



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

July 21, 1972

ADMINISTRATIVELY CONFIDENTIAL

Memorandum

To: John C. Whitaker
Deputy Assistant to the President

From: Royston C. Hughes
Assistant to the Secretary and
Director of Congressional Liaison

Subject: Allegations of Contract Mismanagement in the Trust
Territory Administration

Ref: Mr. Hullin's memorandum to you of July 10, 1972,
on the above subject

Lawrence D. Morderosian was employed as a GS-13 Contract Specialist by the Administration of the Trust Territory of the Pacific Islands (TTPI) from April 15, 1970, to February 25, 1972, when his employment was terminated by a reduction in force action which is presently under appeal with the Civil Service Commission.

In the course of his employment, Morderosian made a series of allegations regarding contract irregularities and personal misconduct on the part of TTPI employees. These allegations centered largely around two contracts awarded to the AMELCO Engineering Company (AMELCO), Honolulu, Hawaii for construction of a major water and sewer system for the island of Saipan. These contracts totaled \$2,946,000.

Specifically, Morderosian charged:

1. Contract mismanagement including approval by the TTPI of a large number of questionable "change-orders" which substantially increased the cost of the contracts to the U. S. Government.
2. Violations of Federal Procurement Regulations.
3. Personal misconduct by TTPI employees.

As a result of these allegations, the Department of the Interior on August 26, 1971, launched a detailed investigation conducted by its Office of Survey and Review. This investigation was completed on March 27, 1972. A copy of this report is available for your review. The key conclusion of the report is as follows:

- 2 -

"In summation, this investigation tended to confirm charges of confusion, irregularity, and failure to adhere strictly to Federal Procurement Regulations in Trust Territory construction contracts. Public Works officials defended the results they have obtained and attributed mistakes and failures to overwork, understaffing, and inadequately trained personnel. Other witnesses suggested that factors in the situation are the discharge of the former Director of Public Works, Colonel T. M. Nosek in September 1970, for allegedly being unable to get along with contractors; the delay in replacing him, during which time Roy L. Plhak, present chief of Design and Engineering was Acting Director, and the fact Adrian Kryff, Chief of Construction, and a key man in dealing with AMELCO, had two heart attacks during the construction period and allegedly became unwilling to oppose the contractor. Apart from inferences which might be drawn from AMELCO's alleged poor contract performance, questionable use of facilities and equipment, inflated or unsubstantiated monetary claims, and failure to meet contract obligations for public safety and convenience; investigation developed no proof of exercise of undue or improper influence by AMELCO manager Joseph Bollinger, or any other contractor representative; and no evidence was developed showing acceptance of bribes or gratuities by Trust Territory officials and their families, or graft and corruption of any other kind in the Trust Territory Administration."

Morderosian has made known his allegations to a large number of people, including apparently Jack Anderson, members of Congress and other public figures. The House Appropriations Committee conducted a separate investigation of his charges in January - February 1972. While this report has not been made available in full to the Department of the Interior, Congresswoman Julia Hansen read excerpts to two senior Interior officials which confirmed, in essence, irregularities in contract administration in the TTPI, but failed to develop any evidence of malfeasance or misconduct.

As a result of the Interior investigations, the following steps have been taken to correct the situation:

1. The TTPI has arranged with the U. S. Army Corps of Engineers and the U. S. Navy, depending on area, to administer the larger contracts in the TTPI.
2. The recently retired Chief of Design and Construction for the Bureau of Reclamation has been employed as a consultant to improve contract administration procedures in the TTPI and to evaluate TTPI Public Works personnel. He is presently in Saipan for this purpose.

- 3 -

3. Since it has been determined that the Federal Procurement Regulations are not legally applicable to the Trust Territory, Interior is working closely with the TTPI to develop a standard set of procurement and contract regulations for use in all future contracting.
4. Our reorganized Territorial Affairs staff, headed by a new Deputy Assistant Secretary, is initiating a series of actions to assist the TTPI in weeding out incompetent personnel and improving the general caliber of TTPI employees by better recruitment methods.
5. Action has been taken to suspend closing out of the AMELCO contracts pending a complete review of the contractor's performance.

For your information, in 1971 the U. S. Naval Investigative Service in Guam, in cooperation with the U. S. Air Force, conducted a separate investigation of Morderosian for alleged involvement in the fraudulent acquisition of military identification cards by a TTPI employee. The result of this investigation was inconclusive and the U. S. attorney in Guam did not believe there were sufficient grounds to prosecute Morderosian.

It is our opinion that Morderosian is a rather unscrupulous individual, somewhat paranoid and obsessed with his own importance. There are indications in his record of a certain lack of integrity in his persistent efforts to improve his own image.

While Morderosian will doubtless continue to voice his allegations, we do not believe there is any substantial potential for serious embarrassment to the Administration. In the larger perspective of our relations with the Micronesians, his charges have made little impact on the Micronesian Congress and the negotiations with the Micronesians on future political status are at the present time proceeding satisfactorily.

We are working in many different ways to improve the efficiency level of TTPI Administration and its general relationship with the Micronesians. Among other things, we are proceeding as rapidly as possible to replace American TTPI employees with qualified Micronesians. In a recent announcement, the High Commissioner, with our approval, nominated two Micronesians as Department Directors, two as Deputy Directors and one as Deputy Attorney General. Other Micronesian appointments to key positions are presently under serious consideration. This policy of Micronization of our Administration -- carefully balanced to insure essential U. S. control -- along with other measures we are taking should be effective in reducing the friction points between Micronesians and the Administration.

Rayston C. Hughes

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