

VIA: AIR
(SPECIFY AIR OR SEA ROUTE)

DISPATCH NO. OFFPA 38677

DECLASSIFIED
SECRET
CLASSIFICATION

TO : Chief, IO
FROM : Chief of Station,
SUBJECT: GENERAL— DTDORIC/Operational
SPECIFIC— FJMACHINE

DATE: 5 June 1958

Reference: OFFPA 38148

1. Transmitted under separate cover as Enclosure #1 is a copy of a lengthy report prepared by Callender's deputy in which he explains all of the circumstances and events surrounding the missing funds in FJMACHINE's Paris office. It is, as a reading of this report will show, a considerably more complicated matter than the brief summary forwarded earlier by in referenced dispatch.

2. Callender's deputy said that he was providing and headquarters with a copy of Enclosure #1 report because of Callender's concern that New York may not be giving headquarters all of the information on this matter that has been received by New York from his office. He accordingly stipulated as a condition for his turning over this paper that New York not be advised by headquarters that they (headquarters) had received a copy of it through the channel. assured Callender's deputy that this request would be relayed to headquarters.

Enclosure: u.s.c.
1 - Report

5 June 1958

Distribution:
3 - IO, w/encl.

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29 May 1968

Dear Hugh:

In response to your request, I transmit herewith two copies of a Memorandum for the Record by Robert D. Grey on the recent loss of office funds.

I have reviewed this memorandum in detail and in so far as that part of the memorandum which covers my involvement in these events is concerned I have found it complete and accurate in every respect.

I also transmit two copies of a second Memorandum for the Record by Thomas R. Donahue on the same subject.

Sincerely,

James G. McCargar

Mr. Cloyce K. Huston
Free Europe Committee, Inc.
2 Park Avenue
New York 16, N.Y.

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att. 1 OFPA-38677

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MEMORANDUM FOR THE RECORD

27 May 1958

From: Robert D. Grey

Subject: Recent Loss of Office Funds

25 March 1958

At approximately 5 P.M. on 25 March 1958, Mr. Thomas Donahue informed me that Mr. Russell Davy had just stated to him (1) that on the basis of information which Mr. Ronald Loubert had given Davy earlier in the day Davy and Loubert had been to Morgan & Co., where Davy, on being introduced by Loubert, had arranged with Mr. Robert Aeberhard for Morgan & Co. to prepare cut-off statements as of the close of business on 25 March 1958 on all accounts maintained by this office at that bank, to be ready the following morning, (2) that Davy intended to take control of the cash box the following morning to verify the balances on hand, (3) that the information provided earlier by Loubert was related to a previous conversation between Loubert and Mr. Schallier, Royal typewriter salesman, during which Schallier, according to Loubert, blanched and was so struck that he had to sit down and compose himself upon being told by Loubert that Mrs. Bernadette Kurtovitch, the office bookkeeper, was planning to emigrate shortly to the United States, Schallier explaining that Mrs. Kurtovitch had recently asked him for a loan of \$800.00, (4) that Davy and Loubert considered this circumstance to be sufficiently disturbing and suspicious to warrant the above action, and (5) that Davy had not consulted Mr. McCargar, myself, or Donahue prior to taking the above action for the reason that the latter individuals were in Davy's estimation totally preoccupied with the task of completing the budget material with which McCargar was to depart later that evening for New York, and that accordingly Davy had asked Loubert to accompany him to Morgan & Co.

Donahue and I conveyed the above information to Mr. McCargar.

Mr. McCargar immediately asked that Davy and Loubert be brought to his office. Davy had already left the building, but Loubert was present and appeared in McCargar's office. In the presence of myself and Donahue, and in response to Mr. McCargar's questioning, Loubert confirmed that he had given the information indicated in (3) above to Davy and had accompanied Davy to Morgan & Co. to arrange for cut-off statements on the office accounts. Mr. McCargar observed that Loubert had known Mrs. Kurtovitch for many years, that Loubert had recommended her for employment as Loubert's assistant at a time when Loubert was Administrative Officer in the organization, that even if Mrs. Kurtovitch had in fact asked Schallier for a loan this would appear, on the basis of Loubert's account of the conversation, to be a personal matter between Mrs. Kurtovitch and Schallier which did not necessarily involve

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the office accounts or finances, and Mr. McCargar then asked Loubert on what basis Loubert considered this circumstance to be sufficiently disquieting to warrant the action which Loubert had taken in the matter. Loubert stated that he had merely brought this information to Davy's attention and that Davy had determined that the action taken was required. Mr. McCargar then observed that obviously Loubert was in agreement with Davy that the action taken was required. Loubert stated that in his opinion Schallier's reaction was of significance and that he, Loubert, had followed a line of action which he took to be in the Committee's interest. Mr. McCargar then asked Loubert why he had not brought the matter to Mr. McCargar's attention. Loubert stated that he had asked to see Grey during the day and had been informed that Grey was busy with budget matters which had to be completed prior to Mr. McCargar's departure that evening for New York. I stated that at no time during the day did Loubert indicate to me that he wished to discuss a matter involving office accounts or finances or a matter which he considered to be of importance and in the Committee's interests. Loubert made no comment. Mr. McCargar then observed that he alone had ultimate responsibility for the accounts and finances of this office, that I was his Deputy, that Donahue was the Administrative Officer, that Loubert no longer had delegated responsibilities in this regard, and Mr. McCargar then asked Loubert on what authority had he represented this office in the arrangements made with Davy at Morgan & Co. Loubert stated that he had attempted only to be helpful and had acted in what he considered to be the Committee's interests.

Mr. McCargar instructed me to facilitate the immediate assumption by Davy of his duties in this office, to take any action required to obtain full clarification of the situation at the earliest possible date, and to keep Mr. McCargar fully informed of all developments. He then departed for New York.

26 March 1958

Davy arrived in the office on 26 March 1958 around noon, explaining that he had had a discussion earlier in the morning with Mr. Summerscale of the Haskins and Sells Paris office. He did not indicate the subject of this discussion, other than to say that he had made a courtesy call on the basis of a letter of introduction provided by Mr. Herhammer of the Haskins and Sells New York office and had discussed this subject generally.

By telephone, I then arranged an immediate meeting at Morgan & Co. between Aeberhard, Donahue, and Davy. In his office, Aeberhard gave the cut-off statements on the office accounts to Donahue, who immediately turned them over to Davy.

In the afternoon of 26 March 1958, Davy took control of the cash box and ledgers and made a cash count in the presence of Mrs. Kurtovitch. Donahue joined Davy and Mrs. Kurtovitch several times while the count was in process and was informed each time by Davy that

all was in order. After the count, Davy came to the door of my office and stated that he had completed the count and that "everything is under control".

27 March 1958

Shortly after noon on 27 March 1958, as we were leaving the office for a staff luncheon which had been arranged to welcome Mr. and Mrs. Davy to the staff, Davy informed me that all was not in fact in order and that Mrs. Kurtevitch had "taken" some 760,000 francs. As it was impossible, due to other commitments, to meet that afternoon, I arranged to meet with Davy the following morning to go into the matter with him. On the way to and at the restaurant, I apprised Donahue of the information Davy had given me. This was the first time that I or Donahue had ever been informed by anyone that funds were missing from the cash account.

28 March 1958

Early on the morning of 28 March 1958, I called Mrs. Kurtevitch to my office and told her that inasmuch as Davy had expressed a desire to discuss certain matters regarding the cash count which had previously been made I should like her to inform me of anything concerning the count which she thought I should be aware of prior to this meeting with Davy. She then told me that there was in fact a shortage of funds in the cash account, that this was the result of the disappearance from the top of her desk of an envelope containing funds which she had obtained at the bank to replenish the cash account, that she had signed a promissory note due 15 April 1958 for 760,000 francs, which the cash count had revealed as missing, and that she would replace this sum at the earliest possibility.

She stated that sometime in early March she had gone to the bank with a check for 1,000,000 francs made payable to the office for replenishment of the cash account, that this money was placed in an envelope at the bank, that she carried the envelope to the office, where she made one or two payments using monies from it and from the cash box, that she was then called from her office for some purpose which she couldn't recall, that she failed to put the envelope in the safe during the interval of her absence, and that later in the day she noted that it was missing from the top of her desk. She said she had searched everywhere to no avail. When I asked if she thought the money might have been taken from her desk, since the hallway through the offices passes through her office, she stated that she trusted everyone in the office and would prefer not to admit such a possibility. She could not recall whether any visitors were in the offices at the time. She could not imagine how the envelope could have disappeared and said that she did not exclude the possibility that it might have ended up in the wastepaper basket with other papers.

She stated, however, that she assumed full responsibility on the basis of her negligence in failing to place the envelope in the safe

immediately upon her return to the office, that she had therefore determined not to report the loss and to replace the money by borrowing sufficient funds to cover the loss, which she had hoped to do before the monthly cash count in connection with the financial report for March. She told me that she was not in fact certain as to how much money had remained in the envelope at the time of its loss, since she could not reconstruct with certainty which payments had been made from the envelope prior to its loss. She said she had put part of her March salary into the cash box, and that her intention had been to complete her postings, determine the exact amount short, and replace that amount before the March cash count.

She said that she had decided not to report the loss and to take the above course of action for the additional reasons, aside from negligence on her part, that she did not wish to cause difficulties for the office and because she did not wish to jeopardize her chances of obtaining a job with the Committee in New York, which, since she was already in possession of immigration visas for herself and her family, would make it possible for her to emigrate to the United States. She asked that I not report the loss to Mr. McGargar, stating that Davy had promised her at the time she signed the promisory note that he would not consider it necessary to report the loss to anyone in this office or to New York if the money were returned before the financial statement for March was completed. I replied that I was of course obliged to report the situation to Mr. McGargar, that while I might understand her reasoning and motives I sincerely regretted that she had not reported the missing funds immediately upon discovery, and that her best course of action would be to replace the funds at her earliest possibility.

I then asked Davy to come to my office. He repeated the information he had given me the preceding day, explaining that he had obtained a promisory note from Mrs. Kurtovitch covering the amount missing, due 15 April 1958. He said that he had initially asked her to sign a note payable 1 April 1958 but that upon her explanation that she hoped and fully intended to repay the amount by the first of April but that she could only be certain of repayment prior to the fifteenth of April he had agreed to the latter date. He explained that he had previously told me from the door of my office that "everything is under control" in order to create the impression on the part of the office staff within hearing range that there were no problems over the cash count. I told him that Mrs. Kurtovitch had informed me of his agreement with her not to report the missing funds to anyone in this office or in New York. Davy stated that Mrs. Kurtovitch had promised to replace the money at the earliest possibility and in any event prior to the due date on the promisory note she had signed and that he had then agreed to keep the matter between them. He explained that this was also one of the reasons why, after the cash count, he had made the statement to me that "everything is under control", but that after further consideration during the night of 26 March 1958 he had decided to tell me about the missing funds and did so the following day. I asked Davy if he intended also to report the situation to New York. He said he did not intend to

do so. I asked him if he thought that this would affect his professional status in any way, to which he replied that in his opinion Mrs. Kurtovitch had "taken" the money but that if it were returned within the agreed period he would consider that he could properly be flexible enough to keep the matter quiet, stating further that he was new to the job and organization, that he had not expected to run into such a situation, that he had never run into this kind of situation before, that he did not wish to cause a great deal of difficulty over the matter, which he hoped could be settled through return of the money, and that he recommended that Mrs. Kurtovitch never be given any further responsibilities in the organization for handling funds. I then told Davy that on the basis of my knowledge of Mrs. Kurtovitch's performance since my arrival in the office on 26 May 1957 and in the absence of evidence to the contrary I would be reluctant to admit the possibility that she had in fact taken the money but would be inclined rather to accept her statement that the money had in some manner disappeared from her desk, that every effort would be made to get at the facts in the case, and that within the framework of his functions in the office I would expect his full cooperation in this regard.

Later in the day I discussed with Donahue the meetings I had had earlier that day with Mrs. Kurtovitch and Davy. Donahue expressed the opinion that Mrs. Kurtovitch's record and work in so far as he knew it since his arrival in the office on 16 December 1957 were such as to lead him to believe her statement that the shortage of funds resulted from a loss of these funds, barring evidence to the contrary. Both Donahue and I were of the conviction that a full and detailed audit of all of the financial records of the office was essential to a determination of the facts of the situation, and accordingly I called Davy to my office and requested that he undertake such an audit immediately, to be completed in the shortest possible delay, suggesting that the audit cover a period back at least to 1 July 1957 and beyond that if such, in Davy's opinion, were warranted. Davy stated that he would begin the audit as soon as possible, and Donahue stressed the need for completeness and dispatch. During the period through 17 April 1958, I repeated this request on many occasions and stressed the importance of such an audit and the need for its rapid completion.

During the night of 28 March 1958 I talked to Mr. McCargar in New York by telephone and reported to him the events which had taken place since his departure from Paris. He immediately instructed me to ask Davy to do a complete audit of the books and records of the office as far back as Davy, in his own judgment as a CPA and auditor, believed necessary under the circumstances. I reported that this request had already been made, and Mr. McCargar instructed me to do everything necessary to facilitate in the shortest period of time the completion of a report by Davy on the state of our financial records and as to whether or not there was any evidence of financial manipulation.

1 April 1958

On 1 April 1958, I had lunch with Davy, during which preparations of the financial reports for March were discussed. I asked Davy whether he intended to observe his agreement with Mrs. Kurtovitch or whether he intended to note the missing funds in his financial report as of 31 March 1958. He stated his intent that if the funds were replaced prior to completion of the report he would treat them as having been on hand as of the 31st of March. He explained further that since he was new on the job and since in any event he wished to incorporate several changes in the format of the financial reports he would be unable to complete the March report for some time, notwithstanding the assistance Mrs. Kurtovitch had been giving him, during which interval he hoped Mrs. Kurtovitch would be able to return the full amount outstanding. I raised no objection to this, since the situation was being reported to Mr. McCargar in New York.

3 April 1958

During the night of 3 April 1958 I talked to Mr. McCargar in New York by telephone and reported to him the developments which had taken place since 28 March 1958.

4 or 5 April 1958

On the 4th or 5th of April, during preparation of the financial report for March, Davy discovered that Mrs. Kurtovitch had erroneously entered a cash refund of 2,100 francs into the cash account ledger as a refund of 21,000 francs, and this discovery had the effect of increasing the total of funds missing from 760,000 francs to 778,900 francs. Mrs. Kurtovitch immediately stated her intent to replace the additional 18,900 francs. This new situation was reported to Donahue and to me by Davy and Mrs. Kurtovitch separately, without delay.

5 or 7 April 1958

On the 5th or 7th of April, Mrs. Kurtovitch informed me that she had the sum of 220,000 francs on hand and that she hoped to obtain the balance and replace the full amount lost within a day or so.

8 April 1958

During the night of 8 April 1958 I talked to Mr. McCargar in New York by telephone and reported to him the developments which had taken place since 3 April 1958. Mr. McCargar informed me that Davy had already made a report to New York concerning the shortage of funds as of 28 March 1958. Mr. McCargar asked as to the status of Davy's audit and report. I reported that Davy had advised me on several occasions that he had not in fact begun the audit as yet, due to his preoccupation with preparation of the March financial report. Mr. McCargar instructed me to impress upon Davy the urgency of the need for a completed audit.

He also asked that he be advised immediately by cable as soon as the full amount of the missing funds had been replaced.

9 April 1958

On 9 April I left Paris for Munich and Berlin on official business.

10 April 1958

On 10 April 1958 Mrs. Kurtovitch succeeded in obtaining further loans and replaced what was then thought to be the full amount of the cash shortage, 778,000 francs. This transaction was supervised by Donahue, and the full amount was turned over to Davy in exchange for the promissory note which Mrs. Kurtovitch had executed with Davy at the time the shortage was originally discovered. Donahue then cabled Mr. McCargar in New York informing him that the full amount of the shortage had been replaced.

Late in the night of 10 April 1958 I returned to Paris from Berlin.

12 April 1958

On the morning of 12 April 1958, the March financial report was completed. It had been prepared by Mrs. Kurtovitch under Davy's close supervision and had been typed by Mrs. Kurtovitch. According to Davy and Mrs. Kurtovitch, the report had been further delayed by the fact that in reviewing the finished copy Davy had made several corrections and had decided to make one or two minor changes in format. These corrections and changes were then made by Mrs. Kurtovitch, and the finished report, signed by Davy, was turned over to me shortly before my departure for Orly to meet Mr. McCargar upon his return from New York. The report contained no mention of the shortage of funds as of 31 March 1958.

On the way back from Orly, I reported on the entire situation in detail. During the course of our discussions, Mr. McCargar told me that notwithstanding the favorable impressions which we had gained of Mrs. Kurtovitch during the period of her employment to date her dismissal was mandatory under the circumstances but that, in the interest of recovering the Committee's funds in full, notice to her of her termination could be delayed for a certain time.

Upon my return to the office, with Mr. McCargar, later in the day, Donahue informed us that while I was meeting Mr. Cargar, Davy had come to Donahue's office to discuss with him both the March financial report and a separate statement which Davy had sent to Mr. Theodore Augustine as a confidential supplement to the financial report, which statement set forth an analysis of the several rent advances and convenience loans which had been made to staff members from the cash account. This statement contained no mention of the shortage of funds as of 31

March 1958. In explaining this statement to Donahue, Davy discovered that the figure on the March financial report for total cash on hand was 189,000 francs in excess of the figure he knew it to be. Mrs. Kurtovitch had already left the office and could not be reached by telephone. Davy then arranged that the March financial report be corrected to reflect Davy's figure for the total of cash and authorized advances as of 31 March 1958, excluding mention of the 778,900 francs mission as of that date but replaced by Mrs. Kurtovitch on 10 April 1958. Davy then left the office to go home. Shortly thereafter, Mrs. Kurtovitch returned Donahue's telephone call. Donahue called Davy, and it was arranged that both Mrs. Kurtovitch and Davy would immediately return to the office to examine the 189,000 franc difference. Upon their arrival, and after rechecking the financial report, Mrs. Kurtovitch discovered that the above difference resulted from an error in posting travel advances in the amount of \$450 made from our dollar account. These advances had been posted twice, once as an expenditure from the dollar account and once as an expenditure in travellers' cheques from the cash account. After verification from the file of letters of instruction to the bank that the expenditure had in fact been a transaction in the dollar account, and upon correction of the cash ledger entry in accordance with this verification, the effect was to increase the cash ledger balance by 189,000 francs, or the equivalent of \$450 from the travellers' cheque portion thereof, and hence to increase, in effect, the total of funds missing as of the original cash count on 26 March 1958, making this total 967,900 francs. Mrs. Kurtovitch then met with Davy in his office and executed a promisory note for Davy for the amount of 189,000 francs and stated her intent to replace these funds at the earliest possibility. Shortly thereafter, in discussing this promisory note with Donahue, Davy stated that Mrs. Kurtovitch had revealed to him that she had "taken" the missing funds. In separate conversation with Donahue, however, Mrs. Kurtovitch stated that she did not take the money and that it was lost, misplaced, or stolen.

Upon obtaining the above information from Donahue on our arrival in the office on the afternoon of 12 April 1958, Mr. McCargar gave instructions that the March financial report should be held in the offices until Monday, the 14th of April, at which time further discussions would be held on the subject.

14 April 1958

On 14 April 1958, Donahue, Davy, and I met in Mr. McCargar's office. At Mr. McCargar's request, Davy reported on all developments since Mr. McCargar's departure for New York on 25 March 1958. In answer to Mr. McCargar's specific question, Davy again stated that in his opinion Mrs. Kurtovitch had in fact taken or "borrowed" the missing funds. Mr. McCargar then reiterated to Davy my earlier and repeated requests for a complete audit of our books of account and financial records as far back as Davy, in his professional judgment, considered necessary and requested that this be done with all possible haste. Mr. McCargar then defined three categories of advances which from that date would constitute the only authorized advances permissible in the office, as follows:

(a) advances in connection with the initial heavy expenses of renting housing accommodations, (b) travel advances and advances for official entertainment, and (c) advances to the separate petty cash fund maintained by a designated officer, currently myself, to meet official payments which might have to be made on weekends or holidays, when the regular cash account funds are not obtainable. Mr. McCargar instructed me to arrange that all members of the staff repay by 18 April 1958 all advances which do not fall in the above categories. This was accomplished.

The March financial report was forwarded to New York on 14 April 1958 together with a memorandum setting forth details on the discovery that the additional 189,000 francs were missing as of 26 March 1958. Davy provided Mr. McCargar with a copy of a "Revised Statement of Cash on Hand", prepared by Davy, which listed the 189,000 francs as being outstanding to Mrs. Kurtovitch and as having been obtained by Mrs. Kurtovitch on 31 March 1958, which he had forwarded to Mr. Augustine to replace the earlier confidential supplement to the financial report. This statement made no mention of the 778,900 francs missing and replaced on 10 April 1958.

15 April 1958

On 15 April 1958, I again discussed with Davy the progress of his audit. He informed me that he had completed the months of March and February 1958 and was working on the month of January 1958. He stated that he planned to do a detailed audit back through December 1957 and then only spot checks for the period November through July 1957. I told Davy that this would be insufficient and that the requirement was for a detailed audit back at least as far as 1 July 1957, to the previous audit, and beyond that date if the records gave any evidence of manipulation.

On the evening of 15 April 1958, while reviewing the entire situation with me, Donahue recalled that in one of his early conversations with Davy shortly after the funds had been found to be missing Davy had stated to Donahue that he suspected Mrs. Kurtovitch of "borrowing" the money, that he had certain evidence "in black and white" supporting this contention, and that when he knew Donahue better he, Davy, would tell Donahue what it was.

16 April 1958

On the morning of 16 April 1958, in the course of conversation with General Howard L. Peckham, who was in Paris during the day, General Peckham showed me a letter (which I believe is dated 2 April 1958) which he had received from Loubert and asked for my comments on it. I stated that I had been unaware of the existence of the letter up to that time, that to the best of my belief Mr. McCargar was likewise unaware of the existence of the letter, that the letter revealed an attitude on the part of Loubert which I considered to be inconsistent with his position and duties, since he had written out of channels and had stated in the letter that he considered himself able to decide which program matters

should be referred to Bauer and Mr. McCargar and what did not concern Bauer and Mr. McCargar, and that I did not consider the program proposal outlined in the letter as warranting anyone's serious consideration. Later in the morning, General Peckham showed the letter to Mr. McCargar and also discussed the letter with Loubert.

On the afternoon of 16 April 1958, prior to Mr. McCargar's departure for Rome on that afternoon, Mr. McCargar, Donahue and I met to discuss the developments of the 15th and 16th of April. Concerning Davy's comments to Donahue in reference to his evidence "in black and white" against Mrs. Kurtovitch, Mr. McCargar, upon hearing the details from Donahue, instructed me to request an explanation of the circumstances from Davy and obtain from him the document or documents to which Davy had referred. Following my report on Davy's explanation of the status of his audit, Mr. McCargar instructed me to press Davy to expedite his work and to take any steps which I might feel necessary to speed up this work.

17 April 1958

On the morning of 17 April 1958, I called Donahue and Davy to my office. In discussion with Davy, Donahue referred to the earlier exchange in which Davy had mentioned having evidence "in black and white" of Mrs. Kurtovitch's guilt, and Davy confirmed both his suspicions of Mrs. Kurtovitch and his comments to Donahue regarding the documentary evidence. I then explained to Davy that since the situation transcended financial matters and concerned Mrs. Kurtovitch as a staff member of this office it was incumbent upon him to provide me with a complete explanation of any and all information which he had on the matter, including the documents which he had earlier stated were in his possession. I further explained that Donahue and I had discussed this with Mr. McCargar prior to his departure and that Mr. McCargar had instructed me to request this information and the documents of Davy. Davy stated that he did not in fact have the documentary evidence and had not in fact seen it but that Loubert had told him of its existence, which fact was one of the bases of his suspicion of Mrs. Kurtovitch. Davy explained that Loubert had told him of previous shortages in Mrs. Kurtovitch's cash account during the period when Loubert had been Administrative Officer. He said that Loubert had told him that he, Loubert, had loaned Mrs. Kurtovitch money to cover these shortages, that he had documentary evidence to prove this, and that he had not reported these circumstances to Mr. McCargar at the time. Davy stated that he had not doubted Loubert's veracity and that he had not asked Loubert to produce the documentary evidence to which Loubert had referred. Davy further stated that Loubert had asked Davy not to reveal this information to anyone, that Loubert had mentioned having in his possession certain information against Mr. McCargar which he, Loubert, would bring to General Peckham's attention if Mr. McCargar or anyone else attempted to harm Loubert for his failure to report the previous shortages. Davy stated that Loubert had said to him that this other information on Mr. McCargar would cause a complete upset in the office and that Loubert had asked Davy not to reveal anything of their conversation to anyone. In response to my

questioning, Davy stated that he did not know the nature of the information which Loubert referred to as being against Mr. McCargar but that he tended to believe that Loubert did in fact have such information, on the basis of Davy's reasoning that since Loubert had been accurate in his earlier suggestions that funds would be found missing in Mrs. Kur-tovitch's cash account then Loubert would also probably be accurate in his reference to information against Mr. McCargar. At least three times during the discussion which ensued, I queried Davy on Loubert's reference to General Peckham as the person to whom Loubert would bring the information on Mr. McCargar, and Davy confirmed that Loubert had in fact made this reference. Davy said that Loubert had expressed the belief that Mr. McCargar was hostile toward him and that he, Loubert, had in fact for some months been in Mr. McCargar's disfavor. During the discussion, Davy stated, and repeated several times, that he had made no previous mention of his conversation with Loubert or of Loubert's remarks to anyone in or out of the office, that he did not intend to do so in the future, that he considered this situation outside his domain as Accountant, and that he sincerely hoped, in view of what he thought would be grave repercussions for the office and the organization, that neither Donahue nor I would consider it necessary to relay his repetition of Loubert's remarks to anyone else in the organization. At one point, in fact, Davy counselled us not to report on any of this. In this same meeting, I again discussed Davy's audit with him, and he gave me the estimate that he could complete the work in approximately two weeks.

On the evening of 17 April 1958, I talked to Mr. McCargar in Rome by telephone and reported to him in detail on the developments since his departure from Paris and on the statements made earlier that day by Davy. Mr. McCargar instructed me to make a further effort to speed up the completion of Davy's audit and to telephone him the following day with the results of this effort. He also stated that he would, under no circumstances, see Loubert alone in the future.

18 April 1958

In accordance with these instructions, I again discussed the audit with Davy in Donahue's presence on the morning of 18 April 1958, and upon obtaining Davy's statement that a further two weeks would in fact be his minimum requirement to complete the work I stated that arrangements could be made for professional assistance if he believed this would advance completion of the job. Davy replied that he believed this to be unnecessary but that he would consider the matter and advise me later in the day. In the afternoon of that day, Davy informed me and Donahue that he had decided to accept assistance, that he had discussed the matter with Summerscale of Haskins and Sells, and that he had agreed with Summerscale that the latter would cable Haskins and Sells in New York to obtain clearance to assign a staff member in Paris to enter this office and assist Davy with his audit. I immediately informed Davy that this was contrary to my understanding with him and in fact contrary to normal procedures, and I instructed him to contact Summerscale and cancel these arrangements, pending completion of arrangements through normal channels. Davy subsequently informed me that he had withdrawn his request to Summerscale.

Later in the afternoon of the same day, I talked to Mr. McCargar in Rome by telephone and reported these developments. Mr. McCargar dictated his request for information as to when Mr. Thomas Myers, the Committee Security Officer, might arrive in Paris, stating Mr. McCargar's important need for Myers' presence (PTEXNY 545 of 18 April 1958), and, based upon our mutual desire for an independent audit, dictated his official request for a fully complete and detailed audit of all the records in this office by Haskins and Sells (PTEXNY 546 of 18 April 1958).

20 April 1958

On 20 April 1958, Mr. John F. Leich arrived from New York. On this and subsequent days, Mr. Leich was briefed by me and by Donahue as to the current situation in the office and as to the developments which had taken place from 25 March 1958 to date.

21 April 1958

On 21 April 1958, Davy informed me and Donahue that during the course of a telephone conversation that day with Summerscale on locating an apartment Summerscale had informed Davy that Summerscale had received cabled instructions from Haskins and Sells New York to undertake a complete audit of the records of this office with Davy's assistance. I also informed Davy that Mr. McCargar had requested such an audit on 18 April 1958. Davy stated that Summerscale had expressed surprise that his instructions were in effect the inverse of the arrangements which Davy and Summerscale had previously decided upon. Davy likewise expressed his surprise and his concern, from a professional point of view, and he informed us of Summerscale's intent to query his New York office by cable and to point up the nature of Davy's earlier request to Summerscale, including an endorsement by Summerscale of Davy's earlier approach. I explained to Davy that the decision to undertake the audit in the manner relayed to Summerscale by his New York office had been reached by the appropriate officers of the Committee in New York, and I expressed the opinion that neither Davy nor Summerscale were in a position to question seriously Summerscale's instructions, advising against their formal questioning of these instructions and reiterating the urgent need for the earliest possible completion of the audit. Later in the day, Davy informed me that Summerscale had not in fact sent the cable under consideration.

22 April 1958

On 22 April 1958, word was received from New York (NYTEXP 447 of 21 April 1958) that Haskins and Sells were being instructed to undertake the audit and that we were at liberty to communicate with Summerscale. I informed Davy of the contents of this message and telephoned Summerscale as to the earliest possible date that he could begin the audit, stating that I would appreciate his undertaking to begin the work that afternoon, the 22nd. Summerscale stated that he had been surprised to note that his instructions seemed to go counter to Davy's earlier recommendations to him, Summerscale, to which I replied that both Davy and myself were

bound to observe the decision taken by our New York office and that under the circumstances and speaking on behalf of Mr. McCargar and the Committee in New York I would appreciate the earliest possible initiative on his part to assign a staff to the job without delay. Summerscale stated that he found it impossible to begin the job on the 22nd, but after consulting with a partner present in his office he stated that he would arrange to start the work the following afternoon.

23 April 1958

On 23 April 1958, Summerscale telephoned to state that again he found it impossible to start the work as scheduled but that he would send someone around the following morning to begin the audit, explaining that in the interval he had every confidence in Davy's ability to continue the job.

24 April 1958

On 24 April 1958, Mr. Leich left Paris for Strasbourg. Late in the morning Messrs. Robillard, Evans, and Roberts from Haskins and Sells Paris arrived in the office with a letter of introduction from Summerscale. In Donahue's presence, I outlined briefly and in general terms the situation confronting us with regard to the funds missing from the cash account and stated that a complete and detailed audit of all the fiscal records of this office was required, that this examination should involve every item of these records back as far as 1 July 1957 and beyond that if there were any indication that this would be necessary to obtain all the facts in the situation, that there was urgent need to complete the audit at the earliest possible date, and that acting on behalf of Mr. McCargar and the Committee I assured Robillard and his associates of the full cooperation of every member of the office in any manner which Robillard might deem necessary to obtain all the facts bearing on the audit. Robillard stated that Summerscale and other members of Haskins and Sells, including himself, were already reasonably well informed on the situation in our office, as a result of a number of conversations which Davy had already had in the Haskins and Sells office. I said that I was available at any time for consultation on any matter, and that Donahue, as Administrative Officer, would work closely with Robillard and his associates in any manner they wished to indicate.

I then called Davy into this meeting, introduced Davy to Robillard and his associates, restated the requirement of a complete and detailed audit of all the fiscal records of this office as far back at least as 1 July 1957, restated my assurance of the full cooperation of every member of this office in any manner which Robillard might deem necessary to obtain all the facts bearing on the audit, and stated that Davy, as Accountant, would work closely with Robillard and his associates in any manner they wished to indicate.

I then asked Robillard for his estimate of the date of completion of the audit. Robillard stated that he could not give such an estimate before 28 April 1958, at which time the audit would have progressed

sufficiently to permit such an estimate. I then showed Robillard and his associates to the conference room, Davy produced the requested fiscal records, and the audit was begun.

Later on 24 April 1958, General Peckham arrived in Paris and Mr. McCargar returned to Paris from Rome. Donahue and I reported to Mr. McCargar on all developments which had transpired during his absence.

25 April 1958

On the morning of 25 April 1958, Mr. McCargar informed me that he had mentioned to General Peckham that because of certain difficulties with Loubert which posed a disciplinary problem for Mr. McCargar and because Loubert had not as yet been informed of the Committee's decision to terminate the FECS organizational structure, which also posed a problem in discussing FECS activities with Loubert, Mr. McCargar would appreciate General Peckham's agreement not to accept an interview with Loubert, to which General Peckham assented.

Later in the day, Mr. John Bauer arrived in Paris from Munich. During a meeting between Mr. McCargar, Bauer, and myself, Mr. McCargar asked Bauer what his recommendations were regarding Loubert, the circumstances having already been described to Bauer at lunch. Bauer replied that his recommendation was that Loubert be discharged immediately.

27 April 1958

On 27 April 1958, Mr. McCargar and I went to Strasbourg.

29 April 1958

On the afternoon of 29 April 1958, Donahue telephoned Strasbourg for Mr. McCargar. As Mr. McCargar was in a meeting I took the call. Donahue reported (1) that Robillard had not appeared in the office on 28 April 1958, that in response to Donahue's request on the afternoon of the 29th as to an estimate of the date of completion of the audit Robillard had asked for another day before giving this estimate, (2) that Davy had called Donahue to his telephone on the afternoon of the 29th to speak with Mrs. Kurtovitch who was then outside the office, that Mrs. Kurtovitch had explained in this conversation her immediate need for 15,000 francs to pay the doctor (from whose office she was speaking) for medical attention which the doctor had told her she then needed, that Mrs. Kurtovitch had requested Donahue's authorization of a 15,000 franc advance against her May salary, that Donahue had agreed to this, that Mrs. Kurtovitch then returned to the office, obtained the 15,000 francs from Davy, and left the office, stating that she was returning to the doctor's office to pay her bill, and that Mrs. Kurtovitch had subsequently returned to the office to continue her duties there. I then told Donahue that I concurred in his decision.

1 May 1958

Late in the evening of 1 May 1958, Mr. McCargar and I returned to Paris.

2 May 1958

On the morning of 2 May 1958, Mrs. Dolores Palà informed me of the details of a conversation between Davy and Robillard which she had overheard while working in her office on the afternoon of 30 April 1958. I advised her to make this information a matter of the written record.

Shortly thereafter, Donahue informed me (1) that immediately upon his return to the office after lunch on 30 April 1958 Mrs. Palà had informed him of the details of the conversation between Davy and Robillard which she had overheard on that day, (2) that he had thereupon again requested of Robillard the awaited estimate on the earliest possible date for completion of the audit, that Robillard had taken this occasion to state that a great deal of gossip and talk had come to him during the course of his work in the office but that as auditors he and his colleagues would obviously confine themselves to the facts, as they could be substantiated by the fiscal records of the office, that Robillard had further stated that he believed the audit could be completed by 9 May 1958 but that two or three days would thereafter be required to complete the written report, (3) that Mrs. Kurtovitch had informed Donahue that Davy had told her during the morning of 29 April 1958 that Davy was interested that Mrs. Kurtovitch not suffer from the circumstances of the situation and that even if she were to lose her position with FEER there would still be the possibility that she might work with Davy as a member of the Accounting Division to do his paper work, and (4) that Mrs. Kurtovitch had informed him on 30 April 1958 that she had obtained assurances from a friend of her family covering a loan to be arranged on 2 May 1958 which would enable her at that time to replace the 189,000 francs outstanding, that she was however completely out of funds for the maintenance of her own family and therefore requested Donahue's authorization for a further advance of 30,000 francs against her May salary, that in the interest of obtaining full replacement of the 189,000 francs outstanding he had authorized and made this advance on the basis of his reasoning that Mrs. Kurtovitch had obtained through loans and had replaced in the cash account the sum of 778,900 francs, that she was actively engaged in attempting to replace the further sum of 189,000 francs, that her intent to replace the latter sum was not as yet to be questioned, and that a lack of personal funds was understandable. I told Donahue that I concurred with him in this decision.

I was then called into Mr. McCarger's office. Mr. McCarger showed me Mrs. Palà's memorandum, written during the interval since my earlier meeting with her, on the conversation between Davy and Robillard which she had overheard on 30 April 1958. A photocopy of this memorandum is attached hereto for the record. Mr. McCarger asked me if there had been any response to date to his earlier request to New York of 18 April 1958 as to when Myers might arrive in Paris. On my negative reply, he stated that he was of the conviction, in view of the disruptive and demoralizing effects of the remarks which Davy had variously made to the auditor, Mrs. Kurtovitch, Donahue, myself, and to several of the secretaries in the office, that the situation had reached the point where

his sense of duty and responsibility could no longer permit him to postpone a direct intervention on his part to curtail Davy's irresponsible conduct in this regard, despite his preference that such intervention be made on all levels of the situation at once by a competent officer from New York, in view of Loubert's threats against Mr. McCargar and in view of Mr. McCargar's own desire that the matter therefore be handled by such an officer to avoid further dispute and difficulty within the Division. Mr. McCargar further stated that notwithstanding this latter point and his desire that the situation be resolved with the least possible ill effect upon the entire organization, which might arise through some unpredictable public or private reaction on the part of Loubert, he could not in full conscience further postpone a confrontation with Loubert on the latter's threats against Mr. McCargar and on the nature of the adverse information which Loubert had professed to Davy to have against Mr. McCargar. I expressed complete agreement on all points. Mr. McCargar then informed me of his decision first to discuss with Loubert in my presence Loubert's personal letter to General Peckham on program matters, second to confront Loubert and Davy together, in the presence of myself and Donahue, regarding the statements which Loubert had made to Davy and those which Davy had made to me and to Donahue since the situation first arose, and third the termination of Mrs. Kurtovitch or her resignation could no longer be postponed.

Mr. McCargar then dictated his request to New York (PTEXNY 567 of 2 May 1958) for a reply to his earlier message (PTEXNY 545 of 18 April 1958) concerning Myers' presence in Paris.

Accordingly, Loubert was called into Mr. McCargar's office. Mr. McCargar informed Loubert, and I confirmed the fact, that during his visit to Paris on 16 April 1958 General Peckham had shown both of us Loubert's earlier letter to General Peckham concerning Loubert's discussions with a French motion picture producer on the possibilities for the production, with FEC assistance, of a motion picture on the life of Lafayette. Loubert indicated that he had written such a letter. Mr. McCargar asked Loubert why he had not previously informed Mr. McCargar of these discussions involving a French citizen and a proposed project for FEC support. Loubert replied that inasmuch as the producer was a personal acquaintance Loubert considered that the matter was still in the realm of his own personal affairs. Mr. McCargar then asked on what basis Loubert had considered it possible to communicate directly with General Peckham on such a subject without first discussing it with Mr. McCargar. Loubert made no reply. Mr. McCargar then observed that in his letter Loubert had stated to General Peckham that Loubert was referring the program proposal to General Peckham because the program itself fell outside the competence of Bauer and Mr. McCargar within the framework of FECS and FEER, and Mr. McCargar asked Loubert by what right Loubert could presume to make such a decision. Loubert made no reply. After having been pressed several times by Mr. McCargar to give an accounting for his action, Loubert finally stated that "other conditions" made it possible for him to take such action. Mr. McCargar asked Loubert what these other conditions were. Loubert made no reply. Mr. McCargar then demanded that Loubert answer the question, to which Loubert replied that

if Grey would leave the room Loubert would explain what he meant by "other conditions". Mr. McCargar refused to accept this, told Loubert that he might see him alone later in the day, and dismissed Loubert from his office.

After lunch on the same day, Mr. McCargar called me, Donahue, Davy, and Loubert to his office. Addressing himself to Davy, Mr. McCargar enumerated the statements which Davy had attributed to Loubert during Davy's discussion with Donahue and myself on the morning of 17 April 1958, as reported above. Mr. McCargar then asked Davy whether he had in fact made these statements. Davy stated that he had gone out for coffee with Loubert a day or two after the cash count on 26 March 1958 had revealed the shortage of funds, that he had done so for the purpose of thanking Loubert for the latter's "tip-off" on this subject, and that during the course of their conversation on this occasion Loubert had made the statements to him which he reported to Donahue and myself on 17 April 1958 with the sole exception that neither Loubert nor he had ever mentioned General Peckham as the individual to whom Loubert would reveal what he had against Mr. McCargar. Donahue and I took exception to this point, since Davy had mentioned General Peckham in this connection at least three times in my office. Mr. McCargar then asked Loubert if he had in fact made these statements to Davy. Loubert confirmed that he had made the statements, with the sole exception that he had made no mention of General Peckham. Mr. McCargar then asked Loubert to state whatever case he considered himself to have against the office, Mr. McCargar, or any other member of the staff. Loubert refused. Mr. McCargar then ordered Loubert to state his case. Loubert refused, saying that he had the right to refuse Mr. McCargar's order and that he would make his charges only to the "proper authority in New York". Mr. McCargar then told Loubert that he considered Loubert's conduct of the past few months as strange, that he considered Loubert's present role in the situation as completely beyond comprehension, that on the surface of things he considered Loubert to be a security risk, that he had requested the presence in Paris of the Committee's security officer to look into the entire matter. Mr. McCargar then dismissed Loubert and told him to wait in his office.

Addressing himself next to Davy, Mr. McCargar, seated at his desk and consulting Mrs. Palà's memorandum on the desk in front of him, enumerated the remarks which Mrs. Palà reported as having overheard Davy make to Robillard on 30 April 1958. Mr. McCargar asked Davy whether in fact he had made these remarks to Robillard on that day. Davy did not deny having made these remarks. He stated to Mr. McCargar that he felt it his duty to tell the auditors everything he knew or had heard and to convey to them his opinions. Mr. McCargar then ordered Davy to state any charges or allegations of any nature which Davy might have against Mr. McCargar, me, Donahue, or any other member of the staff. Davy stated that he had none. Mr. McCargar then told Davy that Davy was responsible for having immeasurably confused an already intolerable situation by too much irresponsible talk to too many people with insufficient regard for the basic facts in the situation. Mr. McCargar instructed Davy to restrict himself to the facts of the matter, to convey all facts pertinent to the audit to the auditors, to convey immediately to Mr. McCargar, or in his absence to Grey, or in their absence to Donahue, all information

of a factual nature which was pertinent in any way to the situation, and to cease all discussion of the situation with any other member of the staff or any unauthorized individual outside of the staff. Davy agreed. Davy then stated that he had obtained a signed "confession" from Mrs. Kurtovitch on 30 April 1958 in which she had stated that she had "borrowed" the missing funds for "personal obligations". Mr. McCargar asked Davy to produce this document immediately. Davy replied that he could not do so since the document was in his apartment. Mr. McCargar then ordered Davy to bring the document to Mr. McCargar's office the following morning. Davy stated he would do so, but only after he had obtained copies for himself. When asked for further details on the document, Davy explained that he had written out the "confession" for Mrs. Kurtovitch and asked her to sign it, which she did. He stated that in addition to the "confession" the document contained a further paragraph, also signed, wherein it was stated that Mrs. Kurtovitch hoped that the document would not be used to "crucify" her, that she would repay all the missing funds, and that she hoped the Committee would continue her employment in some other capacity to make it possible for her to pay off her indebtedness. Davy further explained that he had obtained Mrs. Kurtovitch's signature by "using" several devices. He stated that he had told her (1) that if she signed the document things would be simpler for everyone, (2) that he would then "call off the auditors" and thus obviate the necessity that they question her and other members of the staff in greater detail, (3) that the situation would thereby not be unduly magnified, and (4) that if she thereby lost her job he, Davy, would intercede in her behalf and possibly arrange for her to work for him. Davy said that he had also warned Mrs. Kurtovitch not to sign the document unless she considered it the proper thing to do. I then asked Davy what his motives had been in drawing up the document. He replied that he had wanted to clarify and resolve the situation and that he had done so in the interests of the management. I asked Davy whether he had had personal motives in his action, whether he had intended thereby also to obtain a factual basis for his several statements from the 27th of March onward to the effect that Mrs. Kurtovitch had "taken" the missing funds. Davy denied this. I stated that I nevertheless questioned his personal motives in preparing the document for Mrs. Kurtovitch's signature. Donahue then asked Davy why Davy had not informed Donahue of the existence of the "confession" on 30 April 1958 at the time Donahue had authorized and Davy had made available the additional 30,000 franc advance to Mrs. Kurtovitch against her May salary. Davy stated that he was then awaiting Mr. McCargar's return from Strasbourg to inform Mr. McCargar of the document. Davy then remarked that there was a strange aura of secrecy about the entire office and its activities and that there seemed to be no "solidarity". He complained that "everyone keeps his door shut" and that there seemed never to be time for the staff to lunch together. He suggested that showing movies in the office or holding meetings in which Mr. McCargar or I might give short speeches would help to create a greater sense of solidarity. Mr. McCargar reassured Davy that he was a welcome member of the office and that the staff sincerely hoped that he would adjust to working closely with them. He asked Davy to have faith in the fact that there were valid reasons why the office functioned the way it did, including shut doors and the absence of movies and lunches.

Davy was then dismissed and Mr. McCargar called Loubert into his

office. Mr. McCargar explained to Loubert that due to Davy's presence in the meeting earlier that afternoon he had not pressed Loubert at greater length to reveal the charges which Loubert had indicated he had to make. Mr. McCargar further explained that since Loubert's statements and actions had indicated that these charges involved Mr. McCargar then Mr. McCargar could only, as a matter of course, refuse to see Loubert alone and had thus asked Grey and Donahue to be present. Mr. McCargar then ordered Loubert to state any charges of any nature which he might have against any member of the staff. Loubert again refused this order, saying that he would reveal his charges only to the proper authority in New York. Mr. McCargar then ordered Loubert not to communicate on this subject with anyone other than the individual or individuals authorized by the New York office to receive these charges from Loubert. Loubert asked whether Mr. McCargar was going to suspend him, saying that he was fully prepared and in fact expected to be suspended. Mr. McCargar replied that he had asked for the presence of an officer from New York authorized to deal with the situation. Loubert asked if Mr. McCargar expected him to come to the office as usual. Mr. McCargar stated that if Loubert did not come to the office as usual he would cease to receive his salary. Loubert replied that since he wanted to be paid he would continue to come to the office.

3 May 1958

On the morning of 3 May 1958, the reply (NYTEXP 499 of 2 May 1958) from the New York office, to the effect that Myers would not be in Paris for some time, was received. Davy failed to appear in the office at any time during the day, and Mrs. Kurtovitch's "confession" was therefore not delivered to Mr. McCargar. During the course of several hours, Mr. McCargar, Donahue, and I discussed the entire situation at length. We were completely unable to conceive of what Loubert could possibly have in the way of charges against anyone on the staff. Since Loubert had refused to make these known, we were unable to pursue a resolution of the situation directly. On the other hand, the fact that Loubert claimed to have such charges was already widely known, since Davy had discussed the matter throughout the office, and we were therefore put in the position of being unable to delay a direct resolution of the situation. This, however, posed the overriding consideration of the unpredictability of Loubert's or Davy's reactions to the several straightforward courses of action which seemed logical and reasonable under the circumstances. Both individuals, through their actions over the past few weeks and in Loubert's case over a longer interval, appeared to consider themselves under attack and on the defensive, and it is impossible to cover in this paper the many events beyond those already covered above which gave Mr. McCargar, Donahue, and me genuine concern in terms of the well-being of the organization over the possible extent to which either individual might go if pressed further under the circumstances. We discussed the Committee's earlier difficulties in Germany, the Fulton Lewis, Jr. attacks, and other such considerations, and Mr. McCargar stressed his preference that the matter be referred to New York for resolution, so as to entail the least possible ill effects upon the organization as whole. Accordingly, since Mr. Leich was due in Paris on 3 May 1958, Mr. McCargar decided to request New York authorization for Mr. Leich to intervene in the situation. He discussed

the matter with Mr. Leich by telephone in Strasbourg, and upon receiving Mr. Leich's concurrence he dictated a message to Mr. Bernard Yarrow in New York, outlining the entire situation and making the above request. This message, unnumbered, was transmitted the afternoon of 3 May 1958.

Since there had not been time during the previous day for Mr. McCargar to inform Mrs. Kurtovitch of her termination, and since it was then Saturday and she was not in the office, Mr. McCargar instructed me to inform Mrs. Kurtovitch of her termination on the following Monday, 5 May 1958. He also instructed me to speak to the auditors on Monday to counteract any impression they may have obtained from Davy that they were to let up in any way in the thoroughness of their audit, in view of Mrs. Kurtovitch's "confession". Mr. McCargar then departed for Rome.

5 May 1958

On the morning of 5 May 1958, I called Robillard and Evans to my office. I informed them that on 2 May 1958 Davy had stated that he had obtained a signed "confession" from Mrs. Kurtovitch acknowledging that she had borrowed the sum of 967,900 francs for her personal requirements but that we had not as yet seen this document. Robillard said that he had already been informed of this by Davy. I asked Robillard if Davy had explained the circumstances under which the document had been signed. Robillard outlined Davy's comments to him at the time, enumerating four arguments which Davy had explained to Robillard he had given to Mrs. Kurtovitch at the time she signed, which four have already been covered above in connection with the meeting between Mr. McCargar, Davy, Donahue, and myself on 2 May 1958. I asked Robillard whether Davy had asked him to go easy on this aspect of the audit. Robillard replied in the affirmative. I then re-emphasized my earlier instructions that the audit be complete and thoroughly detailed in every respect, including questioning of any member of the staff to the extent desired by the auditors. Robillard hastened to state that his professional ethics would not permit him or any member of his staff to do otherwise under their initial instructions from New York. I then asked Robillard why in his opinion Davy had obtained the signed statement from Mrs. Kurtovitch. Robillard replied that his first impression had been that Davy had thereby wished to introduce into the record evidence of the total amount of funds initially missing from the cash account. He explained that no entry had been made in the cash ledger as of 26 March 1958 to indicate that 760,000 francs had been missing as of that day, that no entry had been made subsequent to that date in connection with the additional 18,900 francs also missing, that no entry had been made on 10 April 1958 recording the replacement by Mrs. Kurtovitch of the sum of 778,900 francs, that the auditors could only note from the fiscal records of the office that the sum of 100,000 francs was missing at the time they did their own cash count at the beginning of their audit, that there was no evidence in the record to substantiate Davy's previous statements that a total of 967,900 francs had been missing, and that he had assumed that Davy had obtained Mrs. Kurtovitch's statement as the embodiment of this evidence. As the cash box and ledger have been in Davy's possession since 26 March 1958 and as I have not seen the ledger since that time, I cannot personally verify the validity of these remarks.

Upon his arrival in the office on the morning of 5 May 1958, Davy was called to my office and I asked him to produce the document signed by Mrs. Kurtovitch. Davy said he did not have it with him but would bring it to me during the afternoon.

I then called Mrs. Kurtovitch to my office. I asked as to the

status of her efforts to replace the 189,000 francs outstanding, a question which both Donahue and I had periodically asked during the interval since 12 April 1958. I then informed her that her employment had to be terminated as of that date but that she had the alternative of submitting a resignation, which she took under advisement. We then reviewed the entire situation concerning the missing funds, during which she told me that she had on 30 April 1958 signed a paper prepared by Davy which purported to be a confession but which was not a true document, since she had not in fact taken the money. In response to my query as to the details of this signing, Mrs. Kurtovitch stated that Davy had pressed her on Tuesday and Wednesday of the previous week to sign such a document. The arguments which Mrs. Kurtovitch then repeated as having been used by Davy to urge her to sign the document were identical to those stated to Mr. McCargar, Donahue, and myself by Davy on 2 May 1958 and those repeated by Robillard earlier in the morning as having been previously stated to him by Davy. Mrs. Kurtovitch then explained that the first document which Davy had prepared for her signature had also covered a loss of funds in 1957 but that she had refused to sign that document on the basis that it also involved another member of the staff. She said that Davy then called Loubert to his office and that the three discussed the situation. Despite several queries on my part, Mrs. Kurtovitch was vague as to the content of this discussion, other than to say that she had persisted in her refusal to sign the document and that Davy had thereupon redrafted the document to exclude mention of the earlier loss of funds, which document she then signed. She said that she did not have a copy of that document but that Loubert had asked her on 2 May 1958 to sign a second document with him covering the earlier loss of funds and that this second document had been signed on that day. She then produced her copy of the second document. A photocopy of this document is attached hereto for the record. She stated that whereas the document signed with Loubert was a true statement the document signed for Davy was not. Bearing in mind Davy's earlier reference to evidence "in black and white" which would support the contention that Mrs. Kurtovitch had "borrowed" the funds recently missing, the reference reported by Donahue on 15 April 1958 and discussed by Davy, Donahue, and myself on 17 April 1958, I asked Mrs. Kurtovitch what document, if any, she had signed with Loubert at the time of the first loss of funds. Mrs. Kurtovitch stated that she had only signed a simple receipt covering loan and repayment of 214,500 francs, without explanation of the purpose or reasons for the loan. I asked her if she had at any time since then signed a subsequent document concerning any loss of funds from the cash account. She stated that she had signed an IOU for 760,000 francs on about the 25th of March 1958, an IOU for 18,900 francs on about the 5th of March 1958, an IOU for 189,000 francs on 12 April 1958, the document for Davy on 30 April 1958, and the document with Loubert on 2 May 1958, but nothing else. I asked Mrs. Kurtovitch why she had not reported the first loss immediately upon discovery in February 1957 or during the interval through May 1957. She said that the old office had been very crowded, that there was a great deal of confusion associated with the aftermath of the Hungarian Revolution, that there were many visitors in the office during the process of the move to the new office, that she considered herself responsible in the sense that there had been some negligence on her part in not taking better care of the envelope.

that she was therefore afraid of losing her job and had determined to replace the money, that of the 350,000 francs missing she had already replaced 135,000 francs but that she had been unable to replace it all prior to Schuekmann's arrival in May 1957. In response to my query as to why the loss had not been discovered by Loubert, then Administrative Officer, in his cash count at the end of February 1957, Mrs. Kurtovitch stated that there had been no cash count during the interval from the loss of funds to Schuekmann's arrival in May 1957.

Shortly after noon on 5 May 1958, Mr. Leich returned to Paris and was briefed by Donahue and myself on developments to date.

Later in the afternoon, Davy came to my office and in the presence of Donahue produced the document which Mrs. Kurtovitch had signed on 30 April 1958 and the original of the document which Mrs. Kurtovitch and Loubert had signed on 2 May 1958, stating that upon his return to his office following his meeting on 2 May 1958 with Mr. McCargar, Donahue, and myself he had found the second document in the corner of his desk blotter. He explained that the delay in producing the first document was caused by his unsuccessful efforts to copy the document on our office copy machine, and he then requested that we make two copies available to him. A photocopy of this document is attached hereto for the record. He stated that he had shown both documents to the auditors and discussed them with the auditors.

That evening, Mr. Leich and I talked to Mr. McCargar by telephone in Rome. I relayed to Mr. McCargar the text of a message received earlier in the day from Mr. Yarrow in New York (NYTEXP 501 of 5 May 1958) acknowledging Mr. McCargar's message of 3 May 1958 and reported on all developments to date. Mr. McCargar then dictated a message to Mr. Yarrow (PTXNY 579 of 5 May 1958) relaying these recent developments to him, and requesting an audit back to 1 January 1957.

6 May 1958

On the morning of 6 May 1958, I met with Robillard and Donahue in my office. I explained that on the previous afternoon Davy had given us the original copies of two documents, which I then gave Robillard to examine. Robillard stated that Davy had shown him on the previous Wednesday the document signed by Mrs. Kurtovitch and that Davy had shown him on the previous Friday the document signed by Mrs. Kurtovitch and Loubert. Robillard then recounted his conversation with Davy in connection with the first document, including Davy's statements to him on what Davy had told Mrs. Kurtovitch at the time she signed the document. I pointed out that Robillard had informed me on the previous day that Davy had requested Robillard to go easy on this aspect of the audit. Robillard then stated that he would not wish to be so affirmative about this, that one could gain the impression that Davy had intended in his remarks to convey this, but that Davy had in fact not done so "in so many words".

Later in the morning, Donahue and I met with Mrs. Kurtovitch. She had decided that she would prefer to resign her position but had not

decided what reasons to give, and the matter was again deferred, since Donahue and I did not wish to counsel her in her decision. We then reviewed in detail the entire course of developments since 25 March 1958, in which the only new information provided by Mrs. Kurtovitch concerned her request to Schallier for a loan, which was first mentioned by Davy on 25 March 1958. Mrs. Kurtovitch said that she had asked Schallier for the loan of 300,000 francs in December 1957 and that she had discussed this with Schallier periodically during January, February, and March 1958. She stated that she had requested the loan in order to repay the Committee the sum of 285,000 francs which had been authorized and made available to her on 2 December 1957 in connection with the rental fees and payments involved in changing apartments. This loan had been properly authorized. She stated that her request to Schallier was in no way related to the loss of funds in March 1958. She also said that she was aware that Schallier had discussed her request with Mrs. Warder, the office receptionist, in December and January. This was subsequently confirmed to me by Mrs. Warder.

Later in the day, Donahue left Paris for Rome, and General Peckham returned to Paris from Spain.

7 May 1958

On the morning of 7 May 1958, Mrs. Kurtovitch came to my office and delivered her letter of resignation.

On the afternoon of 7 May 1958, Loubert appeared in my office and requested an interview. He stated that he was "going through channels this time" and that he was "officially" requesting permission to speak with General Peckham. I asked Loubert what the general subject of his talk with General Peckham would be. Loubert replied, "Wouldn't you and McCargar like to know". I replied that I assumed by his remark that Loubert intended to discuss the situation existent in the office, that he would recall having received orders from Mr. McCargar not to discuss the situation with anyone other than the individual or individuals authorized by the New York office to discuss the matter with him, and that under the circumstances I would have to refuse his request, since I was not informed that General Peckham had been designated to hear Loubert's case. I then consulted Mr. Leish in the matter, who concurred with this decision. Shortly thereafter, Loubert reappeared in my office to request "officially" permission to see General Peckham on a "personal matter". I asked Loubert if this matter were entirely personal and had nothing to do with the affairs of the office or any other person in the office. Loubert stated that the matter was strictly personal. I then granted permission on the above conditions.

Shortly thereafter, I telephoned General Peckham and stated that I understood that General Peckham had recently made an agreement with Mr. McCargar regarding interviews with Loubert. General Peckham stated that he had agreed with Mr. McCargar not to see Loubert for the time being in view of difficulties which posed a disciplinary problem.

I said that I believed Loubert would shortly telephone General Peckham requesting an interview and that I believed Mr. McCargar would appreciate General Peckham's keeping his agreement not to see Loubert. General Peckham agreed, citing also that he was scheduled to leave Paris in a short time and that since he had yet to pack his baggage he would be unable in any event to see Loubert. General Peckham then asked if I would tell him what the difficulties were. I stated that the matter had been reported to New York and was under consideration on the highest levels there, that we had not yet been informed how New York wished to resolve the situation, and that I would prefer that for these reasons General Peckham speak with Mr. McCargar about it, sometime after Mr. McCargar's return to Paris that evening, if General Peckham chose to do so.

A short while later, General Peckham telephoned to say that Loubert had called him, had "pleaded" with him to accept an interview, that General Peckham had explained his travel schedule but had agreed to see Loubert in Strasbourg, if Loubert wished to go there for that purpose, and that General Peckham believed that in his capacity as the President's representative in Europe he could not refuse to see any member of the organization who expressed a wish to see him.

Bearing in mind that we had received confirmation during the day that Mr. Yarrow would telephone Mr. McCargar after Mr. McCargar's return to Paris that evening, I sent one of the secretaries to Loubert's house, since he has no telephone, with a note requesting that Loubert be in the office the following morning for consultation. Sometime later, the secretary returned and told me that Loubert was not at home and that Mrs. Loubert had refused to accept the note.

Mr. McCargar returned to Paris that evening, and later in the evening he informed me that Messrs. Cloyce Huston, Richard Greenlee, and Theodore Augustine would arrive in Paris the following week to resolve the situation. Later that evening, Mr. Leich left Paris for New York.

8 May 1958

On 8 May 1958, Loubert did not appear in the offices. Mr. McCargar informed me late in the day that he had telephoned General Peckham in Strasbourg, and that General Peckham stated Loubert had been to see him that day, and recounted the entire situation of the office and missing funds, but without revealing his charge against Mr. McCargar.

9 May 1958

On the afternoon of 9 May 1958, Mr. McCargar left Paris for Rome.

11 May 1958

Late in the evening of 11 May 1958, Donahue returned to Paris from Rome.

12 May 1958

On the morning of 12 May 1958, Mr. Huston arrived in Paris from New York, and he and Mr. Greenlee, who arrived the following day, began their investigation of these matters.

Free Europe Exile Relations

Paris

MEMORANDUM

To: GO Mc Cargar Date: May 2, 1958
From: D. Pall Subject:

As you know, the partition dividing my office and the conference room is extremely thin. Conversations in one room are perfectly audible in the adjoining space.

On Wednesday afternoon, April 30th, the auditors from Haskins and Sells were working in the conference room and were joined by Mr. Davy. Mr. Davy's voice caught my attention, over the noise of my typewriter, and I heard him say the following things:

"There was another person here....who probably smelled a rat and they got rid of him." He went on about how it was both Loubert and Kurtovitch who told him this. He then said that he was almost at the bottom of it all when "they" stopped him. "They" were covering up for someone on top, he said, probably the person in charge. He said, and then repeated it, that both Loubert and Kurtovitch told him that once Mc Cargar had begged Loubert to cover up on a certain transaction. "I don't know what it was all about but I do know it was a financial transaction". He used the word "begged" both times and stressed it. He repeated several times that it was the person in charge who was being covered. He then said that "they are all in on it" but it originates "on top". He mumbled something about this being his statement.

I think the nature of this conversation warrants your attention. I shall be perfectly overjoyed to report this in a more official way, if you want me to. My indignation amply compensates for any pangs I might have about eavesdropping on other people's conversations.

CS COPY

att. 4 OFPA-38677

Paris, April 30, 1958

I herewith admit my responsibility for cash shortages in March 1958 totalling 967,900 French Francs. I confess that I borrowed the money to meet personal obligations.

Signed:

B. Kurtovitch

I trust that this admission will not be used to embarrass me, and I hereby affirm my intention to make up these shortages to the best of my ability. I earnestly plead with the F.E.C. management to let me continue in some job or other with them, so that I may more easily pay off my obligations.

att. 56 FPA-38672 CS

Signed: B. Kurtovitch []

TO WHOM IT MAY CONCERN

May 2, 1958.

In order to dispel any misunderstanding, the undersigned wishes to make the following statement:

As far as concerns the accounts of the Free Europe Committee offices in Paris, I solemnly declare that I have knowledge of no fraud, embezzlement or misappropriation of funds except that revealed by Mrs. Kurtovitch to Mr. Davy on April 30, 1958 and that revealed to Mr. Loubert by Mrs. Kurtovitch on May 27, 1957. The details of the latter incident are related below.

Ronald E. Loubert.

On May 27, 1957, 24 hours before Mr. Schuckman made an audit of the above mentioned accounts, Mrs. Kurtovitch informed me that the accounts showed an imbalance of 214,500 French francs and that this imbalance would necessarily show up during the audit and that she expected to be held fully responsible for the shortage.

Mrs. Kurtovitch claimed that a total of 350,000 francs had been lost by her on February 4, 1957, during the process of moving from our former offices (15 rue de la Paix) to our present location (18 rue Volney). She further stated that 350,000 francs in cash had been sealed in an envelope and forgotten on her desk just before the move was ordered.

Mrs. Kurtovitch said that she felt responsible for the loss and that she had made up part of it (135,500 FF) from her own resources, leaving the 214,500 FF short.

Having implicit faith in Mrs. Kurtovitch's honesty, and on my intimate knowledge of her and her family from many years of acquaintance, I believed her on her word and offered to make her sufficient money to make up the shortage. I immediately cashed my personal check for 2600 at Michel Weiss and let Mrs. Kurtovitch have the 214,500 FF which she then restored to the cash box. Of the above 214,500 FF, Mrs. Kurtovitch has repaid me 20,000 FF to date.

Ronald E. Loubert

CS COPY

att. 6 6PP-35077