Automobile for Rural Health Program

Senator Gore. The next one listed is under the rural health program. The employee involved is Doris Wright and she is assigned a station wagon. Is the rural health program a contract project?

Mr. McCauley. No, sir.

Senator Gore. Is she the only employee of that project? What is her title?

Mr. Boyd. She is a health education adviser.

Senator Gore. Is she director of the program?

Mr. Boyd. No, sir. She is not the director. There are two more. They have a new director who has just arrived recently. I can't think of his name.

Senator Gore. Is he furnished an automobile by the Government of Vietnam?

Mr. Boyd. No, sir. Not that I know of. I am in the program office and I have some knowledge of these projects, but don't know about that particular part.

Senator Gore. Do you know, Mr. McCauley, why Vietnam should furnish an automobile to this particular employee?

Mr. McCauley. This project operates all over Vietnam. Transportation is needed. The question you are raising is a general question.

Senator Gore. She too would be entitled to the use of transportation in the performance of her duties? But in addition to this, the Government of Vietnam is furnishing her with a station wagon.

Mr. McCauley. That's right, sir.

Motor Pool Vehicles Distinguished from Permanently Assigned Vehicles

Senator McGee. In the motor pool (ICA) here, are there any distinctions made between vehicles that are used for a single purpose and over a wide area? In other words, I understand you can use a car here for a particular assignment. But do you also distinguish between the uses for which your vehicles are to be put? Are vehicles used in the field regarded as being part of the motor pool?

Mr. Hopkins. Vehicles in a USOM motor pool are handled on a trip ticket basis. On a specific trip an individual ticket is issued which shows they made the trip and checked back in. On vehicles of this type it was evidently considered by the division concerned with these projects—if they needed vehicles on a full-time basis to implement the project then the motor pool could not make vehicles available on a full time basis.

Senator McGee. From an administrative viewpoint there might be a point in doing this. I have had some experience with motor pools at the University of Wyoming. It got to be confusing. The cars operated continuously a long way from campus and were considered a part of the university motor pool and for administrative reasons they had to make a distinction.

Senator Gore. I have been aware for 21 years now of the use of automobiles by U.S. Government employees, and the present regulations are the culmination of years of experience, some of which are unhappy, with the way in which vehicles are used by Government
employees. The present motor pool arrangement is a safeguard for the proper use of Government transportation. The regulations, as we understand them, do not prohibit ICA from assigning to Mr. McCauley an automobile on a full-time basis if such use or assignment is justified. Is that not correct?

Mr. Hopkins. It's not my understanding.

Senator Gore. Does not the Director of ICA have an automobile assigned to him?

Mr. Hopkins. Yes, the Director and Deputy Director are exceptions to this. Both Mr. Gardiner and McCauley have a car assigned to them. Mr. McCauley has one as Acting Director.

Senator Gore. The answer to my question must be in the affirmative, then.

Senator McGee. Are these pool cars?

Mr. Hopkins. Yes, the exception being two cases where we are permitted to assign on full-time basis.

Senator Gore. Of course, they are pool cars and are assigned for the full-time use of the Deputy Director. When he ceases to have such responsibility, then this car will still be in the pool subject to assignment to him or other employees in accordance with justified needs.

Mr. Hopkins. Yes, sir.

Senator Gore. That same situation would apply to Miss Doris Wright would it not?

Mr. Hopkins. Yes, sir, she is entitled to a car whenever her duties require transportation.

Senator Gore. But we find in addition that Vietnam provided a station wagon full time. Does this mean they also provide a chauffeur?

Do you know, Mr. McCauley?

Mr. McCauley. I don't know personally but I'm sure it does because the Vietnamese Government requires chauffeurs on all its vehicles.

**Titles to Vehicles**

Senator McGee. One more question regarding the disposition of these cars. Is there any distinction made between those which are to go to the Government of Vietnam when a project is finished and those that may be operated directly in an ICA pool? Do those go to the Government when we are finished?

Mr. Hopkins. The cars are titled either in the host government or the U.S. Government.

Senator McGee. There is a difference.

Mr. Hopkins. Yes, there is.

Senator McGee. There is some equipment, including cars, that would be left with the Vietnam Government?

Mr. Hopkins. That's right, sir.

Senator McGee. These three jeep station wagons for example?

Mr. McCauley. Their title is in the Government and they revert to the Government at the conclusion of the operation.

Senator McGee. Are they in a different category than equipment left by the contractor? It seems to me, Senator Gore, that the equipment used by the contractors as well as the cars revert to the Vietnam Government and that's why the assignment of certain vehicles is made
by Vietnam; whereas the vehicles in the ICA pool do not—they remain with ICA. I don't know whether this makes a meaningful distinction between the two categories of vehicles.

Senator Gore. It serves to raise the question of liability in the donation of automobiles. These employees, according to the testimony given here, are entitled to transportation in the performance of their duties, but, in addition to that, the U.S. Government has donated enough other automobiles to allow Vietnam to furnish something above and beyond the needed transportation.

Mr. Durbrow. I am going to ask Mr. Hopkins, do you think you have enough cars in your USOM pool here to have a car available for Miss Doris Wright or Taylor when they have to go on these regular routine business trips? Or maybe when this arrangement was made some time ago the question was rather than buy another car for the pool and assign it to her, the decision was reached that there were not enough cars in the pool to take care of these long trips in connection with this work? Is there any way you can get the facts on that?

Mr. Hopkins. The use of our vehicles in our motor pool here and the number of trips made—I've given Mr. Newhouse a table showing use of our vehicles and number of trips they make, which gives a good picture of how extensively they are used.

ADEQUACY OF MOTOR POOL

Senator Gore. I'm raising no question about the operations of the motor pool; this is standard Government procedure and if your motor pool has too many cars some procedure is necessary; if it does not have enough cars then there is another procedure to obtain enough cars to allow your employees to perform their duties. Is that not right?

Mr. Hopkins. We could obtain more cars with justification.

Senator Gore. That, too, would be in accordance with standards and procedures which have evolved through years of experience. Is that not true?

Mr. Hopkins. Yes.

Mr. Elting. Is it possible that the vehicles that we are talking about that have been assigned to projects were procured in order to supplement the USOM pool? In other words, it would seem logical that, if these persons require transportation to do a job, they would be supplied a car from the pool unless an alternative arrangement has been made. Conceivably when projects were set up the thought was that rather than have cars in and out of the motor pool, this device was conceived to be a more practical arrangement since they calculated a continuing need for their use in the field.

Senator Gore. If the answer to your question is "Yes" then the arrangement is a device, indeed, to permit greater use of automobiles than is permitted by the Government of the United States under regulations governing the use of Government automobiles.

Senator McGee. Unless it is also a matter of policy that part of the assistance to this Government is to provide project vehicles which
revert to Vietnam. If so, it is fundamental policy that is involved here.

Mr. Newhouse. I suggest that we might resolve this by asking for the regulations covering procurement of vehicles and the number of vehicles now being used by the Mission and insert it at this time in the record.

Mr. Hopkins. I believe I have given you the number of vehicles in the motor pool, etc.

(The information referred to is as follows:)

Office Memorandum, United States Government

To: Mr. Roland Smith, USOM.

From: Robert R. Bills, Embassy.

Subject: Marcy and Valeo Inquiry: Number of official vehicles in Vietnam by agency, justification for this number and average number of trips per day in and outside of Saigon.

There follows under paragraphs 1, 2 and 3 the number of vehicles by agency and type, justification and available information concerning average trips per day.

1. Number and type of vehicle per agency.—

<table>
<thead>
<tr>
<th>Type of vehicle</th>
<th>Embassy Service attaches</th>
<th>USIS</th>
<th>MAAG</th>
<th>USOM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sedans</td>
<td>12</td>
<td>5</td>
<td>1</td>
<td>50</td>
<td>61</td>
</tr>
<tr>
<td>Station wagons</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>12</td>
<td>38</td>
</tr>
<tr>
<td>Carryalls</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td>Jeeps</td>
<td>1</td>
<td></td>
<td></td>
<td>55</td>
<td>55</td>
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<tr>
<td>Busses</td>
<td></td>
<td>6</td>
<td>6</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Mobile units</td>
<td></td>
<td>18</td>
<td></td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>Boats</td>
<td></td>
<td>3</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Trucks, 2 1/2 ton</td>
<td></td>
<td>22</td>
<td>1</td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Trucks, 1 ton</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Trucks, 1/2 ton</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
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<tr>
<td>Trucks, ½ ton</td>
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<td></td>
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<td></td>
<td>2</td>
</tr>
<tr>
<td>Wrecker</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Ambulance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>29</td>
<td>16</td>
<td>85</td>
<td>191</td>
</tr>
</tbody>
</table>

1 Includes Ambassador and principal officer of Hua.

2 Includes one each vehicle at Hue and Dalat.

3 Includes one vehicle at Cantho.

4 Includes one vehicle at Hua.

The above itemization is of U.S. Government owned vehicles, and does not include the 2½-ton tactical-type jeeps of the Vietnamese Army, which are on loan to MAAG advisers in the field stations.

2. Justification.—The following justifications are given for:

A. Embassy.—The number of vehicles at the post are controlled by supplies and equipment division of the Department of State in Washington. All replacement of vehicles is determined by that office based on annual reports as submitted by the Embassy concerning age, mileage and condition of each individual motor vehicle.

B. Service attaches.—Army: Vehicles are assigned to the office of the U.S. Army attaché in accordance with tables of allowances established by the assistant chief of staff, Intelligence, Department of the Army. Vehicles assigned this station are within the established allowance.

Air: Authorization for number on hand; Director of Naval Intelligence letter OP-928R/nc Ser 2530P02 of August 2, 1959.

C. USIS.—The control of USIS vehicles at the post is similar to that of the State Department listed under that of paragraph A above.
D. MAAG.—Motor vehicle transportation for this MAAG is authorized in accordance with the provisions of Joint Table of Allowance 82-7. Justifications for all major items of equipment, including motor vehicles, were submitted for all vehicles authorized by the subject T/A.

E. USOM.—The number of USOM administrative vehicles are controlled by ICA office, Washington, in approximately the same manner as the State and USIS vehicles are controlled. The number of program vehicles is established based on number of personnel in each program and program requirements.

3. Average number of trips per day.—A. Embassy—

| Sedans | Truck, 1 ton | 9 |
| Station wagons | Truck, 1½ ton | 8 |
| Carryalls | Truck, 2½ ton | 16 |
| Bus | | 10 |

B. Service attachés.—The sedan type vehicles of the service attachés are assigned to the ranking officers of each attaché office. The number of trips they perform varies greatly, and they have no definite records of the number of dispatches per day.

C. USIS.—USIS has no record of the number of dispatches per day on its trucks or mobile units, however mobile units are maintained for use in the field throughout Vietnam and are not operated as a pooled vehicle. Available figures on dispatches of other vehicles are:

| Sedans | | 6 |
| Station wagons | | 8 |
| Carryalls | | 7 |
| Jeeps | | 6 |

D. MAAG.—MAAG's report did not break down the number of dispatches for type of vehicle per day but instead reported the average number of trips per vehicle per day as estimated as follows:

Within Saigon: 17½ trips per day.
Outside Saigon: 9½ trips per day.

E. USOM.—USOM's report was as follows:

Vehicles dispatched during the month of October 1959

1. Total vehicles dispatched Saigon-Cholon area________________________ 5,248
   During duty hours________________________________________ 4,800
   After duty hours (official use)______________________________ 402
   After duty hours (personal use)______________________________ 44
   Total mileage performed___________________________________ 44,474

2. Total vehicles dispatched on field trips_________________________ 27
   Personnel participating____________________________________ 40
   Number of days vehicles and personnel in the field____________ 119
   Mileage performed________________________________________ 28,440
   Total vehicles dispatched___________________________________ 5,278
   Total mileage performed___________________________________ 67,914

Senator Gore. Mr. McCauley, the other project vehicles are listed here, along with the names of these vehicles and their type. I will include this in the record at this point.
**SITUATION IN VIETNAM**

(The document referred to follows:)

List of passenger-carrying vehicles (by division)

### HEALTH AND SANITATION DIVISION

<table>
<thead>
<tr>
<th>Employees</th>
<th>Project</th>
<th>Project No.</th>
<th>Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stein, George J.</td>
<td>Malaria eradication</td>
<td>30-51-010</td>
<td>2 Jeep station wagons.</td>
</tr>
<tr>
<td>Taylor, John K.</td>
<td>do</td>
<td>30-51-019</td>
<td></td>
</tr>
<tr>
<td>Pratt, Duncan A.</td>
<td>do</td>
<td>30-51-020</td>
<td></td>
</tr>
<tr>
<td>Glenn, Stanley</td>
<td>do</td>
<td>30-51-020</td>
<td></td>
</tr>
<tr>
<td>Karon, Joll</td>
<td>do</td>
<td>30-51-020</td>
<td></td>
</tr>
<tr>
<td>Hester, James</td>
<td>do</td>
<td>30-51-020</td>
<td></td>
</tr>
<tr>
<td>Wright, Doris</td>
<td>Rural health program</td>
<td>30-53-018</td>
<td>Jeep Station wagon.</td>
</tr>
</tbody>
</table>

### AGRICULTURE DIVISION

<table>
<thead>
<tr>
<th>Employees</th>
<th>Project</th>
<th>Project No.</th>
<th>Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garner, J. K.</td>
<td>Land development</td>
<td>430-12-144</td>
<td>Jeep station wagon.2</td>
</tr>
<tr>
<td>Loverson, Alton</td>
<td>do</td>
<td>430-12-144</td>
<td>Do.3</td>
</tr>
<tr>
<td>Cox, Millard</td>
<td>Improvement of irrigation and water control</td>
<td>30-42-046</td>
<td>Jeep.</td>
</tr>
<tr>
<td>Bonds, Thomas</td>
<td>Livestock development</td>
<td>430-13-005</td>
<td>Ford station wagon.</td>
</tr>
<tr>
<td>Smith, Wesley</td>
<td>Development of agricultural extension service</td>
<td>30-11-058</td>
<td>Land rover (part time).</td>
</tr>
</tbody>
</table>

### TCP DIVISION

<table>
<thead>
<tr>
<th>Employees</th>
<th>Project</th>
<th>Project No.</th>
<th>Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blomgren, Arthur</td>
<td>Civil aviation advisory group</td>
<td>430-37-002</td>
<td>Ford station wagon.</td>
</tr>
<tr>
<td>Lewis, John.</td>
<td>do</td>
<td>430-37-002</td>
<td>Chevrolet station wagon.</td>
</tr>
<tr>
<td>Ulman, Paul</td>
<td>do</td>
<td>430-37-002</td>
<td>Do.3</td>
</tr>
<tr>
<td>Lewis, John.</td>
<td>do</td>
<td>430-37-002</td>
<td>Land rover (used for Fine pino technicians under Mr. Lewis).</td>
</tr>
<tr>
<td>Miller, James</td>
<td>do</td>
<td>430-37-002</td>
<td>Jeep station wagon.</td>
</tr>
<tr>
<td>Wildman, Quentin</td>
<td>Water supply</td>
<td>430-25-015</td>
<td>Ford station wagon.</td>
</tr>
<tr>
<td>Reames, Herman</td>
<td>do</td>
<td>430-25-015</td>
<td>Land rover.</td>
</tr>
<tr>
<td>Almyon, Severine</td>
<td>do</td>
<td>430-25-015</td>
<td>Land rover.</td>
</tr>
<tr>
<td>Smith, Lawson</td>
<td>Highways and bridges</td>
<td>430-31-021</td>
<td>Chevrolet sedan.</td>
</tr>
</tbody>
</table>

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1 Jeep station wagons under project 30-51-029 reduced from 3 to 2. Third station wagon originally included from USOM motor pool.

2 Originally described as land rover. Should be Jeep station wagon.

3 Vehicles inadvertently omitted from original list.

Note.—Original list presented to Mr. Newhouse corrected as above.

Senator GORE. Are any of these projects contract projects?

Mr. McCauley. No, sir; except for an American Civil Aviation Advisory Group project and that's an interagency agreement and we are authorized to provide vehicles.

Senator GORE. I don't quite understand, Mr. McCauley—Civil Aviation Advisory Group—what is that?

Mr. McCauley. That is an advisory group of Americans here from the civil aviation setup in the United States.

Senator GORE. Are they Government employees?

Mr. McCauley. Yes; they are U.S. Government employees who are here on an interagency agreement between ICA and Federal Aviation Agency.

**NEED FOR PERMANENT ASSIGNMENT OF VEHICLES**

Senator GORE. Does that agreement provide that ICA will furnish the necessary transportation for the performance of the duties of these officials?

Mr. McCauley. That agreement provides that they will have the same privileges as USOM employees.
Senator Gore. USOM employees are provided transportation for the performance of their duties and therefore the answer would be "Yes."

Mr. McCauley. Yes, sir.

Senator Gore. But in addition to that they are furnished two station wagons, two jeeps, and a land rover. Do you know who furnishes these?

Mr. McCauley. These are purchased under the project in the same category as the rest we have been discussing.

Senator Gore. In other words, they are furnished by the Government of Vietnam.

Mr. McCauley. That's correct. There are also under this project 8 Filipino technicians who are here on an individual contract basis for the training of the Vietnamese in the electronics equipment going in at this time.

Senator Gore. Now are these Filipino technicians here by contract with the ICA?

Mr. McCauley. Yes, sir.

Senator Gore. Does this contract provide that ICA will furnish the necessary transportation?

Mr. McCauley. We would provide the transportation.

Senator Gore. Does the contract provide the transportation?

Mr. McCauley. I would have to review the contracts specifically but I'm sure that transportation would be one item provided for in the contract.

Senator Gore. Then they are in the same category. Any further questions on this?

Senator McGee. No.

Mr. Battleman. I would like to say that in the setting up of a project with the participating country we commit ourselves to granted dollars but we also expect the government to make a contribution. It can be in kind or in cash. If it's in kind it can necessarily include furnishings, office space, maintenance of vehicles, or anything which we can put a dollar or piaster value on. Under those project agreements there is nothing wrong with the Government of Vietnam furnishing any of these categories of assistance.

Senator McGee. In other words, there is a basic policy covering the Government of Vietnam contribution of vehicles as its "share" and participation in a project. There would be also an ICA motor pool operated entirely under the jurisdiction of ICA. Thus, you are not going to question these two facts, then there is no irregularity, unless somebody was operating these two cars needlessly, which would be an abuse of the system?

Mr. Battleman. If the technicians were using the car for personal reasons, that's not permitted.

Senator Gore. That is not permitted by whom? That is the point. If a U.S. Government employee is using U.S. Government transportation, then he is subject to the normal regulations laid down by our Government for the use of such transportation. But he is not subject to U.S. Government regulations in his use of vehicles furnished to him by Vietnam and which in turn are furnished by the taxpayers of the United States.

Mr. Battleman. To a certain extent you are right. However, let me explain this. In those cases where technicians need cars prac-
tically 100 percent of the time you can't then say well if you want to drive to town to a movie you can't do this—you really get to a point where you are shaving too close.

Senator Gore. Do these Civil Aviation Advisory Group employees need an automobile 24 hours a day, every day of the week, every week of the month, every month of the year?

Mr. Batteman. If they are out on 7-day week assignment they do.

Senator McGee. They have a pool of their own, don't they?

Mr. McCauley. They have 5 cars used by 15 people. It's a pool of their own. Like the three jeeps for these six or eight people up here.

Senator McGee. Is the ICA in a position to prevent abuses of the system?

Mr. Hopkins. Yes, sir; we are.

Senator Gore. Let's go back to the highways.

Senator McGee. Do we have the people from Johnson, Drake & Piper in here?

BIDS ON HIGHWAY PROJECT

Senator McGee. We'll open first this morning with an explanation of the wide variation in the original bid proposals on the highway project that were submitted. Some of these firms with overseas experience sent in estimates of approximately $50 million apart. Johnson, Drake & Piper made the low bid, as I am informed.

Is that correct, Mr. McCauley?

Mr. McCauley. Correct.

Senator McGee. Their bid was what sum?

Mr. McCauley. The sums are listed here: Part I: $7,645,439; Part II, $7,107,167; Total: $14,752,606, plus direct material purchases of $2,927,394, plus a total fee of $700,000.

(The list referred to is as follows:)

Proposals with estimated costs (including plasters) and fees as indicated were received from the following firms:

<table>
<thead>
<tr>
<th></th>
<th>Part 1</th>
<th>Part 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grove International Corp.</td>
<td>$21,000,000</td>
<td>$21,500,000</td>
<td>$42,500,000</td>
</tr>
<tr>
<td>Raymond Construction Corp.</td>
<td>795,000</td>
<td>890,000</td>
<td>1,685,000</td>
</tr>
<tr>
<td>Merritt Chapman &amp; Scott (no breakdown)</td>
<td>$325,000</td>
<td>$312,500</td>
<td>$637,500</td>
</tr>
<tr>
<td>S. Birch &amp; Sons:</td>
<td>Cost: $7,045,459</td>
<td>Fee: 1,472,039</td>
<td>$8,517,498</td>
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<tr>
<td></td>
<td>Cost: 7,107,167</td>
<td>Fee: 1,300,000</td>
<td>8,407,167</td>
</tr>
<tr>
<td>Johnson, Drake &amp; Piper: Cost: 7,703,286</td>
<td>Fee: 1,400,000</td>
<td>9,103,286</td>
<td></td>
</tr>
<tr>
<td>Vawter Co.: Cost: 500,000</td>
<td>Fee: 700,000</td>
<td>1,200,000</td>
<td></td>
</tr>
<tr>
<td>Nels Lieb Co.: Cost: 14,527,394</td>
<td>Fee: 5,900,000</td>
<td>20,427,394</td>
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<tr>
<td>Pomery-H-K: Cost: 18,610,286</td>
<td>Fee: 23,040,879</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J. A. Jones Construction Co.: Cost: 23,612,134</td>
<td>Fee: 45,011,286</td>
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<table>
<thead>
<tr>
<th></th>
<th>Part 1</th>
<th>Part 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>790,000</td>
<td>2,000,000</td>
<td>2,790,000</td>
</tr>
</tbody>
</table>
On the basis of the lowest estimated costs and lowest fee Johnson, Drake & Piper was selected for negotiation of a cost-plus-fixed-fee contract.

Senator McGee. Their total would be around $18 million when added together. And then the other companies, according to the list here, range upward—beginning at $25-$26 million for the second ranking company, $28 million for the third, $24 million for the fourth, and nearly $47 million for the fifth. In rough figures. The gap between the low bid and the other bids—that is the point in question.

What seems to be the explanation for this apparently unrealistic opening bid by Johnson, Drake & Piper.

Mr. McCauley. I am unable to answer that question. I can say, from the firms listed here, I know of three who definitely were out here to look the job over, plus one from the west coast whose name I don't know, who was here. I don't know if they looked the job over.

Senator McGee. Was Johnson, Drake & Piper one that was out here?

Mr. McCauley. Yes.

Senator McGee. They surveyed in advance?

Mr. McCauley. Yes.

Raymond Construction Co. was out here; Vinell, Johnson, Drake & Piper—the fourth company I know of being here I can't identify. I don't remember the name.

Senator McGee. Both Vinell and Raymond had approximately identical bids of $26 million plus. Johnson, Drake & Piper had a total of approximately $18 million; the others are higher. In view of the fact that Johnson, Drake & Piper costs went up perceptibly, the point of these questions becomes obvious, inasmuch as they made the low bid.

Didn't your office have estimates that would suggest an area for reasonable biddings?

Mr. McCauley. We had a report made by Capitol Engineering which was a survey that was given to each contractor who bid on this job.

BIDS TAKEN IN WASHINGTON, D.C.

Senator McGee. But could you not tell, from your own knowledge, from your own evidence here, which bids were more nearly in line with the facts of the problem here in Vietnam?

Mr. McCauley. These bids were taken in Washington, D.C.

Senator McGee. And you people here were not consulted?

Mr. McCauley. That is right, sir.

Senator McGee. That's the first point that I think needs to be clear.

Mr. McCauley. I had sent back to Washington, to the Director General of the Ministry of Public Works, Mr. Dinh, the foreign aid liaison officer, Mr. Tuan, and Mr. Smith, to help negotiate the Capitol Engineering contract. All were in Washington when these bids were received, and they agreed upon the selection of Johnson, Drake & Piper.

Senator Gore. What was the purpose of the bidding?

Mr. McCauley. Do you mean the scope of the work, sir?
SITUATION IN VIETNAM

BIDS COMPARED TO CONTRACTS

Senator Gore. What's the purpose in calling for bids on a cost plus contract? In essence, you negotiated a contract.

Mr. McCauley. In essence, I believe it should be a negotiated contract. However, Washington regulations call for bidding of this type.

Senator Gore. I am asking the purpose of this. Now, would the terms of the contract have been any different if Johnson Drake & Piper had bid $23 million instead of $14, or $10 instead of $14 million?

Mr. Battleman. Sir, there are two variables in the bidding on contracts. One, the overhead rate which varies between contract, and the other is a fee. Otherwise, costs are on a reimbursement basis.

Senator Gore. Now, which of these would be affected in this case, whether Johnson Drake & Piper bid $10, $13 or $16 million?

Mr. Battleman. You asked the purpose of two variables between the bid. One, the overhead rate which may be 50 to 150 on up, and the fee which may vary from $50,000 to $250,000. Those are variables; the others are reimbursed costs.

Senator Gore. What was the variation in the fee in this case?

Mr. Battleman. What were the differences in the fees?

Mr. McCauley. Johnson Drake & Piper’s bid was $400,000 on part I. Seven hundred eighty thousand dollars was the highest bid on part I.

Senator McGee. A range in fee from Johnson Drake & Piper’s $700,000 to $1,550,000, which seems to be a high fee; the others were quite uniform—all $1,200,000 or $1,250,000—with one major exception of $920,000.

Senator Gore. Is the fee generally related to the estimated total cost?

Mr. McCauley. Yes, sir, and the fee is usually negotiated.

Senator Gore. Mr. McCauley, did the Government of the United States buy all of the equipment for this highway project?

Mr. McCauley. Yes, sir.

Senator Gore. What has Johnson Drake & Piper furnished for the project?

Mr. McCauley. Management, organization, and the training of the men on the job.

Senator Gore. They provided no equipment, no material. They have only provided personnel with whatever capacities they may have.

Mr. McCauley. That is correct. They also do the purchasing of the materials under our standard procedures, and they did do the purchasing of some of the equipment which was bought on a commercial basis.

Senator Gore. But they didn’t pay for it.

Mr. McCauley. No, sir.

Senator Gore. Then all they provided is personnel with such capacities as management, technical capability, et cetera. Now each employee of Johnson Drake & Piper has been drawing a salary which is fully reimbursable.

Mr. McCauley. That is correct.

Senator Gore. So the fee that they receive is completely net profit above all costs related to the project.
Mr. McCauley. Yes, sir.

Senator McGee. Are any other calculations in such a bid that would provide additional net gain to an organization?

Mr. McCauley. No, sir. Their net gain would be limited to the fee.

Cost Plus Fees Contracts

Senator McGee. Entirely to the fee. Any increase in costs would be on a direct cost basis and paid for by the U.S. Government. Under those circumstances, why call for bids on anything other than the fee? Here they submit cost bids that range from $45 million down to $14.5 million. Why don't we confine bidding to the fee?

Mr. McCauley. You're asking a question that is out of my control.

Senator McGee. Who can answer?

Mr. McCauley. Those would have to be answered in Washington. That's where bids are taken.

Senator McGee. Let the record show that we intend to raise this question in Washington with the ICA. The purpose of cost bidding beyond actual fee.

Senator Gore. From my own long experience on examining thousands of Government contracts, I am firmly of the conviction that cost plus contracts are an abomination. Johnson Drake & Piper undertakes no risks. They buy no equipment with their own money, no material with their own money. They are reimbursed on every dollar of cost, including salaries of personnel. They receive a guaranteed net profit with no investment.

Senator McGee. No risk.

Senator Gore. No risk and no investment.

Fees Demanded by Johnson Drake & Piper

Senator McGee. What about the fee of Johnson Drake & Piper? After the initial bid, the costs went up markedly as much as $25 million, $26 million. Did their fee change?

Mr. McCauley. It has not changed up to date. They put in a request—a negotiation on the fee is under consideration.

Senator McGee. A negotiation of fee different from the $700,000?

Mr. McCauley. Different from $800,000, the fee for the present contract, which differs from the original proposal.

Senator Gore. This concern, without risk, without investment, is already assured of a net profit of $800,000 in building the road and yet wants more.

Mr. McCauley. On the basis of increased quantities and on the basis of additional work.

Senator Gore. None of which involves further investment on their part, further expenditure of money on their part.

Senator McGee. There would be an advantage to the company, at no risk or no extra expense in applying for a new contract. I would imagine this would be worth a great deal to them.

Mr. McCauley. I don't know how you can put a dollar value on this, because the employees of the company do not always remain with the company except those in supervisory capacity. Generally, the construction employees are hired from other jobs of the contractor.
is required that a certain percentage be on the contractor's payroll for a number of years, a period of time.

Senator McGee. It is not unusual for a firm to make an extremely low bid in an attempt to strengthen its position subsequent to the bidding. This has measurable monetary value.

Mr. McCauley. That is not unknown.

Senator McGee. What about the $700,000 fee that was negotiated? Was it ever at any time lower than that during the negotiations?

Mr. McCauley. Yes, sir, lower than that in negotiation.

Senator McGee. How much lower?

Mr. McCauley. The fee on the first part of the original proposal was $400,000 as you have listed here. Then there was a change to concrete and steel bridges in which it was raised to $450,000.

Senator McGee. The original proposal called for $400,000.

Mr. McCauley. That was raised by $50,000 when the type of construction was changed.

Senator McGee. After the bids were finished or before the bids were submitted finally?

Mr. McCauley. This was done after the bids had been received.

Senator McGee. What about the second part?

Mr. McCauley. When the original proposal, which included the work from Tuy Hoa to Faifo on Highway No. 1 plus the Saigon-Bien Hoa section, Tuy Hoa to Faifo section was eliminated and Routes 21 and 19 were substituted, the fee was raised to $800,000.

Senator McGee. On part II?

Mr. McCauley. No, sir, this is still part I.

Senator McGee. That started at $400,000, $450,000 and then to $800,000, as the scope of the project changed?

Senator Gore. How much are they asking now?

Mr. McCauley. I have not seen their request.

Senator Gore. Do you know what it is?

Mr. McCauley. No, sir.

Senator Gore. Anybody?

Mr. Newhouse. It's under negotiation in Washington, Senator.

Senator McGee. To your knowledge, $800,000 is the present level?

Mr. McCauley. Yes, sir.

Senator McGee. That is their fee in part I. The fee is the same still in part II?

Mr. McCauley. No, sir, not same in part II. There is additional work which we have not undertaken.

Senator McGee. That would still be subject to negotiation.

Mr. McCauley. We have recommended the inclusion of the bridges and about 11 kilometers of highway between Ninh Hoa and Nha Trang—that is what is called amendment No. 3 and is under consideration in Washington today.

Mr. Newhouse. Mr. McCauley, to the best of your recollection, did the fee for part I ever drop back down again from $800,000 to a figure of $550,000, and then go back to $800,000?

Mr. McCauley. Not to the best of my knowledge.

Senator McGee. Do you have any knowledge as to whether Johnson, Drake & Piper had just prior to this contract bidding been high bidder on the Cambodian highway project?

Mr. McCauley. I would have no knowledge of that.
REASON FOR INCREASE IN ESTIMATED COST

Senator McGee. What accounts for the extra sharp increase by $25, $26 million in the Johnson, Drake & Piper bid?

Mr. McCauley. Increased quantities on the job over those originally estimated is the main reason for the increase in cost.

Senator McGee. Increased quantities? You mean more miles of road? Higher standards?

Mr. McCauley. Probably not a higher standard, but an overrun in the original estimate of quantities.


Mr. McCauley. Quantities of dirt, bridge structures themselves increased in length; in one case an increase in asphalt surfacing. An increase in quantities, especially the Bien Hoa job, due to the unusual, unstable subsurface conditions which required greatly increased quantities over the job itself.

Mr. Durbridge. Earth, sand, et cetera.

Senator McGee. Is it conceivable that other bidders had made allowance for that?

Mr. McCauley. It would depend entirely upon experience, sir.

Senator McGee. Would experience have caused them to make a higher bid, with this in mind?

Mr. McCauley. It is conceivable that it could have caused it.

NO EXAMINATION OF BIDS IN FIELD

Senator McGee. What safeguards have you at this end, as you examine bids, to calculate the validity of a bid in terms of that factor which you just mentioned?

Mr. McCauley. Sir, I don’t have the opportunity of examining the bids.

Senator McGee. You are not permitted or asked to relay your professional judgment to Washington where contracts are written?

Mr. McCauley. In this contract, we were not.

Senator McGee. Would you consider it desirable in a program such as this, if you, who are here on the spot, were asked to have a look at the bids?

Mr. McCauley. I think it would be very desirable.

Senator McGee. I agree.

Senator Gore. You said, “In this contract, we were not.” Was this contract out of the ordinary?

Mr. McCauley. No, sir.

Senator Gore. Are you sometimes asked to submit your judgment?

Mr. McCauley. Our judgment is generally not asked for on the award of the contract. We are generally allowed to review the contract when they get into final negotiation to see that it meets conditions in Vietnam.

Senator Gore. Was that true in this case?

Mr. McCauley. Yes, sir.

Senator McGee. After the bid had been awarded?

Mr. McCauley. That is right. They sent a draft contract in May of 1957 which we reviewed and made some changes, took out a section, returned it to them in July of that year.
Senator McGee. Would it be to the advantage of any organization bidding on one of these projects to pitch it low deliberately, unrealistically low, in order to increase chances of getting the contract?

Mr. McCauley. It is a possibility, sir.

Senator McGee. Do you see any safeguard against that happening—short of an inspection—other than an appraisal of the bids by someone such as yourself here on the spot?

Mr. McCauley. I think that would be the best safeguard.

Senator McGee. It would seem to me that this is one of the suggestions that we want to pass along back to Washington.

Mr. McCauley. We would like to have a review of the bids either here or send somebody from here, who is fully cognizant of the facts here, back to ICA in Washington at the time bids are taken and at the time of negotiation.

DECISION TO WIDEN SCOPE OF PROGRAM

Senator McGee. You referred earlier to the widening of the scope of the program. Did you make the decision to widen the scope of the program, or if not, where was this decision made?

Mr. McCauley. This decision to change the program from the Tuy Hoa-Falifoo section to Route 19 and Route 21 was made by the country team.

Mr. Dubrow. I referred to that yesterday, Mr. Senator.

Senator McGee. What other scope-widening decisions were made, aside from the change of routes? Any other ways in which the scope of the program can be expanded?

Mr. McCauley. There could be.

Senator McGee. The width of the road?

Mr. McCauley. Or the boosting up of standards established in this contract which stated the width of the road. It gave the side slopes, back slopes. Note, we did not have at that time final plans—it was only preliminary reconnaissance on the job itself. All it did was establish standards.

Senator McGee. So that the changing of the scope of the program involved relocation, quantity, widening, etcetera, and included other factors, and those decisions you make through the country team?

Mr. McCauley. If there is a change in the scope of the work as outlined in the contract, before we may proceed with the particular change we would also have to have ICA, Washington's, approval. But where it includes additional work as surfacing on Highway No. 21, that decision also comes before the country team.

Mr. Dubrow. On that particular change, which I take full responsibility for, after talking to the experts we finally explained to Washington why we thought this change would be better for the local situation, military, economic, and otherwise, and finally Washington agreed to this. They were not in concurrence immediately until we gave a full and justifying explanation as to why we suggested this change.

WHY BIDS VARY

Senator McGee. This still leaves the question of the procedure. Do you think that the selection of Johnson, Drake & Piper, in your judgment as an engineer, was the result of realistic bidding?
Mr. McCauley. That would be purely an opinion.

Senator McGee. I am soliciting your opinion.

Mr. McCauley. Who knows what a contractor will bid? One contractor wants to do a job one way, one wants to do it another. Of course, different costs are involved.

Senator Gore. The difference between $13 and $45 million is slightly large, isn't it?

Mr. McCauley. The man who bid $45 million didn't come out here.

Senator McGee. Johnson, Drake & Piper was here?

Senator Gore. The question arises whether they would have been better off not to have come.

Senator McGee. They didn't miss the mark much further than the fellow who was not here. That is the reason whether you, as an engineer, and on the basis of your on-the-spot knowledge, think that the Johnson, Drake & Piper bid was realistic?

Mr. McCauley. In the light of our knowledge today and the additional work and material, we would say that the original bid was not a realistic bid. At the time the bids were taken, we did not have preliminary data to make a really accurate estimate. I don't know whether we could or not. This bid was not confined to Capitol Engineering's estimate because conditions had changed.

Senator McGee. What was the Capitol Engineering Corp. estimate, higher or lower?

Mr. McCauley. It was higher.

Senator McGee. Substantially higher?

Mr. McCauley. I believe twice as high.

Senator McGee. Would you, as an engineer, be inclined to accept the survey as valid?

Mr. McCauley. I believe it was the best they could do in 2 months' time.

Senator McGee. Would that not have given you a yardstick to raise the question?

Mr. McCauley. It should certainly raise a question.

Senator McGee. So that your answer would be before the experience rather than after the experience, there was reason to question the realistic nature of the Johnson, Drake & Piper bid?

Mr. McCauley. That certainly should have been looked into.

APPLICATION OF SECTION 517 OF MSA ACT


Mr. Newhouse. It might be well to get an opinion from the Ambassador and Mr. McCauley as to whether you think section 517 of the Mutual Security Act will contribute in the future to programs of this sort or will it be a hindrance. Section 517 prevents the obligation of more than $100,000 to projects that have not been adequately surveyed. Based on your experience, Mr. McCauley, do you think this is a useful amendment to the MSA?

Mr. McCauley. We immediately started to comply with section 517 when it was placed in the Mutual Security Act. Our job on Highway No. 19 complies fully with section 517. I believe that it will ma-
materially aid in overcoming the difficulties such as we have had in increased costs on this job. However, if you get into conditions similar to those in Vietnam at the time this job was let, I do not believe it would be possible to operate under 517.

**TIME LIMIT ON SURVEY**

Mr. Newhouse. That brings up the question of the conditions under which this program began. Is it true that Capitol Engineering had only 60 days in which to get from the United States, make their surveys, return to the United States, and submit their report?

Mr. McCauley. That was part of the "package," yes, sir.

Mr. Newhouse. Who imposed this time limit?

Mr. McCauley. I don't know if it was imposed here.

Mr. Newhouse. On a project of this scope which was obviously going to take 5 or 6 years, do you think it would have been advisable to have allowed more time to survey and make recommendations?

Mr. McCauley. Ordinarily it would have been advisable to take more time; yes, sir.

Mr. Newhouse. Were the fixed costs of the equipment used on this project a part of the total estimated costs? In the United States the contractor can depreciate the cost of his equipment. Over here these become fixed costs.

Mr. McCauley. I would have to review the tenders that were put out because I believe, if I remember right, that the equipment was to be furnished along with the material by the United States of America.

**FINANCING IN PIASTERS**

Mr. Newhouse. How much of this project has been financed in piasters, local funding?

Mr. McCauley. For total Johnson, Drake & Piper contract we estimated $28,830,000, dollar equivalent, in piasters. For Capitol Engineering, $2,448,000, dollar equivalent, in piasters.

Senator McGee. What exchange; 35 to 1?

Mr. McCauley. 35 to 1.

Mr. Newhouse. Would this 35 to 1 rate have affected the ultimate cost?

Mr. McCauley. That is a very difficult question to answer.

Mr. R. Smith. May I answer that one? Yes, if you have more piasters. Actually we generate piasters at about 42 rate. For all actual accounting purposes, it reduced that cost if you divide by 42 rather than 35.

Mr. Newhouse. The point is, the piasters were acquired at 35 to 1.

Mr. R. Smith. They were acquired at 42 to 1.

Mr. Newhouse. All right, at 42 to 1, but the contractors have been spending piasters at the rate of about 72.

Mr. R. Smith. No, sir; I do not believe that prices are based on 72 to 1. Prices to Americans living here might be, but in the general overall economy the yardstick is the piaster. I think we went into this yesterday, but I believe there is very good evidence that the value of the piaster is somewhere around 50 to 1.
Mr. Newhouse. Does this distinction appear in the calculations upon which the estimated cost of the project is based? That is, the difference between 42 and 50.

Mr. McCauley. These are based strictly on 35.

Mr. R. Smith. Plasters merely converted for convenience at official rate.

Senator McGee. No margin there between 42 and 50 that could rebound to the advantage of the contractor. Purely a paper operation?

Mr. McCauley. No, sir, it could not. It could only rebound to the advantage of our total cost.

Mr. Newhouse. I should like to ask Mr. Murphy of Johnson, Drake & Piper a question. Do you think, Mr. Murphy, that part of the explanation for increase in cost of this project lies in this plaster funding?

Mr. Murphy. I am hardly qualified to go into the economics of the situation, but the original estimates were based on a dollar-funding basis, and I would have to be an expert in the field of local economy to give you a qualified answer.

Mr. Newhouse. Mr. Funk?

Mr. Funk. I back away from this question too. We have no direct contact with that phase of it at all. The plasters we spend are made available to us and are simply put in our bank account. I can't say how they are arrived at, I have never known and have never raised the question and, frankly, I can't answer it.

Mr. Newhouse. Were the bidders on this contract advised of the multiple exchange rate here?

Mr. McCauley. We did not have the multiple exchange rate here at that time.

Senator McGee. Would not an audit reveal a great deal of this information we seek?

Mr. McCauley. I don't know how an audit would reveal it because this is a question of the rate at which plasters are generated. The spending inside the country of course would depend on actual material and labor costs.

**Audit of Johnson, Drake & Piper**

Mr. Newhouse. Has there ever been a thorough audit of Johnson, Drake & Piper operations here?

Mr. McCauley. Mr. Battleman.

Mr. Battleman. An audit is in process now which we think will wind up after the first of the year.

Mr. Newhouse. I have a copy of the audit of counterpart expenditures dated October 15, 1958. Reading on page 3 I see that prior to October 1957, the contractor did not maintain POL receipts.

Senator McGee. What does POL mean?

Mr. Newhouse. Petroleum, oil, and lubricants. The report states that prior to October 31, 1957, the contractor did not maintain POL receipts in a manner that would permit a survey. Issues and receipts of POL products were not properly controlled. Has that situation been corrected; do you know, Mr. Battleman?

Mr. Battleman. We have not finalized the audit; I do not know yet; we can bring the auditor in.

Mr. Newhouse. Is the audit dated October?
Mr. Battlemann. The one you are reading from is the preliminary audit that was made. We now have a full-scale new audit. We are also auditing the dollar disbursements.

Mr. Murphy. Based on the records, we keep that we maintain as a matter of procedure on this type of job, we can on any particular day give you a record to the last gallon of gas that went into any vehicle. That is how close it is. And that is open for inspection.

**CONTROLS OVER RECEIPTS AND ISSUANCES**

Mr. Newhouse. At the present time is there a proper control of both receipts and issuances?

Mr. Murphy. There definitely is.

Mr. Newhouse. Because we received information that the records of receipts were quite complete but that the records of issuances were not complete and that USOM had no record of the material actually being used in the construction of the highways.

Mr. Murphy. We have a complete system over here, starting from the time we receive drawings from the engineers. The material is taken off and put on tabulation sheets and given to the engineers for further evaluation and specification. From there it comes down to my department. From my department it is functioned to the project man. This is for justification and a recheck together with listing the purchase order on a running tabulation—so that at any particular time at any hour of the day when a purchase order comes down to my office, I automatically know what the overall budget standing is. From there that purchase requisition is forwarded to New York and the material is purchased according to procedure, according to competitive bidding. The material is shipped, cleared through customs, received and inventoried, it is then warehoused in a central warehouse. From that point it is issued to departmental warehouses where it is received and issued again. Issue slips are made out for each piece of material for each division for each phase of the project. The issue slips are tabulated and worked against the posting—in other words, where a bin was checked just to spotcheck and the items were checked against the posting. Now that is our system in brief and we operate as we would operate on a lump sum job. As far as close control, we can at any time show you.

Mr. Newhouse. Has anyone from this mission ever attempted to check these issue slips against the receipts?

Mr. Murphy. They have. This audit has been a procedural audit.

Mr. Battlemann. We make up an audit plan before they go in to audit.

Mr. Newhouse. Mr. McCauley, are you satisfied that there is an adequate record of issuances which your people have access to?

Mr. McCauley. Yes, sir.

**RELATIONSHIP BETWEEN JOHNSON, DRAKE & PIPER AND CAPITOL, ENGINEERING CORP.**

Senator McGee: Do Johnson, Drake & Piper and Capitol Engineering Corp. operate under separate project numbers?

Mr. McCauley. The same project number. The program comes under the same project number.
Senator McGee. Doesn't this pose some administrative complications?

Mr. McCauley. Some, primarily because the appropriations come for several years under the project operation.

Senator McGee. It was reported, for example, by the Capitol Engineering project manager that certain of his people's expenses, such as maintenance in the field, are charged to Johnson, Drake & Piper. He likes this arrangement but he thinks it is not particularly efficient accounting.

Mr. McCauley. As I said a while ago, the Johnson, Drake & Piper contract calls for furnishing certain services to the Capitol Engineering Corp. upon authorization by USOM and Vietnam. I believe that Johnson, Drake & Piper has a record of those expenses and that they can be split up and shown as a Capitol Engineering cost.

Senator McGee. These arrangements with Johnson, Drake & Piper were made known and made part of the contract?

Mr. McCauley. Yes. It was not possible to arrive at exact costs.

Senator McGee. This would mean less cost to Capitol Engineering than they had anticipated?

Mr. McCauley. It would, yes, sir.

Senator McGee. What happened to the difference?

Mr. McCauley. Mr. Battlemann.

Mr. Battlemann. If they don't spend it, it remains with the Government.

Senator McGee. They don't have any record of it—there is no gap that they gain in the contract?

Mr. McCauley. No, sir, they have only their fee—which is checked.

Mr. Funk. There is no question about the costs being kept. That record is kept and very carefully kept by Johnson, Drake & Piper. For instance, when I go up north, every meal and lodging is signed for and that is kept by them.

Mr. Newhouse. The point is whether these charges should not be transferred and carried as Capitol Engineering charges rather than Johnson, Drake & Piper charges.

Senator McGee. I don't understand completely the overlapping of the two operations. Is it conceivable that Capitol Engineering, for example, and Johnson, Drake & Piper would have differences? They did in their opening estimates of what this whole project was going to cost.

Mr. Funk. Those things can always happen. I don't know what the difference is.

Senator McGee. Is there a suggestion that because of the difference in their functions that one is a check on the other?

Mr. Funk. We keep a record of what we get from Johnson, Drake & Piper. I think from our records we can verify their records.

Senator McGee. But Capitol Engineering makes the estimates, the survey of the project for Johnson, Drake & Piper, is that right?

Mr. Funk. Yes, that is right.

Senator McGee. Is there any area of conflict between these two? Would a design engineer, for example, disagree with the construction people over how you ought to construct the road, or where this road should be located?
Mr. Funk. We make the plans and tell them how and where to
build.

Senator McGee. Can they take any exceptions?

Mr. Funk. Yes, they can and we consider any such exceptions they
have to offer.

Senator McGee. Would there be any advantage in integrating the
operations of the two and thus reducing differences?

Mr. Funk. I doubt it. The situation is no different here than it is
in any other type of contract. We have always been willing in unit
price contract—I am talking about experience—if a contractor comes
in and he has a method to suggest or a change to suggest that is eco-
nomical and advisable, in all my experience we have gone along in.

Senator McGee. That is not the point. Once you have meshed your
accounting and your operations with one picking up tabs for the other,
haven't you also compromised your independence?

Mr. Funk. Absolutely not in this type of contract.

Senator McGee. Is there no conceivable way in which it would tend
to dull the engineer's judgment?

Mr. Funk. Emphatically no.

Mr. McCauley. This meshing of the operations was primarily a
housekeeping problem. When you are working in areas, where High-
way 21 was built, the contractor has the camps, he has the personnel
there to operate the camps. He can furnish quarters and food at little
additional overhead cost. If we had to proceed and set up another
camp for Capitol Engineering, maybe half a dozen to do the same job,
the job would cost us more and it is all a reimbursable cost. This was
placed in the contract to reduce the overall cost of the job itself.

CAPITOL ENGINEERING CONTRACT

Mr. Newhouse. Is the Capitol Engineering contract still in the
process of renegotiation?

Mr. McCauley. Yes, sir.

Mr. Newhouse. How much longer is its extension period?

Mr. McCauley. The end of this month.

Mr. Newhouse. Has the mission been asked to make a recommenda-
tion on renewal of this contract?

Mr. McCauley. We made a recommendation on the renewal of the
contract 4 or 5 months ago. We do have a document from Washing-
ton which we will answer very shortly giving certain proposals which
have been made and asking for our comments.

Mr. Newhouse. What was your recommendation?

Mr. McCauley. I would have to get that file.

Mr. Newhouse. Did you recommend that the contract be renewed or
canceled?

Mr. McCauley. We recommended the renewal.

Mr. Newhouse. I see.

Mr. McCauley. Our recommendation is for an extension of the con-
tract for completion of this present work and for design on certain
bridges on Highway 12, 13, and 14 and for certain other work.

Senator McGee. You are satisfied with the Capitol Engineering
Corp. performance?

Mr. McCauley. We are satisfied with their performance, yes, sir.
Mr. Newhouse: Do you think that they have fulfilled the terms of the contract? As an engineer, are you satisfied that their performance corresponds with the terms of the contract?

Mr. McCauley: As I have said before, there were delays in the recruitment of personnel and placing of personnel on the job. That was at the start of the contract. There were further delays about a year and a half ago when it was apparent additional personnel would be needed on the job, after we had reached agreement with the vice president of Capitol Engineering Corp. As far as the actual engineering work on the project is concerned, I think they have done a fairly good job.

Mr. Newhouse: A fairly good job?

Mr. McCauley: Yes, sir; we also had some delay in the submission of the main plans for the Saigon and the Dong Ngai River bridges.

Mr. Newhouse: That was quite recently, was it not?

Mr. McCauley: That was about 6 months to a year ago.

Mr. Newhouse: Has Capitol Engineering Corp. brought in sufficient personnel to fulfill the terms of the contract?

Mr. McCauley: They had an effective strength of two men on December 31, 1956, and got up to, I believe, it was 42–44 by June 1957. Under the contract within 30 days after the contract became effective, which was about 30 days after the signature date on the contract, they were supposed to have a preliminary group of men here.

We thought that they should have the major part of the people here except for the advisory group within 90 days after the contract was signed.

Effect of Delays on Costs

Mr. Newhouse: Do these delays have a measurable impact on cost, or an effect that you can estimate?

Mr. McCauley: They do have an effect upon the delivery of plans and probably would have an effect on the original estimate made in May and July of that year.

Mr. Newhouse: Does this slow down the whole process?

Mr. McCauley: Yes, it does.

Senator McGee: Was Johnson, Drake & Piper delayed in getting underway because of this Capitol Engineering delay in getting up to strength?

Mr. McCauley: That, of course, is a difficult question to answer properly. The contractor in his letter of intent had authority to bring 100 men to Vietnam so that if he saw that the plans were not going to be forthcoming, he did not have to bring out the whole group at one time. But this delayed ordering equipment.

Senator McGee: Problematically, how do you put a dollar value on it?

Mr. McCauley: There was delay.

Mr. Funn: On behalf of Capitol, we categorically deny major delays on the project as a result of inefficiency on the part of Capitol Engineering. I hope to go on record that there were no delays, in fact, on the construction of the project.

Mr. Newhouse. Mr. Murphy, do you care to join this discussion?

Mr. Murphy: Well, in our documentation which is the substantiation relating to amendment 3, both as to the time extension and the
fee factor, it more or less clearly points out the fact that it—time of
completion—has been extended.

Mr. Newhouse. I don't understand——

Mr. Murphy. The substantiation of amendment 3 as presently
stated in Washington in ICA and under negotiation, clearly states
the contractor's position.

Mr. Newhouse. What is Johnson, Drake & Piper's position?

Mr. Murphy. There has to be some justification for an increase in
the time factor mainly due to scope of work and I feel that the com-
pany has stated their case rather precisely, which is a matter of record
in amendment 3.

Senator Mcgee. And it says there was no serious delay or was
there?

Mr. Murphy. There were delay factors, but it was before my
particular time.

Senator Mcgee. Are you familiar with the record?

Mr. Murphy. No, I am not, because those negotiations were made
in New York. I am not fully qualified having not been here at the
inception of the job.

Senator Mcgee. In which case you are not familiar, I suppose it
would be appropriate to have it made a part of the record.

Mr. Funk. On this point, this matter of delay, there is a moot
question of opinion which has to be resolved, with due respect to
this committee assembled. I don't think this can be resolved before
this committee and I think it should be resolved in ICA, Washington.
That is where I think it must be resolved and I am not contending that
your committee is not entitled to the facts. I am sure that Mr. Mc-
Caulley is sincere in his statement as to whether or not there have
been major delays.

Delay in supplying personnel

I would like to point out one thing, for example. Capitol did kick
the thing around in connection with the design of the two major
bridges in that they sent over a schedule in July of 1958 setting up a
schedule for completion of plans which they did not meet. I was
not project manager at the time. I was project manager when the
final plans did come through. As of this minute, trying to illustrate a
point, I do not think there was any delay at all when I saw the
magnitude of the plans. It is my considered opinion that they did a
marvelous job in producing the plan in the time which they did
and that opinion has been confirmed to me by other competent
designers. The only thing wrong is that Capitol went on record
about the time the designers would furnish them stating a certain
date and did not meet that schedule.

Senator Mcgee. Our concern understandably is delay, if there was
one, and your explanation is that it was not undue delay in light
of the reality of the situation. But, in order to correct misunder-
standing, there has to be a correction further up in ICA in terms of
time and date.

Mr. Funk. It has to be resolved here and made a part of the rec-
ord. We were obligated to furnish so many men, it would have
been extremely unwise to send all those men over here at one time,
when we can only work on one phase of the program. If we had
sent all of the men called for in the contract as of the first of January 1957, we would have had a lot of men not doing anything. We have used all the men to excellent advantage and we can prove the point again. I am not trying to hide the point.

Senator McGee. The issue is whether you could have used more men.

Mr. Funk. We were limited with the number of men.

Senator McGee. You could have brought more over sooner. You said you felt you could use them but did not bring them.

Mr. McCauley. I think that the record of the personnel who arrived here and the uses they were put to is plain. We have it in the record in our office. We believe they could have brought over the field survey people and design people sooner than they did. I had no intention of saying they should have brought all the people over at once.

Mr. Newhouse. Do you think Capitol's lack of overseas experience may in part explain certain of the shortcomings of their performance under this contract?

Mr. McCauley. I sincerely believe that the lack of overseas experience has had effect on this particular part of the contract.

Senator McGee. What I don't understand is why this decision is something that has to be corrected in Washington. This seems to be a case of faulty judgment on the part of Capitol Engineering. Why must the correction be made in Washington?

Mr. McCauley. We have forwarded to Washington our judgment on the performance. That will come up as a part of the negotiation of the amendment to the contract. Any final decision will be made there.

Senator McGee. This is not the first time the committee has made the discovery that in trying to tighten up the program here, it is necessary to go back to Washington. And that is the reason we raised the question in the discussions of slowness of Capitol Engineering. Did you report that in your judgment Capitol Engineering was too slow, or whether circumstances had gone beyond their control?

Mr. McCauley. I refer to those put into the record today. This report is used in the negotiation itself and will have a direct effect.

Mr. Newhouse. Has the question of a penalty clause arisen?

Mr. McCauley. No, sir.

Mr. Funk. You referred to a dispute. I don't like the word dispute. It is a difference of opinion on both sides which I feel can be resolved. There has been no dispute.

ABILITY OF VIETNAMESE TO TAKE OVER FUNCTIONS OF CAPITOL ENGINEERING CORP.

Mr. Newhouse. On August 7, 1959, a cable to USOM signed by Riddleberger asked these questions regarding 65 bridges to be designed by Capitol: Since plans are to be available has consideration been given to use of unit price or lump sum contracts; has the program of Capitol Engineering been effective enough to allow the Vietnamese Government to design and supervise construction of the bridges; will standard design spans be utilized on bridges, with
standard abutments; have such standards been worked out? We have a copy of that cable but we do not have the response.

What is the response?

Mr. McCauley. May I get a copy of the cable?

Mr. Newhouse. I don't have it. I have got it in the files in Washington, dated August 7, 1959.

(The cable was answered under date of August 15 by USOM, indicating that it was desirable to consider this work as part of phase 2 of the Johnson, Drake & Piper contract.)

Mr. Newhouse. Could the Vietnam Department of Public Works take over some of the functions currently planned by Capitol Engineering?

Mr. McCauley. They are doing some road construction at the present time. We have planned to phase out the grading by the American contractor on completion of the grading work on Highway No. 19. We have these 65 bridges which we would still like to build with an American contractor and under design by the present Capitol Engineering organization. We have on Routes 14 and 15 a number of other bridges on which the surveys and designs of smaller bridges will be made by Vietnamese as a start of the design department of the highway division of Vietnam. We will work them into the program as fast as they are able to undertake the work.

**SURFACING OF ROUTE 21**

Senator McGee. The question of the decision to blacktop Route 21 has pointed out that there had been some difference of opinion between Capitol Engineering and the Vietnamese Public Works on that question. In the light of what has transpired would it not suggest that Capitol Engineering had been in error?

Mr. Funk. Frankly, I don't know of any dispute with Vietnam or anybody. I am not aware of that, talking about something I just don't know anything about.

Senator McGee. That was not the impression of our investigators, after talks with you, as I understand it. There was a change of policy which the country team and the Ambassador approved, taking the responsibility for the decision, which ran contrary to the belief that there was no need to blacktop 21. The impression was given through you that this reluctance to blacktop 21 was less on the shoulders of Capitol Engineering than it was on the shoulders of ICA, Washington.

Mr. Funk. I don't grasp your point, Senator. We did not recommend that treatment originally. It came about piecemeal.

Mr. Durrow. I refer again to the briefing we had in my office about June 1957, shortly after I arrived, when Capitol Engineering representatives and Johnson, Drake & Piper explained to us the type of road they planned to build. They described and General Williams concurred in my recollection that they had a type of road construction of putting in various sizes of rock, kneading it in and pressuring it in, and if you did this, you would have a road that did not have to be blacktopped. It would wear out a bit in the rainy season but could be maintained quite easily. The contracting experts explained this to the country team in my office, and therefore the original design described would not need blacktopping because the new system would
make a good secondary road for Route 21, and would require a minimum of maintenance.

Senator McGee. Capitol Engineering was involved in this briefing. Who represented them?

Mr. Funk. Senator, I think that apparently the dispute you referred to was about the original concept, which was that there would be no surface treatment required; however, in the first instance we got the complaints and requests last fall from the military and the people living on the east end, and then we found, too, that the traffic volume was heavier than anticipated at any previous time. Traffic on Route 21 is still going to be heavier than anticipated.

Senator McGee. Did anyone disagree with this interpretation at the beginning stage?

Mr. Funk. I was not here.

Senator McGee. The Vietnamese Department of Public Works?

Mr. Funk. I was not even here in July of 1957.

CONTRACTOR’S ADVICE TO BLACKTOP ROAD SURFACE

Mr. Durban. I must get into the record the timing, because of the original impression in the original statements made by Capitol Engineering and Johnson, Drake & Piper in 1957; that we would not have to surface the road and we bought the road as described in the meeting in my office. Then Washington was rather surprised when we came out and said in our judgment, based on experience, we should decide to pay the $500,000 to protect our investment.

Washington did take a little time to agree, since we had earlier been led to believe that we would not need to blacktop this road.

Mr. McCauley. On the cable to Washington—we sent a cable for approval on January 29. We got a reply on February 10; negative, but requesting further justification.

At that time we also got the MAAG engineers to review the entire project and on March 21 we sent in a complete justification; we got an approval in April 1957.

In the meantime, I have a copy of the letter from Capitol Engineering advocating the asphalt surface treatment on Highway 21, dated February 11, 1959.

(The copy of the letter referred to is as follows:)

CAPITOL ENGINEERING CORP.,

MR. D. F. McCauley
Chief, TOP Division,
USOM, Saigon.

DEAR SIR: In keeping with your verbal request, the following is a report compiled by our highway section relative to support for bituminous surface treatment of Route 21:

"The proposed single surface treatment will be beneficial for the following reasons:

1. Reduced maintenance costs. Our report on maintenance for Route 21 dated January 13, 1959, contained recommendations as to the permanent maintenance force which should be set up for Route 21, irrespective of the base and surfacing of the constructed facility.

"I believe this to be misleading in that the major maintenance routine repair expenditures will differ depending on the type of surfacing. An unprotected base would probably require extensive reworking and the addition of more base material every few years even if well maintained! This extensive work would
require a temporarily expanded force of both men and equipment. A bituminized surface should not require extensive repair as often, and when such repair becomes necessary a smaller force would be adequate. Therefore, in the long run, average yearly maintenance cost should be less with a paved facility. It is very difficult to put a monetary value on such a reduced cost since there are so many variables involved.

"A paved facility will allow the maintenance organization to spend a greater percentage of the time on slopes, drainage, etc., since the surfacing will require less work on the traveled way. The highway will be easier to maintain and will be in better condition than the aggregate surface.

2. Increased serviceability.—A paved facility will give better service since: (a) Less repair will be necessary within the traveled way, therefore less traffic interruption; (b) travel time will be better in that a smooth firm facility is provided; (c) base failures caused by saturation or rainfall runoff should be minimized—an all weather facility is provided.

"The aggregate surface will be difficult to keep in a smooth condition. Ruts and transverse corrugations will form even with normal maintenance. An application of asphalt will bind the aggregate together and prevent deformation.

3. Increased safety.—The asphaltic surfacing acts as a dust palative resulting in a dust-free surface which is not only much safer but is also more pleasant for the local inhabitants. Besides giving increased visibility by controlling the dust, safety is also improved because of the higher friction factor attributed to the paved road. You can stop easier and quicker on a surfaced facility as you are not as apt to skid.

"In addition to the above, a surfaced facility should be provided for its propaganda value, it presents a much better impression than the present construction will. Actually, the original road as constructed by the French had many of the features of a paved facility. The coarse waterbound macadam surface although narrow, rough riding, and with a low safe speed was relatively dust free and unaffected by most rainstorms. Lack of adequate maintenance during the war years caused rapid deterioration and the facility became entirely inadequate.

"The area served by this highway is presently being developed as a major farming area and all indications are that this development will continue at an accelerated rate. Traffic volumes may be expected to materially increase with the population growth. The area has the potential of generating considerable traffic. It appears that a substantial increase has already taken place since construction of the improved road commenced. The traffic volume counts recently made under the direction of the advisory group resulted in average daily traffic figures for motorized vehicles ranging from over 400 near Ba’i Me Thoet to approximately 200 at Mc’Drak. Most authorities stipulate that untreated surfaces are not economical when traffic volumes are greater than an average of 400 to 500 vehicles per day.

"In summation, a single surface treatment is deemed advisable in that it reduces long range maintenance costs, simplifies and permits more adequate maintenance, increases safety and serviceability, and results in a longer life facility better adapted to accommodate the growth of the area it serves."

Yours very truly,

T. J. Harmon, Project Manager.

Senator McGee, Is there anything in your regular progress reports on Highway 21 that was critical of the Johnson, Drake & Piper performance?

Mr. Funk. No, I don’t believe so; even though there may be a comment that work was being performed under unfavorable circumstances. We report progress. If any criticism were made we might have said that the work is being performed under unfavorable conditions.

Senator McGee. Where do you make your assignment reports?

Mr. Funk. Usually if we have any comment to make to contractors, we make those in separate letters.

Senator McGee. Have there been any of those?
Mr. Funk. We have quite a number of meetings on the campsite. I was up there on two different occasions; we were fighting to get it through and cooperating to get it through; at the same time weather conditions were not good.

**EFFECT OF WEATHER CONDITIONS ON SCHEDULE**

Mr. Murphy. For purposes of clarification, like any other phase I would like to point out that we did start blacktopping in June on the east end of the project. Due to the fact that the rains came late we did put in 24 kilometers until the rain hit us and stopped us on the east end. Schedule calls for renewal of work on west end of double-surface section when rains let up.

We had planned in our schedule according to the best information we had on rainfall; we had every expectation it would stop raining approximately November 1. The thing we should keep in mind is the fact that according to the schedule we have at the present time, we intended and have planned to finish the double-surface treatment on or about the end of April. The reason for that is that we have to finish the double-surface treatment on Route 21 and move that entire operation up to Route 19 for the double surface from Nhon north to the intersection. We did start approximately the first part of November on the west end of that project—highway 21. The rains had let up, we had a time limit on amount of work and starting the work had been approved. You can realize this concept in thinking on the cost factor. We are trying to accomplish two phases of the project within a dry season. Do not intend to get caught, thinking that there was no justification for starting on November 1 even though it would help us considerably on the schedule. Thank you.

Mr. Funk. I don't agree with Murphy. I think that their planning was all right but the rainy seasons are freakish. We were behind on rainfall all along and didn't have as much rain as usual. On the 16th of November after starting the work, we had a week of the hardest rains we have had during all the rainy season. It wasn't expected at all, but we did have it. From the 16th to the 23rd, on both 19 and 21, there was more rain than we had at one time during the whole rainy season. That points up some of the hazards that are involved here. That rain hit because it saturated the base to the east so that we had to wait a longer time for that base to dry out before we could resume operation and we couldn't resume until Monday of this week—the 7th—on any kind of a scale.

Senator McGee. It's dry up there now.

Mr. Funk. On the surface but not underneath. You cannot place asphalt surface on it. I would like—I don't know anything about this matter but as far back as October 1958 Capitol Engineering wrote to Mr. McCauley—

**JUSTIFICATION FOR SURFACING**

Senator McGee. To which point are you addressing this?

Mr. Funk. The justification for surfacing—the blacktop. On October 22 we wrote them in answer to your verbal request for justification for having this bituminous surface treatment on the
first 16 kilometers out of Ninh Hoa, the following comments are submitted:

1. Along this section of Route 21 there are a number of military establishments and enough private residents living along the non-military areas for one to consider this stretch of road semisuburban with a rather rapid buildup of population to be expected after completion of the new road.

2. A bituminous treatment will minimize the dust nuisance which can otherwise be expected to be very disagreeable in this more heavily travelled section of Route 21 during the dry season.

3. The local public works organization has made traffic counts in this general area in February and April of this year. These counts showed a maximum of 573 motorized vehicles, of which 226 were military vehicles, at a point near JDPV Camp 24, near the intersection of Routes 1 and 21 at Ninh Hoa. These figures do not include 237 and 1,009 vehicles, respectively, consisting of scooters, bicycles, oxcarts, etc. A more thorough volume traffic count will be taken at Camp 24 and at the intersection of Routes 1 and 21 within the ensuing 3 weeks. These counts should reflect any increase in traffic.

4. At least part of the original road in this section had a bituminous surface. Hence, it is very likely the local population will clamor for the new road to also have a bituminous surface.

5. By giving this part of the road, which has the heaviest traffic along Route 21, a bituminous treatment, the overall amount of maintenance on this route will be reduced.

It is hoped that the above data will be of help to you.

It was decided that number of military establishments and residents were enough to consider this stretch of road semisuburban. Now subsequent to that when that traffic count was made under the auspices of our advisory group, traffic was still heavier.

(The letter referred to is as follows:)

October 22, 1958.

Mr. D. F. McCauley,
Chief, TOP Division, USOM
Saigon, Vietnam.

Dear Sir: In answer to your verbal request for justification for having a bituminous surface treatment on the first 16 kilometers out of Ninh Hoa, the following comments are submitted:

1. Along this section of Route 21, there are a number of military establishments and enough private residents living along the non-military areas for one to consider this stretch of road semisuburban with a rather rapid buildup of population to be expected after completion of the new road.

2. A bituminous treatment will minimize the dust nuisance which can otherwise be expected to be very disagreeable in this more heavily travelled section of Route 21 during the dry season.

3. The local public works organization has made traffic counts in this general area in February and April of this year. These counts showed a maximum of 573 motorized vehicles, of which 226 were military vehicles, at a point near JDPV Camp 24, and a total of 792 motorized vehicles, of which 221 were military, near the intersection of Routes 1 and 21 at Ninh Hoa. These figures do not include 237 and 1009 vehicles, respectively, consisting of scooters, bicycles, oxcarts, etc. A more thorough volume traffic count will be taken at Camp 24 and at the intersection of Routes 1 and 21 within the ensuing 3 weeks. These counts should reflect any increase in traffic.

4. At least part of the original road in this section had a bituminous surface. Hence, it is very likely the local population will clamor for the new road to also have a bituminous surface.
6. By giving this part of the road, which has the heaviest traffic along Route 21, a bituminous treatment, the overall amount of maintenance on this route will be reduced.

It is hoped that the above data will be of help to you.

Yours very truly,

CAPITOL ENGINEERING CORP.,
DONALD G. OGDEN,
Assistant Project Manager.

Mr. Durrow. When I went up to Bannemhout with Senator Hick-enlooper on about the 20th or 21st of November, I don’t remember, Colonel Cao, who was the man in charge of the land development there, told me the reason it wasn’t dusty was because of a very unusual rain. So we didn’t get red-headed on that trip.

Senator Mcgee. What you are suggesting is that there has been enough congressional traffic up there to require some construction. [Deleted.]

AMENDMENT TO ORIGINAL HIGHWAY PROJECT AND ADDITIONAL FEES

Mr. Newhouse. Mr. McCauley, what in essence will amendment 3 do to the highway program?

Mr. McCauley. It is a reflection of the increased quantities of the work involved from that estimated in the original contract plus the bridges from Ninh Hoa to Nhatrang, of which there are 15, plus 11 kilometers of highway which is inundated during the wet season. This is the increased scope of the work. It also includes asphalt surfacing on Highway 21.

Mr. Newhouse. Is it your opinion that this will result in an increase in the Johnson, Drake & Piper fee?

Mr. McCauley. Naturally, there would be an increase in the fee according to the increase in the work they are going to do.

Mr. Newhouse. How much the fee should be increased would be the question in Washington then.

Mr. McCauley. I do not know, as of this minute, whether they are negotiating this as an amendment to the contract. Mr. Smith, who is my chief highway engineer, just returned from the States about 3 weeks ago and they told him that they thought they would go ahead with it. But we have no present word on it.

Senator Gore. If salaries of the people whom they need to employ are fully reimbursed, if no additional officials and no additional management functions are required of Johnson, Drake & Piper, why should their fee be increased? It seems to me that their fee is already too fat.

Mr. McCauley. Mr. Senator, the contract that they are now operating under calls for the construction of the highway from Saigon to Bien Hoa, the construction of route 21 from Ninh Hoa to Bannemhout, and route 19 from QuiNhon to Pleiku. It does not include the construction of any work from Ninh Hoa to Nhatrang.

Mr. Newhouse. Which is how many kilometers of road?

Mr. McCauley. Thirty kilometers approximately. We do not intend to do the whole highway itself.

Senator Gore. Do we not have sufficient personnel here to plan an addition, 12 or 15 miles, of highway?

Mr. McCauley. I’m sure we have personnel, sir, but they will be sent home if work not included in contract is called for.
Senator Gore. If they are here and their salaries are fully reimbursed, this additional 12 or 15 miles requires no additional investment, no additional expense or funds, why should their fee be increased.

Mr. McCauley. On the basis of your reasoning, sir, you could include all the highways in Vietnam in this contract. The contract does not include these sections of highway. You are increasing the actual scope of the contract.

Senator Gore. It is your theory then that no matter if the requirements necessitate no additional personnel, no additional expense on the part of Johnson, Drake & Piper, if merely the number of miles are increased, then their fee ought to be increased?

Mr. McCauley. It would have to be.

Mr. Durbin. Is that the usual practice?

Senator Gore. It is, I fear, the usual practice. This business of having a majority of our Government contracts on the cost-plus basis and giving fat risk-proof fees is a deplorable situation. It means a guaranteed profit without risk.

Mr. McCauley. If this is not included as an amendment to the contract as additional work, which it is—when Johnson, Drake & Piper finished its present contract they just pick up their men and go home.

Mr. Newhouse. Has any consideration been given to delaying or postponing negotiations of amendment 3 until the audit report has been completed?

Mr. McCauley. Not to my knowledge.

Mr. Newhouse. Would that be a feasible suggestion or would that delay the whole program?

Mr. McCauley. There would be a delay on the whole job. Whatever comes out of the audit report will have to be taken care of as far as Johnson, Drake & Piper is concerned. I do not see any particular advantage in its unless there was some real reason to believe the firm had operated in a manner which was not to the best interests of the Government.

Mr. Newhouse. We have no information that such is the case.

Mr. Durbin. General Lampert, I think it would be well to put into the record my understanding that MAAG, General Williams and his engineering officers are the ones who suggested we strengthen the bridges [deleted] between Ninh Hoa and Nhatrang, which is a port and that is the principal reason why this work is being completed now. This bridgework will also be undertaken for economic reasons since part of the road is under water during the rainy season. Is that correct?

General Lampert. That is correct.

Mr. Newhouse. Was a change of contractor ever contemplated in 1957 when the contract was being revised to include the enlarged scope of the project?

Mr. McCauley. Of course this negotiation took place in Washington and complete data are in Washington and not here. All that I could give you would be hearsay which might not be quite the best evidence. I think there is a published document in one of the congressional hearings on this particular thing in which they went into it rather fully.
ABILITY OF VIETNAM TO UNDERTAKE BRIDGEWORK

Senator McGee. When you find that you have to make changes and add a few miles is there any reason why the Vietnam Government couldn’t take this over with the experience they now have? It is obviously a minor part in terms of the total of the project itself.

Mr. McCauley. On the grading work I believe that possibly it could undertake it. I would hesitate to recommend that the Government undertake bridge work until they have had more experience.

Senator McGee. You think their experience on bridgework would be inadequate at present? When will they be ready?

Mr. McCauley. We are instituting now a small bridge program on Routes 13 and 14 which they will undertake. They are making the surveys. They have set up a design department which is under a capable engineer and will build a series of bridges.

Senator McGee. In 1 or 2 years might they be in a position to take on the larger phases?

Mr. McCauley. We believe that we will have phased out the American contractor and they can finance it from their own piasters.

Senator McGee. If they could finance them through their own agency that would eliminate the necessity of changing contracts at all.

Mr. Durkrow. With that basic thought in mind, I have asked USOM and MAAG to work up a report for the country team about the proposed bridges on Routes 1, 13, and 14 to see which ones the Government of Vietnam could build themselves—learn more about the proposals to see which bridges on Route No. 1, where the road goes near the railway so as to use the completed railway bridges as one-way double purpose bridge to save some money. The traffic so far as I know is not heavy enough at this time to justify parallel bridges.

Senator Gore. I would commend you, sir, for your diligence and initiative and it is my view that not only in this country but in others which I have visited the Ambassador should undertake more initiative and direction of the country team operation, and in that light I commend you.

PERFORMANCE RATING OF JOHNSON, DRAKE & PIPER

Mr. Newhouse. Mr. McCauley, in your reports to Washington have you given Johnson, Drake, & Piper a uniformly high performance rating?

Mr. McCauley. We make comments on their monthly reports when there are points brought up which there might be controversy over. Yes, we have given them a uniformly good rating.

Mr. Newhouse. So far as I know, the staff of the Foreign Relations Committee has received no supportable complaints about their performance under the terms of its contract.

Senator Gore. The question involves the cost of the performance—not the actual length of it—and the wide gulf between estimates and actual costs. So far as I was able to see the actual highway—that portion I saw—seemed to me from my limited experience to meet the design and standards of secondary-road requirements of the Bureau of Roads. The question here is not whether the road is up to the standards, but why the cost is so high and at such variance with the estimates.
POSSIBILITY OF A PENALTY-CLAUSE

Mr. NEWHOUSE. Has anyone here in the mission suggested writing a penalty clause into amendment 3?

Mr. McCAULEY. There is no such penalty clause in amendment No. 3.

Senator MCGEE. Would you favor a penalty clause?

Mr. McCAULEY. I believe it would be a good thing.

Senator GORE. You are in favor of a penalty clause?

Mr. McCAULEY. I believe it would be a good thing to look into.

Mr. MURPHY. There's a possibility of putting a bonus clause in: That's normal practice in the States. A bonus clause for earlier completion.

Senator GORE. That would be highly questionable in a cost-plus contract.

Mr. MURPHY. So would be the penalty clause.

Senator GORE. Both might be. The practice in the States to which we refer is in a lump sum, lock and key contract job.

Mr. MURPHY. There is a specific new job out in the West, a turnkey bonus contract handled by the Bureau of Reclamation.

Senator GORE. Quite a different thing.

Mr. MURPHY. So is the penalty clause, Senator.

Senator MCGEE. There is a difference in judgment about the stepping up or slowing down of the program. An honest difference of opinion. It seems to me a fair penalty clause, as Mr. McCAuley said, carefully worked out, might provide a little incentive like a shark in a school of fish.

Mr. MURPHY. On the many contingent factors, taken into consideration in this type of work, related in this order—a particular job in a particular country by a lump sum or a fixed fee. There are innumerable unknown contingency factors. Delivery in time of material is an important factor.

Senator MCGEE. Assume it is fair and tailored to the situation here. No one is advocating an inflexible penalty clause. Rather, a reasonable one. A prod that takes into account the unpredictable conditions that color things here.

Mr. MURPHY. We do have fixed schedules for each particular phase of this project, both Saigon-Bien Hoa and Routes 21 and 19. These are realistic schedules that have been approved by all agencies involved. These are realistic schedules which we feel we can meet. We intend to beat them. We're here to do the best job under the best possible circumstances. We have a reputation to maintain. In the States, it's made on lump-sum work.

Senator MCGEE. You have a partnership with Mother Nature, and you're not sure of your partner. The weather certainly would be a factor affecting any such penalty clause. It seems to me there are other factors in this that are controllable and which perhaps should be brought within the framework of a reasonable penalty clause.

Mr. FUNK. I have been in the business for 40 years. If we received a contract that contained a great penalty clause without its being illegal—the way it is handled in most highway contracts, and I am talking about a unit price contract, is to provide a liquidating damage provision which attempts to assess what the actual loss might be to the contracting agency and the general public for losses sustained through
the contractor's failure to finish within a certain time or perform in a certain time; even so I only know of 1 contract in 40 years where they collected liquidated damage in full as such. It was always mollified and modified to give the contractor an advantage over Mother Nature. As you say, liquidate it now, collect it in a good many cases, but not in full.

Senator McGee. If the flexible cost-plus contract takes out most of the risks on the other end, you might make something of a case.

Mr. McCaulley. In the case with this liquidated damage clause, actually in your cost-plus-fee contract, the fee bid for the work is paid over the period of time that it is estimated it will take to complete the contract. If the work underway extends beyond that time without increase in scope of the work, the contractor does not draw an additional fee during this extra period.

Senator McGee. Let's move along. Let's wind up the highway phase quickly.

WIDTH OF ROUTE 14

Senator Gore. The road—the Nhun Co Highway—impressed me as being much wider than necessary. It was constructed in the middle of the jungle. Throughout the route I saw no village. I did see a mountain tribesman wearing only a G string, hunting with a crossbow in the jungle, and a few females of the same tribe, but they had no need for a four-lane highway. I stepped the width of the smooth surface and it was 60 feet, which is wide enough for a four-lane highway, even with a divided strip and shoulders. It just struck me that it was a bit elaborate and expensive. I would like to have your response to those views of mine, Mr. McCauley.

Mr. McCauley. This particular highway is the highway being constructed by the ministry of public works on their own. The design standards which you saw at the airport call for a 10-meter shoulder-to-shoulder width. The highway that you saw does not meet those standards. Neither does it meet the standards as to crown or as to longitudinal grade. What they have done is clear the jungle to the width for a certain distance and will have to come back at some later time to smooth up the crown and longitudinal grades to meet the standard.

Senator Gore. This 60-foot width to which I refer was not the cut of the road. It was the smooth surface, the graded, the scraped, the level surface. There was additional footage on both sides beyond this—am I calling it by the right term, "graded" surface?

Mr. McCauley. This is in excess of any needs.

Senator Gore. It appeared to be so.

Mr. McCauley. And we will try to correct that as time goes on, but we are not sufficiently equipped to train each man in charge—each individual—on these standards and what is required.

Senator Gore. Well, Mr. McCauley, I recognize that when the Vietnamese construct highways themselves, the U.S. Government officials, such as yourself, do not make inspections and cannot guarantee that certain standards are met, even though the project itself is being financed largely with funds generated by American aid.

But in this country when, according to the Ambassador's testimony, we are supporting the bulk of the national budget and supplying the direct military assistance, the construction of a four-lane highway in
the midst of a jungle becomes a matter of concern. It becomes a drain on the economy of this country which ultimately must in part fall upon our country, due to the circumstances prevailing here.

It undoubtedly has an important place, but even so, it appeared to me—as it appeared to Mr. McCauley—as being larger than the requirements would justify. I hope that's a fair statement.

Mr. Durbin. Is it that wide all the way along?

Mr. McCauley. No, sir; not that wide all the way along.

Mr. Durbin. This will become, Mr. Senator, Route 14—a bypass of Route 14 to Banmethuot. As I explained—I think to Senator McGee—the present Route 14 literally goes along the frontier of Cambodia. [Deleted.]

President Diem feels [deleted] he does not want the main, spinal road forming the frontier within a yard or so. This is a bypass main road. [Deleted.]

(With Senator Gore's permission, there subsequently was prepared a table showing actual U.S. contributions for the past and current years, which is as follows:)

Government of Vietnam expenditures plus U.S. aid financed public expenditures, amount and percentage resulting from U.S. aid

| [In millions of U.S. dollars] |
|-----------------|--|--|--|--|--|
| Military         | 193  | 193  | 172  | 173  | 165  |      |      |      |      |      |      |
| Civilian         | 100  | 230  | 332  | 261  | 232  |      |      |      |      |      |      |
| Civilian (extra budgetary) | 15  | 15  | 12  | 20  | 7  |      |      |      |      |      |      |
| Total            | 388  | 438  | 416  | 456  | 424  |      |      |      |      |      |      |
| U.S. project aid | 58   | 56   | 47   | 46   | 46   |      |      |      |      |      |      |
| Total government expenditures, plus U.S. project aid | 447  | 474  | 463  | 502  | 489  |      |      |      |      |      |      |

Source of Financing

| Government of Vietnam revenues not dependent upon U.S. aid | 170  | 188  | 185  | 211  | 229  |      |      |      |      |      |      |
| Government of Vietnam revenues dependent upon U.S. aid; Taxes on U.S. financed imports but not paid into counterpart or to the United States | 11   | 64   | 64   | 74   | 44   |      |      |      |      |      |      |
| Portion of Government of Vietnam military budget financed from local currency generated from U.S. aid | 109  | 186  | 167  | 171  | 151  |      |      |      |      |      |      |
| U.S. project aid | 28   | 36   | 67   | 46   | 48   |      |      |      |      |      |      |
| Total U.S. aid | 268  | 236  | 298  | 299  | 260  |      |      |      |      |      |      |
| Total financing | 437  | 474  | 463  | 502  | 489  |      |      |      |      |      |      |

Percentage of Government of Vietnam expenditures plus public expenditures financed from U.S. aid | 00  | 00  | 00  | 00  | 00  |      |      |      |      |      |      |

Senator Gore. So do I see the desirability of constructing such a road.

Mr. McCauley. This brings up another point, which is that we do not have control of the Government of Vietnam budget, that is, the money they put in on their own.

Senator Gore. Nor should we.

Mr. McCauley. We are working to establish a highway department with the Capitol Engineering Corp. advisory group to assist the Viet-