

S E C R E T

30 April 1970

MEMORANDUM FOR: Chief, SB/POS

SUBJECT : Contact Report, Visit to Prolog Corporation,
16 April 1970

1. On 16 April 1970 I travelled to New York to the offices of Prolog Corporation, AERODYNAMIC cover organization, where I held operational and administrative discussions with AECASSOWARY/2 (Prolog President Mykola LEBED'), A/17 (Vice President Myroslav PROKOP), A/27 (Treasurer Bohdan CZAJKOWSKYJ) and A/29 (Operations Officer Anatol KAMINSKY). The main operational topic of discussion was the current contact operations, including an imminent trip to Europe by A/29, and a proposed trip by A/29 to Expo 70 in Osaka, Japan, in August 1970, the subject of a separate memorandum.

2. [] C/SB/BF, accompanied me on this trip to discuss with [] Office of Finance auditor, the annual audit of the Prolog books which was in progress. Patton also took the opportunity to discuss with A/27 his bookkeeping procedures and related fiscal matters. [] [] and I discussed the results of this audit with A/2 and A/27, and I took the opportunity to emphasize to A/2, A/27 and A/29 the urgency of the financial situation and the need for increased austerity in Prolog operations.

3. On 21 April 1970 [] and I again met at Headquarters with [] and his supervisor, [] for a final discussion of the audit prior to the preparation of an audit report. Basically, [] found no serious faults with the

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accounting procedures of the Prolog treasurer, with the exception of the pension fund and deficit accounting, which will be discussed below. Financial procedures have evidently been handled with a maximum of honesty and attention to detail, even if not always with the greatest of expertise. [] pointed out minor weaknesses and discrepancies in procedures, and A/27 was advised in New York that if he has questions in these procedures he should contact the AERODYNAMIC case officer who will in turn get the answers from SB/BF. A/27, who is a bookkeeper, and a very good one, is by his own admission not an accountant; he appeared to be very grateful for the suggestions and the offer of future advice when required.

4. One important point disclosed in the audit is the fact that the expenses of the Munich group, Ukrainische Gesellschaft für Auslandsstudien, is shown in Prolog accounting as one figure, "Affiliated Group, Munich," with expenses of \$50,000 for FY 1971. We do not have any details of the internal fiscal procedures of this group, and I shall request that an audit be conducted during FY 1971.

5. The most complex and not yet totally clear problems brought out by the audit are the Prolog pension plan and the continuing organizational deficit. Prolog records show an accumulated total of \$65,931 in the employees' pension plan. The latest Prolog balance sheet, dated 31 December 1969, carries a figure of \$10,359 as a liability, "Payments to Employees' Pension Plan." These payments, to match the 6 percent contributions of seven employees, have not actually been made, but are a future obligation. In order to offset this amount, and to adjust the balance sheet to provide for an operating deficit, the Accounts Receivable on the 31 December 1969 balance sheet have been stated as \$17,334. This entry, which should mean that this amount is owed to Prolog, provides for the expected receipt of AERODYNAMIC funds in the third quarter of FY 1970. This device reduces the book deficit to \$12,900. Thus, Prolog's

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deficit as of 31 December 1969 was actually \$30,234--the total of the book deficit (\$12,900) plus the accounts receivable (\$17,334). This deficit was substantially reduced when the next quarterly subsidy was received, about 5 January 1970. Because of the obligatory use of the calendar year as opposed to the governmental fiscal year, we cannot actually determine the size of the present deficit, but we do know that a sizable deficit exists. C/SB/BF has requested copies of [] [] audit work sheets in addition to the formal report. A fiscal analysis of these sheets should give us greater insight as to exactly what has gone wrong.

6. The Prolog treasurer made the accounts receivable entry described above on his own initiative. According to [] [] this is not an illegal procedure; in fact this procedure is often used by Office of Finance in balancing the books of certain proprietaries with a similar problem. Prolog had evidently counted heavily, if not unwisely, upon approval of their receiving a subsidy of \$237,000, rather than \$213,000 for FY 1971. This extra \$14,000 would have erased the book deficit of \$12,900, and would have put them in a much more favorable financial situation.

7. I have attempted to explain the complicated financial situation in layman's terms, and cannot guarantee technical accuracy. The final deficit picture will not be clear until the audit sheets are analyzed and the necessary details provided; on this basis we can then take corrective action. The deficit cannot be allowed to continue, because it will only be aggravated by inflation. I suggest that after the audit report is received, and the SB/BF analysis is completed, we meet to discuss concrete steps which will put this project on a sound financial, as well as operational basis.

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