

MEMORANDUM

5 December 1949

TO: The Executive

THRU: Chief, SSS

FROM: Finance Division

SUBJ: Audit of Entertainment Accounts

1. In accordance with instructions, pertinent comments are hereby submitted concerning the audit report of "Entertainment Funds" as prepared by the Chief, Audit Division, I & S, and concerning which the Budget Officer has requested specific comments as to the circumstances and any further facts relating to those items which may appear unusual or somewhat out of line.

2. It is believed that the questions raised in the audit report either directly or by indirection fall into three categories as follows:

- (a) Questions as to the propriety or good judgment of a few specific instances or types of entertainment.
- (b) Questions as to possible procedural weaknesses in the submission of accountings or as to the adequacy of supporting vouchers.
- (c) Questions as to the inconsistency or lack of unified agency policy as to what charges, if any, should be made against employees for the personal benefit derived through participation in official entertainment.

3. Each of these matters is discussed in turn in the following paragraphs:

- (a) The Confidential Funds Regulations prescribe no specific criteria governing the expenditure of monies for operational entertainment. This is not omission but conscious recognition of the infinite circumstances under which varied types of entertainment may be an operational necessity. The only basic requirements are that the entertainment be reasonable and necessary.
- (b) Responsibility for compliance with these criteria necessarily rests with the Assistant Directors and those individuals designated by them as Approving Officers. A Certifying Officer normally relies upon the fact of approval by an Approving Officer that an item of entertainment is necessary and reasonable.

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In the event the amount or type of entertainment appeared to the Certifying Officer to be of doubtful propriety or judgment, he would seek additional information from the Approving Officer. If still not satisfied, he would seek written approval of the Assistant Director, and if still not satisfied he would request the Assistant Director to get higher approval.

- (c) In each of the specific items pointed up in paragraph 8 of the audit report, additional facts were known or were made known to the Certifying Officer and the accounts were accepted and certified. If, for purposes of review of the practices of the Covert Offices, it is desired to be apprised of the circumstances warranting certain types and amounts of entertainment expenditures, it is urged that this information be obtained from the office concerned. We believe it would be most inappropriate and unseemly if the Finance Division were to attempt to explain or justify the entertainment expenditures of a CIA Office.
 - (d) We feel certain that you will concur with this opinion and, therefore, are not submitting additional comments as to the circumstances and any further facts relating to particular instances of entertainment. We can only state that in view of the proper approvals, together with supplementary information available to this office, the items in question were accepted as proper charges.
4. The audit report indicates:
- (a) Possible types of procedural weaknesses which include the following:
 - (1) Lack of adequate identification of persons entertained.
 - (2) Lack of data as to the number of persons entertained.
 - (3) In a few instances, lack of the exact date of the entertainment.
 - (4) At an earlier period, lack of identification of staff employees participating.
 - (5) Delay in the submission of claims for entertainment reimbursement.
 - (b) With regard to item⁴(a)(1), security, of course, is the reason why actual identification of individuals is not required by the regulations. The value of requiring adequate identification

is twofold. It ensures that the Approving Officer actually is aware of the identity of the person or persons entertained and hence is more capable of fulfilling his responsibilities. Secondly, precise identification is a deterrent against submission of false or improper vouchers, since such information renders the voucher capable of investigation at some later date. For these reasons, we recommend the following procedural changes:

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*Deleted from
index of CIA employees
see [redacted] 49
of 11-12-49*

(1) That each office be required to identify persons entertained by cryptonyms, pseudonyms, or any positive means, and state on the voucher, "The real names of persons entertained are on file in (OSO, OPC, OO, etc.)"

(2) That more specific statements as to the purpose of the entertainment be required. Such statements should clearly indicate whether the entertainment was in connection with the interview of a prospective agent, briefing of an agent, liaison with officials of a cover company, etc.

(c) With regard to item 4(a)(2), we agree that the number of participating individuals is an important item in gauging the propriety of the expenditure and Certifying Officers have used this information for this purpose. It is only recently, however, that this information has been used for retroactive statistical and review purposes and accordingly the Certifying Officers will be instructed to ensure written information in this respect on all future vouchers.

(d) Item 4 (a)(3) represents a few instances where one or more individuals were very delinquent in submitting claims for entertainment and professed inability to recall exact dates. In the absence of any other reasons to question the voucher, we believe it could be properly accepted. However, we strongly concur that if the individual can remember the amount to be claimed he can remember the date and to the extent that dates contribute to the potential possibility of checking a fraudulent or improper voucher, we agree that it should be required. Accordingly, we shall require it in all future vouchers.

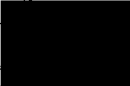
(e) As regards item 4 (a)(4) the Finance Division for some months has required identification of participating staff employees. This was formerly deemed unnecessary, since the amount of entertainment in the United States was very small and rarely involved more than one staff employee. OPC entertainment requirements apparently more frequently necessitate participation of several staff employees. For this reason, increased control appeared desirable and the procedural requirements of the Finance Division were accordingly amended.

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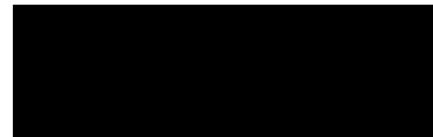
- (f) Item 4(a)(5) concerns delay in submission of claims for reimbursement for expenses incurred. In this connection, we wish to point out that the individual who procrastinates in submitting a claim merely places himself in jeopardy and runs the risk of forgetting the item completely or of having it disapproved ultimately by the Approving Officer. Instances of belated claims are very rare, but it should be stated that OSO many months ago initiated a "crackdown" on belated claims. We believe that no further corrective action is necessary.
- (g) In closing this group of comments, we wish to state that every item of unusual or apparently unreasonable entertainment is referred to Assistant Directors for their approval. The current Assistant Directors have fulfilled their responsibilities carefully and, in some instances, where they have approved the entertainment, they have reproached their employees for faulty judgment as to the type or extensive nature of the entertainment. We believe that this type of control is far more practical and effective than inelastic and categorical regulations, and do not recommend any changes in the regulations. Expressions of general policy by the Executive to the Assistant Directors and the Finance Division should provide ample control.

Agred.



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5. The policy question as to whether a charge should be made against employees for the personal benefit derived from participation in meals charged as official entertainment was raised by the undersigned at the Executive's Covert Support Staff meeting after the Chief Auditor verbally advised the undersigned that he had recommended such a charge. A tentative policy was suggested at the meeting and the undersigned was instructed to suggest such a policy to the Assistant Directors for their concurrence or suggestions. This was done in a memorandum dated 15 November 1949. Replies have been received from two of the Assistant Directors concerned indicating concurrence in principle, but with one suggested alteration in application. After the views of all Assistant Directors have been thoroughly explored, the matter will be referred to the Executive for final consideration.



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Acting Chief, Finance Division

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