

## FBI Handling of China Spy Case Criticized; Over two decades, the bureau missed many warnings about an informant suspected of being a double agent, the Justice Department says.

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Authorities missed many warnings over 20 years regarding the loyalty of an FBI informant suspected of being a Chinese spy and the agent who was her lover and handler, a Justice Department review said.

Among them was a tip from a source that a Chinese spy was “in bed with” the FBI’s Los Angeles office, according to the report. The FBI agent, James J. Smith, headed the China squad in Los Angeles and was told about the tip.

The federal review was classified, but the Justice Department released a summary Wednesday that was sharply critical of the agency’s response to repeated questions about the loyalty of Katrina Leung of San Marino during her career as an FBI informant.

A separate review of spies against China concluded in December that FBI relationships with several of them should be “closed” because of “control and reliability issues,” according to Wednesday’s report.

The secret report also said that an FBI task force was created to investigate persistent allegations against Leung after counterintelligence operations had been compromised and several of its operatives “had been detained and interrogated in China.”

The inspector general’s office of the Justice Department declined to comment Wednesday, offering no information about the fate of the spies caught in China, or the finding that the loyalty of several operatives working for the FBI was suspect.

Leung was originally accused of providing classified information to China and of using information she obtained from Smith in her espionage activities. Under Smith’s direction, she had been groomed to become a double agent: to be recruited by Chinese intelligence to spy for China while in fact working for the FBI.

Code-named Parlor Maid, Leung was a business consultant who traveled frequently to China and ingratiated herself with

top officials in Beijing and Chinese diplomats in the United States. The FBI paid her \$1.7 million over 20 years.

Smith and Leung pleaded guilty to reduced charges after a judge found government prosecutors guilty of misconduct and threw out the spy allegations. Smith was originally charged with gross negligence in handling classified documents. Like Leung, he pleaded guilty to lying about their affair. He was sentenced to three months of home detention; she was sentenced to three years of probation.

Before he retired in 2000, Smith had received numerous commendations for his work with Leung, whom he recruited in 1983. Their sexual liaison began about that time.

On half a dozen occasions, the agency heard allegations against Leung or received tips about security breaches that could have led to her, the report said. Most were pursued by consulting with Smith, who repeatedly assured supervisors that Leung was loyal and valuable, citing, for instance, her unique reporting out of China after the Tiananmen Square massacre in 1989.

The report repeatedly uses words such as “incompetent,” “incomprehensible,” and “incredible” to describe the FBI’s self-investigative failings.

In 1990, Smith interrogated Leung after new allegations were made against her. Leung told Smith that Chinese intelligence officials had discovered her work for the FBI and “coerced her into cooperating with them,” according to the report. Smith did not report her statement and helped Leung avoid a requirement that she submit to lie detector tests, according to the report.

Smith did not disclose Leung’s admission because he “believed he could regain Leung’s loyalty to the United States,” according to the report.

Leung’s lawyer, Janet I. Levine, said the report “is exactly what you would expect from the Department of Justice investigating its own people at the FBI.”

Levine said her client “has consistently made it clear that she has been and is loyal to the United States, and would disagree with many aspects of this report.”

In a news release, the FBI said Wednesday that it has moved “to minimize the risk” associated with spying operations. The agency said it has implemented seven of the 11 reforms recommended by the inspector general.

Allegations in Leung's first years with the agency were misfiled, the report said.

Officials went to Smith with complaints and suspicions, and Smith was repeatedly allowed to ignore agency rules and procedures for dealing with confidential sources, such as the requirement that a second agent be present when an operative is paid, according to the report.

Each kept secret their romantic attachment, which was also against agency rules.

The report noted that many of the allegations against Leung came as the FBI was investigating Robert Hanssen, the FBI agent who was caught spying for the Soviet Union and Russia for years.

The failure to follow the leads in the Chinese espionage case was therefore "puzzling," according to the report.

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John Spano

Times Staff Writer

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