in such a way that we could insure that every reasonable step is taken that military supplies manufactured in the United States, paid for by U.S. taxpayers, did not end up at a fraction of their cost and value in the hands of enemy countries?

Mr. HELMER. No, sir; these steps were not taken.

Senator PERCY. They were not taken?

Mr. HELMER. No, sir.

Senator PERCY. Would you care to expand in your own words as to how it was possible for, let me say, country A procuring military supplies in a world market, an enemy country to obtain at low cost military supplies manufactured in the United States and paid for by American taxpayers? What was the route that they would use?

In the affidavit that was submitted, it was indicated that Holland was a country which did not look too deeply into where supplies went. It was also mentioned it was necessary to have some sort of certificate indicating where a resale was going. How did they beat the system? How did they get around it?

Mr. HELMER. I am not trying to evade your question, but there are other members of the subcommittee that have a more intricate understanding of how it evolved.

Senator PERCY. I would like to hear from you, but don't press yourself beyond the limit you feel you can testify on it. I would like to be sure we do gain from you every bit of information that you want to give, and you are not limited to the confines of your own direct words that you have offered so far.

Mr. HELMER. Let me say this: that under the current system, when tank parts and other sensitive items are allowed to be included and sold as miscellaneous automotive parts, the sales of these lots, or whatever, can be exported from Germany to countries such as Holland or Belgium or France, or what have you.

Let us face it; these arms traffickers are very, very intelligent people. They have been getting rich plying their trades, and it is not hard for them, at least on paper, to show resale to several other parties to confound and confuse the real issue.

Once these parts have been sold, our own procedures which our Government has set up to control these very sensitive items does not function at all. Even when it functions, it leaves a great deal to be desired. So I think it is very easy for these parts to get out of our control and to get into the hands of our enemies.

I should like to say that I think the entire system is so bad that it is going to require major correction action.

Senator PERCY. Let me take a specific case to be illustrative of what might happen.

The Congress of the United States and the President of the United States determines that in a conflict between two countries, we maintain absolute neutrality. War breaks out between India and Pakistan. As a policy, we say we cut off all shipments of spare parts. We know we have supplied tanks to both countries and we do not want to be a part of being a war supplier to two countries with whom we have direct relationships. We want to maintain neutrality.

Under those kinds of conditions, both of them having American tanks, both shut off from spare parts, both using tanks against each other, both being American tanks, is it not only logical to assume that they are going to announce they wish to buy automotive parts, and the bidding gets very high, then, for those parts when you have two major customers for such parts in the field, and the policy of neutrality is totally frustrated by these arms traffickers buying and selling these items? Is it possible?

Mr. HELMER. It is possible. We have evidence to indicate that some of the major arms traffickers have done this very thing.

Senator PERCY. One last question. Maybe you cannot answer this.

I keep thinking about, as I relate it to these hearings, the job we have of taking hundreds of millions of tons of equipment in South Vietnam now, and under the heavy pressure of withdrawal or of attacking forces.

Have you had any knowledge at all of inefficiency, waste, probable bribery and corruption going on in Vietnam right now like that we have seen existing in Europe? Some senatorial committee may 5 or 10 years from now be investigating a scandal that would make this one look like peanuts, considering the tremendous volume and conditions that exist in Southeast Asia.

It is very, very hard to penetrate the junk trade or anything else. Have you had any direct knowledge or implications that the same problem that exists in the European theater could possibly exist in Vietnam now?

Mr. HELMER. To answer your question, I would have to say no, but I do have some indirect knowledge regarding some statements that have come in to the subcommittee from people in that part of the world.

Senator PERCY. Are these reliable sources? It is not rumor or hearsay? Have you heard directly from people who have been in that theater and have engaged in this disposal business?

Mr. HELMER. I would say yes.

Senator PERCY. Can you just amplify to any extent you can on what you have heard from reliable sources?

Mr. HELMER. I don't know whether this would be a proper time. I think I would have to defer to Mr. Constandy on that, if you don't mind, because I don't want to jeopardize anything that may be going on in that area right now.

Mr. CONSTANDY. May I interject, Senator?

Senator PERCY. I would be happy to have any clarification on that.

Mr. CONSTANDY. We have not yet addressed ourselves to that problem in Southeast Asia. We have asked for certain preliminary reports from the Defense Department that do concern themselves with this subject. After taking the time to go through the situation in Europe, we will direct the committee's attention to Southeast Asia.

Senator PERCY. May I establish the point, then, with representatives of the Department of Defense who may be present this morning, that it just stands to reason that there probably is a much bigger problem in Southeast Asia than in Europe, and that it is highly likely some committee of the Senate or the House may look at this problem at some point.

I hope that all of the corrective action being taken in Europe will also be taken in Southeast Asia.

Thank you very much, indeed.

Mr. CONSTANDY. The purpose of our going to Europe initially was to enable us to study the system under conditions that were not influenced by the conflict in Southeast Asia. We hope to establish the so-called normal operation in Europe, and thereafter consider the operations in Vietnam.

Senator PERCY. I think the committee is well advised to do it that way.

Mr. CONSTANDY. I have had this assurance from officials of the Department of the Army: that as a result of the inquiry we are making in Europe, they have applied their attention more closely to the events in Southeast Asia, and corrective measures which they recognize as being needed in Europe are also being taken in that area.

Chairman McCLELLAN. I would think that the disclosures being made in these hearings, and the awareness of the military to conditions that prevail, and to remedies that need to be applied in the European theater would prompt a very careful examination of what is going on in Vietnam on their own initiative, and the taking of remedial action.

In the meantime, this investigation will proceed and it may very well be that this committee will want to expand it and cover Vietnam and the other areas later.

Senator PERCY. With Senator Saxbe's indulgence, I have one last question. It can be a very short answer.

Is it your feeling that the evidence that we have received of theft, bribery, collusion, illegal arms trafficking, are rare instances, are frequent instances, or incidents that just occur from time to time, but are not a pattern?

Mr. HELMER. Unfortunately, I have to say that I think they are most frequent. The thing that kind of really gets to me is that if you look at our current system, and if you had to try to find out how it evolved, it almost seems it was designed by the arms traffickers, rather than by the U.S. Government.

Senator PERCY. I certainly concur with that. Your testimony is exceedingly valuable. We could spend a couple of days just taking sections of what you said to gain the full impact and implications, but that conclusion perhaps will suffice at this moment.

Chairman McCLELLAN. Senator Saxbe?

Senator SAXBE. Mr. Helmer, is it your conclusion at this point that this is a problem involving German nationals, Turks, and so on, or is it a problem involving a chain of command of the U.S. Army?

Mr. HELMER. Senator, I think it involves both. I think that the Army has been very lax over the years in identifying these problems.

Senator SAXBE. Is it just laxness, or is somebody there getting kick-backs?

Mr. HELMER. Again, I have no evidence to that effect. Anything is possible nowadays, but I could not comment on that.

Senator SAXBE. It seems to me that the negligence is criminal in nature, and certainly I would hope that after we conclude these hearings the military will see fit to followup on this, because I just cannot believe that this went on without somebody's knowledge.

If, as you say, the system was presumably put together by the arms dealers for their convenience, they had to have access to somebody who wrote the directives. Would that not be a logical conclusion?

Mr. HELMER. Yes, sir; it would be.

Senator SAXBE. That is all I have at this time, Mr. Chairman.

Chairman McCLELLAN. Senator Saxbe, I understand from the staff that there will be such a directive produced in the hearings.

Senator PERCY. Following up on Senator Saxbe's question, considering that the Internal Revenue Service uses sort of a net worth test in

order to determine whether a person is living well beyond the reported sources of income, and takes that as evidence that he has another source of income that is not reported, we had direct evidence on studying the messes and PX's that sergeants were driving Cadillacs and the highest priced Mercedes Benz, which you don't do on a sergeant's pay. They all had these cars.

Quite a few of the group that we were studying would pull out hundred dollar bills to pay for entertainment expenses in the evening. There was conclusive evidence that they were living high on the hog at someone's expense.

Have you seen American personnel, civilian or military, or had any evidence that they were living beyond the means that would be available to them through their military or U.S. Government paycheck?

Mr. HELMER. I would have to say no to that, Senator Percy. But I would like to point out that in Europe, especially for a lot of the Americans and the local nationals who have been there for a number of years, it is an awful lot easier for those people to conceal added wealth than it is for a person who lives in the United States and may only be out of the country for short periods of time. Again, that portion would probably take a great deal of additional investigative effort to determine.

Senator PERCY. Thank you.

Chairman McCLELLAN. Thank you, Mr. Helmer. You will be recalled for further testimony, possibly this afternoon, on another issue that is involved in these hearings.

Very well, you may stand aside for the present.

Lt. David M. Wagner, will you come around, please, sir?

Lieutenant, will you be sworn, please, sir?

You do solemnly swear that the evidence you shall give before this Senate subcommittee shall be the truth, the whole truth, and nothing but the truth, so help you God?

Lieutenant WAGNER. I do.

Chairman McCLELLAN. Be seated. Lieutenant, you may identify yourself for the record, please, sir.

TESTIMONY OF LT. DAVID M. WAGNER

Lieutenant WAGNER. Thank you, Mr. Chairman and members of the subcommittee.

I am 1st Lt. David M. Wagner, an officer in the U.S. Army. I have been in the service for 25 months. For the last 19 months, I have been the property disposal officer, the officer in charge of the Property Disposal Depot at Ludwigsburg, Federal Republic of Germany.

Chairman McCLELLAN. You have been in the Army 25 months?

Lieutenant WAGNER. Yes, sir.

Chairman McCLELLAN. For the last 19 months you have held this position?

Lieutenant WAGNER. That is right, Mr. Chairman.

Chairman McCLELLAN. Six months prior to that time, while in the service, did you have any training that qualified you in any way for this particular position?

Lieutenant WAGNER. Mr. Chairman, no, I didn't.

Chairman McCLELLAN. You cover that in your statement?

Lieutenant WAGNER. Yes, sir; I do. I have a prepared statement.

Chairman McCLELLAN. How did you obtain your commission?

Lieutenant WAGNER. Through the ROTC program.

Chairman McCLELLAN. Very well. You may proceed with your prepared statement.

Lieutenant WAGNER. Thank you, Mr. Chairman.

The Ludwigsburg depot is part of the Baden-Wuerttemberg Support District. The district comes under the administration of the U.S. Army's Theater Army Support Command (TASCOM).

I am 25 years old. I graduated from Ohio State University in March 1970 with a degree in industrial arts education. I plan to teach that subject. At Ohio State I also received a commission in the Army under the ROTC program.

My remarks today concern the inadequate manner in which I was prepared and trained to be a property disposal officer and the inefficient, wasteful and often corrupt manner in which one property disposal depot was managed.

Upon graduation from Ohio State, my first assignment in the Army was a 10-week training program at the Aberdeen Proving Ground, Aberdeen, Md., starting June 20, 1970.

My next assignment was a second 10-week training program, this one at Fort Lee, Va. Here I was being prepared for supply management work. There was no special emphasis on property disposal operations at the Fort Lee school, but as I recall, I did receive a briefing or two on what PDO was and what relation it had to supply management.

There was a 2-week course in PDO taught at Fort Lee, but I did not enroll in it. There were two reasons: First, I had no idea I would need it. All I knew about my future Army service was that I was going to Germany and that I would more than likely be assigned to some aspect of supply management. Supply management is a big field, and property disposal activities are but one segment of it. Moreover, I was assuming, as much as one dares assume anything about his first operational assignment in the Army, that I would get a management assignment in maintenance operations, owing to my background in industrial arts.

The second reason for my not enrolling in the PDO course at Fort Lee was that I was not qualified to take it. I would like to comment on this. That as a junior officer completing an assigned MOS course, which is the military occupational specialty course, and under orders directing me to reassignment to Europe upon completion of my basic schooling, I was not given the opportunity to either contest my eligibility for this additional schooling, or enroll in any additional schooling.

So the point I wish to make is that the question did not even come up. whether to take the course or not.

Chairman McCLELLAN. All right.

Lieutenant WAGNER. Officers who were taking the course were supposed to have had some experience in PDO and related fields. I had none. However, I do feel that had I had any inkling that a PDO assignment awaited me, I could have persuaded Fort Lee officials to waive the qualification requirement in my case. I don't know what the

substance of the course was, but any training at all would have been quite useful.

I arrived in Stuttgart November 29, 1970, still uncertain as to what I would be doing. I reported to TASCOM offices at Robinson Barracks. A few days went by while the Army decided what to do with me. Then Col. Louis M. Stewart, the Commander of the Baden-Wuerttemberg Support District, called me to his office at Robinson Barracks. He said, "Lad, you are my new property disposal officer." Lt. Col. Wilson Allen, who, as director for supply and maintenance for the district, also worked at Robinson Barracks, was to be my boss.

I learned that my PDO depot was located in Ludwigsburg, a town about 15 miles north of Stuttgart. My wife and I took an apartment on the economy near the Ludwigsburg depot. The depot is located on the outskirts of the town.

I went to the depot for the first time December 6, 1970. I had never seen a PDO depot before. I did not know if the Ludwigsburg yard was typical of other PDO yards or not, but it was obvious to me that Ludwigsburg's depot was not being managed efficiently.

To begin with, it hadn't been managed at all for the previous 4 weeks. For most of November and the first week in December, no property disposal officer had been there. That means there was no accountable officer on duty; that is, nobody was responsible or accountable for property there for 4 weeks.

I was met my first day by Mr. Ernest Raabe. Mr. Raabe, an American, was a civilian employee of the Army. He was from TASCOM Headquarters, Worms, Germany. Mr. Raabe said he would help me to learn PDO procedures. He said he would stay 3 days.

Mr. Raabe introduced me to the personnel. I had under me two non-commissioned officers, Sergeants Butsch and Rager; an administrative assistant, Miss Lippotte, a German; and about 25 German nationals, 17 of whom worked the yard and the remainder having clerical duties.

Mr. Raabe took me to the depot warehouse. It was the size of about four average size high school gymnasiums. It was badly disorganized. Crates were piled upon crates in obvious haphazard fashion. Spare parts were strewn about helter-skelter. Everything was in disarray. Nothing seemed to be in order. It seemed impossible that anyone could locate specific items on demand. I later found out that nobody could.

Mr. Raabe led me through the warehouse. He said, "This is your warehouse. We have a lot of stuff in it." That was the extent of the briefing I received on warehouse management. I felt overwhelmed.

I remember another aspect of the orientation I was given those first 3 days. Mr. Raabe and I visited a satellite depot in the nearby German community of Nellingen, which, I may add, is approximately 30 miles from the Ludwigsburg depot. The depot at Nellingen is one of two collection point depots supporting the main depot at Ludwigsburg. The second satellite yard was at Schwaebish-Gmund.

Mr. Raabe briefed me on how the Nellingen operation worked. But the part of the briefing I remember most clearly was the extra emphasis he gave to the need to check identification cards very carefully at the retail store.

The retail store was where we sold nonmunitions list items, such as canteens, sleeping bags, field jackets, and other surplus articles. As I look back on that aspect of my briefing, it seems ironic that so much

concern was placed on keeping unauthorized persons out of the retail store. I was soon to discover that I should have been briefed on how to keep unauthorized persons out of the depots themselves. When I consider the confusion that existed in the depots, I find it comical that anyone would be concerned about the retail store. The retail store would be the least of my worries.

In any event, Mr. Raabe stayed 3 days, briefed me as best he could in such a short time, and left, leaving with me DOD and Army manuals on PDO. I read them. That was the sum total of my official preparation and training to be the Ludwigsburg property disposal officer. I felt even more overwhelmed.

But fortunately I soon received unofficial briefings which were of great value. These briefings were given to me by two CID agents, WO Robert Moody and WO Henry Naumann. These agents were conducting a PDO investigation and were spending a certain amount of time at the Ludwigsburg depot. It is the second largest depot in Germany, second only to the Kaiserslautern yard, and it became apparent to me the Ludwigsburg operation was very much in need of CID investigation.

Mr. Moody and Mr. Naumann told me where the major problems were at Ludwigsburg. They warned me where the trouble spots were and said certain of the employees were suspected of being dishonest, and that the depot was organized to produce the maximum amount of confusion, inefficiency and waste.

I was finding these things out for myself. Where the CID agents were most helpful was in giving me the benefit of their experience in PDO depot management. From their investigations in PDO, they had learned proper procedures. They provided me with important pointers on how to manage the depot.

The first action I took was to conduct an inventory. I wanted to find out just what was in the depot.

I found that the kinds of excess property coming into Ludwigsburg included spare parts for tanks and other armored vehicles, spare parts and components for vehicles of all kinds and vehicles such as trucks. I also found that it is very difficult to identify the major component applicable to the spare parts by inspection of the documents or the items themselves.

The depot was receiving excess equipment each month totaling about \$5 million in original acquisition costs. The return from sale of excess property accounts for approximately 1 percent of the acquisition cost of the property. Sales to scrap dealers and other contractors brought about \$50,000 a month. This money is paid to the Redistribution and Marketing Center at Mainz-Kastel, an activity managed by the U.S. Air Force.

I also discovered that the records showing what we had on hand rarely matched the figures from my inventory. For example, we were about 60,000 pounds short in batteries.

Another inconsistency was the entry in our records that showed that two plow-like vehicles had been sold when they were still on the lot. I was puzzled, because I could not imagine any of the contractors buying these vehicles and not picking them up.

From depot employees I learned that two dump trucks had been in the depot recently, but a check of records revealed no indication that

the two dump trucks had ever been received by the yard or sold. The plow-like vehicles were useless except as scrap. But the dump trucks had immediate civilian or military application and would receive profitable offers if put up for sale.

I concluded that what might have happened was that a contractor had paid for the two plow-like vehicles. With the documentation from that sale, he had picked up from the depot the two dump trucks instead.

I want to make clear, however, that I never had any proof of that, but it most assuredly could have happened. Knowing what I know about how the Ludwigsburg Depot used to be run, I think it probably did happen. But, again, I have no proof, just documentation showing that somebody paid for two plow-like vehicles and never bothered to pick them up; and the word of depot employees that two dump trucks arrived in the yard and disappeared; and the fact that there was no paperwork whatsoever on the dump trucks.

The CHAIRMAN. Can you indicate what was paid for the two plow-like vehicles?

Lieutenant WAGNER. I do not have that in my testimony, Mr. Chairman, but if I recollect, it was something in the range of \$200 or \$300.

The CHAIRMAN. Proceed.

Lieutenant WAGNER. In addition, there was little point in trying to support my suspicion that the missing dump trucks were linked to the remaining plow-like vehicles. First of all, I had no documentation showing the trucks were ever there; second, because 4 weeks had gone by without a property disposal officer at the Ludwigsburg Depot. No one, in fairness, could be held accountable for anything missing. Anyway, I had more than enough to do trying to make order out of the depot. I did not have time to investigate what happened before I got there.

After the inventory, I decided my next task was to improve the level of performance of certain of my employees.

Jara Drobny, a German, was the warehouse foreman. He also supervised the scales. I established beyond any doubt that Mr. Drobny was mainly responsible for the confusion in the warehouse. I also established beyond any doubt that his tally sheets at truck weigh-ins were frequently wrong.

I told Mr. Drobny he was professionally incompetent, I told him he was incapable of ever being competent. I told him I did not like him personally and that his personal appearance was as inept as his work performance. I wrote him an official letter of reprimand. One month after I arrived, Mr. Drobny resigned.

I felt my two NCO's were spending too much time in the office. I told them to pay more attention to yard activities. I set up Sergeant Regar with a desk in the warehouse. I told them our problems were in the yard; not in the office.

Fortunately, my administrative assistant, Miss Lippotte, was trustworthy and highly competent. While I tried to put the depot in better working order, I left the office work to her.

A key issue in scrap sales is weight. If the scales are being operated inefficiently—as they were by Mr. Drobny—improvement in depot operations was out of the question. Corruption would take place like this:

A contractor would drive his truck into the depot. His truck would be weighed. This weight is called the tare weight. Let us say that for this particular truck the tare weight is 2,000 pounds. Then the contractor removes a lot of scrap. The truck is weighed again, fully loaded. The weight is now 4,000 pounds. He is charged for the 2,000 pounds. But a crooked contractor can get together with a crooked scales employee and instead of recording the true tare weight of 2,000 pounds, they record a tare weight of 3,000 pounds. Now when that truck is fully loaded, the contractor only shows 1,000 pounds of scrap. He drives away with 1,000 pounds of free scrap.

I put new personnel in as warehouse foreman and at the scales. I also made clear my intention to make the depot run properly and to discipline anybody who failed to properly carry out his duties.

Incidentally, we are hampered in Germany because it is difficult to fire German nationals, even for incompetence. Labor laws are such that people simply don't get fired very often in Germany, no matter whom they are working for. In turn, there is a marked degree of reluctance throughout the U.S. Government in Germany to fire a German anyway. It is a sensitive point based on a natural unwillingness of our Government to offend the host country.

In general, I found the German nationals employed at the depot to be good workers if given the right direction and guidance, but I would have liked to have been able to let a few more of them go. Circumstances being what they were, however, I was forced to make do with what I had.

When I felt I had the personnel situation under control, I next implemented new procedures. In early March of 1971, I told the NCO's and the Germans in supervisory positions that the new procedures would result in more efficient and honest weigh-ins, realistic control over who was allowed to enter the depot and what they could leave with, and complete accountability in the warehouse.

They said the new procedures would never work. I said, "They are going to work because I said they will work—and I am the boss."

First, I imposed a system of voucher accountability and cross-checking to make sure that true weights were recorded on the scales. Second, I personally began to spot check the weights of trucks as they entered and left the depot. Initially, I found discrepancies in the weights, but as the employees learned that I was going to make these spot checks regularly, although they never knew when, the discrepancies stopped.

Senator PERCY. Before you leave that page, at the top of the page you mentioned it is possible for a trucker to drive away with a thousand pounds of free scrap. Would you also want to tell us whether or not that might not be necessarily scrap; that it might be highly valuable motor vehicle parts or tank parts classified as scrap which could have been classified as individual components and sold for much greater value, as testified to by our previous witness?

Were you also cognizant of that failure to classify properly, which might have undervalued vastly the loads that were being taken out?

Lieutenant WAGNER. Yes. Thank you, Senator. The situation you described is quite possible when you have a yard operation organized in a disarrayed fashion. After I got there and had enough time to get my feet on the ground and started my new procedures rolling, the depot was put in a state of organization where the procedure that you

just mentioned would make it very difficult for somebody to do. This is concerned with lotting procedures and segregation procedures.

Senator PERCY. So that I understand this business, if I had access to a market for tank parts, for instance, as a dealer and seller or contractor for these parts, could I begin the chain right at the beginning, know what the parts are that I want to buy, know to whom I am going to sell it? It could be some Iron Curtain country. When something is declared excess, could we have such a procedure whereby I might need 500 parts valued at a quarter of a million dollars, but would be precluded from a purchase because the lot size weight require that I buy 1,000 or more? Then you have time requirements, 90 days on one end and 10 days on the other, and once that period of time is over, even if a need originates, the U.S. Government can't requisition those parts because they have now been declared available for sale to these contractors.

Then there are some favored contractors that have the inside and they can get property classified as scrap, rather than the high-valued parts that they are. He moves them out and he does not even pay the full value for scrap. He can haul them out and get half of them free by being in cahoots with the operator of the scales. Is that a possibility under the system as you see it?

Lieutenant WAGNER. Yes, Senator, that situation that you described is quite possible in a disposal operation where you do not have your firstline supervisors or the officer in charge, cognizant of what is going on in the yard, the situation you describe is very possible.

Yesterday's testimony brought up the DA Form 444, which is the inventory adjustment form. It is quite possible that depot personnel, without adequate supervision or guidance, can downgrade, say, tank parts, miscellaneous spare parts, into scrap.

Senator SAXBE. I have a question at that point.

Did you see any evidence that they knew more about what was in the depot than you did?

Lieutenant WAGNER. Yes; there was evidence that they did know this. I will be covering this in detail throughout my prepared statement, but they did most definitely.

Chairman McCLELLAN. All right, proceed.

Lieutenant WAGNER. Third, I set up a system of control over who entered and left the depot, and tighter accountability as to how contractors justified cargo they carried. In all these steps, I made certain that two persons had to sign off on key documents.

Fourth, I reorganized the storage system in the warehouse. We had something like \$3 million in original acquisition worth of material in the warehouse, but nobody knew where individual items were or how to account for them.

The material in the warehouse was still in its original container and the items were in like-new condition. Some of the more valuable items we had stored in the warehouse could be requested by units of the U.S. Army. But if we were not sure of what we had stored there, we clearly could not be expected to find what was requested on demand. The entire concept of screening was being negated by the confusion and uncertainties of the warehouse operation.

I want to also point out that many of the spare parts in the warehouse did not have a high dollar acquisition price. That \$3 million

figure may be misleading for that reason. But the spare parts, while not particularly costly, are extremely valuable to contractors who are interested not in scrap but in selling components for and servicing tanks and other armored vehicles and other munitions list items.

There is no question in my mind that contractors who buy spare parts for tanks plan to service tanks with them. Invariably, these contractors come to the depot looking for specified spare parts. If it were scrap metal that mainly interested them, why would they be so specific?

The contractors from Holland were particularly interested in all types of spare parts and components, including lots which most likely contained tank parts. I imagine they planned to use these spare parts to service tanks or other like vehicles as opposed to scrap.

Mr. Chairman, I want to point out at this time that property disposal had no way to identify these spare parts either by documentation or the items themselves.

Chairman McCLELLAN. What do you mean, they could not identify them? If they opened the boxes or went through the piles and examined what was there, couldn't they identify them? Was there anybody competent to identify them?

Lieutenant WAGNER. I would not judge myself to be able to inspect a certain item that had a particular military application.

Chairman McCLELLAN. You, yourself, if you examined it, would not know?

Lieutenant WAGNER. Myself or my employees.

Chairman McCLELLAN. And you were in charge.

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. You found that none of your employees knew, either?

Lieutenant WAGNER. Yes, Mr. Chairman. These components that I am speaking about, these spare parts, can be very, very complex, intricate items.

Chairman McCLELLAN. You say you did not have qualified personnel.

Lieutenant WAGNER. That is right, Mr. Chairman.

Chairman McCLELLAN. All right, you may proceed.

Lieutenant WAGNER. Contrary to what had not been very pessimistic expectations by others at the depot, my new procedures worked. By April of 1971, the Ludwigsburg depot was running efficiently and, I might add, in accordance with present regulations and guidelines they were running efficiently.

In fact, Tascom headquarters at Worms learned of my voucher accountability procedure on weigh-ins. Tascom officials adopted it as their own. It is now standard procedure for all PDO depots in Germany.

Some of the specific problems that I faced which I was not able to solve had to do with regulations and procedures that were set at higher levels.

For example, certain items are on the automatic evacuation list. This means they should not even be sent to the PDO in the first place. We have this list and we check the turn-in documents against the list when we can. There are a lot of these automatic evacuation items being turned into the PDO. I have tried on several occasions to send them

back to the depots, but Tascom objects. There have been squabbles between Tascom officials and myself over this.

Right now, for instance, I am sure there are some items for sale that are on the automatic evacuation list.

Senator SAXBE. What do you mean, "automatic evacuation"? Return to the States?

Lieutenant WAGNER. Yes, Senator; these are items that the other services know for a fact they need. It is a well-known fact that these different components are needed. These are theoretically stopped at the maintenance depots or supply depots. They are stopped there and we never see them at property disposal.

Chairman McCLELLAN. You are not supposed to get them?

Lieutenant WAGNER. That is right, Mr. Chairman.

Chairman McCLELLAN. But you do get them?

Lieutenant WAGNER. That is correct. We are not even supposed to make these checks at the PDO because these items should not ever get this far.

Sometimes we receive property without documentation. Other times we receive documentation without property. Accountability in such situations is difficult to achieve.

We also have a problem in separating munitions list items from other property. My people don't open every box that comes in. Unless documentation indicates the contents of a crate are munitions list, we do not open the crate.

In the past, when we knew there were munitions list items in a lot, we would list them as "ML" when we sent our description to the R. & M. center. But the ML designation has been eliminated. The reason, I was informed, is that ML designations make sale of property difficult because restrictions on ML items are too stringent. High-security requests on PDO's sales listing are very often ignored by the sales office when preparing IFB's.

Mr. Chairman, I would like at this time to submit for the record an example which illustrates my point.

Chairman McCLELLAN. Do you have it prepared?

Lieutenant WAGNER. Yes, I do.

Chairman McCLELLAN. Do you want to read it or submit it for the record?

Lieutenant WAGNER. If I may, just submit it for the record.

Chairman McCLELLAN. Let it be received and printed in the record, and you make some explanation of it briefly.

(The document referred to follows:)

Stuttgart 73-10

Comd: D-264-72

THE FOLLOWING ITEMS ARE LOCATED AT: Property Disposal Yard
Ludwigsburg-Caterhals
Wuerttemberg-Germany

For inspection contact:

LT. DAVID M WAGNER
Property Disposal Officer
Tel: Ludwigsburg MIL (2726-) 554 or 891
Ludwigsburg Civ 07141-15554
or 07141-15891

IC/DW
73280

AUTOMOTIVE PARTS AND COMPONENTS: Applicable to various types of military M-Series vehicles and related items. Consisting of: Arm, brush, bearing, bumper, bracket, bolt, crankshaft, connect, carburetor, cone, cover, clutch, facing, frame, grommet, gear, gasket, guard, head, hose, kit, nut, plug, pump, plate, ring, rectifier, rotor, retainer, rod, shaft, seal, seat, sleeve, starter, sprocket, spacer, tappet, valve, washer. Packed in boxes and cartons, included in the weight.

OUTSIDE - AREA 1 (D - 1 & 2) APPARENTLY UNUSED, GOOD CONDITION

Total Cost: \$ 74,867.00

Est Total Weight: 18,462 kg (40,700 lbs)

Vo. D-256-72
377-72 thru 393-72
408-72 thru 410-72
412-72 and 413-72
415-72 thru 432-72
434-72 and 435-72

D-2
Vo. D-602 thru 604-72
606 and 607-72
614 and 615-72
645 thru 655-72
669 thru 673-72

LOT 1

IC/DW
3280

AUTOMOTIVE PARTS AND COMPONENTS: Applicable to various types of military M-Series vehicles and related items. Consisting of: Covers. Packed in containers included in the weight.

OUTSIDE - AREA 3 (D - 3) APPARENTLY UNUSED, GOOD CONDITION

Total Cost: \$ 173,900.00

Est Total Weight: 35,018 kg (77,200 lbs)

(Vo. D-1043-72)

LOT 1

SPOT BID SALE F61546-72-B-0049

- 60 FSC: 79
CLEANER, VACUUM: Spencer Turbine Co, S/N 144908,
1.5 hp, 115 volt, 60 cycle, 7200 rpm.
Outside-Yard A, unused, fair condition
Total cost \$ 1,104.00
Est. total wt. 113 kg 1 EA
-
- 61 FSC: 79
CLEANER, VACUUM, vertical: Invincible, model 721,
115 volt, single phase, 1.5 hp, 25/60 cycle, 15 amp,
AC/DC, industrial type.
Outside-Yard A, used, poor condition,
repairs required
Total cost \$ 786.00
Est. total wt. 59 kg 2 EA
-
- //////////
The following items are located at: Property Disposal
Yard, Ludwigsburg-Ostertal, Wuerttemberg, Germany.
For inspection contact: Lt. David M Wagner, Property
Disposal Officer, Tel: Ludwigsburg Mil 2726-544/991;
Civ 07141/15554/15991, Stuttgart List Nr. 72-10.
-
- 62 AUTOMOTIVE PARTS & COMPONENTS, applicable to
IC/DV various types of military M-Series vehicles and
732(7) related items. Consisting of: Arm; brush; bearing;
bumper; bracket; bolt; crankshaft; carburetor;
cone; cover; clutch; facing; frame; grommet; gear;
gasket; guard; head; hose; kilt; nut; plug; pump;
plate; ring; rectifier; rotor; retainer; rod; shaft;
seal; seat; sleeve; starter; sprocket; spacer;
tappet; valve; washer. Packed in boxes and cartons,
included in the weight.
Outside-Area 1 (D-1 & 2) apparently unused,
good condition
Total cost \$ 74,867.00
Est. total wt. 18,462 kg 1 LOT
-
- 63 COVER ASSY: W-E, canvas, with containers, right
transmission, applicable to M-48 vehicle. 80ea.
Containers included in the weight.
Outside-Area 3 (D-3) apparently unused,
good condition
Total cost \$ 173,920.00
Est. total wt. 35,018 kg 1 LOT
-
- //////////
The following items are located at: Property Disposal
Yard, 3rd Support Brigade, 538th Cannibalization Point,
Nellingen Barracks, Germany. For inspection contact:
SP/5 Dandel N Collins, Tel: Nellingen Mil 2724-652;
Civ 0711-3516/652. Stuttgart List Nr. 72-11.
-
- 64 TRUCK, WRECKER, medium: 5 ton, 1953, IHC, model
IC/DV M62, S/N 3451, Reg # 3C4175(12E1-5602) hydra-
732(7) lically operated crane, chassis mounted. Parts
missing including engine, transmission, steering
system, all wheels and tires; one fender, winch,
radiator, windshield.
Outside-Yard 1 (C), used, poor condition,
repairs required
Total cost \$ 13,215.00
Est. total wt. 9,072 kg 1 EA
-
- 65 TRUCK, WRECKER, CRANE: 2 1/2 ton, 1953, Reo Motors,
IC/DV M109, S/N 119135, Reg # 4C8510 (9255-5609) hydraulic
732(7) crane, 6 cylinder gasoline engine, 3 axles, 9 wheels,
tire size 9.00 x 20. Parts missing including front
cab, winch, radiator, grill, instrument panel,
steering wheel, 1 wheel and tire.
Outside-Yard 1 (B), used, poor condition,
repairs required
Total cost \$ 11,911.00
Est. total wt. 7,711 kg 1 EA
-
- 66 TRUCK, WRECKER, medium: 5 ton, 1969, Kaiser Jeep
IC/DV Corp, M543A2, S/N 9527-12349, Reg # 5F5964, Garwood
732(7) hydraulic wrecker crane, 6 cylinder gasoline engine,
3 axles, 1 wheel and tire, size 9.00 x 16. Parts
missing including engine, radiator, cab, extension
boom, operating controls, steering system, front
winch, 9 wheels and tires.
Outside-Yard 1 (B), used, poor condition,
repairs required
Total cost \$ 14,000.00
Est. total wt. 13,603 kg 1 EA
-
- 67 TRUCK, CARCO: 5 ton, 1955, Diamond T, M54, S/N
IC/DV 5411E4, Reg # 5B2796 (1057-5604), with winch-soft-
732(7) top cab type, 6 cylinder gasoline engine, 24 volt elec-
trical system, 3 axles, 2 wheels and tires, size
11.00 x 20. Parts missing including 8 wheels and
tires, 1 radiator, 1 instrument panel.
Outside-Yard 1 (B), used, poor condition,
repairs required
Total cost \$ 9,990.00
Est. total wt. 5,505 kg 1 EA
-
- 68 TRUCK, CARCO: 5 ton, 1956, Mack Motor Corp., M54,
IC/DV S/N 1955, Reg # 5A4251 (1065-5607) w/o winch-soft-
732(7) top cab type, 6 cylinder gasoline engine, 24 volt
electrical system, 3 axles, 6 wheels and tires,
size 11.00 x 20. Parts missing including 4 wheels
and tires, 1 instrument panel, 2 taillights.
Outside-Yard 1 (B), used, poor condition,
repairs required
Total cost \$ 10,105.00
Est. total wt. 8,437 kg 1 EA
-
- 69 TRUCK, CARCO: 5 ton, 1959, Diamond T, M54, S/N
IC/DV 5B3968 (1057-5610), w/o winch-softtop cab type,
732(7) 6 cylinder gasoline engine, 24 volt electrical
system, 3 axles, 6 wheels and tires, size 11.00 x
20. Parts missing including 4 wheels and tires,
1 radiator, 1 instrument panel.
Outside-Yard 1 (B), used, poor condition,
repairs required
Total cost \$ 10,040.00
Est. total wt. 8,473 kg 1 EA

COOP ACQUISITION
389
1734200

498 H26 1156

SUBSTITUTE DATA (FROM ORIGINALLY REGISTERED)		FREIGHT CLASSIFICATION NOMENCLATURE		SHIP. 1138	
ITEM NOMENCLATURE		COVER			
1 SELECTED BY AND DATE	2 TYPE OF CONTAINERS	3 TOTAL WEIGHT	4 RECEIVED BY AND DATE	5 INSPECTED BY AND DATE	
Settlemet 1152	00	77 200	1222	4 5 6 8	
10	11 NO. OF CONTAINERS	12 TOTAL CUBE	13 PREVIOUS AND DATE	14 WAREHOUSE LOCATION	
Settlemet 1152	80	1840,0		63	
16 DESTINATION ADDRESS		17 DATE SHIPPED		18 RECEIVER'S DOCUMENT NUMBER	
25-1-80-1152		1152		D-1043-72	
19 TRANSPORTATION CHARGEABLE TO		20 LADING, AWE, OR RECEIVER'S SIGNATURE (AND DATE)		21 RECEIVER'S DOCUMENT NUMBER	
9		O.H.		D-1043-72	

DD FORM 1349-1, 1 JAN 64 EDITION OF 1 AUG 61 MAY BE USED. SINGLE LINE ITEM RELEASE/RECEIPT DOCUMENT 2

Label # 1

SHIP FROM		SHIP TO		MARK FOR OBJECT	
A		B		C	
UNIT WEIGHT		UNIT CUBE		FREIGHT RATE	
365		230			
SUBSTITUTE DATA (FROM ORIGINALLY REGISTERED)		FREIGHT CLASSIFICATION NOMENCLATURE			
ITEM NOMENCLATURE		COVER Assy + Container: End right Trans mis. S. Pn			
1 SELECTED BY AND DATE	2 TYPE OF CONTAINERS	3 TOTAL WEIGHT	4 RECEIVED BY AND DATE	5 INSPECTED BY AND DATE	
Settlemet 1152	00	77 200	1222	b H 8 1 others	
10	11 NO. OF CONTAINERS	12 TOTAL CUBE	13 PREVIOUS AND DATE	14 WAREHOUSE LOCATION	
Settlemet 1152	80	1840,0		100.00 2665	
16 DESTINATION ADDRESS		17 DATE SHIPPED		18 RECEIVER'S DOCUMENT NUMBER	
25-1-80-1152		1152		D-1043-72	
19 TRANSPORTATION CHARGEABLE TO		20 LADING, AWE, OR RECEIVER'S SIGNATURE (AND DATE)		21 RECEIVER'S DOCUMENT NUMBER	
9		O.H.		D-1043-72	

DD FORM 1349-1, 1 JAN 64 EDITION OF 1 AUG 61 MAY BE USED. DOD SINGLE LINE ITEM RELEASE/RECEIPT DOCUMENT 1

3
POPP- 541

Lieutenant WAGNER. Very well, Mr. Chairman.

The sales listing is a draft that my office, the Property Disposal Office, prepares and sends to the Redistribution and Marketing Center. They retype this list into an invitation for bid. This bid is then mailed to the contractors, and then it goes into the bidding procedures.

On Stuttgart sales listing 72-10, item No. 2, let me read it in part: Over on the left hand side of the page I put IC/DV 3280. This, in reference to previous testimony, means import certificate and delivery verification. This is a security measure which should be taken if munitions list items are suspected of being in this lot. I will read the sales listing at this time.

Automotive parts and components: Applicable to various types of military M-Series vehicles and related items. Consisting of: Covers. Packed in containers included in the weight.

Outside-area 3 (D-3) apparently unused, good condition. Total cost: \$173,-920.00 consisting of one lot.

The spot bid sale, invitation for bid 72-B-0049, which was later published by the R. & M. center, item 63, they deleted the IC/DV request and they restated the description. I will read as follows:

Cover assembly: W-E canvas, with containers, right transmission, applicable to M-48 vehicle. 80 ea.

Containers included in the weight.

Outside-area 3 (D-3) apparently unused, good condition.

The price is the same.

Chairman McCLELLAN. What is the difference there? I don't understand. What did they change, and what is the significance of it?

Lieutenant WAGNER. The point I am trying to make is that we submitted a request for a security classification on this lot. The R. & M. center deleted this.

Chairman McCLELLAN. They what?

Lieutenant WAGNER. They deleted it.

Chairman McCLELLAN. Why did you submit a certain security designation?

Lieutenant WAGNER. Because this item we believe could have certain military applications. In previous testimony this was brought out that these items cannot be identified—first of all, with the turn-in document we do not have positive identification that this item has a military application.

For example, the turn-in document, DD Form 1348, the item nomenclature states, "Cover"; no more. We do not know what this cover pertains to or what its use was. We just knew it was a cover.

Chairman McCLELLAN. What did it signify? What does the word "cover" signify to you?

Lieutenant WAGNER. Nothing.

Chairman McCLELLAN. Why was that terminology used?

Lieutenant WAGNER. This, Mr. Chairman, is out of my area of responsibility. The turn-in documents are prepared at the supply and maintenance depots.

Chairman McCLELLAN. You receive this document; don't you?

Lieutenant WAGNER. Yes; I do.

Chairman McCLELLAN. If it has no significance, why is the word "cover" used?

Lieutenant WAGNER. The directives state that it is not necessary to have the item nomenclature or the end item.

Chairman McCLELLAN. You mean it is not necessary to identify it?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. That is what you are trying to say?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. That is what you received when you got the property?

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. Did you find later that these are the items that you referred to that were marked that way?

Lieutenant WAGNER. Mr. Chairman, on items of this sort, and other lots, all I can say is that we suspected that these lots contained tank and other military-type items.

Chairman McCLELLAN. You suspected? Did you not have an opportunity to examine what you received after you received it?

Lieutenant WAGNER. We could examine it, Mr. Chairman, but we were not at the level; it was not in our capability.

Chairman McCLELLAN. Did you examine or spot check any of them?

Lieutenant WAGNER. We could spot check them, but all we were left with was our suspicion. For example, in this case that this item did have a military use.

Chairman McCLELLAN. That is just a suspicion. Did you check them or did you have an opportunity to check them and make a determination of your own whether they apparently did have a military use?

Lieutenant WAGNER. When this situation occurred, we would call up the depot that turned this item in and they would at that time give us the additional information, but not always. In this case they did. We found out that this item was an assembly container, a right transmission cover of some sort. The description is somewhat ambiguous, "Applicable to an M-48." I think they are making reference to a tank. The additional information did not say "tank".

Chairman McCLELLAN. Did you undertake to dispose of it, as to this cover form, without any further examination of it or identification of it? When you received a box under the terminology of "cover" or "crate," how did you bill it or advertise it for sale?

Lieutenant WAGNER. Mr. Chairman, in previous testimony it was brought out that a procedure from higher headquarters stated that we will list these items as automotive parts and components applicable to various types of military "M" series vehicles and related items.

Chairman McCLELLAN. When an item came in under "cover" you listed it that way and that is according to the instructions you had?

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. You carried out the instructions.

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. In the course of your handling of the crate, your suspicions were aroused that it did contain military equipment.

Lieutenant WAGNER. Yes, sir.

Chairman McCLELLAN. Did you ever confirm those suspicions? Give us an instance.

Lieutenant WAGNER. This item that is in question, it was later determined that this was a military item.

Chairman McCLELLAN. This you are reporting on now is one instance where it was determined; the determination was made that it was of military value.

Lieutenant WAGNER. That is right. This item had gone through the sales action, it had been sold; but the sales action stopped when it was determined that this item was needed elsewhere in the supply system.

Chairman McCLELLAN. Is it your belief, Lieutenant, that many items or great quantities of surplus was disposed of in this fashion, having great military value, and should not have been disposed of as junk?

Lieutenant WAGNER. Yes, most certainly.

Chairman McCLELLAN. This is what you are emphasizing?

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. This is one documentation that clearly illustrates what you are testifying to.

Lieutenant WAGNER. That is right, Mr. Chairman.

Chairman McCLELLAN. All right. Counsel wishes to ask a question.

Mr. CONSTANDY. When the turn-in document accompanied the material, it simply said "cover"?

Lieutenant WAGNER. That is right.

Mr. CONSTANDY. Some kind of cover. When you inspected it, you found them to be aluminum housings or aluminum covers for some piece of equipment?

Lieutenant WAGNER. We opened up one container. We received 80 such containers.

Mr. CONSTANDY. How many in each container?

Lieutenant WAGNER. One in each container. We opened it up and we found it had a very shiny appearance. I am not sure whether it was aluminum or high-grade steel, but it was in very, very new condition.

Mr. CONSTANDY. So you believed that to be a munitions list item. When you reported it to the R. & M. Center, you called their attention to it through the designation requiring those controls?

Lieutenant WAGNER. That is right.

Mr. CONSTANDY. When they advertised it, did they not advertise it as "canvas webbing cover"?

Lieutenant WAGNER. That is right. They not only disregarded my security request, but they also renamed it.

Mr. CONSTANDY. Suggesting it was made out of cloth; it was some kind of canvas cover or something, rather than a housing for a piece of equipment component, a part of an engine or something?

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. Do you know why they changed it that way?

Lieutenant WAGNER. I have no idea.

Chairman McCLELLAN. That was not within your jurisdiction?

Lieutenant WAGNER. No, Mr. Chairman; it was not.

Mr. CONSTANDY. Then the sale was stopped and it was discovered that they not only were not described accurately as they were sold, but there was a need for those things still in the supply center?

Lieutenant WAGNER. That is right.

Mr. CONSTANDY. Some \$179,000 worth of equipment which would have been sold as canvas scrap, in effect, actually was needed parts for automotive or tank equipment.

Lieutenant WAGNER. That is right, and they were returned to the supply system.

Chairman McCLELLAN. Were there many such instances of this in your judgment? Was this an isolated case, or were there many of them?

Lieutenant WAGNER. Mr. Chairman, we sell a large quantity of property. Quite a bit of this is lots of property consisting of hundreds of spare parts. To reemphasize this, we have no—and this is just one

example—we have no way to positively identify these items by nomenclature or what these items belong to. It could be a screw, but this screw is a very, very important part of a missile system or what have you. But we do not know this. All we know is that it is a screw.

Chairman McCLELLAN. You have had some experience; you have been there; you have been identified with this operation. In one instance, at least, you did make a spot check, did you not?

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. And you found what, when you did that? It was under a "cover" designation, but what did you find in it when you opened it?

Lieutenant WAGNER. Here, again, I am not on that level of a technical inspector. It was a shiny piece of metal under there. I cannot really describe it. It was just a large piece of metal.

Mr. CONSTANDY. Eighty of them cost \$179,000.

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. Whatever they were, 80 of this particular item cost around \$180,000.

Lieutenant WAGNER. That is right, sir.

Chairman McCLELLAN. They were apparently in good condition. Were they used or unused?

Lieutenant WAGNER. Mr. Chairman, they looked like they were never used, to me.

Chairman McCLELLAN. They did not indicate they were actually scrap or that they had been used and had served their purpose.

Lieutenant WAGNER. No, Mr. Chairman; they were turned in as new "N-2" condition.

Chairman McCLELLAN. You have no way of knowing what purpose they really served?

Lieutenant WAGNER. No, Mr. Chairman.

Chairman McCLELLAN. Do you think that occurred in many instances in these crates that were turned in under "cover"; that there were probably very valuable goods in there that were serviceable or were needed or were directly applicable to munitions or to armament use, rather than to any other purpose?

Lieutenant WAGNER. Yes, Mr. Chairman; but we had no way to segregate these items.

Chairman McCLELLAN. That is one of the weaknesses of this operation, is it not, that items are not segregated and not properly identified and cataloged so that they can be sold or offered for sale if they are surplus for what they really are, so that the Government can recover a greater percentage of their real value, rather than just selling them for scrap by weight?

Lieutenant WAGNER. That is right, Mr. Chairman.

Chairman McCLELLAN. Do you think there are millions and millions of dollars being lost that way in this operation?

Lieutenant WAGNER. Mr. Chairman, I do not think I could testify to that, but I believe that would be true.

Chairman McCLELLAN. You don't absolutely know, but there are indications from your experience, your observations and your actual participation in this disposal program at this particular depot that would indicate to you that there is great slippage or loss to the Government

in the way this disposal is operated and in the way that the surplus property is being disposed of?

Lieutenant WAGNER. Yes, Mr. Chairman.

Chairman McCLELLAN. Proceed with your statement.

Lieutenant WAGNER. Another problem that has confronted us at Ludwigsburg has to do with screening and redistribution. I had verbal instructions from the Army Materiel Command (MATCOM) and from Mr. Raabe that if, after screening, some other Army unit or agency wants only part of a lot of property, we are not supposed to break up the lot. In other words, if I have 50 of an item and I am told that only 10 items are needed, I am not supposed to send just the 10 items. The Army unit has to take all 50, or none at all.

Chairman McCLELLAN. Do you know the reason for that?

Lieutenant WAGNER. Mr. Chairman, this was explained to me by TASCOM officials that it imposes a hardship on the property disposal facility to create these items, to break open the original crates and to remove the different parts.

Chairman McCLELLAN. Otherwise, it is too much bother?

Lieutenant WAGNER. Yes, Mr. Chairman.

Chairman McCLELLAN. Proceed.

Lieutenant WAGNER. This is an inefficient procedure. It means that we would rather sell items to the contractors for pennies than break up a lot to service and support our own Army. If a division somewhere needs only five scopes from a lot of 25 scopes, we cannot give that division the five scopes. It has to go out and buy them new.

I want to point out the example of scopes is only an example.

Chairman McCLELLAN. That is the word you used.

Lieutenant WAGNER. Yes. I used, in my original testimony, which was somewhat ambiguous, the word "rifles." This was not a true indication, because I never received any such items.

Chairman McCLELLAN. If you had a thousand rifles and some unit needed 500 of them, you would not break them up?

Lieutenant WAGNER. That is right, Mr. Chairman. The example itself, rifles, was a poor selection on my part when I originally made my statement.

Chairman McCLELLAN. This is just to illustrate what you mean.

Lieutenant WAGNER. That is right.

Chairman McCLELLAN. All right.

Lieutenant WAGNER. Mr. Raabe said to me that the reason we were not supposed to break up lots was because packing and shipping placed an undue hardship on property disposal yards. The real hardship is on American taxpayers, it seems to me. They must pay for new weaponry when it is available in excess condition. Fortunately, this policy was reversed by TASCOM after a recent investigation, and we are now able to break up lots.

Chairman McCLELLAN. Did a lot of these changes in policies and procedures that limited some of these practices occur after this investigation started, after our men were there to look into this problem?

Lieutenant WAGNER. Mr. Chairman, I reported this situation to the subcommittee officials in January. Shortly after this, the policy was changed.

Chairman McCLELLAN. They had been there and you had reported it?

Lieutenant WAGNER. That is correct, Mr. Chairman.

Chairman McCLELLAN. All right.

Lieutenant WAGNER. I will conclude this statement with some general observations about why the PDO depot at Ludwigsburg was so inefficiently run.

First, the lieutenant who ran it in the past probably had about as much training for the job as I had, which, in effect, was no training at all. The Army sends young, inexperienced officers into executive positions in these depots without giving them any background as to what to expect or how to manage them.

DOD regulations tell you what to do, but they leave it up to you and your own ingenuity as to how to do it. That is good experience for young officers who survive and do well, I suppose, but it is experience gained at a high price.

I think I know the reason why so little effort is placed on teaching men to be property disposal officers. There is a widespread attitude in the military toward property disposals that says excess property is just a fancy way of saying "junk". It is a popularly held assumption in the military that PDO yards are junkyards and Property Disposal Officers are junk dealers. Nobody wants to earn a name for himself in junk. You won't earn that first star by having effectively managed junkyards. At least it isn't likely.

So what happens? Officers rarely become proficient in PDO, nor do NCOs. Officers and senior enlisted men move in and out of PDO work, often assuming their new responsibilities grudgingly. Continuity and expert knowledge are provided by civilian employees, both American and local nationals. These people become proficient. They become the experts. At Ludwigsburg, the German nationals had the knowledge to run that depot. The question is: Will they always run it in the best interests of the United States?

PDO is a part of military operations that is neglected because usually your best people do not go into it. Often an officer gets an assignment in PDO and puts his time in and leaves, hoping for something a little more inviting at his next post. What experience he gains in the field is lost because his next assignment is likely to be in a field more to his liking and interest.

Chairman McCLELLAN. Thank you very much. I have some questions. I don't think we could get through with you in an hour. I have a luncheon engagement that I would like to keep. If anyone wants to ask one or two questions before we go, I want to ask you some questions when we return.

Do you want to ask some questions, Senator Percy?

Senator PERCY. Yes, I would, Mr. Chairman. It will be hard to pick out one or two.

Chairman McCLELLAN. I know we cannot be through before the noon recess.

Senator PERCY. Would it be possible to conserve our time—I have a heavy schedule this afternoon. Would it be possible for us to carry on for another half hour, say?

Chairman McCLELLAN. I can come back at 1:30.

Senator SAXBE. Mr. Chairman, I may not be able to be here this afternoon. I have a couple of questions I would like to ask. It will take 10 minutes.

Chairman McCLELLAN. All right, we have 10 minutes.

Senator PERCY. I would like to ask this question first.

You have, it seems, recommended a number of things that were accepted. For instance, we had Under Secretary BeLieu, in his statement to the subcommittee, indicate that two things were done: First, the sufficiency of procedures for the screening what was surplus. That procedure was altered to a new procedure for disposal of surplus property after it was classified as surplus.

You testified that you had required that two persons had to sign off on key documents. It would seem that the procedure you adopted has now been used as the pattern for operating procedures with the military. Is that your conclusion also?

Lieutenant WAGNER. Yes, Senator; this could very well be.

Senator PERCY. You also stated that in implementing new procedures you imposed a new system of voucher accountability and cross-checking to make sure true weights were reported on the scales, and that when TASCOM headquarters learned of this voucher accountability procedure, TASCOM officials adopted it as their own and it is now standard procedure for all PDO depots in Germany.

Lieutenant WAGNER. That is right.

Senator PERCY. So the procedures you have adopted has been used as a universal procedure to tighten this operation up. Did you at any time receive from your authority and your superiors a commendation for the obvious meritorious procedures you instituted, despite the lack of training that you had for this?

Lieutenant WAGNER. No; I did not.

Senator PERCY. You did not receive any commendation. Well, I certainly would like to commend you for what I consider to be not only very valuable testimony, and your cooperation with this subcommittee, but taking the initiative and doing something on your own despite a lack of commendation for it.

Since you have cooperated with the subcommittee staff in Europe and given them an affidavit, if you haven't received commendation, have you in any way suffered from it?

Lieutenant WAGNER. Senator, I am not exactly sure; I can't exactly say I have or have not. I have received some correspondence that was derogatory in nature.

Senator PERCY. You received some correspondence of a derogatory nature? From whom did you receive this?

Lieutenant WAGNER. The commanding general of the Theater Army Support Command, TASCOM.

Senator PERCY. Do you have a copy? In what form was it? You mean you received a reprimand?

Lieutenant WAGNER. Yes, Senator; it was based on erroneous information and it has been withdrawn.

Senator PERCY. What date was that, and can you tell us a little more about it? Do you have a copy that we can see?

Lieutenant WAGNER. Yes, I do. I received information that I was going to receive this in May, approximately 2 months after I agreed I would testify before the subcommittee.

Senator PERCY. What did you do about it when you received it?

Lieutenant WAGNER. I wrote a rebuttal explaining the regulations and the procedures and explained that it was based on erroneous information.

Senator PERCY. What happened then?

Lieutenant WAGNER. I received another letter withdrawing the reprimand, officially withdrawing it, but then still indicating that I was responsible.

Senator PERCY. Did you think this was a rather strange procedure, for you to receive a reprimand after you had taken the initiative and instituted procedures that you felt were sensible, sound, and reasonable, and have now been adopted as universal principles by the military? Do you think it was rather strange that you were reprimanded by a commanding general for such action?

Lieutenant WAGNER. Yes, I did.

Senator PERCY. Can you expand on that in any way?

Lieutenant WAGNER. Senator, as property disposal officer, I was there 19 months. When I got there and took over, the disposal operation was at its lowest efficiency, or whatever you want to call it—confusion. I picked it up and made it into an operation that could operate and could dispose of property with the interests of the Government in mind, which was not the case before.

But during this time there were the regulations and guidelines that I had, as an Army officer, to obey. I was not in a position to question them.

Senator PERCY. May I see a copy of the reprimand that you received?

Chairman McCLELLAN. For clarification, do I understand now that this has been withdrawn?

Lieutenant WAGNER. That is correct, Mr. Chairman.

Chairman McCLELLAN. You have the withdrawal?

Lieutenant WAGNER. Yes, I do.

Chairman McCLELLAN. It is all together?

Lieutenant WAGNER. Yes.

Chairman McCLELLAN. Senator Saxbe, do you want to ask a question or two while Senator Percy is examining the document?

Senator SAXBE. Yes.

Do you think this is the result of your cooperation with the subcommittee?

Lieutenant WAGNER. Senator Saxbe, I cannot rightfully, within all honesty, answer that question one way or the other. The chronological events have a certain analogy.

Senator SAXBE. Do you think this reprimand was withdrawn after it would have appeared to cause embarrassment to the command?

Lieutenant WAGNER. It was withdrawn the day before I left Germany to come to Washington, D.C., to testify.

Senator SAXBE. In other words, it was withdrawn after they knew that you were coming to testify before this committee.

Lieutenant WAGNER. That is right.

Senator PERCY. It is a very serious reprimand for not fulfilling your duties as property disposal officer, and it is directed that this letter be placed in your military personnel records. It is as strict a reprimand as I have ever seen an officer receive. It is signed by Lt. Gen. Charles

Eifler. Do you know if General Eifler was familiar with your cooperation with this committee?

Lieutenant WAGNER. Senator, I would not have proof of this, but in January, when I first met members of the subcommittee, I agreed that I would testify, and I believe it was in March that I signed the affidavit stating my testimony, but I really have no positive proof that there was a connection.

Senator PERCY. Do you happen to have any knowledge as to whether General Eifler or his staff had access to the files of this subcommittee and were made aware of your cooperation with this subcommittee as a result of the examination of those subcommittee files?

Lieutenant WAGNER. Senator, I have a memo that I prepared at the time when the subcommittee investigation was initiated. The pertinent point: I was instructed by TASCUM not to divulge information—

Senator PERCY. Then perhaps I can ask our own counsel.

Did the military and General Eifler have access to our files and know that Lieutenant Wagner was cooperating with the committee at our request?

Mr. CONSTANDY. I think that the command was aware that we had interviewed the lieutenant. I think they were aware that we had taken a statement from him, or an affidavit. I do not believe they were aware specifically he would be a witness before the committee until a very recent time when we called at the Pentagon to make arrangements for his return to the United States to testify.

Senator PERCY. When was the committee staff aware that Lieutenant Wagner was actually reprimanded by General Eifler?

Mr. CONSTANDY. I can get the date. I believe it was about 3 weeks ago.

Senator PERCY. Is it the duty of a commissioned officer to cooperate with a congressional committee, a Senate committee of this type, when directed to do so, and was he fulfilling his duty when he did cooperate with us?

Mr. CONSTANDY. I function on the hypothesis that that is correct. There are military regulations which govern the conduct of military personnel. People within the services feel bound by these regulations. One of the things which we attempted to do in working through this investigation was to clarify those areas and to make sure that we had access to the people we wanted, and we would have that access unencumbered.

In fact an earlier occasion arose when there seemed to be some extra interest in what we were doing in Europe by the command. I thought it might be an impediment to an investigation. I undertook discussion with Mr. Buzhardt, General Counsel of the Department of Defense, and Under Secretary of the Army BeLieu. To my knowledge, they issued a communication to Europe directing the command and subordinate commands to take no action which would appear to be an impediment to the investigation.

Senator SAXBE. Isn't it important that we find that memo that tells him not to cooperate?

Mr. CONSTANDY. I am not aware of such a memo.

Senator SAXBE. As I understand it, the memo he refers to here is one that states he should not talk to anybody about these matters. Isn't that pretty important?

Mr. CONSTANDY. I have no knowledge of that. I am aware of the normal processes within the service where they are directed at the time they are queried by congressional people to refer to the congressional liaison of the particular service and be guided by the instructions they receive.

Senator SAXBE. Did they ever tell you to report back on what you told anybody?

Lieutenant WAGNER. Yes, they did.

Senator SAXBE. Whom did they refer to?

Lieutenant WAGNER. Senator, it was a directive from TASCOM stating that, No. 1, if I remember correctly, that I was to release no documents directly to the officials of the subcommittee, but these documents should go through proper command channels; No. 2, that any information divulged, I would make notes of the conversation and contact them.

Senator SAXBE. Was this to the committee staff or to the CID?

Lieutenant WAGNER. This was members of the congressional investigation.

Mr. CONSTANDY. Senator, that is a routine order given to all persons within the military services. What we were able to do after initial conversation with Lieutenant Wagner, recognizing that posed a problem for us, was to take up at the level I mentioned, both Defense and Army, and ask them if, to accommodate this investigation, they would cause a directive to go to the command to waive that and subsequently I believe it was waived.

I think the people we talked to thereafter were no longer required to turn documents back to the command as copies of what they had given to us.

Senator PERCY. I would like to ask one last question before we recess.

I have read the letter of withdrawal to the letter of reprimand. I quote the final paragraph:

This action should not be construed as one of complete exoneration. Although your culpability has been mitigated somewhat, there is no doubt but what your dereliction of duty was a substantial contributing cause to the incident that occurred at the Boeblingen Maintenance Plant on September 2, 1971.

Do you think your record has been totally and completely cleared when you have that kind of rebuttal to the letter of reprimand now in your official file?

Lieutenant WAGNER. No, Senator, I do not believe that.

Chairman McCLELLAN. Will you supply to the staff a copy of all documents, letters, and communications, notations or memorandums related to your activities in connection with your cooperation with this committee so that we may examine them?

Lieutenant WAGNER. I will, Mr. Chairman. I found the memo. If I could make this part of the record and read this very quickly—

Chairman McCLELLAN. We will make part of the record any portion you deem appropriate.

Lieutenant WAGNER. May I read the memo at this time?

Chairman McCLELLAN. Yes.

Lieutenant WAGNER (reading):

Memo For Record, 18 January 1972.

At approximately 1150 hours 18 January 1972, I received a telephone call from Mr. Duschek's secretary at TASCOM. She said that Mr. Duschek had told her to

inform us that gentlemen from Congress are in Europe and might visit PDO yards. She was told to instruct us to inform TASCOM immediately should anyone from Congress turn up at this operation.

Further, Number 1, to make notes on the entire conversation, forwarding the information.

Number 2, not to hand out documents but to forward them through official channels.

I informed her (the secretary) that she was too late, we have already been visited by two gentlemen of the Congressional investigating team and I have already been interviewed on 12 January 1972 and have promised not to speak to anyone regarding this conversation.

Signed : Miss Lippotte, Assistant Property Disposal Officer.

Now, the second part of this memo is mine.

On 12 January 1972, I, 1st Lt. David M. Wagner, have been interviewed and questioned by a member of the Congressional investigating team under the same circumstances as stated above. At this time I released several photocopies of documents required by them.

Signed : David M. Wagner, Property Disposal Officer.

Chairman McCLELLAN. The subcommittee will stand in recess until 2 o'clock.

(Whereupon, at 12:20 p.m. the subcommittee recessed, to reconvene at 2 p.m. the same day, with the following members of the subcommittee present : Senators McClellan, Percy, and Saxbe.)

AFTERNOON SESSION

(The subcommittee reconvened at 2 p.m., the following members being present : Senators McClellan and Gurney.)

Chairman McCLELLAN. The committee will come to order.

TESTIMONY OF LT. DAVID M. WAGNER—Resumed

Chairman McCLELLAN. Lieutenant, is there any further statement you wish to make before we resume interrogation of you?

Lieutenant WAGNER. No, Mr. Chairman, I do not.

Chairman McCLELLAN. Referring now to your prepared statement, at the top of page 6 and on page 7, you make reference to the German third country nationals employed at the PDO yard.

In general, what was the quality of work of the Germans or third country employees? In other words, are they competent, efficient? Are they dedicated to duty or are they indifferent, do they get by with as little as they can; are they unconcerned about efficiency and proper attention to their duties?

Give us a little idea about them.

Lieutenant WAGNER. Mr. Chairman, it is much as you described in your question. Generally, in my yard I had some very good people and I had some not so good people. During my testimony I made reference to a Mr. Drobny who resigned.

Chairman McCLELLAN. Did he resign under pressure from you?

Lieutenant WAGNER. Yes, he did.

Chairman McCLELLAN. Or did he resign voluntarily?

Lieutenant WAGNER. He resigned voluntarily but this was due to pressure from me.

Chairman McCLELLAN. Could you employ the same nature of pressure on others and get rid of them if you wanted to?

Lieutenant WAGNER. Yes, you can apply the same pressure but the person involved, if he is OK and he can stand his ground you can't

get very far. What I am trying to say is that it is just you, as property disposal officer, a first or second lieutenant against him, a local national employee. What I am saying here is that the U.S. Army or the U.S. Government, cannot fire an employee.

Chairman McCLELLAN. You mean they would give more weight to him as a civilian employee than they would to you as an officer when there is conflict between your views?

Lieutenant WAGNER. That is correct. Mr. Chairman. In order to separate an employee I would have to prove beyond any reasonable doubt that he was stealing from the Government.

Chairman McCLELLAN. How about incompetence?

Lieutenant WAGNER. Separation due to incompetence is almost impossible after the first 3 months. A new employee has 3 months of training. During those first 3 months it is very easy to fire him due to incompetence.

Chairman McCLELLAN. You can fire him before the end of 3 months if he is incompetent?

Lieutenant WAGNER. Before the end of the 3 months if you find them incompetent you can fire them with ease.

Chairman McCLELLAN. Once they pass that test—

Lieutenant WAGNER. It is very, very difficult.

Chairman McCLELLAN. So in some respects you would be handicapped in any operation over there under your command, or anyone else would experience some handicap due entirely to the quality of personnel?

Lieutenant WAGNER. Yes, Mr. Chairman, very much.

Also, at this time I would like to point out that property disposal officers rely heavily on German nationals for help and guidance.

Chairman McCLELLAN. Why do they have to rely so heavily on them?

Lieutenant WAGNER. There is a constant change of property disposal officers in Germany. Thus the officer in charge is constantly being trained to learn a new job.

Chairman McCLELLAN. They are there much longer than you and therefore know more about it?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. It takes you a period of time in order to get familiar with your duties, not only with your duties but how to perform them?

Lieutenant WAGNER. That is a hundred percent correct.

Chairman McCLELLAN. And to get the information necessary to enable you to perform properly.

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. You also have to rely on them for information?

Lieutenant WAGNER. Not only information, sir, but guidance, and decisions. You are inexperienced, you have no knowledge of property disposal. You are not in a position to make a decision because you do not have the knowledge. So you turn to the local nationals, supervisors, for these decisions.

Chairman McCLELLAN. Do you seek and follow their counsel very often?

Lieutenant WAGNER. This is correct, if you are not proficient, you must seek their counsel. It takes quite some time to become proficient.

Chairman McCLELLAN. Certainly in the beginning of your command you are compelled to do that?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. After you get more experience you can make the decisions often without consulting them?

Lieutenant WAGNER. This is the way I handled it, Mr. Chairman. At first, until I learned property disposal, I had to rely on my German supervisors. Of course, after I got my feet on the ground I took the bull by the horns, so to speak, and we went on from there.

Chairman McCLELLAN. Were there any problems encountered with language and communication between yourself and your subordinates or contractors? Did you have a language problem?

Lieutenant WAGNER. Yes, I did, Mr. Chairman. The German national supervisors as a rule speak English but this is not true in all cases. For example, at Schwaebish-Gmund, which was one of my outlying satellites that I had responsibility over, the German there spoke no English whatsoever. My communication with him was through an interpreter.

Chairman McCLELLAN. Are interpreters always available to you?

Lieutenant WAGNER. They would be one of my employees.

Chairman McCLELLAN. Generally you would have an employee who could act as interpreter?

Lieutenant WAGNER. This is correct, Mr. Chairman. Also I had another satellite located at Nellingen. Recently there has been an Arab employed as the agent in Nellingen. This particular man could speak very little English and very little German.

Chairman McCLELLAN. Could you find an interpreter for him?

Lieutenant WAGNER. No; I could not. No interpreter was available.

Chairman McCLELLAN. This may be something that is unavoidable, this language problem. It would probably appear at almost any depot where you have to rely on nationals?

Lieutenant WAGNER. This is correct.

Chairman McCLELLAN. On page 10 you refer to the lack of trained or experienced officers assigned to PDO yards. Supervision and guidance then becomes important. What supervision and guidance did you receive as property disposal officer? I believe you have already related that in detail. Is there anything you want to add to it?

Lieutenant WAGNER. Yes, I do, Mr. Chairman. As far as supervision, I received very little. My immediate superiors rarely visited my disposal facility or satellites. It seems that they only visited property disposal to see what I had in the retail sales store.

I mentioned this once before in my testimony. It is where we sell sleeping bags and things of this sort, a very minor aspect.

Chairman McCLELLAN. Did you operate a disposal store at the depot?

Lieutenant WAGNER. That is correct, but it is a very minor aspect of our mission. Also, as for guidance, I once again received very little. In most cases, PDO regulations and directives state what the PDO is required to do, but as to how to do this is left up to his own individual initiative and ingenuity and experience.

Chairman McCLELLAN. When you exercised your own initiative and ingenuity and set down rules and regulations or policies to be followed by your subordinates or employees, did you get from your superiors, those to whom you must report and be accountable to, did you get from them proper cooperation and support?

Lieutenant WAGNER. In most cases, I did not, Mr. Chairman. For example, when I would request assistance or clarification concerning a certain directive that their headquarters put out, the usual outcome was either ambiguous, or they referred me to another headquarters.

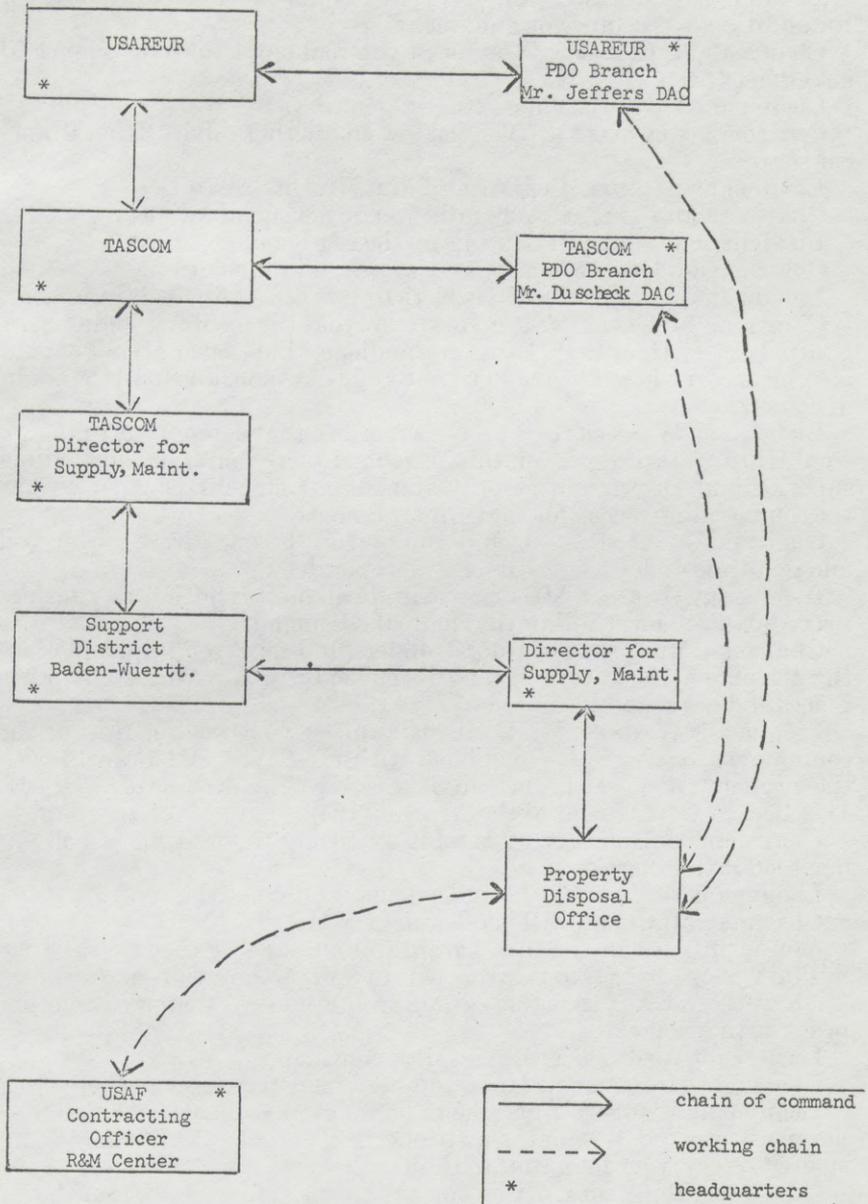
At this time, Mr. Chairman, I would like to include not necessarily as an exhibit but as part of the record an operational chart that the disposal operates under in Germany.

Chairman McCLELLAN. It may be received and it will be printed in the record if adaptable. It will also be made an exhibit.

(The document referred to was marked "Exhibit No. 97" for reference and follows:)

EXHIBIT No. 97

PROPERTY DISPOSAL ORGANIZATION
IN EUROPE



Lieutenant WAGNER. I have approximately eight different headquarters which I am reportable to as property disposal officer.

Chairman McCLELLAN. You had to report to eight different ones?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. Did you go through channels?

Lieutenant WAGNER. I can go through channels or circumvent them for additional assistance or guidance.

Chairman McCLELLAN. You mean you had eight sources to go to to get advice?

Lieutenant WAGNER. This is correct.

Chairman McCLELLAN. Did you get conflicting advice from different sources?

Lieutenant WAGNER. Very often I did, Mr. Chairman.

Chairman McCLELLAN. What did you do in that situation?

Lieutenant WAGNER. It depends on the situation.

Chairman McCLELLAN. You used your own judgment?

Lieutenant WAGNER. More times than not I used my own judgment.

Chairman McCLELLAN. It seems to me that the military could be organized better than that. Even in the disposal operation there should be someone to whom you could report and be responsible to in the chain of command.

Lieutenant WAGNER. I did have superiors that I reported to. If we would just quickly go over this organizational chart, my immediate superior and Director of Supply and Maintenance. His superior was the commanding officer for the support district.

Chairman McCLELLAN. Could you bypass the one directly over you and go to one under whose direction he operated?

Lieutenant WAGNER. Mr. Chairman, I can do this but for any formal procedures you must follow the chain of command.

Chairman McCLELLAN. I don't understand how you might pick up the telephone or write a letter to somebody in seven or eight other places and get counsel.

Lieutenant WAGNER. Mr. Chairman, this is what we did. Most of our communications were by telephone with the TASCOM branch, with the property disposal branch in TASCOM. This was headed by Mr. Duscheck, a Department of the Army civilian.

Chairman McCLELLAN. It is a bit confusing to me. I guess you understood it thoroughly.

Lieutenant WAGNER. No; Mr. Chairman, I did not.

Chairman McCLELLAN. Then I won't try to.

You mentioned in the first paragraph on page 11 that by the time military people began to be proficient in their assignments and in operation of these yards that they would be moved or transferred to other posts. Is that correct?

Lieutenant WAGNER. Yes; it is, Mr. Chairman.

Chairman McCLELLAN. Have you been transferred somewhere else?

Lieutenant WAGNER. I am due to be relieved from active duty. It so happens I served 19 months as property disposal officer. This is considered a very, very long time to be in such a position.

Chairman McCLELLAN. Did you try to get transferred from there?

Lieutenant WAGNER. No, sir. My own experience may not be typical, but as further indication, Miss Lipporte, whose affidavit has been presented to you, has told me that in the 24 years she worked at the

same yard she had 23 officers assigned over her as property disposal officers.

Chairman McCLELLAN. What is her position?

Lieutenant WAGNER. She was the assistant property disposal officer.

Chairman McCLELLAN. Assistant property disposal officer who has been at that post for 24 years, and served under 23 officers?

Lieutenant WAGNER. That is correct. Further, she said in one 5-year and 10-month period she had eight officers, six of whom were there no longer than 2, 3, 4, and 7 months. So you can see, Mr. Chairman, 19 months—I was a very old property disposal officer.

Chairman McCLELLAN. Did you observe at any time that some units would attempt to turn in items which obviously should have been demilitarized but were not? Did you observe articles brought in there to you that should have been demilitarized at the source before they were brought there?

Lieutenant WAGNER. Yes; Mr. Chairman.

Chairman McCLELLAN. Was that in any significant quantity?

Lieutenant WAGNER. Several times there were occasions that this occurred. For example, missile units attempted to turn in a large quantity of missile components which were still in their original containers and in like-new condition. They had never been used. The turn-in documents that accompanied the material stated that these items had been demilitarized in accordance with the regulations.

Chairman McCLELLAN. But you knew they had not?

Lieutenant WAGNER. Anybody could look at these sir, and see that they had not been.

Chairman McCLELLAN. It was perfectly obvious that they had not been?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. When you had that happen did you have any recourse? Could you take it up with anybody to find out what was wrong and see that that did not occur again?

Lieutenant WAGNER. When this occurred, Mr. Chairman, I abruptly denied turn-in.

Chairman McCLELLAN. You refused to accept it?

Lieutenant WAGNER. I refused to accept this.

Chairman McCLELLAN. Then what happened?

Lieutenant WAGNER. I would contact their supply personnel or the commanding officer, and remind them what the regulations stated and that whoever signed his name on the turn-in document stating that these items had been demilitarized could get into a lot of trouble.

Chairman McCLELLAN. Did they take the articles back and demilitarize them?

Lieutenant WAGNER. No, they returned. The truck was not unloaded. They drove out of the gate with the articles in the truck. Approximately 2 months later the same truck with the same paperwork returned. Once again I threw them out of my yard. The third time they got it right, the things were demilitarized.

Chairman McCLELLAN. In other words, they had demilitarized them.

Lieutenant WAGNER. That is right, but it took three times.

Chairman McCLELLAN. How do you account for the looseness of command over there? The lack of proper supervision and diligence in protecting the Government's interest? How do you account for it?

You were there on the ground, you could see the operation and you knew of the laxity in enforcing the regulations. You observed the complacency or indifference to these breaches of proper supervision and so forth. Was there any discipline over this at all? Was there anyone in high command that gave instructions to change things? They might not even know about the conditions. Give us a little viewpoint on it.

Lieutenant WAGNER. All I can state is my personal experience with the problem. Apparently there is a lax attitude toward all disposal. Once something becomes excess, it could be new or it is no longer needed or it has served its purpose—

Chairman McCLELLAN. Just get rid of it somehow?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. In the most expeditious way possible?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. They don't care whether the paperwork is kept right and the regulations are observed and the Government gets the most out of it that it can to recoup its cost?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. That prevailed all the time you were there?

Lieutenant WAGNER. Yes, it did.

Chairman McCLELLAN. Did you notice any change after this investigation started, and it became known that this committee was interested, the Congress was interested, in this program and looking into it—did you notice any change in the attitude?

Lieutenant WAGNER. Yes, Mr. Chairman, not necessarily attitude, but certain procedures started to change.

Chairman McCLELLAN. Was there some attention given to improving procedures?

Lieutenant WAGNER. Apparently there was. The procedures, of course, come down from higher levels and I just obeyed them. But the procedures that were new—I am not necessarily saying that they are exactly what we are going for but they were different from the procedures before.

Chairman McCLELLAN. Apparently an effort was made to improve them?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. Senator Percy, I did not ask any questions about the matter you were pursuing at the time of the recess.

Senator PERCY. Mr. Chairman, first I would like to comment that Lieutenant Wagner is an exhibit, whether it be A or Z, for the amendment that I offered to the military appropriation bill several years ago that would cut back \$1.5 billion that we have in there for rotation of military personnel and change of permanent duty station and training of new personnel. I proposed we cut it 25 percent. It has been my own military experience in the Navy that I barely got on the job and got acquainted with it then I would get shipped out. You sometimes got shipped halfway around the world, move all your personal effects, your family, at Government expense. That seems to be a high item.

Chairman McCLELLAN. That evidently is a Department of Defense policy. It has been over the years.

Senator PERCY. It seems to be the policy. The evidence is in the Navy, every naval officer from the time he left Annapolis until he retired changed permanent duty station every 15 months, taking cocktail

parties that you have when you come aboard and cocktail parties when you leave, that does not leave too much time for your duties.

Chairman McCLELLAN. During those 30 years it is hard to stay sober.

Senator PERCY. I was delighted, Senator Stennis and Senator Goldwater cosponsored that amendment and we put it through. The services objected violently at first but I think they found we improved morale. We saved \$300 million or \$400 million just by a simple procedure such as that. No business can run itself on the basis of changing key people that frequently.

I was interested in the memorandum that you were reading when we adjourned for lunch. I would like to ask our Chief Counsel if we have a copy of that memorandum in our files. Were we aware that Lieutenant Wagner had written a memorandum for the record? I had not known about it before he read it. Do we have such a copy? Is that one of the documents that we have?

Mr. CONSTANDY. You are speaking of the 18th of January?

Senator PERCY. Is that the memo you read?

Lieutenant WAGNER. Yes, sir.

Mr. DUFFY. Yes, Mr. Chairman, we have a copy of that document.

Senator PERCY. Does this seem to indicate anything of concern to us that the level of cooperation we seek and expect to have from the Department of Defense is somewhat limited by these instructions which have been issued and which are certified to by Lieutenant Wagner and by Charlotte Lipporte.

Mr. CONSTANDY. If I may clarify it. When we began the investigation I visited Mr. Buzhardt, the General Counsel for the Department of Defense and Mr. Kenneth BeLieu, the Secretary of the Army. At that time they assured me of their cooperation. At that time to my knowledge a communication went out to the commands informing them and asking them to cooperate with the committee's efforts.

Subsequent to that, as people in Europe began to interview personnel including Lieutenant Wagner, we became aware, at least I became aware, that the normal regulations on the conduct of personnel within the services were at variance with our needs. Those regulations require people in the services when contacted by personnel from a congressional committee to notify their own command of that contact and when any request for documents was made of that person, the documents would be furnished to the committee through the command and ultimately through the congressional liaison officer.

This was just one of the working problems that we tried to pick our way through. Once I became aware that that would be an impediment to the investigation, and that was sometime in January, I realized we weren't getting documents. They didn't get the message and the people we had been talking to would be debriefed by the military personnel. We went to the Pentagon and spoke to Buzhardt and BeLieu. I pointed out the investigation would take forever if we went about it that way, and I asked them to accommodate our need and let us have access to the people and after the people talked to us, about their not inquiring as to what they disclose.

Furthermore, we would have to have immediate availability of the documents. They both agreed immediately. My understanding is, and I believe I have even seen it, that a subsequent communication went from the Department of Defense in to all the commands, par-

ticularly in Europe, wherein they were instructed to waive those requirements in reference to the committee's needs.

Since that time I must say that I am not aware of any incidents which arose wherein we were denied immediate access to records or people or that any of the persons whom we subsequently interviewed were, in effect, debriefed by military personnel.

I think part of this is that the rules of Government conduct for the military people attempt to channel the contacts by congressional committees through prescribed areas. This venture is being undertaken under somewhat different terms, there was an accommodation for this committee to be able to bypass those requirements. In fact, the normal liaison with this committee is through the Army liaison office in the Senate. Mr. Buzhardt designated the Defense liaison officer, who happened to be an Air Force officer, to be the point of contact with the committee.

Senator PERCY. That would be true for the whole Congress of the United States. That is the only place we could get information. We would be stymied from one year to the next if we could not get out in the field and get information. All I want is to be assured that the integrity of this committee was established and nothing interferes with the charge that we have in the Congress of the United States to investigate. I am concerned about the professions of cooperation back and forth that occurred on the first day of testimony when now I see clearly evidence, sworn to by an officer of the Army, that we were told things contrary to the representations made to us and then I learned for the first time today that instead of being commended, a lieutenant of the Army is reprimanded, and I would like to have clarified exactly when this has occurred.

I have now read the reprimand and I have read the reply and the letter of withdrawal, and as I understand it—when does your period of Army service end? When would you logically expect to go out of the Army?

Lieutenant WAGNER. August 20, sir.

Senator PERCY. Is there any indication you are going to get a further clarification of this, or is this going to stand on your permanent life-time record, this letter of withdrawal which I would not consider a satisfactory withdrawal at all under the circumstances? Is that going to stand on your record?

Lieutenant WAGNER. Senator, as far as I know, that is all that I have received. I would like to say I received that within 24 hours before I left Germany. I have received no further information.

Senator PERCY. When did you first begin to cooperate with this subcommittee at our specific request?

Lieutenant WAGNER. In January 1972.

Senator PERCY. What was the date of the memorandum that you read to us before noon recess today?

Lieutenant WAGNER. January 18.

Senator PERCY. What was the date of your affidavit to the subcommittee staff?

Mr. CONSTANDY. March 24, Senator.

Lieutenant WAGNER. March 24.

Senator PERCY. What was the date of the letter of reprimand you received?

Lieutenant WAGNER. The fiscal date was June 9. I learned that I might receive such a letter on May 12.

Senator PERCY. I have here the letter of reprimand and the withdrawal. What is the date of the withdrawal letter?

Lieutenant WAGNER. July 18.

Senator PERCY. Is this then just before you left Germany to come over here and testify?

Lieutenant WAGNER. This is correct.

Senator PERCY. Do you see any correlation between getting that letter of withdrawal and your coming before this committee? How do you account for that?

Lieutenant WAGNER. Sir; I am not sure if I can testify to that or not, but there was a certain amount of confusion or interest in getting me over here to the United States. I wasn't due to rotate until August 8. There was a certain amount of hustle and bustle involving major commands and exceptions to the rule to get me over here so quickly.

Senator PERCY. In your letter of rebuttal to the letter of reprimand which is dated June 19, you stated that "It is my opinion that such responsibility was on the commanding officer where the material was located."

Do you happen to know if there has been any further inquiry as to whether or not there is a fixed and definite responsibility that should be assumed by the commanding officer and therefore has he received a letter of reprimand?

Lieutenant WAGNER. Senator, I am not sure who received letters of reprimand concerning this incident, whether anyone else did, or whether I was the only one. I am not sure. As the rebuttal states the guidelines had been set out in a letter dated October 12 that was issued from the same headquarters, TASCOM.

Senator PERCY. I would like to yield to my colleague, Senator Gurney, and then come back in just a minute.

Senator GURNEY. I have just one or two questions.

Lieutenant, I notice in your statement you talk about a Mr. Raabe. What was his job?

Lieutenant WAGNER. He was one of the DACs, Department of the Army Civilians, that worked in TASCOM, but in the PDO Branch of TASCOM.

Senator GURNEY. What was his job assignment?

Lieutenant WAGNER. As far as I know, there were two Department of the Army civilians who worked in this PDO Branch, Mr. Duscheck, once again a DAC. He was chief supervisor of the Branch. Then came Mr. Raabe. He worked in the same office.

Senator GURNEY. He was the one who explained to you about the disposal yard?

Lieutenant WAGNER. This is correct.

Senator GURNEY. Was his job entirely concerned with the property disposal yard?

Lieutenant WAGNER. Senator, I am not exactly sure what they did up there in that office. Ideally, their mission was to tie together and support all the different disposal yards in Germany, not only the ones in Baden-Wuerttemberg, which I was part of.

Senator GURNEY. Whatever his title was, his main job was in connection with the property disposal yard?

Lieutenant WAGNER. It was TASCOM property disposal. Property disposal is one of the functions of Theater Army Support Command. Their branch was the administrative branch.

Senator GURNEY. If there was any expert on the so-called TASCOM property disposal yard he was supposed to be it?

Lieutenant WAGNER. That is correct. The office consisted of three people, Mr. Duscheck, an American with many years experience in property disposal, Mr. Raabe, an American, DAC civilian, once again with many years of experience in property disposal, and one German national employee.

Senator GURNEY. Insofar as Mr. Raabe described your new duties, my impression of your testimony is that he really did not know what he was doing. Is that correct?

Lieutenant WAGNER. Senator, he spent the first 3 days in property disposal with me. They were my first 3 days. It was an entirely new job to me. I knew absolutely nothing about property disposal. He might have known his job very, very well and he could have put out a lot of information to me, but at that time I did not grasp all that he said.

Senator GURNEY. Can you remember anything he said to you by way of explanation of your job, or instructions about your job?

Lieutenant WAGNER. I remember distinctly a few statements that he did make. It is kind of ironic the things I remember the most, really have little bearing on the requirements of the job.

Senator GURNEY. Did he set down any procedures that you were to follow?

Lieutenant WAGNER. No, Senator, he did not. He explained to me that there were regulations, the DOD manuals and guidelines, and things of that sort that had all the rules.

Senator GURNEY. Did he give you any of these books of regulations?

Lieutenant WAGNER. The Ludwigsburg property disposal activity had all the manuals and regulations on file.

Senator GURNEY. Did he warn you of any possible pitfalls or dangers in handling this job?

Lieutenant WAGNER. No, he did not.

Senator GURNEY. Did he impress upon you in any way that this was a position that carried with it a great responsibility, some responsibility, or no responsibility?

Lieutenant WAGNER. Sir, if I remember right, the question of responsibility did not really come into the discussion. He admitted that I did have problems like any property disposal yard would have at that time. But the net effect of his visit was not a great deal of help, that is what I am trying to say. I was so new to the job that I did not benefit from it. Maybe if he had waited a month and then had advised me I might have gotten more out of it.

Senator GURNEY. Did he give you any instructions, such as, "If you get into trouble, Lieutenant, you ought to contact so and so and that headquarters or that person will help you out"?

Lieutenant WAGNER. Senator, this is easier said than done, so to speak. I have already as an exhibit in the form of an illustration all the different headquarters that property disposal has to report to.

Senator GURNEY. I remember you testified to that. I didn't see the exhibit. Can you give us a little example about what you were supposed to do? What were these eight headquarters?

Lieutenant WAGNER. Let me give you an example. We would call the contracting officer at the redistribution and marketing center for clarification on a guideline or on a regulation. They could answer in an ambiguous way, they could answer straightforward or they could refer us to a different headquarters, and there were many to pick from. I guess the term here would be "pass the buck."

Senator GURNEY. Let's take a specific example. Suppose some surplus property came in which should have been demilitarized and wasn't. What would you do through this system of command that you were operating under? What were you supposed to do?

Lieutenant WAGNER. Thank you for that question. We had a particular example that occurred concerning this. It was items in general, munitions list, lots of spare parts from Boeblingen, which was a supply depot, whenever they turned in property to us we were directed by TASCOM, PDO branch in Worms, that we did not have to worry about what items should be or should not be demilitarized, that this was the responsibility of Boeblingen to see that the items that required demilitarization were indeed demilitarized. It was not our responsibility.

Senator GURNEY. In other words, are you saying if something came into your yard clearly not demilitarized you were supposed to forget about it?

Lieutenant WAGNER. This is correct. If an item was turned in to us that the document did not indicate it should be demilitarized, for example, the turn-in document did not say this item was to be demilitarized, then the item was not demilitarized.

As property disposal we had no way of telling whether this item needed to be demilitarized because we did not know what it was in the first place. Only if the document stated this item was demilitarized would we inspect the item. A logical person could look at the item and know it was not demilitarized, then we would have grounds to not take the turn-in. If they said it was demilitarized and it looked demilitarized, it was OK. If the document stated it did not need to be demilitarized, then the item did not need to be demilitarized. We had no grounds to question the turn-in.

Senator GURNEY. Let's take the case where it should be demilitarized and you saw that it had not been—your instructions were not to accept it?

Lieutenant WAGNER. That is correct. We had definite rules on this. Whenever this did occur the situation would be remedied.

Senator GURNEY. Remedied only if you did not accept it. That was the remedy?

Lieutenant WAGNER. This would be one of our remedies. Of course what frequently occurred here, an item stated it was demilitarized but it was not demilitarized, we would contact the turning-in unit, for example, Boeblingen in this case, and they would come up that same day and demilitarize it. Then they turned it in.

Senator GURNEY. Let us take the case where the turn-in document did not indicate that it was supposed to be demilitarized but again it was obvious it should have been; what did you do in a case like that?

Lieutenant WAGNER. If it was obvious that this item should be demilitarized, let us say the paperwork was not correct, then we had grounds to reject it. Where the real problem occurs is when the paperwork does not say it should be or should not be demilitarized.

Senator GURNEY. That is the question I asked. What do you do in a case like that?

Lieutenant WAGNER. Then we receive it. If it is something that is obvious, for example, a pistol or a rifle of some sort that any layman would know that that can shoot, that that can kill, and the paperwork did not state it was demilitarized, this is obvious, this would be rejected. The question in point, if it is a little device, it could be a integral part of a guidance system on a missile, but to look at it, it could be a Tinker-Toy, and then of course here the document does not say this item requires demilitarization, then we as property disposal people had no way to determine if this item required demilitarization or not.

Senator GURNEY. In your opinion, did a great deal of materiel come into your yard that had improper paperwork on it, that should have been classified to be demilitarized and wasn't?

Lieutenant WAGNER. Senator, I have no way to answer that truthfully. We received hundreds of line items every day from these supply depots and we would get turn-in documents by the shoebox, maybe six shoeboxes a day of documents accompanying the materiel.

Senator GURNEY. Do you have any impression as to whether a lot of these things should have been demilitarized or not?

Lieutenant WAGNER. All I can say is that these items were all thrown together, we had no way to segregate them. They could be components for machinegun items or repair parts for the many trucks that the military uses. They were all combined. There was no segregation between the different stock classifications.

Senator PERCY. Mr. Chairman, to finish up this one point which I obviously am disturbed about—because if it really became a pattern at all it would make it impossible to work with this committee—to have telephone instructions given to personnel, the implication of which is that we are not going to cooperate as fully as we have been led to believe, and then to have a reprimand issued to an officer shortly after he begins to work with this committee, there is no more straightforward way I know to get the word around that you are not going to gain too much by cooperation if you end up with a reprimand and the word can get around pretty fast on something like that.

This is the first that I had heard of this letter of reprimand today. Again, I would like to ask our Chief Counsel, when we learned of this incident striking at the heart of our ability to pursue our task with diligence and with dispatch, was any attempt made to have General Eifler, who signed the reprimand, interviewed or brought in for questioning to see what he would say about such a letter of reprimand, and whether or not there was any relationship between the letter of reprimand and the investigation this subcommittee was carrying on?

Mr. CONSTANDY. Senator, if I may I would like to give you some background before I answer the question.

I think it should be clear, to isolate the incident as it was carried out by the General, the balance of the relationship which we have enjoyed, and I think that that is the proper term in dealing with the military establishment.

Chairman McCLELLAN. Let me ask you, is this the only case where you know of anything happening, where really affirmative action was taken to obstruct your progress in all of your investigations?

Mr. CONSTANDY. In January when Lieutenant Wagner was interviewed, and I say I first learned after he was interviewed there was a request made of him for the information furnished us, I went to the Pentagon and spoke to Mr. Buzhardt and Mr. BeLieu, I told him that as I understood it, it was normal procedure within the military service. I asked them for an accommodation to avoid it in this investigation. They acquiesced and sent a directive, and I believe I have seen it, to the command in Europe telling them in effect that the normal regulations governing the conduct of their personnel when contacted by congressional staff people would be waived and that those people should be made available to us, that they would not be debriefed, and the documents would be made available to us.

Since January, to my knowledge, there has been no other occurrence which even suggests there was any reticence on the part of anybody and I would have to include General Eiffer.

I spoke to General Eiffer in April. I thought we had a clear understanding about things.

Chairman McCLELLAN. Wasn't this letter of reprimand sent since then?

Mr. CONSTANDY. It was sent since then.

Chairman McCLELLAN. Then this does not add up.

Senator PERCY. Lieutenant Wagner, were you given clear-cut instructions to cooperate with this committee and help it in connection with its work so that the truth and whole truth could come out? Were you given such instructions?

Lieutenant WAGNER. From whom?

Senator PERCY. By your superior. Do you have a superior?

Lieutenant WAGNER. I have one immediate superior but I take orders from quite a few different people.

Senator PERCY. Is there a proliferation of command there?

Lieutenant WAGNER. Sir, at the time and there still is confusion as to who my boss was, you would go off in one direction with one chain of command and go off in another direction with a different chain of command.

Senator PERCY. Well, whatever chain of command you reported to at that particular moment, did you ever get clear-cut instructions and have it clearly established in your mind that your duty was to cooperate with the subcommittee?

Lieutenant WAGNER. No, I did not.

Mr. CONSTANDY. Senator, I did not finish answering the question you asked. I first learned of the letter of reprimand on July 7. I learned of this as a result of a telephone conversation from another person to another staff member. The telephone conversation was from Germany. I was led to understand the letter of reprimand had been written to Lieutenant Wagner and it was Lieutenant Wagner's belief it was predicated on erroneous information. That was the basis for the letter.

On the 7th of July I called Major General Richards, Deputy DCSLOG. He is the contact I have had in dealing with the Department of the Army, and Mr. BeLieu. I asked him if he would make an immediate inquiry to determine whether in fact the letter of reprimand

mand had been issued. If it had been, would he inquire to find out whether it was based on fact.

At that time we had none of our own people in Europe, you understand. We had not seen these documents. General Richards called me back on July 10. He said over the weekend he had been able to look into the thing through contact by telephone with Germany. He told me that the letter of reprimand was in fact sent to the lieutenant. It was his understanding from the information he had received that it was predicated on erroneous fact; because of that the letter of reprimand would be withdrawn; there would be no record whatever in the lieutenant's personnel file.

I let the matter drop as far as the committee's concern relating to the letter. However, I had a subsequent conversation both with Mr. BeLieu and Mr. Buzhardt.

I thought it was important to inquire into the motivation for having the letter sent. Without further information that caused me to believe that the motive behind the letter was to affect the testimony and cooperation of the lieutenant, I didn't feel at that time it required me to go further. The matter was not dropped. It was my understanding that the letter had been withdrawn.

Senator PERCY. Mr. Chairman, I wonder if you recall whether or not it was General Eifler who in Vietnam in 1965 or 1956 told us that he was extremely well pleased with the performance of a major contractor called Pacific Architect and Engineers, and subsequently it was shown that millions of dollars were wasted by this contractor? That name rings a bell with me.

Chairman McCLELLAN. I don't remember. Maybe some of the staff remember it.

Mr. DUFFY. I don't recall it.

Mr. MORGAN. He said that to Mr. Adlerman and myself.

Senator PERCY. I wonder if in view of the still damaging statement made in a letter that is in the personnel file, it is a withdrawal letter but it is still damaging, whether or not we ought not to clarify, as long as this is a public record, the implication that there is some correlation between your cooperation with the committee and the letter of reprimand, whether or not it would not be well to ask General Eifler. Do you know where he is?

Mr. CONSTANDY. I believe he is in Worms, Germany, which is the headquarters of TASCOM.

Senator PERCY. I feel it would be appropriate to discuss it with him.

Chairman McCLELLAN. We can discuss it after this phase of the hearing that we hope to close today. I did not know about this until it developed in the testimony today.

Senator GURNEY. Mr. Constandy, when did you talk to Major General Richards and he said the reprimand had been based on erroneous information?

Mr. CONSTANDY. On the 10th of July. He told me that it was his understanding that the facts upon which the letter of reprimand was based were erroneous.

Senator GURNEY. Did you ask him how these erroneous facts came into being?

Mr. CONSTANDY. No, sir; I didn't. I feel he was really in no better position to inquire into it on this side of the ocean than I was.

Senator GURNEY. Did we ever ascertain why?

Mr. CONSTANDY. No, sir.

Senator GURNEY. It strikes me as amazing that a lieutenant general reprimands a lieutenant here about something that is inconsequential as this. If he is up to that business he certainly does not know his business as a lieutenant general.

What impresses me is the amazing coincidence here that this reprimand goes from a lieutenant general to this lieutenant who is the only witness we are going to have in this affair. I would think, Mr. Chairman, that we ought to inquire further into that.

Senator PERCY. I would feel so also. I will certainly advise the military to be absolutely certain that when a man or citizen, whoever he may be, cooperates with an investigating committee of the U.S. Senate that that man or woman, whoever he may be, is not going to be disciplined as a result of that cooperation.

From what I can see, you should have plaudits or commendation. I will put a letter in your personnel file. From the evidence so far, you have been courageous, innovative, and resourceful. For you to have on your record a reprimand, and the wishy-washy statement they make at the end that they do not feel you are totally and completely exonerated when they see a mistake has been made in the evidence, I think there is something wrong here.

The implications are very, very serious. I think it behooves the staff of this committee to exercise diligence now in seeing that we protect the witness. When I consider the protection we provide the known criminals who come in here and testify, we protect their families, we protect everything about them, we provide stipends for them and everything else, so that we can get evidence. Then someone voluntarily wants to help us and documents it and details it and stands in jeopardy of injuring his record, I think this is a very, very serious matter. I do not take this matter lightly. If General Eifer does, I certainly do not. I think we should hold him accountable for what he has done.

I appreciate very much the support of my colleague.

Senator GURNEY. I join completely in what the Senator has said. I also would like to draw the committee's attention to the last paragraph in this withdrawal letter. If this is not damning with faint praise, I have not heard any letter that does.

Fourth, this action should not be construed as one of complete exoneration. Although your culpability has been mitigated somewhat, there is no doubt but what your dereliction of duty was a substantial contributing cause to the incidents that appeared at the maintenance plant on 2 September 1971.

I think we had better get General Eifer and see what he had on his mind.

Chairman McCLELLAN. What is the incident he referred to? Do you know?

Lieutenant WAGNER. Yes, I do, Mr. Chairman. If I can put this very briefly.

As I explained before, I had official satellites located in Schwaebish-Gmund and Nellingen. The incident occurred at Boeblingen, which was not one of my satellites. I had no people that worked for me working at Boeblingen. Not only the understanding but the regulation at the time stated that the commanding officer of the activity where the material is located is responsible for the material which is to be

sold in place. This was not only the understanding but also the guidance, written guidance.

Chairman McCLELLAN. Did that have any relation whatever to this investigation or related directly or indirectly to the so-called incidents, to the fact that the committee was making investigations of this matter?

Lieutenant WAGNER. No, Mr. Chairman. I do not think so.

Senator PERCY. The incident is directly related because the charge was that the contractor was able fraudulently to remove scrap material in the form of a trailer without payment to the U.S. Government.

Who was responsible? You were charged with being held responsible when you proved by regulations it was the commanding officer that was solely responsible and you did not have responsibility for this action.

Lieutenant WAGNER. This is correct.

Senator PERCY. Yet you are still not totally and completely exonerated.

Chairman McCLELLAN. That may be true. Was any criticism or reprimand directed to you for anything you had done in connection with this committee's investigation?

Lieutenant WAGNER. Mr. Chairman, I cannot answer that. I cannot prove it one way or another.

Chairman McCLELLAN. We will look into it further.

Senator PERCY. Are you concerned that it might have had some relationship and you are being given and others were being given a subtle hint?

Lieutenant WAGNER. Yes, I am.

Senator PERCY. This is my conclusion. I think others would conclude the same thing. The work of this committee would be seriously impeded if that were allowed to take place. I will not feel satisfied unless we have the general at some point certifying himself as to what the circumstances were and why he saw fit as a general to give a letter of reprimand to Lieutenant Wagner.

Chairman McCLELLAN. I was trying to ascertain whether this had anything to do with this committee. He may have given him a reprimand that he didn't deserve, but I was trying to ascertain whether it was the outgrowth or connected with this committee's investigation. Those things were happening all the time until the committee started investigating. Is that right?

Lieutenant WAGNER. That is correct.

Chairman McCLELLAN. These were things that were happening. Now he may have decided because you had cooperated with the committee that this was a way to get even with you. I don't know.

Senator PERCY. That is the crux of it. The lieutenant has testified he suspects that is the crux of it.

Lieutenant, just to finish up quickly: You say that with the scattered form of organization, it helps in an organization if you know whom to report to, clean lines of authority are helpful in managing something. Yet you are in a position of handling billions of dollars of equipment and you have eight different bosses. You say that condition still exists; is that right?

Lieutenant WAGNER. That is right.

Senator PERCY. Could you submit for the record your various reporting lines so that we can see what those lines are, and why the state of confusion exists as it now does?

Lieutenant WAGNER. Yes, Senator; I will try to do this the best I can. It has been submitted once before. It is an organizational chart which roughly outlines the chain of command. My immediate superior was the director for supply and maintenance. His superior was the commanding officer of the support district. He was my boss, yes, but the organization I guess is very confusing. It was confusing to me the entire time I was there, and still confusing to me.

There was the main chain of command, also we had different PDO branches, TASCOM and USAEUR branch and finally we had the redistribution and marketing center.

(See exhibit No. 97, p. 199.)

Senator PERCY. Well, just submit this for the record.

In summarizing, I have your comment on the three points as I see it that you have brought out in your testimony.

First, that inexperienced young officers are usually put into this work, that is, the work of disposal with billions of dollars of equipment to be disposed of, with little training and little guidance. They just depend upon individual initiative, I suppose, as to whether a good job or not is being done, and that they do not receive adequate guidance and that there is a laxity of operation of the property disposal system, the so-called junk yard concept where the job is seldom taken seriously. It is not put on a status where you feel it is important, and you are not given a sense of importance in carrying out the operation.

Would that summarize your feelings?

Lieutenant WAGNER. Yes; it would, Senator.

Senator PERCY. Thank you very much.

Thank you, Mr. Chairman.

Chairman McCLELLAN. Are there further questions?

Senator GURNEY. One further question.

You mentioned that some new procedures had been put into effect following the start of the investigation by the subcommittee.

What were these new procedures?

Lieutenant WAGNER. Senator, most of these were concerned with the screening of material. Once again these came into practice when I was just about ready to leave the command.

Senator GURNEY. When was that?

Lieutenant WAGNER. I can't recall the exact date but right around May. I had some little leave time coming, things of this sort.

Senator GURNEY. What were these screening procedures?

Lieutenant WAGNER. That no screening procedures would be handled on the property disposal level. These would all be handled prior to the material coming into the disposal yard. Once it hit the disposal yard it would be 100-percent excess and then we would deal with it as that.

Senator GURNEY. Do you feel they are working?

Lieutenant WAGNER. I really couldn't say. I was not long enough to really see what type of material was coming in under these new procedures.

Senator GURNEY. I don't have any further questions.

Chairman McCLELLAN. Very well. Thank you very much, lieutenant. Call the next witness.

Come around, Mr. Helmer. Mr. Helmer, you testified earlier today. I understood your testimony was to be in two parts. Now we go to the second phase of your testimony. Do you have a prepared statement?

TESTIMONY OF RICHARD A. HELMER—Continued

Mr. HELMER. Yes; I do, Mr. Chairman.

Chairman McCLELLAN. You may proceed.

Mr. HELMER. As I mentioned in my previous testimony, subcommittee staff visited five U.S. Property Disposal Yards in Germany to determine the propriety of items located in the yards. We found some items which should not have been there and others which should have been demilitarized but were not. Among the latter were sensitive or classified munitions list items.

In my testimony I will discuss only the more significant findings.

At the Mainz-Kastel Property Disposal Yard, we examined two lots of miscellaneous armored tank parts. These parts had been declared excess and were sent to the PDO Yard by the U.S. Army Maintenance Plant, Mainz, Germany. This plant is a U.S. Government-contractor operated facility which rebuilds armored vehicles.

The two lots contained over 2,100 different kinds of items with an acquisition cost of over \$428,000. Included were 71 large bearing tank turret rings. They allow the turret to swivel on the tank or armored vehicle and cost about \$3,000 each. These rings should have been demilitarized before being sent to the PDO Yard, but they were not.

Chairman McCLELLAN. Do you have those rings here?

Mr. HELMER. I do not, Mr. Chairman, but I do have photographs.

Chairman McCLELLAN. I notice a great assortment of goods, surplus property I assume, here on the table.

Mr. HELMER. Yes, sir. I did bring back a lot of samples. But unfortunately the rings were a little bit too big.

Chairman McCLELLAN. Are you going to cover the material on the table in your testimony?

Mr. HELMER. I will, sir, at the end of my prepared statement.

Chairman McCLELLAN. All right.

Mr. HELMER. Since most of the other parts were new, and many were standard items, we questioned the propriety of the lots being in the disposal yard. Subsequent inquiry was made of the maintenance plant to determine whether they had a need for the parts. They said they did need them, but had been directed to send them to the disposal yard by the U.S. Army Materiel Command, MATCOM, Europe.

At our request, both lots were kept intact and their sale prevented. MATCOM was asked to again review requirements for the subject parts. They found they were needed and, as a result, assets valued at over \$125,000 were returned to the supply system.

Chairman McCLELLAN. That is after they had released them for surplus property, all of them?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. When it was ascertained they were needed, they said go ahead and include them in the surplus property anyway the first time?

Mr. HELMER. The first time.

Chairman McCLELLAN. Then they were intercepted by the disposal yard?

Mr. HELMER. The subcommittee staff intercepted them.

Chairman McCLELLAN. Then what happened?

Mr. HELMER. After it was called to their attention, they sent the people from the maintenance plant to the PDO yard and they physically tore the lots apart and they removed \$125,000 worth of needed items, some of which we have samples of on the front table there.

Chairman McCLELLAN. At least the work of the committee saved \$125,000 to the Government in that one instance?

Mr. HELMER. Yes, sir; that is correct.

Chairman McCLELLAN. All right. Proceed. You say you have some of this property here?

Mr. HELMER. Yes, sir.

Chairman McCLELLAN. Just point out some of them here.

Mr. HELMER. Some of it is on the front of the table. Mostly the nuts and bolts and the standard hardware-type items most of which was procured by the Defense Supply Agency which procures only those items which are in common use throughout the Department of Defense.

Chairman McCLELLAN. All of that was to be sold as junk?

Mr. HELMER. Yes, sir, it was going to be sold for junk.

Chairman McCLELLAN. Are these some of the components of the junk that people buy by the ton?

Mr. HELMER. Yes, it is, sir.

Senator GURNEY. These are brand new parts that have never been used?

Mr. HELMER. That is correct.

Chairman McCLELLAN. They have a need for them?

Mr. HELMER. They found that they did in fact have a need.

Chairman McCLELLAN. It does occur to me that material of that quality or character or nature need not be thrown away. Why could that not be shipped back to the United States?

Mr. HELMER. Mr. Chairman, I have asked myself that same question over the years.

Chairman McCLELLAN. I know some of the things, paper cups and paper plates, some of those would not be worth the cost of transportation. They might well be thrown away. But things such as these, that are substantial and enduring and not perishable and not subject to any damage by being stored—it does not make sense to me to throw them away.

Mr. HELMER. It does not make sense to me either.

Mr. CONSTANDY. Senator, I went to that yard and I saw the things that were there in April. I think that maybe by showing some of the things we diminish the impact that one has going into that yard and seeing row after row after row of bins of machine parts of high quality, some of them too heavy to bring back here. We just brought back the light things. There was much other equipment—bronze bearings, main bearings on a tank that stands 2 feet high, which have very expensive etchings inside to distribute the oil, many things like that.

This was only a random look at one yard, and at only some of the things in one yard, as a matter of fact.

Another thing that impressed me very much was that much of the material that had been sent to the yard to be sold as junk, before it was sent there was packed in cosmoline and wrapped and marked

by legend and the legend says it is being sold as junk. In fact it says "For Property Disposal."

You could take a brand new carton, open it and find wrappings inside, find some machine part for an armored vehicle packed in cosmoline, and a legend in ink which discloses the fact this thing was packed and prepared for shipment to the property disposal yard for sale. They did not say as junk.

Somebody went to a great deal of effort and expense to protect that equipment, once it gets sent to the junkyard.

Chairman McCLELLAN. I understand what we have here before us this afternoon on this table is simply an example or a sample of the many items that are being handled in the fashion that you described—good quality, new, serviceable, not perishable. It could well be preserved, could be used and has a value, and it is simply being disposed of as junk.

Mr. HELMER. That is correct, Mr. Chairman.

Chairman McCLELLAN. Would the difference in what you get for it as junk, selling it by weight, that is for scrap—the difference in what you get for it and what you could sell this for as a commodity or item that it represents on the market, wouldn't that difference fully justify the separation and cataloging and identifying of this and selling it for the purpose it is intended to be used for rather than junk?

Mr. HELMER. Yes, it would, Mr. Chairman.

Chairman McCLELLAN. Wouldn't you find a market for material like that most anywhere in the world?

Mr. HELMER. Yes, you would, sir.

Chairman McCLELLAN. It does not add up to me that our military is so indifferent to the necessity for economy and for preventing waste and averting extravagance, that they would be so careless to do something like this. I don't quite understand it.

Mr. HELMER. I don't either, Mr. Chairman.

Chairman McCLELLAN. Maybe they are on the right track, now they are getting it corrected.

Mr. HELMER. I hope so.

Chairman McCLELLAN. This should not be tolerated by any government where the people, as they do in this country, bear the burden of supporting it. It just should not be tolerated. I hope some corrective action is being taken.

Mr. CONSTANDY. Mr. Helmer, you have photographs of that yard the day we visited it?

Mr. HELMER. Yes, sir, I do.

Chairman McCLELLAN. Is that the yard from which this material was taken?

Mr. HELMER. Well, sir, I would like to explain one thing, if I may. The sample items which I have here represent items that were taken from various property disposal yards in Germany.

Chairman McCLELLAN. This did not all come from one yard?

Mr. HELMER. No, sir; it didn't because we wanted to give the subcommittee a good picture of items that were prevalent in yards throughout Germany. Now some of the items on the front table, as I mentioned, were taken from the Mainz-Kastel property disposal yard. In addition to those items being taken, there were 69 of the tank turret

rings with an acquisition cost of \$206,000 which were demilitarized in accordance with DOD standards as a result of our investigation.

I do have a photograph, Mr. Chairman.

Mr. CONSTANDY. One lot had already been put up for sale, had it not?

Mr. HELMER. That is true, Mr. Constandy.

Mr. CONSTANDY. The second lot being prepared for sale?

Mr. HELMER. That is correct.

Mr. CONSTANDY. That sale was to take place in an undemilitarized condition?

Mr. HELMER. That is correct.

Mr. CONSTANDY. As a result of our inquiry they subsequently demilitarized it?

Mr. HELMER. That is right.

Mr. CONSTANDY. We have heard described by several witnesses the condition that material is generally in, in a mixture of all kinds of things, as junk in the yard. I think this particular venture was significant because in this case the material had now been segregated before it was sent to the yard, but it had been carefully packaged.

It almost had with it the suggestion that the ultimate purchaser was already known by the people preparing it for sale.

There are undertones here which suggest great impropriety, but we have no evidence of it?

Mr. HELMER. That is correct.

Chairman McCLELLAN. What do the pictures I hold in my hand represent? I want to identify them so that I can make them an exhibit.

Mr. HELMER. Those pictures represent a series of photographs taken at the Mainz-Kastel Property Disposal Yard. Fifteen of them depict the lots as we found them. Eleven of them show \$125,000 worth of property being loaded and returned to the maintenance plant inventory and remaining ten show the demilitarized 69 tank turret rings.

I request they be entered into the record as my exhibit No. 5.

Chairman McCLELLAN. They may be received in bulk as exhibit 98.

(The photographs referred to were marked "Exhibit No. 98" for reference and may be found in the files of the subcommittee. Four of the photographs follow:)

PHOTOGRAPHS FROM EXHIBIT NO. 98



FIGURE 13.—Material being loaded on a contractor's truck at the Mainz-Kastel Property Disposal Yard, Germany.



FIGURE 14.—Stacks of crated turret rings at the Mainz-Kastel Property Disposal Yard, Germany.

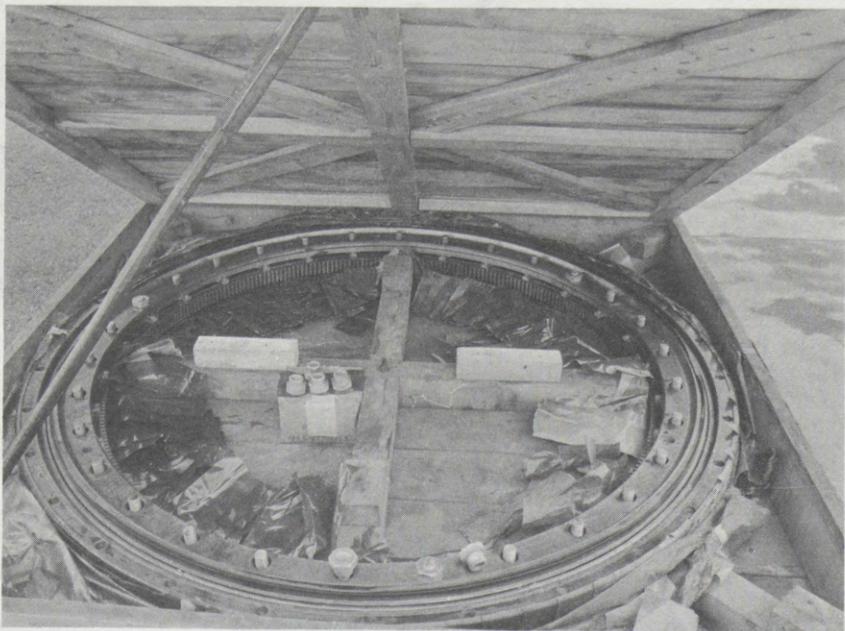


FIGURE 15.—A partially uncrated tank turret ring before demilitarization at the Mainz-Kastel Property Disposal Yard, Germany.

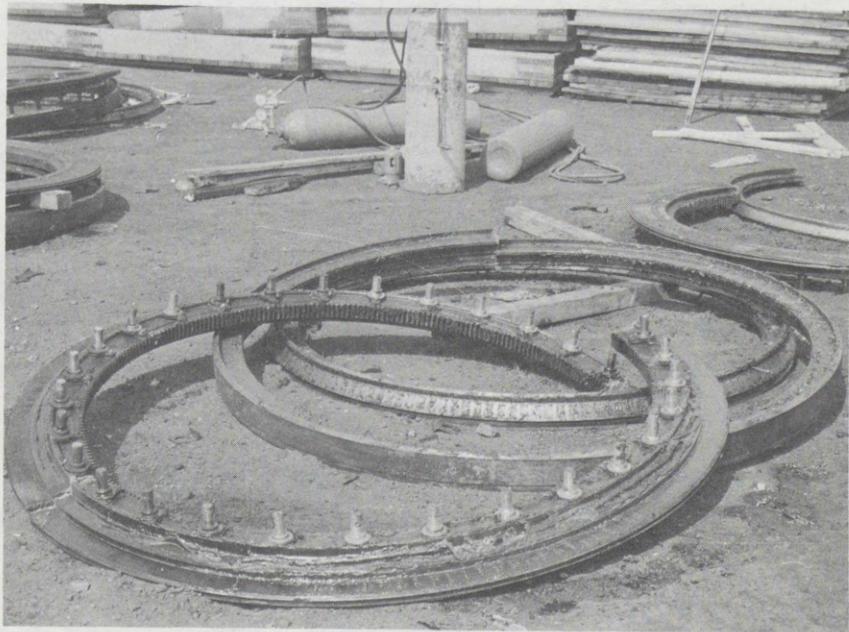


FIGURE 16.—Tank turret rings after demilitarization at the Mainz-Kastel Property Disposal Yard.

Chairman McCLELLAN. Proceed.

Mr. HELMER. We subsequently learned that the premature disposal actions were taken automatically because the MATCOM computer did not contain the parts requirements which existed at the maintenance plant. According to one Department of Defense audit finding, the U.S. Army in Europe, in 1971 alone, prematurely disposed of at least \$1.7 million of materiel needed for its depot maintenance programs.

In order to prevent future disposals of this nature, the U.S. Army Materiel Command has directed the Army maintenance plants to increase their stock retention levels from a 1 to 3 years' supply.

Failure to properly inventory, lot, describe, value and control sales of U.S. surplus property in Europe:

In Europe, U.S. surplus property is advertised for sale by general description and acquisition cost. Since munitions list items must be controlled, and bids received are normally only a fraction of acquisition cost, it is important that items are properly inventoried, lotted, described, and valued prior to sale. We found, however, that this was not being done for most of the lots we examined at PDO yards.

For example, a lot being offered for sale at the Giessen PDO yard was described as follows:

Signal, electrical parts and hardware: Consisting of: Seat; door; tank, tail cone; tip; cowling; mount; elbow tube; leg assembly; elevator; fairing; panel; stabilizer; street assembly; former; cruch; beam; line; nut; console; cable; antenna; alternator; developer.

Stored inside, unused, good condition.

Total cost \$66,564.39.

Estimated total weight 10,090 kg. (about 22,200 pounds)

The descriptive nouns, such as tail cone, elevator, and stabilizer, indicated the presence of aircraft parts. This assumption was proven correct when the crates making up the lot were examined. They bore such captions as "Aircraft Major Components" and "applicable to U6A aircraft." The U6A is a fixed-wing aircraft which is currently in use in the Army, Air Force, and Navy.

The lot was subsequently withdrawn from sale and reoffered in three separate lots.

The materiel was described as appears in detail below, but note that the obvious airplane parts now are grouped under the heading of "Aircraft parts and components." Also note, the \$6,900 of photographic equipment, which did not appear in the earlier description, now does.

Senator GURNEY. Was this actually not needed? If this airplane was still in use, would this still not be needed?

Mr. HELMER. It is very hard to determine. On every item you see here, in order to determine whether it is still needed and in use you almost have to do a major supply study because of the intricacies of the very complicated system that they have for managing items in Europe.

However, on some items we did go through this exercise. On the items we found that we did not have time to check out, we turned this data over to the OSD audit team, and we asked them to check whether or not some of these items were needed.

Now I don't know whether we specifically asked them to check this item out, but all the data was made available to them. It was very hard for me to say at this time whether those parts were needed.

I might add, also, that it was not uncommon for us to dispose of things like M-60 tank parts, the M-60 being our mainline battle tank.

It seems to me that some of these items may be required in the future depending on how long we keep the tank. Yet these things are going through the system at an unbelievable rate.

In many cases we found that we were even buying M-60 tank parts that the German Army had declared excess to their needs. They have offered them back to us for sale at the full acquisition cost.

We buy them back, and they immediately go to the property disposal yard.

We find these same parts are being picked up by arms traffickers who have contracts, in the one case we know about with someone in Italy before the items ever went up for sale. These were the ones that were discussed earlier, for example, the 80 tank transmission covers that Lieutenant Wagner was talking about. They are applicable both to the M-48 tank and also the M-60 tank.

In conjunction with the Army's criminal investigation team that was working with us, we traced these items out.

Mr. Duffy interviewed one of the major buyers for a very large trafficker. All of these things came to light.

I know the CID has expanded their work in this area and they are finding this is happening with millions of dollars worth of property.

Senator GURNEY. Did you inquire why we are buying excess parts from the German Government at full acquisition cost?

Mr. HELMER. Well, sir, at this point in time we have not made that inquiry because of other work that is being done in the area to determine the magnitude of the problem. But I assume that this will transpire at some later point in time.

Senator GURNEY. Let me ask you one question on this.

Here is a lot with an acquisition cost of approximately \$66,000. It occurred to me that the aircraft parts contained therein might be needed because the aircraft are still in use. When I asked you, your answer was that the supply system is complex so you couldn't really answer that.

Doesn't anybody know that answer? If this is an Army airplane—well, it is used by all three services—can't you go to those services and say, "We have lot number 345 worth \$66,000 we have discovered here. Are the aircraft parts necessary for your use or aren't they?"

Can't that answer be obtained?

Mr. HELMER. Yes, sir; it can.

Senator GURNEY. How is it obtained?

Mr. HELMER. Again it is a matter of time and resources. Our subcommittee staff was limited.

Senator GURNEY. I am not asking if you could get the answer. I am saying couldn't the services themselves get that answer in a hurry?

Mr. HELMER. They should be able to very quickly; yes. Theoretically they should have done this before those items went to the disposal yard, as they should have done with all the other fine paraphernalia you see here.

Mr. CONSTANDY. Senator Gurney, in a situation like this, when the screening process queried the other services as to whether they needed these parts, they might not need them at that moment, so that they would not respond to the screening.

We have found in several situations shortly after the screening, they identified a need for the same part. The question that came up in our mind is whether, even though there is not a need for some of these things that are in current inventory, whether it would not be better to maintain a stockpile of what they don't need right now but they might later.

The high cost of some of these items versus the low cost of storing for a year or 2 or 5 years should be considered. Some day some of these parts are apt to be needed by the services.

Mr. HELMER. The three new lots were offered for sale during June 1972 on invitation for bid F61546-72-B-0103 as items Nos. 89, 90, and 91 with the following descriptions:

89 Aircraft parts and components: IC/DV ML088; various manufacturers and models. Consisting of: Door, assy; tank, fuel; tail, cone; tip, assy; mount; elbow, assy; tube, assy; elevator; leg, assy; panel, assy; line section; beam, assy; stabilizer; cushion. Inside—unused—good conditions. Total cost: \$48,865.38. Est. Total wt., 4,620 kg. 1 lot.

90 Signal, Electrical Parts and Hardware: Consisting of: Antenna, type AN/GRA-4; console; Alternator, 14 volt; cable; nut; washers; sandpaper. Inside—unused—good condition. Total cost: \$10,797.86. Est. total wt. 3,680 kg.

91 Photographic Equipment: Consisting of: 1,011 BX—Polaroid Land Film, 4" x 5", type 55 P/N, positive/negative, black and white; 448 CN—Developer Photo, packed in 1 pint cans. Inside—unused—fair thru poor condition. Total cost: \$6,901.15. Est. total wt., 1,790 kg. 1 Lot.

The first lot is described as aircraft parts and components. It is shown as being valued at \$48,865 of the original \$66,000 that we started out with as signal parts and electrical hardware.

The next lot No. 90 which was the original description shows that of the total 66,000 there is only really 10,797. Now we have the photographic equipment also being shown.

It is interesting to note that only \$10,800 worth of the \$66,600 was actually "Signal, Electrical Parts, and Hardware." Also the \$48,900 worth of aircraft parts and components were later identified as munitions list items and indicated on the offering as such, thus highlighting the special requirements governing their sale. The buyer, therefore, was required to furnish an import certificate and delivery verification for the entire lot.

Mr. Eugene Moreland, the chief of the PDO, was unable to explain why the subject materials were erroneously lotted. As a result, subcommittee staff interviewed Herr Guenther Hoffmann, the assistant PDO. Herr Hoffmann stated that the materiel was lotted by the warehouseman and that he (Hoffmann) was not aware of the contents until we told him. The standard lotting procedure, Herr Hoffmann said, is for the warehouseman to group like items based on the noun descriptions, then he (Hoffmann) occasionally tests some of the sales listings which have been prepared for these items.

It is interesting to note, however, that the warehouseman, who is the lowest man on the totem pole, takes the only critical action. He is generally left on his own, and further, he is the only person who actually sees the property.

Herr Hoffman said that the grouping of property for sale is made based on noun descriptions, not Federal stock numbers, because the Property Disposal Office does not have any Federal supply catalogs. Consequently, it is not always possible to determine the correct identification of items.

The aircraft parts and photographic equipment in question, which were turned in under Project Clean, an Army program to drastically reduce inventories in Europe, were shipped from the Pirmasens Army Depot to Giessen. Herr Hoffman stated that there was an agreement between the depots for Giessen to take overflow from Pirmasens of signal and electrical items only. (Mr. Moreland concurred.) Since the items were received at Giessen as a lot, they were kept as a lot and offered as signal equipment. Many of the boxes were old and looked like they were being reused, so the warehouseman assumed they contained signal and electrical items and ignored the red and white labels which said "Major Aircraft Components," and "applicable to U-6A aircraft."

I have a series of five photographs of the above-described lot as found by us and after it was relotted after our disclosure.

I request that the photographs be entered into the record as my exhibit No. 6.

Chairman McCLELLAN. They may be received as committee exhibit No. 99.

(The photographs referred to were marked "Exhibit No. 99" for reference and may be found in the files of the subcommittee.)

Mr. HELMER. Other examples at the Kaiserslautern PDO yard:

Two other examples were found at the Kaiserslautern PDO yard. One lot of medical and dental equipment was advertised as containing \$45,900 worth of property, but when inventoried, it actually contained \$55,900 worth of items. Further, items costing \$19,500 which were supposed to be in the lot could not be found. Conversely, an additional \$29,500 worth of items were found which were not supposed to be there.

The lot also contained thousands of hypodermic needles and syringes, worth \$5,700, which, according to Army regulations, should have been destroyed to prevent their use by drug addicts. At the time the inventory was taken, the entire lot had been sold to an Italian firm for \$1,661—less than 4 percent of acquisition cost.

The second lot, automotive and engineer repair parts, was advertised as having had an original acquisition cost of \$77,700. An inventory showed that it actually contained items costing \$79,900. However, items valued at \$16,200 could not be found while an additional \$18,400 worth of property was located.

These two examples show the lack of control over property in the Kaiserslautern PDO yard—the largest U.S. PDO yard in Europe. When such property is not adequately controlled, it can be easily misappropriated for personal gain.

While at the Kaiserslautern property disposal yard, we also found that new medical equipment and supplies were in the process of being sold at a small portion of their acquisition cost. Subsequent tests by Department of Defense auditors and Army investigators, disclosed that the Army still had European requirements for some of the items.

We would now like to present samples of some of these items, and others, which we retrieved from various property disposal yards in Germany. As you will see, almost all of the medical equipment and supplies are new and could still have been used by hospitals.

It also appears that most of the other nonmedical items could have been used by some U.S., or affiliated, organization rather than having

been sold to private dealers at such a low fraction of their cost to the American taxpayers.

We are also going to show you two undemilitarized missile components, which are classified confidential. These items were found in the Kaiserslautern PDO salvage yard.

Mr. Chairman, I have a series of photographs of some of the items we found in the property disposal yards, items which I will now discuss. I request permission to offer these photographs and descriptive lists of the items, where we found them and the quantities found, as exhibit 7 to my testimony.

Chairman McCLELLAN. They may be received as exhibit No. 100.

(The photographs and descriptive lists referred to were marked "Exhibit No. 100" for reference. The photographs may be found in the files of the subcommittee; the descriptive lists follow:)

EXCERPTS FROM EXHIBIT NO. 100
LIST OF SAMPLE ITEMS TAKEN FROM THE U.S. ARMY PROPERTY DISPOSAL YARD AT KAISERSLAUTERN, GERMANY DURING MARCH 1972

Federal stock No.	Nomenclature	Quantity found	Unit price	Total acquisition cost	Condition	Date received	Turned in by	Status
6540-864-4156	Front, spectacle female	14 each	\$0.60	\$8.40	N-1	Jan. 18, 1972	Medical Center	Advertised on sales list 72-23.
6540-880-7219	Front spectacle	171 each	.60	102.60	N-1	do.	do.	Do.
8115-627-2302	Box folding carton	156 each	.77	104.72	N-1	do.	do.	Do.
		182 cartons	11.40	1,846.80	N-2	June 3, 1971	Nahbollenbach	Do.
		73 carton	10.50	766.50	N-2	July 30, 1971	do.	Do.
6350-715-9355	Surgical drapes 94 by 108 inches	84 each	9.20	772.80	N-1	Nov. 25, 1971	USAG Hospital, Landstuhl	Being readvertised on 72/28.
6530-715-9340	Surgical drapes 72 by 94 inches	90 each	6.90	621.00	N-1	Jan. 21, 1971	Medical Center	Do.
8335-170-3743	Rubber heels, shoe	2,160	.14	302.40	N-2	Sept. 8, 1971	Nahbollenbach	Sold but not removed.
8335-170-3747	Rubber heels, boot	1,469 pairs	.50	734.50	N-2	do.	do.	Do.
8335-989-0391	Rubber soles, boot	5,520 pairs	.30	1,656.00	N-2	do.	do.	Do.
7530-118-5016	Adding machine tape	18,360 rolls	.17	3,121.20	N-2	June 23, 1971	do.	Do.
7530-000-2604	do.	3,792 rolls	.34	1,289.28	N-3	do.	do.	Do.
7510-164-1428	Typewriter ribbon	9,504 each	.29	2,756.16	N-2	do.	do.	Sold and removed Nov. 29, 1971.
6540-926-4775	Lens, blank ophthalmic	351 pair	.73	256.23	N-4	Jan. 28, 1972	Medical Center	Sold and removed, Sept. 1, 1971.
6532-299-9612	Cap, operating surgical	261 each	.21	54.81	N-1	do.	do.	Sold and removed, Nov. 29, 1971.
		338 each	.21	70.98	N-1	do.	do.	Do.
8405-299-9633	Shirt, operating surgical	60 each	1.68	100.80	N-1	do.	do.	Do.
		10 each	1.68	16.80	N-1	do.	do.	Do.
4910-541-9740	Tire air gage	347 each	1.30	451.10	N-2	April 5, 1972	Kaiserslautern Depot	Placed in retail store.
7340-243-5390	Spoons	300 each	.16	48.00	N-1	Sept. 8, 1971	Nahbollenbach	HEW took 2065 each, balance—retail sales.
		2,400 each	.16	384.00	N-2	June 25, 1971	do.	Do.
6515-299-8374	Handle surgical knife ²	280 packs	.84	235.20	N-2	Mar. 25, 1971	do.	Sold and removed Feb. 3, 1972.
7350-777-8360	Paper cups	410 bg	1.03	422.30	N-2	do.	do.	Do.
7350-285-8411	do.	3,337 hd	1.80	6,006.60	N-2	Mar. 27, 1972	Pirmassens	Not yet lotted.
5350-598-5908	Paper, abrasive (sandpaper)	218 packages	19.70	4,294.60	N-2	June 18, 1971	Medical Materiel Center	Do.
6530-290-0571	1 oz. medical dispensing cups	31,000 each	.01	310.00	N-2	Mar. 25, 1971	do.	10,000 transferred to AK44866 on Apr. 28, 1971. 21,000 sold and removed, Feb. 3, 1972.
7530-162-3005	Paper plates	1,101 packages	9.65	10,624.65	N-1	Oct. 11, 1971	Medical Materiel Center	Being readvertised on sales list 72/28.

EXCERPTS FROM EXHIBIT NO. 100—Continued
LIST OF SAMPLE ITEMS TAKEN FROM THE U.S. ARMY PROPERTY DISPOSAL YARD AT KAISERSLAUTERN, GERMANY DURING MARCH 1972

Federal stock No.	Nomenclature	Quantity found	Unit price	Total acquisition cost	Condition	Date received	Turned in by	Status
6515-299-9597	Mask surgical	18 packages	15.70	282.60	N-1	Sept. 20, 1971	do	Release to HEW Nov. 24, 1971.
		339 packages	15.70	5,327.30	N-1	do	do	Do.
6515-660-0011	Blade surgical knife (valid item needed in Europe).	144 packages	.38	54.72	N-2	Jan. 18, 1972	do	Advertised on sales list 72/23.
		144 packages	.38	54.72	N-2	do	do	Do.
		144 packages	.38	54.72	N-2	Sept. 20, 1971	do	Being readvertised on sales list 72/28.
8415-753-6292	Trousers, vesicant gas protective.	144 packages	.38	54.72	N-2	do	do	Do.
		52,916 pair	1.70	89,957.20	N-2	Sept. 8, 1971	Mannheim	To be readvertised.
8415-753-6282	Coat, vesicant gas protective ² .	48 pair	.88	42.24	N-2	Jan. 18, 1972	Medical Materiel Center.	On sales listing 72/23.
6640-494-3893	Slide microscope plain.	48 pair	.56	26.88	N-2	Sept. 20, 1972	do	Being readvertised on 72/28.
		48 pair	.88	42.24	N-2	do	do	Do.
		48 pair	.56	26.88	N-2	Oct. 11, 1972	do	Do.
		96 packages	.41	39.36	N-2	Sept. 20, 1971	Medical Center.	Do.
6515-660-0012	Surgical blades.	96 packages	.41	39.36	N-2	do	do	Do.
		96 packages	.41	39.36	N-2	do	do	Do.
		96 packages	.41	39.36	N-2	Oct. 11, 1971	do	Do.
		36 packages	1.42	51.12	N-2	Jan. 18, 1972	do	Advertised on sales list 72/23
6510-201-2001	Bandage, plaster of paris.	36 packages	1.40	50.40	N-3	do	do	Do.
		18 packages	1.42	25.56	N-2	do	do	Do.
		18 packages	1.42	25.56	N-2	do	do	Do.
		18 packages	1.40	25.20	N-2	Sept. 20, 1971	do	Being readvertised on 72/28.
7530-286-6974	Envelopes franked official business.	155 mixed.	2.56	396.80	N-2	Sept. 8, 1971	Nahbollenbach	Advertised on 72/25.

¹ All of the items were new and in excellent or good condition.
² Could not locate turn-in documents or data.

Note: We also retrieved 2 components of the Hawk Guided Missile System, FSN 1430-967-9166 and FSN 1420-786-2925. Both items were classified confidential and demilitarization was not completed in accordance with DOD demilitarization requirements.

LIST OF MEDICAL ITEMS RETRIEVED FROM THE U.S. ARMY PROPERTY DISPOSAL YARD AT KAISERSLAUTERN, GERMANY, DURING FEBRUARY 1972

Federal stock no.	Nomenclature	Quantity found	Unit price	Total Acquisition cost	Remarks
6515-348-7500	Hypodermic needles	238 each	\$0.11	\$26.18	
6515-386-9620	Jackson cannulas	20,128 each	6.25	125,800.00	
6515-404-2260	Hypodermic needles	15 each	1.10	16.50	
6515-380-5800	Hypodermic syringe	343 each	.49	168.07	Valid item needed in Europe at time of disposal.
6515-380-4100	do.	384 each	.38	145.92	
6515-514-2395	do.	720 each	.27	194.40	Do.
6515-349-6400	Hypodermic needles	2,088 each	.45	939.60	Do.
6515-799-7768	Administration set, peritoneal dialysis.	12 each	1.50	18.00	
6515-558-1509	Blood recipient set indirect transfusion.	1,276 each	.62	791.12	Do.
6515-619-8918	Cartridge syringe aspirating	6 each	4.70	28.20	Do.
6515-664-2734	Blood collecting and Dispensing bag.	480 each	4.40	2,112.00	Do.
6515-342-6850	Intravenous injection set, disposable type field.	438 each	.27	118.26	

Note: All of the above items were new and in excellent or good condition. With the exception of FSN 6515-386-9620, the items were sold to an Italian firm. But, at the subcommittee's request, they were recovered by the Army Criminal Investigations Division before the purchaser could pick up the property.

LIST OF ITEMS RETRIEVED FROM THE U.S. AIR FORCE REDISTRIBUTION AND MARKETING YARD AT RAMSTEIN, GERMANY, DURING MARCH 1972

Federal stock No.	Description	Quantity found	Unit price	Total acquisition cost	Condition
3439-255-8898	Welding rods	100 pounds	\$1.00	\$100.00	N-1
7530-239-8479	Pad, writing paper (5- by 8-inch memo).	2,077 packages	.84	1,744.68	N-1
7920-634-5055	Scouring brick	125 each	1.10	137.50	N-1
7920-823-9772	Industrial towels	40 boxes	17.90	716.00	N-1
7930-129-0801	Soap, laundry bar	21 boxes	5.50	115.50	N-1
8040-936-3274	Adhesive primer	3 containers	2.00	6.00	N-1
8105-183-6982	Cotton mailing bag (4 by 9 inches)	51 bundles	4.90	249.90	N-1
8430-135-2728	Climber's boots	52 pairs	19.92	1,035.84	N-1
8430-135-2729	Unknown	Sponges	.43	315.19	N-1
6515-559-3000	Cartridge syringe hypodermic	56 each	1.90	106.40	N-1

Note: Most of the above items were redistributed by the Air Force subsequent to the time we found them in the disposal yard.

LIST OF ITEMS RETRIEVED FROM THE U.S. ARMY PROPERTY DISPOSAL YARD AT GIESSEN, GERMANY, DURING APRIL 1972

Federal Stock No.	Description	Quantity found	Unit price	Total acquisition cost	Condition	Status as of July 1972
1005-653-5420	Cleaning rod M-3 30 cal	9,027 each	\$0.49	\$4,423.23		Unknown.
5305-180-1620	Phillips flathead wood screws	60 boxes	1.91	114.60		Sold.
5310-050-3289	Nut	3 cases	(1)	(1)		Do.
5310-167-0839	Washers, flat	1,000 pounds	(1)	(1)	A	Do.
5315-269-3972	Plasterboard nails (1 3/4")	109 boxes	.99	107.91	N-2	Do.
5350-598-6105	Abrasive paper (sandpaper)	181 packages	1.40	253.40	N-2	Do.
5995-985-8139	Telephone cable assembly	664 rolls	90.33	59,979.12	N-2	Up for sale.
6145-635-0036	Wire cable (copper core)	21,400 feet	.04	856.00	N-2	Unknown.
8415-082-2881	White cotton gloves	30,462 pair	.77	23,455.72	N-2	Redistributed.
9150-248-3480	Rifle grease	2,739 vials	.04	109.56	(2)	Sold.
6150-636-8061	Cable assembly, electrical power.	309 rolls	23.90	7,385.10	N-1	Unknown.
6515-299-8687	Medical kit (anesthesia)	4 each	239.00	956.00	N-2	Do.

¹ Additional data unavailable.

² Not shown.

LIST OF HARDWARE ITEMS RETRIEVED FROM THE U.S. AIR FORCE REDISTRIBUTION AND MARKETING YARD AT MAINZ-KASTEL, GERMANY, DURING APRIL 1972

Federal Stock No.	Description	Quantity found	Unit price	Total acquisition cost
2520-776-7866	Cover	49 each	\$0.43	\$21.07
3120-081-1425	Washer, thrust	42 each	1.53	64.26
3120-776-7351	Bearing, sleeve	252 each	5.99	1,509.48
3805-558-1163	Seal	5 packs	4.66	23.30
4730-188-3516	Plug pipe	710 each	.38	269.80
5305-071-1770	Screw, standard	263 each	.07	18.41
5305-724-7254	Screw, cap, hex head	135 each	.23	31.05
5305-770-6715	Screws	214 each	.03	6.42
5305-988-1726	do	1 box	.76	.76
5306-019-1675	Bolt, assembled, washer, steel	12 boxes	.87	10.44
5306-042-3568	Bolt, assembled, washer	3 boxes	1.87	5.61
5310-010-3101	Nut, plain, square steel	21 boxes	.28	5.88
5310-013-1395	do	7 bags	.42	2.94
5310-584-7889	Washer, lock	176 boxes	1.00	176.00
5315-011-9120	Cotter pins ¹			
5315-198-5984	Pin, taper	1 box	2.30	2.30
5320-721-5210	Rivet, aluminum	1 pound	1.42	1.42
5325-641-1611	Grommet, metallic ¹			
5325-682-7076	Fastener, spring tension	4,934 each	.02	98.68
5330-186-4143	Washer, nonmetallic	86 packs	1.00	86.00
5340-298-7158	Padlock	128 each	2.95	377.60
5340-754-1612	Cap, plug	3,186 each	.01	31.86
5950-333-0462	Coil, brake magnetic	22 each	20.30	446.60

¹ Could not locate turn-in documents or data.

Note: While many of the above items are inexpensive and large quantities were not found, they exemplify new items being disposed of by the U.S. Army Maintenance Plant at Mainz, Germany. Most of these items and others were part of the more than \$125,000 worth of property returned to the Army's supply system in Europe as a result of the subcommittee's investigation.

Mr. HELMER. Before I start showing you these samples, I would like to impress upon you the fact that, according to the U.S. Department of Defense, all of these items should have been surplus property within Europe, before being sent to PDO yards. In other words, the Army said that there was no requirement for any of these items anywhere within the European theater.

Chairman McCLELLAN. These items were surplus to that theater?

Mr. HELMER. Well, sir, they were reported as being surplus.

Chairman McCLELLAN. Some were not surplus, but even if they were surplus, there is no reason for putting those items up and selling them as junk.

Mr. HELMER. That is correct, Mr. Chairman.

Chairman McCLELLAN. They are in perfectly good condition to be used for the original purpose for which they were manufactured.

Mr. HELMER. That is correct.

Chairman McCLELLAN. They are not junk.

Mr. HELMER. That is right, sir.

Chairman McCLELLAN. Items of a quality like these, that don't deteriorate, that can be preserved, they could even be returned to the States and be given free to the hospitals.

Mr. HELMER. That is right. I think these samples are indicative of the problem we are facing. I think it is about time that the Department of Defense and the Department of the Army realize that the American taxpayers are not going to stand for this type of thing too much longer.

Chairman McCLELLAN. Whoever is responsible, certainly if he knowingly participated in this kind of disposal practice, he is absolutely callous to the welfare of this country in view of our fiscal situation

where we are spending about \$25 billion a year more than our revenues. It just does not make sense.

It is almost an act of disloyalty, as I see it.

Mr. HELMER. That is right, sir.

Mr. CONSTANDY. Could you pick out some of the more significant items that were found and the quantity and cost and point them out?

Mr. HELMER. First I would like to start with some of the items that we found still were in need by the U.S. Army in Europe.

Chairman McCLELLAN. Needed in Europe?

Mr. HELMER. By the same Army that said that they were surplus.

Mr. CONSTANDY. Does that include all the things on that table?

Mr. HELMER. No, sir.

Chairman McCLELLAN. Just identify a few of them that they did have need for and give us something about their value.

Mr. HELMER. There was \$791 worth of blood recipient sets. We have here some hypodermic needles, there were \$139 worth of these. Some of these needles are quite interesting. Lieutenant Wagner mentioned that when he took over the Ludwigsburg property disposal yard, he had several crates of these things.

Chairman McCLELLAN. Several crates of them?

Mr. HELMER. Yes, sir.

Senator GURNEY. All in current use?

Mr. HELMER. These items that were checked by the Criminal Investigation Division, the Army's own investigative arm, and they were found to still have a need within the European theater.

Senator GURNEY. Incidentally, it occurs to me what you really did was sort of spotcheck over there and your spotcheck found these useful items being sold as junk.

Did you ask any of these yards or anybody else to spotcheck to find out what was going on?

Mr. HELMER. The problem is that this thing has been going on so long that people have ceased to care.

Senator GURNEY. But there was no checking up going on?

Mr. HELMER. As far as I can determine, there was not.

Senator GURNEY. If there had been, it is your opinion in any yard there could have been all kinds of examples such as you are showing here any day, any time?

Mr. HELMER. That is correct.

Chairman McCLELLAN. In other words, it could have been salvaged from the junk and put to proper use?

Mr. HELMER. That is correct.

We have here a hypodermic syringe. This one here happens to have a value of \$168.

Chairman McCLELLAN. Just one item?

Mr. HELMER. Well, this item here, sir, is only a 49-cent item, but we found 342 of them.

Chairman McCLELLAN. That is not \$148 for the one item?

Mr. HELMER. This item is a sample of a lot of these.

Here is another syringe that cost 27 cents each, with a total cost of \$194 for the items we found.

This is quite a nice piece of equipment. Fortunately we only found six of these at a cost of \$4.70 each for a total of about \$28.

Senator GURNEY. What is that?

Mr. HELMER. It is a syringe cartridge, aspirating thumb ring handle. It is used as I understand for injection into the chest of patients that are aspirating. We have here some surgical knife blades. We found 576 of these packages at a cost of \$218. They are used for making surgical cuts.

Senator GURNEY. It occurs to me that people buying these things from these yards must be making themselves a fortune. Is that right?

Mr. HELMER. I would say that is correct.

Senator GURNEY. In other words, the taxpayers of the United States are subsidizing these secondhand dealers in foreign countries so that we are really creating some new millionaires over there; is that right?

Mr. HELMER. That is correct. I was interested in possibly starting a new career, myself, by dealing in this on the side, but I found out they won't sell them to Americans working for the Government.

Senator GURNEY. I can see that the temptation must be great.

Mr. HELMER. One of the more interesting items that were found—

Senator GURNEY. You mean even U.S. citizens can't get in on the loot?

Mr. HELMER. If they work for the U.S. Government, that is right, sir. It is like buying gold, you know.

Senator GURNEY. You have to be a foreigner to really enjoy this wonderful world of junk disposal in the U.S. Army?

Mr. HELMER. That is correct, sir.

This item here is what is known as a Jackson cannula. It is an item used, as I understand it, for tracheotomies when they make an incision in the throat and what have you. Now there were 20,128 of these.

Right away you ask yourself, Why did they need that many? They are rather expensive. They cost \$6.25 each for a total of almost \$126,000. The reason they are so expensive is because they are almost a hundred percent silver. At the time these were located, they had been set aside and the PDO yard employee said the reason they had been set aside is because they found out they contained silver and they were going to be very patriotic and they were going to send them back to the United States so that the silver could be reclaimed.

Senator GURNEY. How many were there altogether?

Mr. HELMER. Over 20,000.

Senator GURNEY. How many tracheotomies are done in Europe in a year's time?

Mr. HELMER. I can't answer that question, but I don't think there are too many.

Senator GURNEY. I think that is a question that might be best addressed to the U.S. Army's Surgeon General.

Mr. CONSTANDY. They might have been there prepositioned in the event there was war when there might be need for them.

Senator GURNEY. Then why should they be sold? We might have a war next year. We might need them.

Mr. HELMER. I would like to make one comment, if I can. About January of 1970 the U.S. Army in Europe started a very large project called project clean. This project was to reduce the number of items that they stock in Europe. It was to reduce them almost in half. I think that this program was the cause for a lot of these items that you see

here today. The items were merely eliminated rather than being attrited through use.

I don't know who was responsible for the entire project. I don't think it was such a bad idea conceptually, but it was handled in a very poor manner.

We have some statistical data that we collected prior to leaving Europe. I think that as of October of last year the U.S. Army in Europe had disposed of somewhere close to \$600 million worth of materiel since January of 1970.

Now, this was only that property that was labeled as being project clean.

I would say that close to \$300 million worth of this property went through the property disposal yards.

Senator GURNEY. I think it should have been renamed "Project Clean The Taxpayer."

Mr. HELMER. That might have been a more appropriate name.

Chairman McCLELLAN. They operated by cleaning off the shelves and restocking?

Mr. HELMER. I don't think they have restocked yet, Mr. Chairman, but I am sure they will at some future date.

Here is an item that is quite interesting. It is a blood-collecting and dispensing bag. As you can see, it is all sealed. We found 480 of these at \$4.40 each for a total value of over \$2,000. These items also were a valid stock item. Some of the other things that are quite interesting are these little medicine cups, used for pills and used for dispensing small amounts of medication. We found over \$4,000 worth of these. That is another interesting thing.

These are a little bit different type of item. They are trousers for a special type of clothing. They are treated, I think, to repel toxic type chemicals; \$90,000 worth of these trousers were disposed of.

We have here some very interesting medical items. These are surgical operating caps which doctors or nurses, or what have you, wear in the operating room, brand new, \$125 worth. We have the shirts and we also have the masks, and the masks alone are \$5,600.

We have an item here which is quite nice. This is an anesthesiology kit which sells for about \$239. It is quite expensive. It is like everything else that the Government buys, it is very high quality, not that we always get high quality, but we pay for it.

Chairman McCLELLAN. I understand we might have a surplus of some of these things that we might get rid of. What I don't understand, which is inexcusable, is lumping it in a pile and calling it junk.

It seems to me that articles of value like that, that are usable, could be cataloged and offered to the market as surplus in their natural state for what they are and not as junk. That is almost criminal the way this thing has been handled.

Mr. HELMER. I agree, sir.

Chairman McCLELLAN. Pick up those shoes. Tell us about those.

Mr. HELMER. These shoes have a little bit different story. These were found in an Air Force disposal yard. As I recall, there were 50-some pair. There were a total of 52 pairs. They cost about \$20 each. So there was \$1,000 worth of these. It so happened that the day we were at this yard the general who was in charge happened to be there. These ultimately got redistributed elsewhere.

Chairman McCLELLAN. You saved them from the junk yard?

Mr. HELMER. That is right. It is also very interesting that if this had been an item turned in to an Army property disposal yard during Project Clean, during the latter phases of Project Clean, this item would not even have been screened.

The Defense Logistics Services Center or any other Government agency would not have had a chance to get this item. This is because the Army raised their screening requirements to items valued at \$5,000 or more because the junk yards were filling up so fast, they had to get rid of things as quickly as possible.

Chairman McCLELLAN. What is in that big box?

Mr. HELMER. Mr. Chairman, this contains a couple of missile parts which we found.

Chairman McCLELLAN. You need not take them out. Just identify them.

Mr. HELMER. We had them examined by competent technical inspectors in Europe. While they are classified, they can be shown if you would like to see them.

Chairman McCLELLAN. Let us get a glimpse of them.

Mr. HELMER. These are amplifier components of the Hawk Missile System which were supposedly demilitarized, but according to the technical inspectors, if these fell into the wrong hands, a competent technician could dissect these units, determine the schematic and possibly compromise the accuracy of the missile, itself.

We have another item I would like to show you. This is a control receiver, a small electronic component. We were told in Europe that it is an improved Nike-Hercules missile part. In Europe, a competent technical inspector said that this did require demilitarization. We found it in the yard, it is almost in perfect condition. It is valued at \$174. We checked this with Defense officials here in the United States. They tell us that it does not require demilitarization.

I think the main thing that this points out is the confusion regarding what we demilitarize and what we don't demilitarize. Certainly if a technical inspector in Europe who is in charge of demilitarization does not know, we have problems.

It would seem to me if we are going to demilitarize anything, that possibly a part for a very important improved missile should get demilitarized.

That is about all I have to say, Mr. Chairman.

Chairman McCLELLAN. Are there any questions, Senator?

Senator GURNEY. No.

Chairman McCLELLAN. Any questions, Mr. Counsel?

Mr. CONSTANDY. No, sir.

Senator, I have a couple of exhibits which would help make the record more complete.

The first one is the redistribution and marketing break-out sheet for transactions in calendar year 1971. If we could have that printed in the record, it could be exhibit 101.

(The document referred to was marked "Exhibit No. 101" for reference and will be found on p. 57.)

Mr. CONSTANDY. The second is the worldwide disposal sales statistics—fiscal year 1970 through third quarter fiscal year 1972.

I offer that as exhibit 102.

(The document referred to was marked "Exhibit No. 102" for reference and will be found on p. 58.)

Mr. CONSTANDY. Third is the reference map and index listing locations of major PDO yards and satellite facilities in Europe.

(The documents referred to were marked "Exhibit No. 103" for reference and will be found on p. 70.)

Mr. CONSTANDY. Next is a memorandum for the record prepared by Joseph C. Zengerle, Jr., deputy for supply, maintenance, and transportation, dated August 11, 1970, addressed to the Assistant Secretary of Defense (I. & L.) Re Reassignment of Property Disposal Functions.

(The document referred to was marked "Exhibit No. 104" for reference and will be found on p. 60.)

Mr. CONSTANDY. A listing of non-American—that is local national and/or third country nationals—employees of PDO facilities in Europe.

(The document referred to was marked "Exhibit No. 105" for reference and will be found on p. 63.)

Mr. CONSTANDY. It would help if those could be printed in the record, if those could be made exhibits and be printed in the record.

Then we have a couple of others for reference only, but I would like to offer them as exhibits.

The International Traffic in Arms Regulations (August 1969).

(The document referred to was marked "Exhibit No. 108" for reference and may be found in the files of the subcommittee.)

Mr. CONSTANDY. International Traffic in Arms Regulations (January 1972).

(The document referred to was marked "Exhibit No. 108" for reference and may be found in the files of the subcommittee.)

Mr. CONSTANDY. The Defense Demilitarization Manual (September 1970) (DOD 4160.21-M-1).

(The document referred to was marked "Exhibit No. 109" for reference and may be found in the files of the subcommittee.)

Mr. CONSTANDY. Defense Scrap Yard Handbook (TM 755-200) (June 1966).

(The document referred to was marked "Exhibit No. 109" for reference and may be found in the files of the subcommittee.)

Mr. CONSTANDY. The manual entitled "Reporting, Utilization, and Redistribution of Installation, U.S. Army Materiel Command and Overseas Command Excess Personal Property" (AR 755-1) (March 1967).

(The document referred to was marked "Exhibit No. 110" for reference and may be found in the files of the subcommittee.)

Chairman McCLELLAN. Very well.

Is there anything further?

All right, that concludes the hearings for today, in fact, concludes this series of hearings.

Our hearings thus far have been centered upon the operation and administration of U.S. Army property disposal yards in Europe. We have heard testimony that the yards generally have been poorly administered and supervised because of neglect of regulations, haphazard recordkeeping and negligence of duty by yard officials and employees. It has been established by evidence that improprieties and corrupt

practices have infiltrated the system of disposal of surplus property to such an extent that corrective action was imperative.

The subcommittee has been impressed by the testimony of high officials of the Department of Defense and the Department of the Army who conceded that they have serious problems within the military supply systems. They also indicated that vigorous remedial activities over a wide range of property disposal operations are already in progress. Thus it is clear that the joint efforts of subcommittee and Defense Department personnel have proved effective and that substantial benefits to the Government and to the taxpaying public will be forthcoming from our investigation.

We have a long road to travel, however, in this complex inquiry. When we resume hearings at an appropriate later date, we expect to examine in detail the international arms traffic which apparently has been proliferated and augmented by the sales of military equipment from our Army's surplus; the policies and procedures under which surplus arms are disposed of within our military assistance program for our allies; the influence of collusion, bribery, and other improprieties in our sales of surplus armaments, and the question of whether there are deficiencies or weaknesses in the inventory and accountability of our wholesale military supply systems, as well as in the existing statutes which regulate American participation in world trade of surplus war materiel.

When we complete this investigation, we hope and expect that most of the unsatisfactory conditions thus far disclosed and those that will be discussed in future hearings will have been corrected, and that the persons responsible for them will have been properly disciplined and that they and others will be deterred from such improprieties, and from such mismanagement and corrupt practices.

The subcommittee stands in recess subject to call of the Chair.

(Whereupon, at 4 p.m., the subcommittee recessed subject to the call of the Chair.)

(Subcommittee members present at the time of recess were Senators McClellan and Gurney.)



