

SECRET

20 December 1947

OGC Has Reviewed

MEMORANDUM FOR THE ADSO

Subject: SO Foreign Exchange Activities

25X1A

25X1A

25X1A

1. As a result of the conference between yourself and Mr. [redacted] I went, at Mr. [redacted] invitation and with your approval, to Mr. [redacted] office to investigate certain charges made by him and to acquaint myself with the operations of his office in order to attempt a resolution of certain basic differences of opinion in the operation of SO foreign currency problems.

25X1A

2. On Thursday, 11 December 1947, Mr. [redacted] and I spent two and one-half hours with Mr. [redacted], and on Wednesday morning, 17 December 1947, I spent a further three hours discussing foreign exchange questions with Mr. [redacted]. A rational approach to the problem is confused by bitter personal feelings which have generated over a period of time between the Chief, Special Funds and Mr. [redacted]. I feel the bitterness is mainly on the latter's side, although Mr. [redacted] is probably not without fault in his handling of the situation. Although the personal problem may be the truly insoluble item, I shall try to leave it out of consideration in this report and present my views on the theory of the operation.

25X1C

3. Considered in detail, foreign exchange operations present endless complications and policy questions. In its broadest aspects, however, I feel there are two well defined functions — [redacted]

4. I feel strongly that the two functions should be kept clearly separated. Both functions require three highly specialized preliminary steps:

SECRET

230A

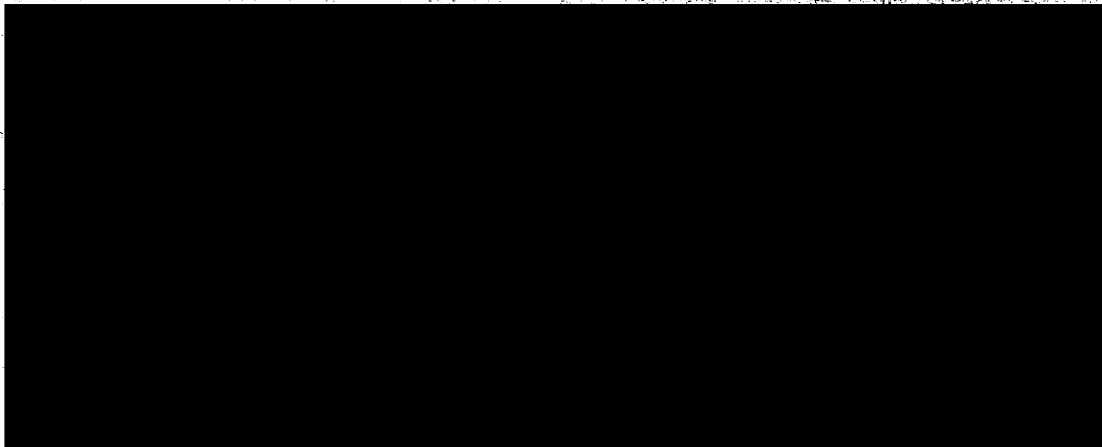
SECRET

ADSO

-3-

18 December 1947

25X1C



Once step (c) is taken, there remain the mechanical procedures to carry out the decisions. At present, Mr. [redacted] carries out not only the three preliminary steps but also performs the mechanical implementation.

25X1A

5. as an outsider, it appears to me that (c) is may be the crux of the problem, as it puts him in a dual capacity which is perhaps untenable. A good example of the type of problem the dual capacity creates is the fact that since he purchases and transfers currencies for the stock pile purposes, [redacted] feels accountable for the currencies therein involved until transferred to current operations and expended. This requires an elaborate bookkeeping system. His concept of the information which his books should reflect is in partial conflict with the concept of the books set up by the Chief, Special Funds, so that at one particular time the two sets of books do not reflect the same figures for the cost of operations. Also, the mechanical process, since it involves the handling of Special Funds, raises the question of whether that function can be in a separate unit not subject to control by the Chief, Special Funds.

25X1A

6. I believe the basic theory to be sound that the Director and yourself should look to one officer alone for all problems concerned with Special Funds. It is conceivable that the preliminary steps (intelligence, planning, and decisions) could be set up as a separate support unit under CAS to forward its decisions for implementation by Special Funds. I believe, however, it would be preferable to keep it as a separate unit in Special Funds. I think, under no circumstances, should the mechanical process be separated from Special Funds. My solution may present practical difficulties but roughly is as follows:

SECRET

SECRET

ADSO

18 December 1947

Have regular Agent-Cashiers perform all mechanical transactions in foreign exchange at the direction of a special unit for intelligence, planning, and specific decision. This unit would be in the position of a special advisor to the Chief, Special Funds. Its functions, duties, and authorities should be clearly defined to give it the widest scope possible under the final supervision of the Chief, Special Funds. I believe Mr. [redacted] has been experiencing very real difficulties but ones which could be overcome by improved administration and procedures and by granting wider authority for liaison, both with outside fiscal agencies (public and private) and with operations. I believe there has been undue delay in pouch and cable communications reaching Mr. [redacted] desk and that decisions and negotiations have been hampered by unnecessary complications in liaison and the gathering of information. Further study will be needed, but I feel the present office may well be understaffed to perform properly its intelligence and planning functions.

25X1A

25X1A

I am convinced the above views will not be satisfactory to Mr. [redacted]. He has suggested that the only satisfactory solution is the establishment of a special unit under CAS coequal with Special Funds, which unit would be a procurement and supply unit for foreign currencies reporting through CAS to you. Despite the very great contribution afforded by Mr. [redacted] experience and contacts, and despite the difficulties (administrative, procedural, and personal) under which he is operating, I cannot accept his theory of a separation of fiscal responsibility within SO.

25X1A

25X1A

LAWRENCE R. HOUSTON
General Counsel

LRR:mbt

SECRET