

Intelligence Report
Leaks Denounced
By White House

[Two articles:]

Nessen and Colby Say
Agreements have Been
Villated

JAN 27 1976
**Panel Says C.I.A. Lets
85% of Its Contracts
Without Bidding**

NYTimes
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Special to The New York Times

WASHINGTON, Jan. 26—

More than eight of every 10 contracts awarded to private industry by the Central Intelligence Agency are let without competitive bidding by contractors, the House Select Committee on Intelligence has found.

The House panel, which over the last year has undertaken what is believed to be the most extensive inquiry ever into how the C.I.A. spends its share of the \$10 billion Federal intelligence budget, said in its still-secret final report that the agency entered into "hundreds of millions" of dollars worth of such agreements each year.

About 85 percent of the contracts reviewed by the committee, the report said, were "sole source" contracts awarded primarily on the basis of past performance by the contractor and his expertise in the relevant field.

"Financial administration" abilities were a secondary consideration, the committee said, but it found no evidence to disprove the C.I.A.'s assertion that only 2.5 percent of its contracts involved cost over-

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runs of more than 15 cents on the dollar.

Federal procurement experts said that the percentage of "sole source" contracts awarded by the C.I.A. was the highest for any Government agency. The Defense Department, the next highest, awards 80 percent of its contracts without competitive bidding, and the General Services Administration, which spends twice as much money as the C.I.A., lets "probably less than 5 percent" of its contracts on a sole-source basis, one expert said.

The experts said that under the 1947 National Security Act, which established the C.I.A., the agency was exempted

from letting its contracts in accordance with Federal laws that require other Government agencies in most cases to seek competing bids for goods and services.

The House report, a copy of which was obtained by The New York Times, also questioned "accommodation procurements" by the C.I.A. of American-made goods for dignitaries abroad, a practice that it said was "sometimes used to satisfy little more than the whims of foreign officials."

In one instance, the report said, a foreign official had the C.I.A. purchase three model airplane kits for his son from a Baltimore store. In another, the agency obtained two armored limousines for a third-world leader, whom committee sources identified as South Korean President Park Chung Hee.

'Difficult to Verify'

The C.I.A. told the House committee that it had been reimbursed in cash, usually dollars, for such purchases by the foreign governments or officials who received such favored treatment.

But the panel's report said that it had found such reimbursements "difficult to verify," and one committee source said it was "not at all clear" from evidence presented by the agency that they had been made.

In either event, the report said, the administrative costs of such purchases had been "borne by American taxpayers."

The report also questioned the C.I.A.'s apparent reluctance to withhold such favors from foreign leaders whose policies were hostile to the United States.

Accommodation procurement, it said, had been "freely made" by the C.I.A. for officials of a nation whose oil-pricing policy "has not been among the most favorable" to this country, and the report quoted C.I.A. officials as saying that the oil policy had not been a factor in the agency's decision.

The House report said that the C.I.A. had let many of its procurement and research contracts in the names of other agencies, including the Defense Department, the Army and the Air Force.

In most cases, it said, a high officer of the contracting company was informed that the C.I.A. was the agency involved, although employees who worked on the contract job were "usually unwitting."

Johnson Order Recalled

President Johnson ordered in 1967 that the C.I.A. halt its practice of awarding such "covert" contracts to "any of the nation's educational or private voluntary organizations," although private business concerns were not mentioned in the order.

The New York Times reported today, however, that a high C.I.A. official told the House committee last November that

the C.I.A. has continued to maintain "covert" contracts with a small number of colleges and universities in this country despite Mr. Johnson's order.

Many of the accommodation purchases, including the three airplane kits, were made by the C.I.A. through its "covert procurement branch." The report said that that branch had been set up to obtain supplies for the agency's overseas stations in a "non-attributable manner" that prevented their being traced back to the C.I.A. or even the United States Government.

The report described the process as a costly one, involving various "sterility codes" and special procedures that it said had "become an over-used, expensive and often uncontrollable technique for questionable purchasing."

The agency makes such purchases through its operational proprietaries and "notional" or "paper" companies, which supply not only weapons, electronic equipment and other paramilitary supplies, but also small quantities of low-cost items like ball-point pens and hams, and more expensive consumer goods like refrigerators, cameras and watches.

Procedures Questioned

The House report said that the system was "an expensive way to buy a refrigerator" and it questioned the use of such procedures for the purchase of "a Smithfield ham," which it said would in any event be untraceable to the C.I.A.

In 1966, the agency asked the accounting concern of Peat, Marwick, Livingston & Company to study its purchasing procedures, and the company responded that it had found "an excessive use of these [sterility] codes, without justification."

But the House committee found that that situation had not been remedied by the agency.

The panel also said that some of the high-priced consumer appliances purchased through the covert process had not been equipped for operation on electrical voltages used abroad, "which raises the possibility that these items are being covertly purchased for use in the United States."

The report criticized the C.I.A.'s low degree of accountability to outside authority for the way it spends its money and said that of the six Office of Management and Budget accountants who watched full time over all Federal intelligence agencies, three were former C.I.A. employees.

In addition, it said, the C.I.A. official in charge of the agency's budget "has recently arrived from O.M.B., where he had primary responsibility for the C.I.A. budget."

The committee said in its report that it had set out to discover whether "intelligence agencies themselves adequately audit their own operations"

and had concluded that they did not.

Even some C.I.A. officials, the report said, agreed that the agency's audit staff was undermanned, and the committee

found that agency accountants, while allowed to balance books, were not always permitted "to know the exact purpose of expenditures."

Outlays 'Spot-checked'

Some expenditures by overseas C.I.A. stations were only "spot-checked" during audits, which for some outposts occurred once every two or three years. In studying local procurement by three typical stations, the report said, it was found that "overspending and under-auditing seemed to be prevalent."

One medium-sized station purchased \$86,000 worth of liquor and cigarettes over the last five years, mostly for "operational gifts" to friendly foreign officials or agents.

Such practices, the report said, varied with changes in personnel. One smaller station spent \$41,000 for liquor in 1971. The next year, the station got a new chief, and liquor purchases dropped to \$25,000. The chief who was replaced, the committee said, is now running C.I.A. operations

in Angola.

A third station, the report said, spent more than \$100,000 over the last five years for home furnishings used to equip its "safehouses," meeting places where C.I.A. officers can debrief their agents without fear of discovery.

The reports said that some of the safehouses had been furnished to a degree that seemed unnecessary for the purposes to which they were put, and that one had been supplied even with expensive crystal and china.

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