

May 15, 1959

MEMORANDUM FOR THE CONGRESSIONAL CONTACT FILE

House Committee on Armed Services

In compliance with the request communicated to me by Mr. John Martiny, I went to the office of the Committee on Armed Services, House Office Building, Room 313, to meet with Mr. Robert W. Smart, Chief Counsel, on our audit activities at the Central Intelligence Agency. This meeting had been broadened to an executive session of the Subcommittee on Central Intelligence Agency, of which Paul J. Kilday is Chairman. Other members of the Committee in attendance were Messrs. Charles E. Bennett, Florida, George Biddleston, Jr., Alabama, A. Paul Kitchin, North Carolina, and Frank C. Osmers, Jr., New Jersey. Mr. Smart informed me that James E. Van Zandt, Pennsylvania, and Bob Wilson, California, are also Subcommittee members but could not attend because of absence from the city.

At the outset Mr. Smart read a statement on his meetings with me on March 2 and with Mr. Edward Chappell on March 12, and he also commented briefly on his meetings with officials of CIA. Following these comments he summarized his conclusions which broadly were (1) that GAO was not making a "complete audit" of Central Intelligence Agency and that the two auditors at the site had somewhat limited capabilities, by grade and experience, for the broader type audit, and (2) that Central Intelligence Agency did not have an internal review staff for the review of vouchered expenditures, and placed reliance on the GAO auditors at the site.

With respect to his meeting with Mr. Chappell, Mr. Smart attributed comments by Chappell that he regarded the personnel at CIA the best qualified group that he had dealt with in his 41 years with the Government and that they were doing an excellent administrative job. Mr. Chappell was also said to have stated that except for a review and evaluation of the CIA organization the present audit, insofar as review of administrative procedures applicable to vouchered expenditures is concerned, conformed generally with those performed at other agencies by the GAO.

Following Mr. Smart's statement the Chairman and each of the Subcommittee members in turn raised a number of questions on our audit responsibilities and our audit activities. The larger number of these questions were raised by the Chairman and by Messrs. Kitchin and Osmers. In essence, the Subcommittee members were told that our audit at CIA consists primarily of tests of vouchered expenditures and that any expenditures which do not seem to conform with the legal requirements or to the GAO decisions applicable to expenditures by other agencies reference of them are made to the Comptroller organization at CIA

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for such corrective action as they may choose to take. Generally it has been our experience that this organization took corrective action but we did not know whether expenditures removed from the vouchered classification were subsequently reimbursed from the unvouchered funds. The difference between our audit at CIA and at other agencies was described to the Subcommittee and it was stated that at CIA we had not made a review and evaluation on the administrative procedures and practices and their conformance with agency policy, including not only the vouchered but also the unvouchered expenditures. Further, the view was expressed that unless our audit is broadened by assignment of staff of higher grade and experience we expected to discontinue having any staff members at the CIA site.

Committee members indicated they were receptive to a broadened audit so that they could be informed by an outside group on whether or not the administrative policies, practices and procedures are adequate and that they would expect the Director of the agency to be likewise interested in having similar reviews by a group outside his immediate organization. The Chairman, and particularly Messrs. Kitchin and Canars, stated specifically that they would like to be assured on how well the agency is doing its job administratively and that the Subcommittee be furnished with whatever recommendations we may have for corrective action on deficiencies and weaknesses. Also, whether or not amendment of Section 10(e) of Central Intelligence Act of 1949 on exemption from GAO audit should be considered.

The meeting concluded with a request by the Chairman that the matter be discussed by me with the Comptroller General and that thereafter he and the Chief Counsel would either come to the General Accounting Office to see the Comptroller General or he would be invited to see the Chairman. Following the meeting, however, Mr. Smart suggested that after talking to the Comptroller General a letter be drafted to Chairman Kilday over the signature of the Comptroller General briefly commenting on the nature of our audit at CIA at the present time and our recommendations with regard to our future audits. By such a letter a reply could be given by the Chairman and thereby providing a formal record on the matter.

W. H. Knaulson  
Director, Civil Accounting  
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cc: Mr. Morse, OASD