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REPORT OF THE SELECT COMMITTEE ON ASSASSINATIONS
AND GOVERNMENT INFORMATION
SUBCOMMITTEE RELEASED
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES



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U.S. Embassy Service Contracts

In Laos B-178299

Department of State

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

096040

OCT. 30. 1973





COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-178299

The Honorable William S. Moorhead
Chairman, Foreign Operations and
Government Information Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

This report is in response to your March 8, 1973, request that we examine into certain allegations concerning possible diversions of property and the establishment of unofficial checking accounts with official funds at the American Embassy and the U.S. Agency for International Development in Vientiane, Laos.

In accordance with agreements reached with your office, we did not examine into the alleged diversions of U.S. Government property, due to possible criminal violations of law but, instead, turned that matter over to responsible investigative authorities in Laos. We understand that you will be provided a separate report on their investigation.

In accordance with the request of your office, we did not solicit comments from the Department of State on the matters contained in this report.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Arto".

Comptroller General
of the United States

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ABBREVIATIONS

ACA American Community Association
AID Agency for International Development
CASI Continental Air Services, Inc.
GSO General Services Office
MGS Mission guard service
USIS United States Information Service

COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN, FOREIGN OPERATIONS
AND GOVERNMENT INFORMATION
SUBCOMMITTEE
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

U.S. EMBASSY
SERVICE CONTRACTS IN LAOS
Department of State B-178299

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman requested GAO to examine allegations concerning possible diversions of property and establishment of unofficial checking accounts with official funds at the American Embassy and the U.S. Agency for International Development in Laos.

In accordance with subsequent agreements reached, GAO did not examine into alleged diversions of U.S. Government property due to possible criminal violations but, instead, turned that matter over to responsible investigative authorities in Laos.

Background

The U.S. Embassy, Vientiane, contracted with a nonprofit association established and operated by the Foreign Service officers and employees of the U.S. Mission--the American Community Association--to provide, during the recent war-time period:

- Security and fire protection services.
- Ground maintenance, driving, and general labor services.
- A unit to receive, deposit, and disburse medical unit receipts.

--A clinic to provide professional dental services.

One of the purposes of the Association, stated in its constitution, is to support the U.S. Mission in Laos by providing authorized services of a semiofficial nature. It is in this regard that the U.S. Embassy contracted with the Association. (See pp. 5 to 7.)

FINDINGS AND CONCLUSIONS

Four checking accounts--two U.S. dollar accounts and two Lao currency, or kip, accounts--have been used from January 1, 1970 through April 30, 1973, to receive and disburse funds generated under the contracts for guard services and medical services.

During the period, more than \$1.1 million was received and disbursed through the accounts. At April 30, the balances in the accounts totaled over \$50,000. (See pp. 10 and 21.)

A profit of over \$100,000 was made from the Association guard service operations. These funds were used to pay guard service expenses and to purchase vehicles, supplies, and equipment. (See pp. 11 and 12.)

The Association had little to do with the administration of the four

contracts or the 1,000 local personnel hired to perform services under the contracts. (See pp. 9, 17, and 24.)

The contractual arrangements for Mission guard services and general labor were entered into because of the limited direct local hire authority placed on the U.S. Embassy by the Department of State. The Embassy had authority to hire up to 84 local employees.

U.S. Embassy personnel did not comply with State Department regulations in entering into the contracts for guard services and general labor because they directly supervised the contractor personnel and retained the right to hire and fire individual employees. (See p. 24.)

Embassy officials told GAO that the services were required and that wartime conditions prevailing in Laos made it necessary to obtain the services in this way.

U.S. Embassy officials did require accountability of funds. To the extent supporting records were available for GAO's examination, reasonable steps were taken by U.S. Embassy officials, by way of audits, to insure that accountability. (See p. 24.)

GAO did not find the contracts to be illegal since the Department has broad authority to contract for service abroad. Further, it did not appear that the contracts were void as being mere shams because the parties intended to be bound, each party performed at least part of the duties required under the

contracts, and there is insufficient evidence showing that the contracts were entered into with the intent of deceiving the Department with respect to departmental local hire limitations. (See p. 25.)

It is nonetheless clear that the contractual arrangements did not constitute arms-length transactions. GAO believes, therefore, that the contracts should be terminated and alternative arrangements made for obtaining the necessary services either by direct hire or by contract performed on an independent contractor basis. (See p. 25.)

The contracting technique provided a means to gain indirect Government control over funds generated under the contracts and to use these funds to finance the various activities. (See p. 25.)

Since funds and other assets derived from those contracts did not result from the operations by the Association, GAO believes the Department of State should attempt to recover the assets for appropriate disposition. (See p. 25.)

The current U.S. Embassy officials stated that due to the conditions in Laos for the past decade under which the U.S. Embassy had to operate--inadequate security and public services and inadequate personnel, equipment, and funds to carry on the added responsibilities--the then-incumbent officials were doing what they thought was in the best interests of the U.S. Government to meet the existing needs of the Mission as expeditiously as

possible. They said that under these circumstances, it was occasionally necessary to resort to administrative shortcuts.

Embassy officials informed us that, with a ceasefire in Laos, a review has been started to examine existing administrative operations and policies and that action would be taken to improve and, where necessary, correct these operations. (See p. 24.)

MATTERS FOR CONSIDERATION BY
THE SUBCOMMITTEE

Because of the numbers of people hired under nonpersonal services contracts, the Subcommittee may wish to request the Department of State to provide the Congress with reports on the numbers of local people so hired in other countries in order to give a more complete picture of operations of U.S. Embassies abroad. (See p. 25.)

CHAPTER 1

INTRODUCTION

The Chairman of the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, in a March 8, 1973, letter, requested that we look into the establishment of unofficial checking accounts with official funds by U.S. Embassy officials in Vientiane, Laos, and to report on the operations financed from those accounts. (See app. I.)

In accordance with the request and subsequent discussions with the subcommittee staff, we reviewed the accounting and payroll records; the billing, receipt, and disbursement files; and the operations of the four contracts for services in which the Embassy and the American Community Association (ACA) were associated.

ACA AUTHORITY AND PURPOSE

ACA is a nonprofit association established and operated by the Foreign Service officers and employees of the U.S. Mission to maintain a non-Government-operated commissary, mess service, and recreation facility authorized under the Foreign Service Act of 1946, as amended (22 U.S.C. 1139 (b)). ACA is operated and managed under the Uniform State/AID/USIA Regulations. As of July 1, 1973, according to its records, ACA's net worth was approximately \$769,000.

The ACA constitution lists one of its purposes as supporting the U.S. Mission in Laos by providing authorized semiofficial services. Because of limitations on local personnel hiring, the U.S. Embassy contracted with ACA for a number of nonpersonal services.

LOCAL PERSONNEL CEILING

The Department of State has established ceilings on the number of local personnel it authorizes Embassies to hire as direct-hire employees to fill clerical, support, and technical positions. The U.S. Embassy, Laos, was authorized to hire 84 direct-hire local employees. Eighty of these positions had been allocated to administrative and general services functions and one to the political section, one to the economic section, and two to the consular section. It is

Department policy that security, maintenance, and other support activities be acquired through nonpersonal service contracts.

The Department's regulations define nonpersonal service contracts as:

"* * * those providing for services to be rendered to the Government, by individuals or organizations, under which: (1) the Government does not directly supervise the manner of performance of the work and, in the case of organizations, does not reserve the right of selection or dismissal of individual employees* * *."

In many countries enough local contractors are available so that U.S. Embassy officials can contract for these services. But in Laos, there were no local contractors, according to responsible Embassy officials, capable of providing the required expertise and personnel. According to Embassy officials the local personnel ceiling set for the U.S. Embassy, Laos, was low and, therefore, Embassy officials, to carry out their obligations while staying within the established ceiling, contracted with ACA for certain services.

ACA CONTRACTS

There were four contracts in effect at June 30, 1973, in which the ACA and the U.S. Embassy were associated.

- ACA/Mission guard service (MGS) contract to provide security and fire protection.
- General labor contract to provide gardeners, drivers, and other personnel.
- ACA/medical unit agreement to receive, deposit, and disburse medical unit receipts.
- ACA dental clinic contract to provide complete professional dental services.

The first three contracts are between the Embassy and ACA, and the dental clinic contract is directly between ACA and the dentist, under the supervision of the Embassy Counselor for Administration.

Appendix II lists the principal officials responsible for the matters discussed in this report.

CHAPTER 2

ACA CONTRACT

FOR MISSION GUARD SERVICES

At the time of our review, the then-current contract with ACA (No. S-646-fa-924) was executed on February 1, 1972. It was scheduled to expire on June 30, 1973, but we have been informed by the Department of State that it has been renewed by mutual agreement of the contracting parties. The Embassy has had a contract with ACA for Mission guard services since October 1, 1967. Effective January 1, 1973, photograph identification services were added to this contract. These services were previously provided by ACA under a contract with the Agency for International Development (AID), Laos.

ACA RESPONSIBILITIES

The contract stipulated that ACA was to provide security and fire protection for the U.S. Mission in Laos and that it was to recruit, train, and supervise personnel of the security guard and fire protection forces. ACA was also to provide all vehicles and equipment in excess of those stipulated as being Government-furnished equipment--11 guard vehicles and 3 firetrucks--required to carry out the contract.

ACA was also responsible for removing and replacing any employee who, in the contracting officer's opinion, was incapable of carrying out his responsibilities or whose continued employment for reasons of personal conduct or otherwise was deemed to be not in the best interest of the U.S. Government.

EMBASSY RESPONSIBILITIES

The Embassy was required to provide the 11 guard vehicles and 3 firetrucks; it actually provided 9 of the vehicles and the 3 firetrucks. It also agreed to assume the cost of maintaining and operating all vehicles and equipment used by the security guard and fire protection forces and to replace Government-furnished vehicles as necessary.

The Embassy and other U.S. Government agencies receiving services under the MGS contract were to pay ACA bimonthly.

ACA BENEFITS

The contract stipulates that, in consideration for the services provided by ACA, the U.S. Government shall provide the following services to ACA at no cost to ACA.

- Security guard (one guard at the commissary gate).
- Fire protection.
- Accident and theft investigation.
- Customs clearance.
- Vehicle registration.
- Medical services at the American Embassy medical unit for American employees.
- Medical inspection and security for all ACA facilities.

CONTRACT EXECUTION AND ADMINISTRATION

Until May 1969 ACA was performing certain accounting and administrative support of the contract, including the handling of funds. Since then, it, in fact, has not performed in any manner, although the MGS contract stipulated that ACA would perform certain functions. The Counselor for Administration directed this change.

All local employees under the contract were hired, supervised, and fired by two full-time Embassy direct-hire American employees. All administrative functions--personnel, payroll, accounting records, and billings--were maintained by or under the supervision of Embassy personnel. The Mission guard service operated out of the Embassy, and all equipment was either provided by the Embassy or purchased with profits generated under the contract.

As of April 1973, 687 personnel were employed under the contract.

The following statement summarizes the sources and application of funds covering the activities of the Mission guard service in performing the contract from January 1, 1970 through April 30, 1973.

Mission Guard Service
Summary of Sources and Application of Funds
January 1, 1970 Through April 30, 1973

Source of funds:

Balance as of January 1, 1970		\$	9,522
Add receipts from:			
Official billings	\$704,684		
Private billings	<u>388,986</u>		1,093,670
Refunds and redeposits			<u>27,605</u>
Total			<u>\$1,130,797</u>

Application of funds:

Disbursements:

Payroll	950,755		
Electronic equipment	68,880		
Vehicles	25,716		
Automotive supplies and equip- ment	11,458		
Uniforms and guard equipment	8,270		
Office supplies and equipment	7,621		
Entertainment	1,458		
Repairs and maintenance	1,041		
Construction, guard houses	1,024		
Traffic accident claims	917		
Death gratuities	775		
Audit	494		
Travel and per diem	434		
Police expense	124		
Miscellaneous	2,387		
Refunds	<u>10,999</u>	-	\$1,092,353

Loss from devaluation of kip

765

Balance as of April 30, 1973:

Chase Manhattan Bank	36,966		
Banque de l'Indochine	689		
Petty cash	<u>24</u>		- 37,679

Total

\$1,130,797

PROFITS GENERATED

The Mission guard service accumulated profits through its operations because services were being provided for private individuals as well as for official Government purposes. The Mission guard service had three separate rates which it charged for services.

- Official rate charged for guard services provided to the Embassy, AID, and U.S. Information Service (USIS), paid by routine biweekly billings. Charges are computed by totaling all salaries, including those of administrative and supervisory personnel, for the 2 weeks and dividing that by the number of official guard hours worked for that period. This hourly rate varies from pay period to pay period but is about 23.3 cents per hour.
- Private rate charged to private individuals, including Air America, the Vientiane Hospital, and the Research and Management Branch, AID, billed at 30.4 cents per hour. The U.S. Embassy established this rate in October 1971 as a result of a survey. Thus, the private rate contains a "profit" of 7.1 cents per hour, which amounts to 23.4 percent of billings.
- Continental Air Services, Inc. (CASI) rate charged to CASI at 38.3 cents per hour, based on a 1968 contract, which is still in effect. Thus, the CASI rate contains a "profit" of 15 cents per hour, which amounts to 39.2 percent of billings.

BILLINGS

MGS billings fall into four general categories: (1) American Embassy, which includes Army and Air Force attaches, (2) AID, (3) USIS, and (4) private billings. Total billings for January 1, 1970 through April 30, 1973, were as follows:

	<u>1970</u>	<u>1971</u>	<u>1972</u>	1973 (note a)	<u>Total</u>
Embassy	\$104,621	\$ 82,386	\$ 62,716	\$ 24,255	\$ 273,978
AID	116,843	115,625	136,934	47,701	417,103
USIS	8,975	7,692	7,971	2,662	27,300
Private	<u>112,417</u>	<u>117,141</u>	<u>131,901</u>	<u>47,446</u>	<u>408,905</u>
Total	<u>\$342,856</u>	<u>\$322,844</u>	<u>\$339,522</u>	<u>\$122,064</u>	<u>\$1,127,286</u>

^aThrough April 30, 1973.

Billings for identification card services during 1973 amounted to \$969, for a total of about \$1,128,000 in MGS revenues since January 1, 1970.

The billings for the Embassy, AID, and USIS totaled \$718,381, which represented the actual labor cost of providing the contract services to these agencies. Using the "profit" rates previously stated, we computed the supplemental funds earned on the private billings in the following manner.

CASI billings	\$ 81,220 x 39.2%	= \$ 31,838
Other private billings	<u>327,685</u> x 23.4%	= <u>76,678</u>
Total billings and profit	\$408,905	\$108,516

Certain private billings were actually paid or reimbursed from appropriated funds. For example, AID paid for the Vientiane Hospital guard services. In addition, the U.S. Government indirectly reimbursed the CASI and Air America, Inc., billings, as these expenses were costs considered in the contractors' billings under the contracts with AID.

Our examination disclosed that all payments for billings were received and, except for some minor discrepancies, were otherwise accounted for. The difference--\$33,616-- between the \$1,127,286 shown above and the \$1,093,670 shown on page 10 is due to the outstanding billings not collected at January 1, 1970, and April 30, 1973. Approximately \$690 was uncollectible at April 30, 1973.

RECEIPTS

Payments for official guard services were usually made by U.S. dollar checks directly to the Embassy (Mission guard service) and deposited by Embassy MGS personnel into a checking account with the Chase Manhattan Bank branch at Udorn, Thailand. A large percentage of the private guard services were paid in kip (Lao currency).

Both the dollar checking account with the Chase Manhattan Bank and a kip checking account with the Banque de l'Indochine in Vientiane are in the name of the "ACA-Mission Guard Service." However, no ACA officers or employees were listed as authorized signators on either account. All checks must be signed by one of the two full-time American direct-hire MGS employees and either the budget and fiscal officer of the Embassy or the Embassy Counselor for Administration.

A Mission guard service official acknowledged that a 4-kip profit was made when exchanging the U.S. dollar checks for kip since the billings were made at 600 kip to \$1 whereas the Banque de l'Indochine would pay 604 kip to \$1. The amount of profit was unknown.

At April 30, 1973, the balances in these checking accounts were \$36,966 and \$689, respectively.

DISBURSEMENTS

The following is a summary of our analysis of the disbursements made during the period.

Payroll--\$950,755

We made tests for payroll discrepancies under the MGS contract. We compared the payroll records for three payroll periods in 1972 against the personnel records and duty rosters of those periods. We found no irregularities. We also matched bank withdrawals to payroll records verifying subsequent redeposits of excess payroll funds and found that all funds were properly accounted for.

Electronic equipment--\$68,880

Electronic equipment consists of radios, walkie-talkies, intercom sets, radio receivers, and transmitters and parts.

Vehicles--\$25,716

The average cost of the 17 foreign-made motor vehicles was:

Passenger cars (8)	\$1,511
Pickup trucks (7)	\$1,866
Motorcycles (2)	\$ 284

A Department official in Washington said that trucks and jeeps do not count toward the limit on vehicles imposed by law on the Department. The limit on passenger vehicles is 930. The official stated that, during the last 3 fiscal years, only about 900 vehicles have been carried in the Department's inventory, which indicates that the 8 passenger cars purchased from funds generated by the contracts are not excessive. With certain exceptions the Department prohibits procurement of foreign-made vehicles.

Automotive supplies and equipment--\$11,458

Because this appeared to be an excessive amount for 17 vehicles, we attempted to compare MGS procurement of parts with issues to the vehicles. Because of the condition of the available records, we were unable to conclude whether the issues for supplies were proper, whether they supplemented operations, or whether they were for unauthorized uses.

The U.S. Embassy General Services Office (GSO) performs all maintenance and procures all required parts for the vehicles of Mission guard service, USIS, and all Embassy organizations. On several occasions maintenance and repairs on privately owned vehicles were performed.

The Mission guard service is not involved in procurement and becomes aware of these purchases only when the bills are presented by GSO. GSO sometimes made bulk purchases to meet its total requirements. Quantities for these purchases are based on GSO estimates of each organization's needs. The estimates are also used to allocate the cost to each organization, including the Mission guard service.

GSO did not segregate the parts purchased with MGS funds. All parts were commingled, both physically and on the records, and GSO made no accounting of parts used by any individual

organization. Therefore, no adjustment was made or consideration given when another organization used parts procured with MGS funds or vice versa. On the basis of a limited sample of purchases of tires, batteries, and spark plugs, we found that parts purchased with these funds were being issued for other agencies' vehicles. For example, 30 batteries were purchased in July 1972 with MGS funds; however, between July 31, 1972, and April 18, 1973, only 8 were issued to MGS vehicles. On April 24, 1973, GSO ordered an additional five batteries for the Mission guard service payable from ACA contract funds.

Due to the condition of the records, however, GSO could not account for all the parts it procured with MGS funds since January 1970. We concluded that some of the items procured with these funds had been used on other than MGS vehicles.

Uniforms and guard equipment--\$8,270

Uniforms and guard equipment included such items as badges, nightsticks, rubber boots, and stripes, as well as labor to manufacture the uniforms in some cases.

Office supplies and equipment--\$7,621

This category included the usual items, such as file cabinets, paper, data cards, receipt books, typewriters, adding machines, and rubber stamps. It also included cameras and film.

Entertainment--\$1,458

Entertainment charges included courtesy entertainment of visiting U.S. Government officials or local government law enforcement officials, Christmas parties, and farewell parties.

Repairs and maintenance--\$1,041

This category was for maintaining and repairing automotive equipment. It does not include costs of parts taken from stock on hand.

Construction of guard houses--\$1,024

Guard houses were erected at the Ambassador's old and new residences to protect the guards from the weather.

Traffic accident claims--\$917

Traffic accident claims arose from injuries to persons involved in accidents resulting from official use of cars and from damage to property.

Death gratuities--\$775

Death gratuity payments were made to families of MGS personnel who had died. Department regulations allow a payment of up to \$100 to the family of a deceased local employee to pay for expenses incurred by his death.

Audit--\$494

The audit item of \$494 was paid for work on their own time by Embassy personnel auditing the books of the MGS contract. There were other audits of GSO activities and the medical unit. These audits, however, were made during official duty hours and were not charged for. At least 11 audits and 15 reconciliations of bank statements were made at the Counselor for Administration's request.

Travel and per diem--\$434

These charges included \$365 for travel and per diem to Bangkok and Hong Kong by MGS Embassy personnel. It also included travel to supply depots, passport and visa expenses, and local (boat) transportation for guards during floods.

Police expense--\$124

These expenses were for costs of local police during investigations and special Lao police guards during emergencies.

Miscellaneous--\$2,387

The miscellaneous expenditures were minor in cost, usually less than \$10, and involved such items as rewards to guards for conspicuous actions in carrying out their duties, tickets to a policeman's ball, soft drinks for a special guard at the airport; and newspaper subscriptions.

CHAPTER 3

ACA GENERAL LABOR, MEDICAL UNIT, AND

DENTAL CLINIC CONTRACTS

GENERAL LABOR CONTRACT

Since December 29, 1967, ACA has had a contract with the U.S. Government (No. S-646-fa-794) that has been amended as of July 1 each year to run through the ensuing year. The contractor, under the supervision of the U.S. Embassy GSO, agrees to supply the requisite labor to fulfill contract obligations.

The original contract terms called for gardening and grounds maintenance, maintenance and operation of electrical equipment (including telephones), maintenance and repair of U.S. Government equipment and buildings, and custodial services, waste disposal, transportation of water, and movement of official property.

In 1969, the contract was amended to incorporate a wide variety of additional jobs, such as accountants, medical assistants, draftsmen, communications assistants, translators, secretaries, engineers, political analysts, and consular assistants. In 1971 nurses were also added to the contract.

About 285 local personnel are employed under the ACA contract. They are scattered throughout the U.S. Mission although the majority were assigned to sections under the GSO.

Contract execution and administration

Embassy responsibilities

All employees under the general labor contract are hired and fired by the Embassy personnel officer. In addition, the Embassy personnel office maintains personnel files on all of these employees. Also, the Embassy sections utilizing these employees maintain the time and attendance records. Supervision of the employees is provided by both local-hire and American Embassy personnel; however, ultimate

responsibility for on-the-job supervision of the employees rests with the American in charge of the section where the employee is assigned.

ACA responsibilities

The Embassy compiles time and attendance data and then prepares and provides a biweekly payroll to ACA. From this payroll, ACA prepares and submits to the Embassy a billing for the total payroll. The Embassy then pays ACA the exact amount of the payroll by dollar check, and ACA converts the dollar check to kip and then distributes the payroll to the labor employees. This is the extent of ACA's performance under the labor contract. At the same time, the Embassy bills the using agencies for the services provided to them under the contract. Until a year ago, Embassy personnel prepared the billing and paid the employees.

ACA benefits

In exchange for its services, ACA received the same general benefits under this contract as it received under the MGS contract. (See p. 9.)

The Embassy budget and fiscal officer was unable to give us information about the costs incurred under this contract during the period under review. Our examination, however, showed that about \$557,000 was disbursed during January 1, 1970, through April 28, 1973, as shown below.

<u>Year</u>	<u>Amount</u>
1970	\$146,084
1971	159,987
1972	184,197
1973	<u>66,984</u>
Total	<u>\$557,252</u>

During this period, ACA made about \$5,000 profit under this contract on currency exchange. The Embassy prepared the payroll in local currency and converted the total into dollars at the rate of 600 kip to U.S. \$1. ACA received the Embassy dollar check which it converted into kip at the legal rate of 605 kip to \$1 and retained 5 kip per dollar as its remuneration for distributing the payroll.

The acting Counselor for Administration, U.S. Embassy, advised us that this practice would be discontinued. He was also very surprised that there was no ceiling on the number of local employees who could be hired under the contract and indicated that a ceiling had recently been established.

MEDICAL UNIT AGREEMENT

Since there were no adequate local medical facilities, the Embassy had to establish a medical facility to provide normal health room and emergency medical care for the approximately 2,500 Americans of the U.S. Mission.

In Laos, it was the policy to provide emergency medical assistance to members of other diplomatic missions, ranking host government officials, and U.S. businessmen and their families because local conditions required such action.

The U.S. Embassy, Vientiane, and ACA agreed on November 20, 1969, on how to finance a portion of the operating costs of the Embassy medical unit. They also agreed on the acceptance, deposit, and disbursement of funds collected for professional medical services financed by ACA at the medical unit of the American Embassy, Vientiane. The Embassy Counselor for Administration determines the suitability and salaries of personnel hired under this agreement. There is no time limit specified in the agreement. It does specify that ACA will perform these functions under the strict supervision of the Counselor for Administration, who will approve in advance all accounting procedures and will personally approve each disbursement of medical unit funds.

For these services, ACA receives 5 percent of the gross monthly medical unit receipts--1 percent is to be treated as profit by ACA and 4 percent is to be held by ACA in a special ACA medical unit suspense account. The funds in this account are disbursed only on the Ambassador's approval.

ACA does not get involved in handling medical unit funds, except to receive its 1-percent profit and maintain the medical unit suspense account.

We also found that

--there is very little control over the use of the medical unit by unauthorized personnel and

--medical treatment is not always properly billed for.

Lack of control over personnel
using the medical unit

The Embassy has established a system of color-coded identification cards to control the use of the medical unit by personnel not authorized free use of the facility under the Foreign Service medical program. Medical unit officials informed us that this system simply does not work.

Individuals who are authorized a one-time, paying visit to the facility--all such authorizations are made by the Counselor for Administration--will return time after time without going to the Embassy for another identification card. Medical unit officials stated they do not have time to argue with these individuals, so treatment is given. Also, most unauthorized personnel come to the medical unit on an emergency basis and it is not reasonable to make them go across town to the Embassy to get another (or initial) identification card before treatment. Many of these people also come to the medical unit after hours or on weekends when the Embassy offices are closed.

The medical unit statistical report for May 1973 showed a total of 2,629 individuals as authorized users of the medical unit. Of this number, we could only identify 1,104, or about 42 percent, as being direct-hire U.S. employees (and dependents) of the Embassy, AID, and USIS. Included in the remaining 58 percent are AID contract employees, members of the Lao Royal Family, high-ranking Lao Government and military officials, employees of other Embassies, and various private businessmen of both U.S. and non-U.S. citizenship.

Medical treatment not properly billed

Department regulations specify that AID contract personnel will not be authorized free medical services "other than normal health room services." However, the only charges made to AID contract personnel are for (1) flight physicals

for employees of CASI and (2) flight physical X-rays for employees of Air America, Inc. All other charges for AID air contract employees are paid under the shared administrative support funds of the U.S. Mission in Laos.

For contract employees other than air contract employees, a medical unit official stated that someone must decide what constitutes "normal health room services," but no one has made this decision, so no charges are made.

Disbursements of medical unit funds

During December 1969 through April 1973, \$32,100 was disbursed through the medical unit checking accounts.

Of this amount, about \$12,000 was used to pay salaries for local and U.S. employees; \$2,400 went to ACA as "contractual considerations"; about \$4,100 was used to renovate and purchase equipment for the dental clinic; and about \$3,500 was used for miscellaneous purchases, such as minor equipment, medical supplies, food for patients, and subscriptions to medical publications. The remaining \$10,000 was a transfer to the Embassy on January 17, 1973, "* * * for use in purchase of medical supplies during the balance of this fiscal year." As of August 10, 1973, approximately \$9,875 had been spent for medical and dental supplies and equipment.

As of June 7, 1973, the balance in the medical unit dollar and local currency checking accounts was about \$14,500; the balance in the ACA medical unit suspense account was over \$1,600. There had been only one disbursement from the suspense account. In 1972 the U.S. Ambassador to Laos purchased \$448 of medical supplies to donate to a Lao orphanage.

DENTAL CLINIC CONTRACT

There have been two contracts for dental services, both of which were entered into directly by ACA and the respective dentists.

The current contract--effective April 2, 1973--specifies that the contractor will:

- Provide professional dental services.
- Procure and pay dental staff personnel.
- Supervise the ACA dental clinic.
- Establish a schedule of fees which may be changed with ACA's consent when deemed necessary.
- Prepare required medical and administrative reports as requested.

ACA, in turn, is to provide expendable office and dental supplies, floor space, utilities, and basic dental equipment.

The contractor collects all fees and makes a monthly accounting of gross income. Gross income includes all moneys collected.

In consideration of the contractor's services, the contractor is allowed to deduct from gross income such expenses as salaries for employees, laboratory charges, approved transportation, housing costs of \$200 per month, and official postal charges. After these deductions from total fees collected, the contractor presents a monthly itemized accounting to the Embassy budget and fiscal officer, together with 25 percent of the total accounted for to be deposited to the ACA dental fund. This fund consists entirely of fees collected by the contractor from private contracts for professional services performed. The dentist retains the remaining 75 percent as his payment under the contract.

From March 1971 through March 1973, under the previous contract, the total amounts paid or due to the dental fund totaled about \$1,900. In April 1973, under the current contract, the payments to the dental fund amounted to \$486.38.

Under this contract, ACA is not really involved. The U.S. Embassy budget and fiscal officer is responsible for receiving, controlling, and disbursing the ACA dental fund, and the Embassy Counselor for Administration administers the contract. The supplies, utilities, and equipment supposedly provided by ACA are actually being provided through

the Embassy with funds from the ACA dental fund. The first month's payment into the ACA dental fund under the current contract was used, in part, to purchase \$319 worth of office and dental supplies. Remodeling of the dental clinic was paid for with medical unit funds.

CHAPTER 4

EMBASSY ACTIONS AND OUR CONCLUSIONS

EMBASSY ACTIONS

The current Embassy officials stated that, due to the conditions in Laos for the past decade under which the Embassy had to operate--inadequate security and public services, plus inadequate personnel, equipment, and funds to carry on the added responsibilities--the then-incumbent officials were doing what they thought was in the best interests of the U.S. Government to meet the existing needs of the Mission as expeditiously as possible. They said that, under these circumstances, it was occasionally necessary to resort to administrative shortcuts.

Embassy officials informed us that, with a ceasefire in Laos, a review has been started to examine existing administrative operations and policies and to take action to improve and, where necessary, correct these operations.

CONCLUSIONS

Based on our examination and the extent to which supporting records were available, we have concluded that the accountability of funds was generally adequate and that reasonable steps were taken by U.S. Embassy officials by way of audits to insure that accountability.

U.S. Government policy permits contracting out for nonpersonal services when it is in the U.S. Government's best interests. U.S. policy also provides that contracting out should not be used to circumvent personnel limitations. The Department's definition of nonpersonal service contracts states that the Government will not supervise the performance or reserve the right to select or dismiss individual employees. The actual practices described here regarding the MGS and general labor contracts were at variance with these policies and definitions.

ACA had little to do with the MGS and general labor contracts or the personnel hired to execute these contracts.. The U.S. Embassy Counselor for Administration exercised full authority over all operations. The Embassy security officer

headed up the Mission guard service and supervised the day-to-day operations. On the general labor contract, the U.S. Embassy maintained all personnel records and prepared the payroll on the basis of time and attendance records maintained by it. ACA distributed the payroll.

We did not find the contracts to be illegal since the Department has broad authority to contract for service abroad. Further, it did not appear that the contracts were void as being mere shams because the parties intended to be bound, each party performed at least part of the duties required under the contracts, and there is insufficient evidence showing that the contracts were entered into with the intent of deceiving the Department with respect to departmental local hire limitations. It is nonetheless clear that the contractual arrangements did not constitute arms-length transactions. We believe, therefore, that the contracts for Mission guard services and general labor should be canceled and alternative arrangements made for obtaining the necessary services either by direct hire or by contract performed on an independent contractor basis.

The contracting technique provided a means not only to exceed administrative hiring limitations, but also to retain indirect Government control over funds received for services rendered and to use these funds to finance the various operations--Mission guard service, general labor service, medical service, and dental service.

Further, since funds and other assets derived from those contracts did not result from ACA operations, we believe the Department of State should attempt to recover the assets for appropriate disposition.

Finally, the numbers of personnel which may be provided under nonpersonal services contracts are not controlled, except by monetary limitations. We believe that the Department of State should provide the appropriate committee of the Congress with reports on the number of local personnel so hired in order to give a more complete picture of the operation of U.S. Embassies abroad.

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225-3741

NINETY-THIRD CONGRESS
Congress of the United States
House of Representatives

FOREIGN OPERATIONS AND GOVERNMENT INFORMATION SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-371-B
WASHINGTON, D.C. 20515

March 8, 1973

Honorable Elmer B. Staats
Comptroller General of
the United States
General Accounting Office
Washington, D. C. 20548

Dear Elmer:

The Subcommittee recently received information concerning possible diversions of property and establishment of unofficial checking accounts--with official funds--by certain of our Embassy and AID officials. If this information is accurate, there has been serious wrongdoing by the high-level officials involved.

Because of the very sensitive nature of these charges, I would prefer that you have appropriate personnel of the International Division discuss this matter directly with Mr. Harold F. Whittington of the Subcommittee staff.

With warm personal regards,

Sincerely,



WILLIAM S. MOORHEAD
Chairman

APPENDIX II

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF STATE
RESPONSIBLE FOR ADMINISTERING
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF STATE		
Henry A. Kissinger	Sept. 1973	Present
Kenneth D. Rush (acting)	Sept. 1973	Sept. 1973
William P. Rogers	Jan. 1969	Sept. 1973
ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS:		
Arthur W. Hummel (acting)	May 1973	Present
Marshall Green	Apr. 1969	Apr. 1973
U.S. AMBASSADOR TO LAOS:		
Charles S. Whitehouse	Aug. 1973	Present
G. McMurtrie Godley	June 1969	Apr. 1973
U.S. EMBASSY COUNSELOR FOR ADMINISTRATION, VIENTIANE, LAOS:		
Maurine Crane (acting)	Apr. 1973	Present
Reed P. Robinson	Aug. 1969	Apr. 1973