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**United States Department of State
and the Broadcasting Board of Governors**

Office of Inspector General

**Review of Awards to
Iraqi National Congress
Support Foundation**

Report Number 01-FMA-R-092, September 2001

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PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, Section 209 of the Foreign Service Act of 1980, the Arms Control and Disarmament Amendments Act of 1987, and the Department of State and Related Agencies Appropriations Act, FY 1996. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its oversight responsibility with respect to the Department of State and the Broadcasting Board of Governors to identify and prevent fraud, waste, abuse, and mismanagement.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG, and they have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.



Clark Kent Ervin
Inspector General

**REVIEW OF AWARDS TO
IRAQI NATIONAL CONGRESS SUPPORT FOUNDATION**

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REPORT 01-FMA-R-092

REVIEW OF AWARDS TO IRAQI NATIONAL CONGRESS SUPPORT FOUNDATION

September 2001

SUMMARY

The Office of Inspector General (OIG), in conjunction with the Bureau of Administration, Office of Acquisitions (A/LM/AQM), examined two awards totaling about \$4.3 million awarded by the Department of State (the Department), Bureau of Near Eastern Affairs (NEA), to the Iraqi National Congress Support Foundation (INCSF). We reviewed costs incurred for the period March 31, 2000, through May 30, 2001. Our primary purpose was to determine whether INCSF (1) had adequate controls to ensure that Federal funds were properly accounted for and spent for the intended purpose of the agreements, and (2) complied with applicable Federal laws and regulations. We found that:

- significant improvements in accountability were needed to ensure that Federal funds were properly accounted for and spent for the intended purpose of the agreements. Although INCSF had implemented an accounting system, the current structure was not integrated to identify, collect, process, and promptly report financial information. For example, the London and Washington offices used substantially different accounting systems, charts of accounts, and basis of accounting that prevented consolidation of organization-wide financial statements.
- internal controls were deficient. Weaknesses included a separate bank account for the Washington office in which no INCSF leadership member had signatory authority, as required by its bylaws; lack of written accounting policies and procedures; lack of separation of duties within the organizational structure; and bank balances that exceeded insured amounts.
- INCSF did not comply with applicable regulations and agreements. As a result, we questioned costs totaling about \$2.2 million. Of that amount, \$113,794 was unallowable under terms and conditions of the agreement, and \$2,107,093 was classified as unsupported because of either inadequate or a lack of documentation. Unallowable costs included, for example, legal and court costs incurred for breach of contract related to its office space in a residential building. Other issues included non-compliance with U.S. tax

laws and Office of Management and Budget (OMB) Circulars and Federal Travel Regulations, including lack of adequate timesheets and inadequate property management and personnel management.

We recommend that the grants officer require INCSF to reimburse the Department for unallowable costs and provide additional documentation for the unsupported costs. We conducted an exit conference on June 20, 2001, in London, attended by 4 of the 6 active members of the Iraqi National Congress (INC) Leadership Council, which governs the INCSF. After the completion of our field work, INCSF provided additional explanations, documentation, and comments. Their comments are incorporated in the body of the report as applicable. On June 25, 2001, we also conducted a meeting with NEA officials to discuss our audit results. Subsequent to our meetings, we conducted an exit conference on the Washington work with officials from the INCSF Washington office and the Department on June 29, 2001. INCSF generally agreed with our observations.

This report discusses each of the above findings in detail and presents OIG's recommendations for resolution of the findings. The questioned and unsupported costs are discussed in detail in the notes to Schedules 2 and 3.

BACKGROUND

The Iraq Liberation Act (ILA) of 1998¹ established a program to support a transition to democracy in Iraq. The ILA authorized assistance in three areas: broadcasting, military, and humanitarian. On February 4, 1999, President Clinton determined that the following seven organizations satisfied the criteria set forth in the ILA and thus were eligible to receive assistance.

- The Iraqi National Accord
- The Iraqi National Congress
- The Islamic Movement of Iraqi Kurdistan
- The Kurdistan Democratic Party
- The Movement for Constitutional Monarchy
- The Patriotic Union of Kurdistan
- The Supreme Council for the Islamic Revolution in Iraq

According to the Foreign Operations FY 2000 Appropriation,² "\$10 million shall be made available to support efforts to bring about political transition in Iraq, of which not less than \$8 million shall be made available only to Iraqi opposition groups designated under the ILA for political, economic humanitarian, and other activities of such groups, and not more than \$2 million may be made available for groups and activities seeking the prosecution of Saddam Hussein and other Iraqi Government officials for war crimes." According to the Foreign Operations FY 2001 Appropriation,³ not less than \$25 million shall be made available for programs benefiting the Iraqi people, of which \$12 million should be made available for food, medicine, and other humanitarian assistance to be provided to Iraqi people inside Iraq and such assistance should be provided through the INCSF or

¹ Public Law 105-338

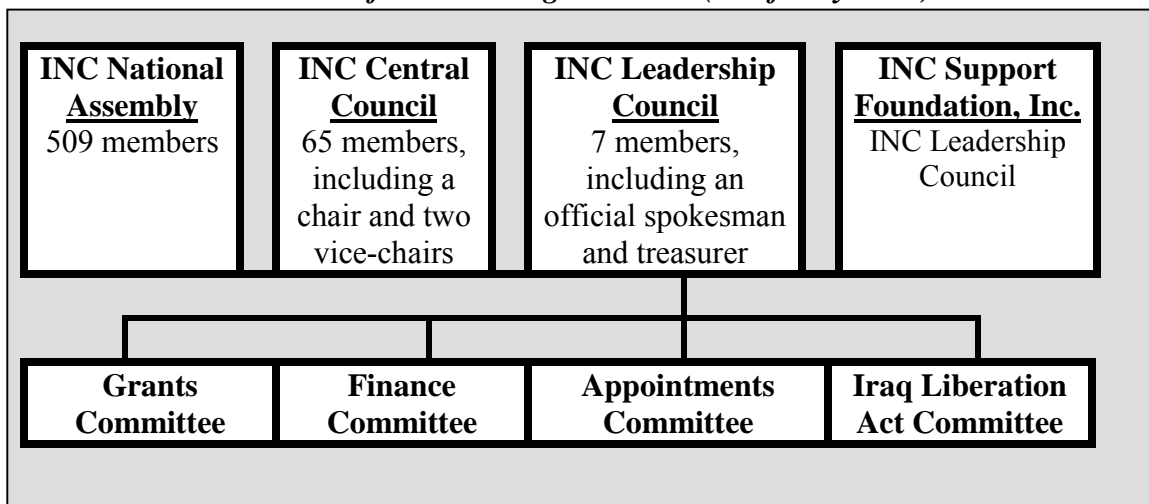
² Public Law 106-113

³ Public Law 106-429

INC. The appropriation further stated that not less than \$6 million of the amounts made available for programs benefiting the Iraqi people should be made available to the INCSF for the production and broadcasting inside Iraq of radio and satellite television programming. The appropriation also set aside \$2 million “for groups and activities seeking the prosecution of Saddam Hussein and other Iraqi Government officials for war crimes.” The remaining \$5 million was for transition in Iraq.

As shown below in Chart 1, the INC is a broad coalition of political organizations that oppose the regime of Saddam Hussein. Established in 1992, it represents the pluralistic nature of Iraqi society and incorporates a wide range of Iraqi political parties. Through its international contacts and activities, the INC seeks to gain recognition for the plight of the Iraqi people. The ultimate goal of the INC is to restore in Iraq respect for human rights and democracy and to build a federal, pluralistic, and parliamentary government under a constitution based on the rule of law. The INC is affiliated with the Iraqi Broadcasting Corporation, which transmits television and radio programs. The INC also publishes the weekly newspaper *al Mutamar*.

Chart 1 – INC Coalition of Political Organizations (As of May 2001)



Source: OIG generated from INCSF records

The INCSF was established as a foundation to provide administrative, financial, and other support to the INC and was incorporated as a non-profit organization under Section 501(c)(3) in August 1999, in the state of Delaware. On February 11, 2000, INCSF restated its articles of incorporation changing the designation to promote social welfare within the meaning of Section 501(c)(4) of the Internal Revenue Code of 1986. A seven member board of directors (the INC Leadership Council) governs INCSF. As of May 2001, the INC Leadership Council had only six active members. INCSF headquarters was located in London, England. INCSF also maintained field offices in Washington, DC; [(b)(6)-----] At the time of our field work, INCSF’s staff consisted [(b)(6)-----]

As of May 30, 2001, the INCSF had received two awards from the Department, totaling approximately \$4.3 million. The purposes of the first award totaling \$267,784 were to: (1) establish an office in London to serve as a headquarters for INCSF activities and hire and train staff identified in its proposal; (2) prepare and submit a proposal for long-term U.S. Government support;

(3) establish a strategy for achieving financial sustainability including increasing income from other person donors and foundations; (4) develop and begin implementing of a public information campaign to communicate with Iraqis inside and outside of Iraq and also to promulgate its message to the international community at large; (5) plan and hold a meeting of the Central Council of the INC; and (6) prepare for and visit the United Nations to raise human rights issues with international leaders.

The second award and amendments 1 and 2 totaled \$4 million, as of May 30, 2001, and was to: (1) continue the weekly publication of *al Mutamar* newspaper; (2) reestablish the broadcasting of Radio Hurriah, the purpose of which will be to broadcast news, information, editorials, and cultural and other appropriate programs into Iraq; (3) implement a public information campaign to communicate with Iraqis inside and outside Iraq and also to promulgate its message to the international community at large; (4) broadcast satellite television into Iraq; (5) maintain and expand the existing website; (6) deliver humanitarian assistance to the people of Iraq; and (7) continue the administration and support of the ILA training.

FOLLOW-UP ON PRIOR AUDIT WORK

At the request of the Department, Cotton & Company, Certified Public Accountants, conducted a review related to the first award (S-LMAQM-99-H-0020). The report, issued in July 2000, contained several recommendations. Cotton recommended that INCSF inform travelers of the reimbursement limitations and documentation requirements needed to support compliance with Federal Travel Regulations and that the organization book all future air travel through a travel agency, ensuring that the agency was aware of the requirement to use U.S.-flag carriers. Cotton also recommended that INCSF avoid cash payments whenever possible, but if necessary, document the facts and circumstances surrounding the necessity for and nature of the cash expenses. As noted in this report, INCSF still did not have any written policies and procedures governing cash transactions. The organization further had not established long-term accounting procedures, hired a financial officer, or selected a U.S.-based accounting firm to maintain its accounts.

In early 2001, a British Chartered Accountants and Registered Auditors firm conducted the Office of Management and Budget (OMB) Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions* audit for the period January through December 2000. As of June 2001, the report was in draft. The British firm also noted significant non-compliance and accounting issues. Some of the weaknesses identified in the previous reviews still existed during this audit and are addressed in our report.

PURPOSE, SCOPE, AND METHODOLOGY

The primary purposes of the review were to determine whether INCSF (1) had adequate controls to ensure that Federal funds were properly accounted for and spent for the intended purpose of the agreements, and (2) complied with applicable Federal laws and regulations. In addition, we ascertained the status of resolution of previously identified non-compliance issues. Our scope included two cooperative agreements and subsequent amendments totaling \$4,267,784 and cost

overruns totaling \$524,834 for the period March 31, 2000, through May 30, 2001. Of the total \$4,792,618, we reviewed \$3,534,856 or 74 percent of incurred expenditures, as of May 30, 2001.

Table 1 – Awards (As of 5/30/01)

<i>Award Number</i>	<i>Performance Period</i>	<i>Award Amount</i>	<i>Funds Drawn Down</i>
S-LMAQM-99-H-0020	3/31/00 – 11/30/00	\$267,784	\$267,784
S-LMAQM-00-H-0152	9/29/00 – 6/30/01	\$4,000,000	\$4,000,000
TOTAL		\$4,267,784	\$4,267,784

Source: Cooperative agreements and amendments as of 5/30/01

To obtain information on the accountability and allowability of costs related to Federal expenditures, we reviewed INCSF’s financial records, supporting documentation, draft OMB A-133 audit, and internal control structure. However, our consideration of INCSF’s internal control structure and tests designed as a result of that consideration would not necessarily disclose all matters that might be reportable conditions or all questionable financial transactions. We obtained data including agreements, amendments, payment records, financial and program reports, and interviewed officials from the Department and INCSF London and Washington offices.

We performed several steps to verify expenditures in London. We examined: (1) 100 percent of 2000 and 2001 bank statements and cancelled checks from two bank accounts; (2) 100 percent of headquarters payroll records and reconciled April 2000 through March 2001 to the following records: British Inland Revenue P-35, *Employer’s Annual Return*, and the P-11 *Deduction Worksheet*; (3) current personnel and contractual agreements; and (4) other available data relevant to Department awards. To the extent possible, we also compared figures in the accounting system to the financial reports and discussed any differences with INCSF officials. To ensure that OIG did not duplicate the non-Federal auditors’ work, we coordinated with the independent accounting firm that conducted the audit under OMB A-133. Furthermore, to verify claims, litigation, and assessments we examined correspondence and invoices from British and U.S. lawyers, read contracts and leases, and prepared letters of audit inquiry to INCSF’s lawyers. At the Washington field office, we reviewed 100 percent of payable and vendor files, bank statements, wire transfers, cancelled checks, and payroll expenditures. We tested 100 percent of the wire transfers, cash payments, and 75 percent of nonlabor expenditures such as equipment and travel.

To determine compliance, we compared systems, control procedures, records, and data submitted with the applicable criteria including pertinent OMB Circulars and U.S. Internal Revenue Code related to non-profit organizations, agreements and amendments, proposals, and budgets.

OIG conducted field work at INCSF’s offices located in London, England, from June 4 through 20, 2001, and Washington, DC, from June 15 through 22, 2001. OIG’s review was conducted in accordance with generally accepted Government auditing standards, and we included such procedures as we considered necessary in the circumstances. Major contributors to this report included [(b)(6)-----]
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On June 20, 2001, we conducted an exit conference with the INCSF Leadership Council in London. On June 29, 2001, we also conducted an exit conference related to our Washington work with officials from the Department and INCSF's Washington office and included the London office officials via speakerphone.

REVIEW RESULTS

IMPROVEMENTS NEEDED IN FINANCIAL MANAGEMENT AND INTERNAL CONTROLS

INCSF needs significant improvement in its financial management and internal controls designed to (1) assure the execution of transactions in accordance with budget authority and agreement terms; (2) properly record, process, and summarize transactions to permit the preparation of required financial reports; and (3) maintain asset accountability. Many of these deficiencies occurred because of a lack of understanding of and unfamiliarity with U.S. Government laws and regulations related to Federal assistance awards.

Inadequate Accounting and Financial Structure

As of June 2001, INCSF still had not fully implemented an adequate accounting and financial structure as required under the first award. The interim award (S-LMAQM-99-H-0020) required INCSF to establish an accounting and financial management structure that ensured compliance with all applicable Federal laws, rules, and regulations. Specific requirements included:

- 1. developing and beginning implementation of a plan for selecting and training qualified internal accounting personnel;*
- 2. establishing a chart of accounts that provides necessary financial and cost accounting information;*
- 3. selecting a qualified firm to maintain INCSF's books of account, prepare financial statements, and submit required financial management reports;*
- 4. selecting a qualified firm to perform INCSF's annual audit in accord with OMB Circular A-133; and*
- 5. implementing a source documentation and recordkeeping system that ensures accountability over all sources and uses of funds in accord with OMB Circulars A-110 and A-122.*

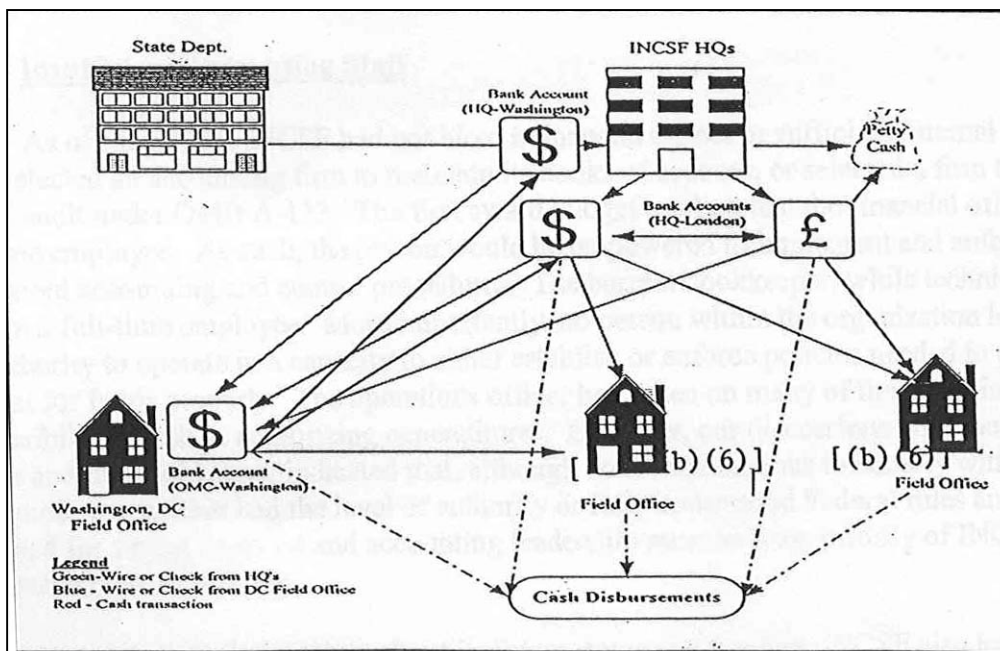
Although INCSF headquarters had established a chart of accounts and record keeping system, and implemented an accounting system, the current structure was not fully integrated to identify, collect, process, and promptly report reliable financial information. This occurred for several reasons. First, headquarters and the Washington field office used substantially different accounting systems that did not interface. Headquarters used *Sage* software and Washington used *Quick Books Pro*. Second, headquarters and Washington used distinct charts of accounts that did not correlate to each other. The chart of accounts is a system of organizing and numbering the accounts in the general ledger. A comparison of the chart of accounts, for example, showed that headquarters

recorded labor in accounts 6010-6109 under the first award and 5000-5100 under the second award, while the Washington office recorded labor under accounts 100-1008.

Third, INCSF headquarters' basis of accounting was cash, while the Washington office used the accrual basis. In cash-basis accounting, revenue is reported on the income statement only if that revenue was in fact received. The same goes for expenses; an expense is reported only if it was actually disbursed. Under the accrual basis of accounting, revenue is recorded when earned and expenses are recorded when incurred. As a result of cash accounting, headquarters had not recorded in its system accrued payables totaling \$524,834 as of May 30, 2001. Accruals are expenses that are incurred and whose benefits have been consumed, but have not yet been paid. Generally accepted accounting principles (GAAP) require that financial statements be prepared under the accrual basis of accounting rather than the cash basis. OMB A-133, which is referenced in the agreement, requires that financial statements be prepared in accordance with GAAP.

Fourth, INCSF did not have a transparent financial structure. As illustrated in Exhibit 1, INCSF was not consistent in which account was used when disbursing funds to cover expenditures. Funds were shifted back and forth among several different banks into several different currencies, thereby creating a potential for fraud, waste, and abuse. INCSF also was not consistent in its payment method. Wire transfers, checks, and cash disbursements were all used. This occurred, in part, because INCSF lacked written accounting policies and procedures. Such guidance is one of the key elements in an effective internal control structure. When followed, written policies and procedures serve to ensure uniformity in practices and consistency of treatment of costs. Accounting systems procedures should cover the flow of a transaction from inception through consummation. As a result, INCSF did not have an adequate and transparent audit trail to ensure that Federal funds were used for their intended purpose.

Exhibit 1: Sample Flowchart of Tracking Funds in the Organization



Finally, INCSF did not record all transactions in a central accounting system. For example, neither headquarters nor the Washington office recorded all Information Collection Program (ICP) expenditures in its system. Headquarters primarily identified the lump sum transfers for the program in its system and not individual applications or uses. During the audit period, headquarters transferred over a million dollars for the ICP to the Washington office. Originally, INCSF officials explained that the Washington office accounted for and maintained ICP records. Therefore, OIG sent a team into the Washington office to verify ICP expenditures. We found that although Washington did record and had sufficient documentation for some uses of the ICP funds, such as purchase of equipment, the office did not specifically identify the end use or have source documentation for about \$351,000 disbursed to the ICP teams. Therefore, we classified these costs as unsupported in Schedule 3.

Washington's authorizations for numerous ICP disbursements stated that "details of the expenditures are held at headquarters." We found, however, that the ICP director in London separately maintained information on the ICP expenditures. These ICP records were not incorporated into the headquarters recordkeeping system or provided to the people responsible for accounting. As a result, neither headquarters nor Washington systems had a detailed accounting of how ICP funds were used. This was material to the financial reports and the organization's financial statements because this program represented nearly 33 percent of the Federal funds received and expended. We also noted that while headquarters recorded transfers and individual expenditures in its system for the [(b)(6)-----] it did not record similar entries for the [(b)(6)-----] As a result of the above deficiencies, INCSF was unable to prepare accurate and complete organization-wide financial statements in accordance with GAAP and OMB A-133. In addition, INCSF cannot complete its application to the Internal Revenue Service for determination of its tax-exempt status until the organization can prepare consolidated financial data. If INCSF fails to implement a standardized and centralized accounting structure, this condition will be exacerbated by the organization's plans to open additional field offices.

Insufficient Accounting Staff

As of May 2001, INCSF had not hired a financial officer or sufficient internal accounting staff, selected an accounting firm to maintain its books of account, or selected a firm to perform its annual audit under OMB A-133. The first award budget implied that the financial officer would be a full-time employee. As such, the person would be empowered to implement and enforce adherence to required accounting and control procedures. The current bookkeeper, while technically capable, was not a full-time employee. More importantly, no person within the organization had been given the authority to operate in a capacity to either establish or enforce policies needed to control and account for funds properly. The operations officer had taken on many of the financial officer responsibilities such as authorizing expenditures. However, our discussions with the operations officer and the bookkeeper indicated that, although both were anxious to comply with award terms and conditions, neither had the level of authority or fully understood Federal rules and regulations. The need for strong financial and accounting leadership must be a top priority of INCSF under the proposed increased funding.

Because of the uncertainty about its future status and funding, INCSF also had not signed agreements with any accounting firms to maintain its books or to perform its annual A-133 audit,

according to the operations officer. INCSF had agreed to hire a U.S. firm to provide accounting services and prepare needed financial and budget information. However, the firm was unable to commence work due to the delay in funding. OMB Circular A-133 requires non-Federal entities that expend \$300,000 or more in a year in Federal awards to have a single audit conducted for that year in accordance with the provisions of the circular. INCSF's single audit for FY 2000 is due on September 30, 2001. At the time of our field work, the report was in draft.

Inadequate and Inaccurate Budget

As of May 2001, the second award (S-LMAQM-00-H-0152) did not have a consolidated budget plan that adequately and accurately reflected the specific programs as approved by the Department. As a result, INCSF had cost overruns (unfunded liabilities) totaling about \$1.1 million⁴. This occurred because of a multitude of circumstances. First, the original award proposed a budget to support activities only over a 5-month period. In actuality Amendments 2 and 3 extended the performance period to cover a 9-month period, but in both cases the budget was **not** adjusted to cover normal operating expenses such as salaries and rents. In February 2001, the Department approved certain revisions in the budget. However, the Department never incorporated a revised budget totaling \$4 million in the award document.

Second, INCSF failed initially to budget for certain items that also contributed to the overruns. For example, the original budget did not include a line item provision for British National Insurance, although INCSF stated in the budget that all salaries were "fully loaded." British laws require employers to contribute approximately 12 percent of an employee's salary for national insurance, which covers health, and pension benefits. As of May 30, 2001, INCSF had expended approximately \$1.1 million for salaries in London and as a result was required to contribute about \$134,000 that was not budgeted. We noted that in the revised budget dated February 28, 2001, national insurance did become a separate line item, but INCSF included only \$9,240, resulting in a deficit of nearly \$124,000. Nor did the original or revised budgets include provisions for employee-related charges such as health insurance and Federal taxes for staff based in Washington, DC. We also did not note any provision in the budget to meet similar expenses for the other field offices.

After the completion of our field work, INCSF submitted a budget request for an additional \$6 million that included a provision to fund incurred and estimated cost overruns and to provide continued operational funding for the period July through September 2001. Amendments 4 and 5 were signed on June 29, 2001. However, the new amendments still did not incorporate or reference a total budget, now \$10 million, that has been awarded to the organization. Thus, lacking a final budget for the full agreement amount, we were unable to compare costs incurred to specific line items to quantify specific cost overruns by specific budget category. In addition, we could not determine whether the organization exceeded the 15 percent threshold for budget line item adjustments. Hence, without a total grant budget, the recipient will be unable to comply with OMB A-110, which requires a comparison of outlays with budgeted amounts for each award.

⁴ This amount included accounts payable totaling \$524,834 as of May 30, 2001, and estimated June payables totaling \$579,638.

Insufficient Documentation for Cash Transactions

Although the organization continues to conduct numerous cash transactions, INCSF still lacked sufficient policies, procedures, and documentation to support such transactions. As a result, we classified about \$578,795 as unsupported as shown in Schedules 2 and 3. This was a concern first noted following the July 2000 review by Cotton & Company. At that time, the Department recommended that INCSF not make cash payments for services or products received unless circumstances reasonably warranted it. We found numerous cases where INCSF provided fixed amounts of cash to people or organizations to cover related travel expenses (i.e. hotel, meals, passport, and visas). The operations officer explained that based on experience the Leadership Council had approved fixed amounts of \$2,000 for participants from Turkey and \$1,000 for participants from Syria. We could not determine the reasonableness of the fixed amounts due to a lack of a written justification or supporting documentation. The documentation that was available was in a foreign language and had not been translated into English. As a result, without knowing the dates and exact locations of travel, it was impossible to determine the correct amount that should have been paid.

Further, headquarters often transferred funds to the Washington office for specific purposes. At a later date, INCSF would instruct the Washington office to disburse funds either in cash, check, or by a wire transfer to another account, which could be that of headquarters, another field office, or another organization or person. The recipients in turn made cash payments to other people. The resulting specific expenditures were not booked into the organization's overall accounting system, increasing the risk of misappropriation of funds. INCSF officials maintain that they will need to continue to disburse cash instead of checks in certain situations. Therefore, it remains paramount that INCSF have established and approved procedures for limiting such situations and controlling any such expenditures.

Inadequate Separation of Duties

INCSF did not have adequate separation of duties within its organizational structure. We noted that the responsibility for recording and reconciling financial transactions was primarily assigned to the bookkeeper. This person controlled the entire accounting process and had limited supervision. For example, the bookkeeper prepared, recorded, and disbursed checks, and prepared vouchers and expense reports. In addition, the same person reconciled the bank accounts, prepared checks, made wire transfers, and maintained petty cash. Furthermore, this person was not bonded. OMB Circular A-110 states that the Federal awarding agency may require adequate bond insurance if the bonding and insurance requirements of the recipient are not deemed to protect the interest of the Federal Government. At a minimum, a staff member, unrelated to the accounting office, should conduct the bank reconciliation.

In addition, as discussed above, the ICP director was responsible for disbursing, recording, and reconciling financial transactions related to the ICP teams. Sound internal control practices require that key duties and responsibilities in processing, recording, and reviewing transactions be separated among people. Although it is not always possible to have complete separation of incompatible duties in an entity with a limited number of employees, duties and responsibilities should be separated to the greatest extent possible to reduce the risk of error, waste, or wrongful acts.

Inadequate Banking Procedures

We found several problems related to bank accounts—Federal funds placed into personal accounts, inadequate signature authority, balances in excess of insured amounts, and no system to identify interest earned on Federal funds. INCSF maintained four bank accounts, two in London (dollar and sterling accounts) and two in Washington. INCSF transferred Federal funds to [(b)(6)-----] Before the London and Washington bank accounts were opened, the organization also deposited Federal funds into employees' personal accounts. The Washington office bank account also was not in compliance with the INCSF bylaws. According to the Bylaws of the Corporation on February 11, 2000,

...a quorum being present and voting thereon, the following resolutions electing a Vice President, Secretary, and Treasurer of the Corporation and authorizing checks, contracts, and other documents to be executed on behalf of the Corporation if signed by two (2) directors jointly and initialed by the Treasurer of the Corporation were unanimously adopted... (Emphasis Added)

However, none of the directors including the INCSF treasurer had signatory authority on the Washington office bank account. In addition, the account was opened in the name of the Iraqi National Congress, Office of Mobilization and Coordination (INC-OMC) and not the INC Support Foundation. The Washington office opened this account in January 2001. Since that time, INCSF transferred approximately \$1.3 million to the Washington office account.

In addition, Federal funds were at risk because bank accounts exceed the Federal Deposit Insurance Corporation's insured amount of \$100,000. For example, one April 2001 statement indicated that the average balance was about \$137,000. Large cash balances could also be indicative of excessive draw downs. OMB Circular A-110 requires grantees to establish procedures to minimize the time elapsing between the receipt of Federal funds and the actual disbursement.

INCSF did not deposit Federal funds into interest bearing accounts. Instead, INCSF placed the money in accounts that allowed them to earn a type of service credit that could be used to offset bank fees. According to a bank representative this "credit" was not interest and does not equate to cash earned. We identified \$1,319 and \$1,845 for the London and Washington dollar accounts, respectively, that INCSF used to offset service charges and transfer fees. OMB A-110 states that recipients shall maintain advances in interest-bearing accounts and interest in excess of \$250 is to be remitted annually.

Conclusions

These financial management and internal control weaknesses call into question the grantee's ability to manage adequately and report accurately on Federal assistance. To ensure that Federal funds are properly accounted for and spent for their intended purposes, we make the following recommendations.

Recommendation 1: We recommend that the Office of Acquisitions grants officer, in coordination with the Bureau of Near Eastern Affairs, should withhold, or at least restrict, future funding to the Iraqi National Congress Support Foundation until the Foundation has implemented adequate and transparent financial controls.

Recommendation 2: We recommend that the Office of Acquisitions grants officer, in coordination with the Bureau of Near Eastern Affairs, should require the Iraqi National Congress Support Foundation to:

- establish and implement a plan to hire or otherwise acquire the services of a person/firm knowledgeable with U.S. Government grant policies, procedures, and regulations to implement a standardized and centralized accounting system that will allow for consolidation of reliable financial reports and organization-wide financial statements;
- hire a financial officer with ability and authority to manage the financial operations of the organization and also hire and train sufficient accounting staff;
- develop an agreed upon set of procedures for cash disbursements to ensure adequate source documentation for these types of payment;
- establish adequate controls over cash management to ensure timely withdrawals of Federal funds to avoid unnecessary draw downs and minimize bank balances that exceed insured amounts;
- deposit Federal funds in interest-bearing accounts and remit annually interest earned in excess of \$250 to the Department;
- implement separation of duties. At a minimum, a staff member unrelated to the accounting office should conduct the monthly bank reconciliation and the accounting office should begin immediately to collect, process, record, and account for all transactions related to the Information Collection Program; and
- develop written accounting policies and procedures.

Recommendation 3: We recommend that the Office of Acquisitions grants officer, in coordination with the Bureau of Near Eastern Affairs, should formally incorporate into the agreement a budget totaling \$10 million that adequately and accurately reflects the approved and authorized administrative and program costs.

NON-COMPLIANCE WITH LAWS AND AGREEMENT PROVISIONS

We also identified significant instances of non-compliance with applicable laws, circulars, and grant terms and conditions. As discussed in the notes to Schedules 2 and 3, INCSF incurred costs that were questioned either under OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the terms and conditions of the grant agreements. We questioned costs totaling about \$2.2 million. Of this amount, \$113,794 was unallowable under the terms and conditions of the agreements and \$2,107,093 was classified as unsupported because of inadequate or lack of documentation. Specifically, INCSF operated with disregard for performance periods, budgets, and restrictions. For example, INCSF purchased items totaling \$12,063 that were not included in the budget under the first award. Since the budget categories were included in the second grant, INCSF shifted the costs to the second award. OMB A-122 prohibits the shifting of costs allocable to a particular award to other Federal awards. As explained more fully below, other non-compliance issues were related to: (1) tax issues; (2) time sheets; (3) travel; (4) equipment/inventory; (5) leases/contracts; and (6) personnel issues. The main reasons for non-compliance were lack of staff familiarity with Federal regulations and inadequate training of staff.

Non-compliance with Tax Laws

Although INCSF headquarters prepared appropriate tax documents for the British Inland Revenue, neither headquarters nor field offices had a system to identify, collect, process, and report tax information to countries in which INCSF operated field offices. As a result, INCSF has not provided U.S. tax information to employees and contractors, nor has the information been reported to the Internal Revenue Service (IRS) as of May 30, 2001, about 5 months after the required reporting date. In addition, no documentation was on file in London to indicate that INCSF had complied with [(b)(6)-----] A general lack of understanding of tax reporting requirements by INCSF staff who had the responsibility to acquire, accumulate, and report tax information contributed to this problem. During 2000, INCSF paid employees and contractors who were subject to U.S. laws about \$40,000. As of May 2001, \$184,346 has been paid during 2001. U.S. tax laws are codified in the U.S. Internal Revenue Code and enforced by the IRS. The IRS requires employers to report wage and nonwage compensation annually. Thus INCSF, as a non-profit organization incorporated in the United States, paying employees and contractors should have prepared or filed the following forms:

Form W-2, *Wage and Tax Statement* (Due to employee by January 31. Required for wages paid to employee if income, social security, or Medicare taxes were withheld.)

Form W-3, *Transmittal of Wage and Tax Statements* (Due to Social Security Administration by February 28.)

Form 1099-MISC, *Miscellaneous Income* (1099 information returns are financial reports on which payors provide information to payees and the IRS concerning payments of \$600 or more made to contractors as required by the Internal Revenue Code. Due to payees January 31.)

Form 941, *Employer's Quarterly Federal Tax Return* (Due last day of the month following the end of the quarter.)

Form 990, *Return of Organization Exempt from Income Tax* (Due 15th day of 5th month after fiscal year end. In May 2001, INCSF filed for an extension that runs through August 2001.)

As of May 2001, INCSF also had not submitted an application to the IRS for determination that it qualified as a tax-exempt organization. According to INCSF's legal counsel, there was no time limit on when an organization must submit its application. However, as a practical matter, and in order to file tax returns as a Section 501(c)(4) organization, it is advisable to obtain a determination from the IRS as early as possible. INCSF's counsel drafted an exemption application; however, the application cannot be completed until INCSF has complete information on its 2000 and 2001 revenues and expenditures. Furthermore, in May 2001, INCSF's counsel filed an extension with the IRS to file the organization's annual Form 990 tax return for 2000. The extension runs through August 15, 2001. Although further extensions can be obtained, INCSF anticipated completing the exemption application and Form 990 by that date. In addition, the Washington office began withholding payroll taxes in May 2001. The Washington accountant also stated that the appropriate officials would be contacted for advice on how to report and file prior tax documents.

Expired and Vague Leases and Contracts

INCSF had entered into various leases and contracts that were vague or had expired. In addition, INCSF improperly entered into two subleases for office space in a residential area. Two different landlords held the subleases, although the space was in the same building (shown in Figure 1). Both sublease agreements required the tenant to observe the covenants contained in the "Superior Lease" and to keep the landlord indemnified against all damages claims costs and expenses in any way relating to the covenants contained in the Superior Lease.

Figure 1 – Leased Office Space in Residential Building

[(b)(6)-----]

In January 2000, the building owner notified the lessors of violations of the terms of the Superior Lease agreement. Specifically, the Superior Lease *contained a covenant by the tenant not to use the said flat other wise than as a single self-contained private residential flat and not to carry on upon the flat any trade, profession or employment or any activity carried on by a body or persons with a corporate or unincorporated.* (Emphasis Added)

As a result of the breach of contract, the lessors were required to remedy the situation and make monetary compensation. In April 2001, a court judgment ordered INCSF to vacate both flats on or before May 21, 2001, and pay the court costs of \$3,452, as well as the claimant's legal fees totaling \$2,089. OMB A-122 states that costs incurred in connection with any criminal, civil, or administrative proceeding are not allowable if the proceeding relates to a violation of or failure to comply with, a federal, state, local, or foreign statute or regulation by the organization. Therefore, we questioned these costs as unallowable in Schedule 3.

INCSF still occupied both flats in June 2001, even though the court had ordered the organization to vacate the premises. Also in June 2001, INCSF received notification that, if the organization did not pay its past due quarterly rent payment, the landlord would seek collection by other means. Specifically, bailiffs would levy "distrain" upon its goods for the value of its outstanding rent. That is to say they would seize and sell the goods to discharge the outstanding rent. According to an NEA official, INCSF relocated to its new offices in July. We do not know whether the courts or landlords ordered INCSF to pay additional fees and penalties.

Further, INCSF had inadequate support for its contractual arrangements. Specifically, we found instances of vague and expired agreements and lack of written agreements. For example, we noted that the agreement with a U.S.-based firm to provide professional services had expired effective February 2001. Nevertheless, INCSF showed outstanding liabilities totaling \$75,000 to that organization for the period of March through May 2001. We also noted that INCSF expended approximately \$128,000 for the printing and mailing of its weekly newspaper. Yet, INCSF did not have a signed agreement for either service. OMB A-122 requires an adequate contractual agreement for service rendered for cost to be allowable. Accordingly, we questioned these costs in Schedule 3.

Lack of Timesheets

Although the Washington office had adequate timesheets, INCSF London did not routinely complete timesheets in accordance with OMB A-122 or as previously recommended. During the course of field work, INCSF issued and distributed a memorandum by fax dated June 8, 2001, reminding all employees to complete timesheets. We did find that some of the London offices did maintain timesheets, but none of the various timesheets was completed in accordance with the circular nor did employees consistently maintain timesheets. The timesheets reviewed were simply sign-in and sign-out sheets. The accounting department also did not receive, and therefore lacked sufficient documentation to support, the processing of payroll expenses. The circular states that distribution of wages must be supported by personnel activity reports. The reports maintained by the organization must meet the following standards:

- Must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e. estimates determined before the services are performed) do not qualify as support for charges to awards.
- Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee.
- The reports must be prepared at least monthly and must coincide with one or more pay periods.

Non-compliance with Federal Travel Regulations

INCSF did not comply with Federal Travel Regulations as referenced in its agreement. We found that the organization had not fully implemented previous travel recommendations. For example, INCSF did not always certify whether non-U.S. Flag carriers were used. We also identified three instances of first/business class travel that were not authorized by the Department. As previously discussed, INCSF had established fixed prices for travel-related expenses from various regions without adequate supporting documentation as to the established amounts. These costs are questioned in Schedule 3. Travel regulations provide for maximum lodging amounts and fixed meal and incidental (M&IE) amounts by city or geographic area for each day while in travel status. Hence, in order to determine the correct amount allowed for travel expenses, the traveler must report (a) the dates that travel began and ended and (b) location of the travel during each part of a trip. Our analysis further showed that travel reports also lacked travel purposes, dates, and locations. In an attempt to comply with the previous recommendation made by Cotton and Company, the bookkeeper had begun preparing expense reports from receipts returned by travelers. However, without knowing the dates and locations of travel, it was impossible to determine the correct amount that should have been paid to each traveler. As a result, Federal awards could have been overcharged.

Inadequate Property Management

INCSF did not have an adequate property management system. OMB A-110 sets forth uniform standards that govern the management and disposition of property. Although INCSF had taken some steps to implement property accountability as recommended in the previous review, further improvements were needed. For example, INCSF had property/inventory lists, used numbered property tags, and it established a system of using hand receipts when issuing equipment. Yet, the organization never established written policies and procedures to address such issues as property use, insurance, and annual inventory.

Specifically, we found that, although INCSF maintained various property/inventory lists, none contained all the information specifically required by the circular. For example, INCSF maintained at least two separate lists for computers and related equipment (i.e. printers, scanners, etc.) and other sensitive electronic equipment. The first list identified the equipment only in very general terms such as description, quantity, and total costs. The second list identified each item by its make, model, and

serial number. This list, however, did not include any information related to the acquisition of the items. INCSF maintained even less data for other items purchased, such as desks and file cabinets. These lists (broken down by department) for such items identified only an item description and quantity; e.g., 2-drawer cabinet: 6. Although we noted that INCSF had tagged many of the items that appeared on this list, the tag number was not annotated on the list. During our field work, INCSF updated this list to include tag numbers.

In addition, none of the lists initially provided identified all computers and other sensitive electronic equipment that INCSF had purchased. Specifically, the lists did not contain any information on the equipment obtained for use in conjunction with the Information Collection Program (ICP). Instead, the ICP director maintained a separate inventory listing. As shown in Figure 2, a typical set of items provided to an ICP team in the field had a value of approximately [(b)(6)-----]

Figure 2.

[(b)(6)-----]

Further, INCSF did not have sufficient insurance coverage against theft and loss of equipment as required by OMB A-110. The circular states that recipients shall, at a minimum, provide adequate insurance coverage for real property and equipment acquired with Federal funds. We found that although INCSF had obtained coverage for the Washington, DC, offices, it had not made similar provisions for the London-based offices. As a result, INCSF could not ensure that its property purchased with U.S. funds was adequately protected from fraud, waste, and mismanagement.

Inadequate Personnel Management System

INCSF did not have transparent personnel policies for hiring, defining work responsibilities, and evaluating its employees. Although headquarters had established a recordkeeping system on personnel, it did not maintain complete personnel records. In addition, INCSF had only limited written personnel policies and procedures. INCSF had issued a memorandum regarding the standard workday, sign-in requirements, and the holidays and leave schedule.

Table 2 - Employees and Contractors, as of May 30, 2001

[(b)(6)-----]

Specifically, we found that the employees of the INCSF did not have written personnel agreements. Instead, INCSF used verbal agreements with its staff. According to the operations director, this was done to avoid any potential liabilities in the event that funding for the INCSF ceased unexpectedly. In addition, we found that INCSF's employees were not routinely provided with a copy of a position description outlining their work responsibilities. The principal reasons for writing position descriptions are to:

- provide management with an official record of the duties, responsibilities, and authority involved in each position and the qualifications required to perform it;
- give employees a statement of what is expected of them;
- provide a basis for equal pay for substantially equal work;
- identify positions in order to recruit, plan for, and promote personnel;
- provide a way to develop employees through performance evaluation, career development, and training; and
- inform management of the work involved in all organizational units and of the relationship between and among positions.

The operations officer explained that, although job descriptions were developed, they had not routinely been provided to its employees. Further, we found that INCSF employees did not receive written periodic performance appraisals. As a result, we could not verify certain information such as position title, salary, or benefits. Nor could we verify that the employees were performing the duties required of their position.

INCSF's salaries for London-based employees were generally in line with the American Embassy London's salary schedule for locally employed staff. At least one salary was in excess, however, of the maximum rate on the schedule. Because we did not have detailed position descriptions to link people with similar responsibilities, we could not determine whether the compensation amounts were reasonable.

In Washington, INCSF paid at least one person in excess of the budgeted amount. This person was paid nearly double the amount cited in the proposed budget, while others were paid at or below the budget amount. Further, contrary to the proposal and assurances made to NEA officials, [(b)(6)-----]Iraq Liberation committee (ILAC). The ILAC is a non-profit organization that receives funding (from private citizens) that supports the operational costs of lobbying activities in Washington, DC. We could not ascertain whether any violations of the general restrictions on lobbying⁵ occurred, because INCSF lacked a transparent agreement that documented the responsibilities or terms and conditions associated with the duties performed or services provided by this person. Therefore, we questioned these costs in Schedule 3.

Lack of Final Program Report

INCSF did not submit a final program report for award S-LMAQM-99-H-0020. OMB A-110 requires a final program no later than 90 days after the expiration of the agreement. Although INCSF filed monthly activity reports and the final financial report, the reports did not compare the program accomplishments with goals and objectives as required under the circular and agreement. As discussed throughout our report, INCSF had not fully accomplished several of the objectives under the first award. For example, INCSF had not established a strategy for achieving financial sustainability including increasing income from other donors and foundations, which was one of the purposes of the award. Lacking a final report, the Department cannot determine whether the organization met its intended goals.

Conclusions

Compliance with grant agreements and pertinent regulations provides the Department with some assurance that the program was carried out as proposed and that Federal funds were used for their intended purpose. Considering the items questioned during this audit, we make the following recommendation.

Recommendation 4: We recommend that the Office of Acquisitions grants officer, in coordination with the Bureau of Near Eastern Affairs, should require the Iraqi National Congress Support Foundation to:

- reimburse the Department for unallowable costs totaling \$113,794 and provide any additional supporting documentation to the Department, so that an appropriate determination may be made regarding unsupported costs totaling \$2,107,093;
- prepare, report, and provide, retroactively if applicable, appropriate tax documents;

⁵ Public Law 101-121

- implement the requirement that timesheets be completed and implement procedures to include instructions for proper completion of timesheets to all employees and contractors;
- consolidate the property listings and conduct annual inventories as outlined in applicable regulations;
- establish personnel records to include current employee and consultant agreements that outline appointment types, related benefits, responsibilities, description of service provided, rate and compensation, and termination provisions, and conduct employee evaluations annually;
- maintain complete travel expense reports including purpose of travel, dates of travel, locations, and receipts to support actual expenses. INCSF should also inform its staff of the reimbursement limitations and documentation requirements in advance of their travel. The grantee must also distinguish between the travel and lodging expense payments (for which original, itemized source documents should be maintained) and meal and incidental expenses (for which fixed amounts can be paid based on the duration and location of travel, without itemized receipts); and
- establish a system to ensure that all program reports are submitted within the required time frames.

Iraqi National Congress Support Foundation
Summary of Questioned Costs

	Questioned Costs			
	<u>Unallowable/ Unauthorized</u>	<u>Unsupported</u>	<u>Total</u>	<u>Schedule</u>
S-LMAQM-99-H-0020	\$ 5,880	\$ 34,195	\$ 40,075	2
S-LMAQM-00-H-0152	107,914	2,072,898	2,180,812	3
Total	<u>\$113,794</u>	<u>\$2,107,093</u>	<u>\$2,220,887</u>	

Iraqi National Congress Support Foundation
Schedule of Claimed Costs
Award No. S-LMAQM-99-H-0020
Period of Performance: March 31, 2000 – November 30, 2000

<u>Category</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>			<u>Notes</u>
		<u>Unauthorized/ Unallowable</u>	<u>Unsupported</u>	<u>Total</u>	
OMC Trainees	\$ 20,705	\$ 750	\$ -	\$ 750	1
Media Training	780	-	-	-	
Central Council Conference	54,962	2,196	13,395	15,591	2
U.N. Gen Assembly	77,176	2,008	-	2,008	3
Professional Costs	<u>38,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal	\$ 192,529	\$ 4,954	\$ 13,395	\$ 18,349	
Salaries	\$ 17,862	\$ -	\$ 17,862	\$ 17,862	4
Equipment	5,558	-	-	-	
Accountant Charges	2,938	-	2,938	2,938	5
Rent/Utilities	41,872	-	-	-	
Communication	4,283	-	-	-	
Office Supplies	1,234	-	-	-	
Postage/Courier	381	-	-	-	
Bank charges	63	-	-	-	
Miscellaneous	<u>138</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal	\$ 74,329	\$ -	\$ 20,800	\$ 20,800	
Surplus	\$ 926	\$ 926	\$ -	\$ 926	6
Total	<u>\$ 267,784</u>	<u>\$ 5,880</u>	<u>\$ 34,195</u>	<u>\$ 40,075</u>	
Add Backs:	\$ 12,063				7
Total including add backs	\$ 279,847				

Source:

Claimed Costs – Final financial report for the period March 31 through November 30, 2000.

Conversion Rate – £1 Sterling Pound = \$1.4783

Notes to Schedule 2
S-LMAQM-99-H-0020

1. OMC Trainees

We questioned and deemed unallowable \$750 that INCSF included in its total claimed costs on its final financial report dated December 11, 2000. Subsequent to the submission of the report, a check was returned uncashed. OMB A-110 states that the closeout of an award does not affect the obligation of the recipient to return any funds due as a result of later refunds, corrections, or other transactions.

2. Central Council Conference

We questioned \$15,591 claimed for the Central Council Conference as follows:

Foreign Carriers from United States to London	\$2,138
Alcoholic Beverages	\$58
Per diem	\$13,395

We questioned and deemed unallowable \$2,138 claimed for travel costs. We identified two instances where INCSF used foreign air carriers for travel that originated in the United States. Federal travel regulations, specifically the Fly America Act⁶, require the use of U.S.-flag carriers for U.S. Government-funded international air transportation that originates, terminates, or includes stopovers in the United States, unless otherwise authorized.

We questioned and deemed unallowable \$58 for alcoholic beverages claimed on the conference hotel bill. OMB A-122 states that the costs of alcoholic beverages are unallowable.

We also classified \$13,395 as unsupported because of inadequate or a lack of documentation. The actual expense reports filed by the INCSF bookkeeper and operations officer after the conference did not have any source documentation supporting per diem payments.

⁶ Public Law 96-192

Notes to Schedule 2
S-LMAQM-OO-H-0020

3. UN General Assembly

We questioned and deemed unallowable \$2,008 because the grantee did not use U.S.-flag carriers for travel that originated or terminated in the United States, as referenced in Note 2.

4. Salaries

We classified \$17,862, the total amount claimed for direct salaries, as unsupported for several reasons. First, INCSF did not have employment agreements setting forth the terms and conditions of employment. Second, INCSF personnel did not prepare or maintain time and attendance records, personnel activity reports, or time distribution reports as required by OMB A-122. The circular states that reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

5. Bookkeeper Charges

We classified \$2,938, the total amount claimed for bookkeeper charges, as unsupported. INCSF did not have a signed contractual agreement that described the service provided, estimate of time required, rate of compensation, or termination provisions. OMB A-122 requires an adequate contractual agreement for service rendered for cost to be allowable.

6. Unexpended Funds

We questioned and deemed unallowable \$926 in funds that were not expended. INCSF drew down the total amount of the award, but never refunded the unexpended amount even though it was identified on its final financial report. OMB A-110 requires a grantee to refund promptly any balances of cash that the Federal awarding agency had advanced or paid and that is not authorized to be retained by the recipient.

7. Add Backs

INCSF improperly shifted \$12,063 incurred under this award to award 0152. OMB A-122 prohibits the shifting of costs allocable to a particular award to other Federal awards. We questioned these costs in Schedule 3, Note 9.

Iraqi National Congress Support Foundation
Schedule of Incurred Costs
Award No. S-LMAQM-00-H-0152
Period of Performance: September 29, 2000 – June 30, 2001
(As of May 30, 2001)

Category	Incurred Costs	Cost Overruns as of 5/30/01	Total	Questioned Costs			Notes
				Unauthorized/Unallowable	Unsupported	Total	
OMC Trainees	\$ 230,161	\$ 37,104	\$ 267,265	\$ 696	\$ 180,642	\$ 181,338	1
Human Rights Conference	195,867	151,530	347,397	3,432	101,762	105,194	2
Newspaper	127,800	20,505	148,305	-	53,771	53,771	3
TV Transmission	105,397	-	105,397	21,577	-	21,577	4
ICP Program*	<u>1,302,895</u>	<u>-</u>	<u>1,302,895</u>	<u>19,408</u>	<u>465,940</u>	<u>485,348</u>	5
Subtotal	\$ 1,962,120	\$ 209,139	\$ 2,171,259	\$ 45,113	\$ 802,115	\$ 847,228	
Salaries	\$ 1,166,306	\$ 73,588	\$ 1,239,894	\$ -	\$ 1,171,306	\$ 1,171,306	6
Rent/Utilities	182,672	42,624	225,296	36	11,869	11,905	7
Professional Costs	256,050	133,346	389,396	27,673	75,000	102,673	8
Equipment	205,279	5,550	210,829	12,063	-	12,063	9
Lease/HP Charges	6,711	-	6,711	-	-	-	
Communication	81,835	53,082	134,917	7,397	-	7,397	10
Office Supplies	43,190	1,535	44,725	6,314	-	6,314	11
Postage/Courier	2,159	192	2,351	-	-	-	
Vehicle Expenses	15,454	4,251	19,705	-	6,236	6,236	12
Travel							
To Headquarters	13,516	1,527	15,043	-	2,824	2,824	13
Diplomatic Trips	39,290	-	39,290	9,318	3,548	12,866	13
Bank Charges	<u>4,383</u>	<u>-</u>	<u>4,383</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal	\$ 2,016,845	\$ 315,695	\$ 2,332,540	\$ 62,801	\$ 1,270,783	\$ 1,333,584	
Total Costs	\$ 3,978,965	\$ 524,834	\$ 4,503,799	\$ 107,914	\$ 2,072,898	\$ 2,180,812	

Source:

Incurred Costs – *Transactional Profit and Loss Statement and Nominal Departmental Analysis Detailed* (Supporting Ledgers) as of May 30, 2001. We defined incurred costs as costs recorded in the accounting records. To prepare the incurred cost schedules, we used a consistent conversion rate (£1 Sterling Pound = \$1.44 U.S. dollar) because INCSF did not record the exchange rate at which expenditures were paid nor did it track foreign exchange gains and losses. Therefore, there could be differences between the amount questioned, incurred, and eventually paid.

Cost Overruns – *Notes Payable Schedule* as of May 30, 2001, prepared by the INCSF bookkeeper. We defined cost overruns as costs incurred but not paid or recorded in the accounting system. We used the conversion rate of £1 Sterling Pound = \$1.4190 specifically provided by the INCSF bookkeeper.

*The incurred cost amount for the Information Collection Program includes administrative costs such as salaries, rent, and equipment.

Notes to Schedule 3
S-LMAQM-00-H-0152

1. OMC Trainees

We questioned \$181,338 incurred for OMC trainees as follows:

We questioned and deemed unauthorized \$696 expended by the Washington office for a washer and dryer because these costs were not approved in the budget. Provision VI of the agreement states that the recipient should be reimbursed in accordance with the proposed budget.

We also classified \$180,642 as unsupported because of inadequate or a lack of documentation. The Washington office did not provide sufficient source documentation for \$128,978 transferred to other INCSF offices. INCSF headquarters also had inadequate or did not provide source documentation for payments to students totaling \$51,664. OMB A-122 requires costs to be adequately documented.

2. Human Rights Conference

We questioned \$105,194 incurred for the Human Rights Conference as follows:

We questioned and deemed unallowable \$3,432 incurred for travel costs. We identified two instances (\$597 and \$1,943) where INCSF used foreign air carriers for travel that originated in the United States. Federal travel regulations, specifically the Fly America Act⁷, require the use of U.S.-flag carriers for U.S. Government-funded international air transportation that originates, terminates, or includes stopovers in the United States, unless otherwise authorized. In addition, we questioned and deemed unallowable \$892 for a non-refundable ticket that was purchased and not used.

We also classified \$101,762 incurred for travel and badge distribution as unsupported because of a lack of documentation. INCSF did not have source documentation such as air tickets supporting the actual costs. As referenced in Note 1 costs must be adequately documented.

3. Newspaper

We classified \$53,771 as unsupported because of inadequate or a lack of documentation. INCSF did not have contracts for the printing and mailing of the newspaper or invoices for payments of newspaper articles. In addition, wire transfers did not identify the names of people paid. As referenced in Note 1 costs must be adequately documented.

⁷ Public Law 96-192

Notes to Schedule 3
S-LMAQM-00-H-0152

4. TV Transmission

We classified \$21,577 incurred for a “mobilization fee, to allow the person to quit their current job and join INCSF staff in the shortest delay,” as unsupported. INCSF did not have any itemized costs or source documents detailing the actual costs expended. As referenced in Note 1 costs must be adequately documented.

5. Information Collection Program

We questioned \$485,348 incurred for the Information Collection Program as follows:

We questioned and deemed unallowable \$17,338 for salaries and health insurance. In Washington, INCSF paid at least one person, categorized as an analyst, in excess of the budgeted amount. This person was paid nearly double the amount cited in the proposed budget, while others were paid at or below the budget amount. Therefore we questioned the reasonableness of such costs. Further, this person was not an Iraqi. The proposed budget stated that analysts would be Iraqi. As referenced in Note 1 the agreement states that the recipient should be reimbursed in accordance with the proposed budget.

We questioned and deemed unallowable \$2,070 expended by the Washington office for gym membership. OMB A-122 states that costs of membership in any social and dining club or organization are unallowable.

We classified \$465,940 as unsupported because of inadequate or a lack of documentation. INCSF headquarters made payments of \$112,733, using different methods (transfers, cash disbursements and checks), to teams in the field without source documentation. In addition, the Washington office made payments of \$353,207 that also lacked support documentation. As referenced in Note 1 costs must be adequately documented.

Notes to Schedule 3
S-LMAQM-00-H-0152

6. Salaries

We classified \$1,171,306 (\$1,166,306 recorded and \$5,000 cost overruns) for salaries as unsupported for several reasons. First, INCSF did not have employment agreements setting forth the terms and conditions of employment. Second, INCSF personnel did not prepare or maintain time and attendance records, personnel activity reports, or time distribution reports as required by OMB A-122. The circular states that reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

7. Rent and Utilities

We questioned \$11,905 incurred for rent and utilities as follows:

We questioned and deemed unallowable \$36 for late fees. OMB A-122 states that fines and penalties resulting from failure of the organization to comply with local laws and regulations are unallowable.

We also classified \$11,869 as unsupported because INCSF headquarters did not have adequate supporting documentation for the [(b)(6)-----] expenditures. The documentation that was available was in a foreign language and had not been translated into English. As referenced in Note 1 costs must be adequately documented.

8. Professional Costs

We questioned \$102,673 incurred for professional costs as follows:

We questioned and deemed unallowable \$5,541 (\$3,452 recorded and \$2,089 cost overruns) incurred for court costs and legal fees associated with the rental of office space in a residential building as discussed in detail in the report on pages 14 - 15. OMB A-122 states that costs incurred in connection with any criminal, civil, or administrative proceeding are not allowable if the proceeding relates to a violation of or failure to comply with, a federal, state, local, or foreign statute or regulation by the organization.

We questioned and deemed unauthorized \$22,132 (cost overruns) incurred for March through May legal fees because these costs were not approved in the amended budget. A February 27, 2001, letter from the grants officer stated that no funds may be expended on specific items, which included legal costs. NEA officials also confirmed that no additional legal costs were

Notes to Schedule 3
S-LMAQM-00-H-0152

8. Professional Costs (continued)

provided for in the revised budgets. Provision VI of the agreement states that the recipient shall be reimbursed allowable costs with the proposed budget and that any reprogramming of the budget must be in writing and approved in advance by the grants officer.

We classified \$75,000 in cost overruns for public relations as unsupported. INCSF did not have a current signed contractual agreement that described the service provided, estimate of time required, rate of compensation, or termination provisions. OMB A-122 requires an adequate agreement for service rendered for cost to be allowable.

9. Equipment

We questioned and deemed unallowable \$12,063. INCSF improperly shifted costs for such items as computers under award 0020 to this award. OMB A-122 prohibits the shifting of costs allocable to a particular award to other Federal awards.

10. Communication

We questioned and deemed unallowable \$7,397 incurred for installation of cables and wiring related to computers and telephones. INCSF had entered into leases in a residential area for office space that prohibited alterations to the premises.

11. Office Supplies

We questioned and deemed unauthorized \$6,314 incurred for oil paintings and framing of said items because the costs were not approved in the budget. As referenced in Note 1 the agreement states that the recipient should be reimbursed in accordance with the proposed budget.

12. Vehicle Expenses

We classified \$6,236 incurred for vehicle expenses as unsupported. INCSF headquarters did not have any source documentation to support costs incurred by the [(b)(6)-----] As referenced in Note 1 costs must be adequately documented.

Notes to Schedule 3
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13. Travel

We questioned \$2,824 and \$12,866 incurred for travel to headquarters and diplomatic travel, respectively, as follows:

We also classified \$2,824 incurred for travel to headquarters as unsupported. INCSF did not have airline tickets or any other documentation justifying the travel costs. As referenced in Note 1 costs must be adequately documented.

We questioned \$9,318 incurred for diplomatic travel. We identified three instances where INCSF charged the award for premium-class tickets for air travel without Department approval. We questioned and deemed unallowable the difference between economy-class and premium-class tickets. The Federal Travel Regulations state that economy must be used unless otherwise authorized.

We also classified \$3,548 incurred for diplomatic travel as unsupported. INCSF did not have airline tickets or any other documentation justifying the travel costs. As referenced in Note 1 costs must be adequately documented.

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