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ROUTING AND RECORD SHEET

See 4-833L

SUBJECT: (Optional)

FROM: ASSA-DD/S
Room 2129
I Building

NO.

DATE 17 February 1961

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

RECEIVED

FORWARDED

1.

Chief, DDP/PG

2058, L

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Attached for your information and file is a copy of an audit report on an IO Division proprietary project.

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20 FEB 1961

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Assistant SSA-ID/S

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DECLASSIFIED AND RELEASED BY
CENTRAL INTELLIGENCE AGENCY
SOURCE/METHOD/EXEMPTION 3B2B
NAZI WAR CRIMES DISCLOSURE ACT
DATE 2007

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Chief, IO Division

23 December 1960

Acting Chief, Audit Staff

Report of Audit of The Asia Foundation for the
Year Ended 31 July 1960 - Letter to President

1. Copies of subject letter submitted by Pent, Hurwick, Mitchell & Co. are attached for your consideration. Financial statements and accountants' certificates for the project cover foundation will be sent to you when received from the accounting firm.

2. We have not reviewed the matters discussed in the letter to the President. Any significant matters disclosed in our review will be brought to your attention.

[]

Attachment

Distribution:

Orig. - Addressee
2 - Comptroller
1 - SSA/DIB
1 - CM

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PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

100 BUSH STREET

SAN FRANCISCO 4, CALIF.

September 30, 1960

Mr. Robert Blum, President
The Asia Foundation
550 Kearny Street
San Francisco, California

Dear Mr. Blum:

In connection with our examination of the financial statements of The Asia Foundation for the year ended July 31, 1960, we noted certain matters relating to the accounting procedures and system of internal check and control which we comment upon in the paragraphs which follow. Included in our comments are references to certain conditions discussed in our letter reports for the year ended July 31, 1959.

Because we have visited all overseas offices in prior years and have noted a general improvement in internal control and accounting procedures, we limited this year's examination at overseas locations to the following offices: Kabul, Karachi, Colombo, Kuala Lumpur, Rangoon, Bangkok, Hong Kong and Tokyo. To augment our examination, we expanded our tests at the Home Office with respect to those locations which we did not visit. Our visits were made without advance notice to personnel of the respective offices, and at the conclusion thereof our findings and recommendations were made known to the Representatives. Before the completion of our examination at the Home Office, we reviewed letters received from the Representatives which indicated that in their opinion appropriate corrective action has been taken, and in most cases the action as indicated is in accordance with our recommendations.

Generally, we have found that the financial records are well maintained and the accounting procedures and controls are adequate. However, as indicated herein, control can be improved in certain respects. Having regard to the test character of our examination, you will appreciate that reliance must be placed on adequate methods of internal check and control as your principal safeguard against irregularities which a test examination may not disclose.

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A year ago we reported that employees were not required to take regular vacations and that the Foundation's practice was to allow annual leave to accumulate. In June, 1960, to correct this situation, the Foundation established a policy whereby accumulated vacation leave of Home Office employees may not exceed thirty-six days at the end of any calendar year. Although any employee having accrued vacation leave in excess of thirty-six days on December 31, 1959 may retain such leave within specified limits, any excess over such limits is to be forfeited at the end of each succeeding year. We have been informed that employees will not be paid in lieu of taking regular vacations except on termination of employment. This vacation leave policy does not relate to overseas personnel, but we understand that a similar policy is to be established. We feel that the action taken should contribute toward the desired requirement that employees, especially those holding positions of trust, take regular vacations.

We have previously reported that leave records were incomplete at overseas offices and that there was no requirement for reporting to the Home Office the leave taken by overseas employees on the San Francisco payroll. During this year the Foundation strengthened internal control over leave records by requiring each field office to submit a quarterly report of all leave taken by such field personnel.

As of July 31, 1959, we reported that no formal inventory records were maintained for books in the San Francisco warehouse and that a physical inventory had not been taken during the year. Although a physical inventory of all books and periodicals was taken on December 21, 1959, and perpetual inventory records have been set up showing the totals of books and periodicals on hand in the warehouse, a recent inventory taken August 15, 1960 indicated that the quantity of such books and periodicals on hand exceeded the recorded inventory balances by 23,000 books and 1,300 periodicals. These differences appeared to be the result of not accurately accounting for all receipts and shipments of books. Books not meeting the criteria set for the books program are not recorded as received, but are physically segregated and destroyed. It is suggested that the receipt of all books be recorded, including those which are to be destroyed, and that controls be established over the destruction of such books.

We previously commented upon the fact that stocks of books in various Foundation warehouses at overseas locations were uninsured. Management has since decided that the quantity of books on hand at any one overseas location is too small to warrant insurance coverage, except in the case of Tokyo, where the books have been insured for \$45,000, and Karachi, where the quantity on hand has not yet been determined.

With reference to our last year's comment regarding the unexplained difference between the balance as reported to us by the Da Afghanistan Bank and the amount shown on a copy of the bank statement furnished by the Kabul office, it has been established that the difference was the result of an erroneous amount being reported by the bank.

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Our surprise count of the petty cash funds at the San Francisco office on March 28, 1960, revealed that several of the imprest funds differed in varying amounts from the established funds as recorded on the books. In one instance three persons had access to a single petty cash fund, in several instances the funds contained IOU's, and in another instance the custodian had neglected to leave a memo in the petty cash box as to funds removed for official business. We were advised that corrective action was immediately initiated, and we noted a general improvement in the handling of cash funds at the time of our year end count. However, we have been informed that our surprise count was the only such count made during the year. We feel that occasional surprise counts made by the Controller's Office would encourage the proper handling of cash funds at the Home Office.

Our surprise cash counts at Karachi, Colombo, Rangoon, Bangkok and Hong Kong revealed instances in which petty cash funds were not sufficiently accounted for or properly used. Undesirable practices which we observed included unauthorized borrowing from petty cash funds, failure to obtain appropriate documentation in support of expenditures, and reporting expenditures before they had been made. Before our departure from each location we suggested that surprise petty cash counts be made by the Representative or his designee to encourage the proper handling of funds. We recommend that this suggestion be adopted by all overseas offices.

Incoming mail relating to the Asian Student newspaper and the Books For Asian Students program is routed unopened to the persons responsible for the respective projects. This mail occasionally includes cash contributions which are acknowledged by letter and then submitted at irregular intervals to the Controller's Office for recording and deposit. It would appear that internal control would be strengthened if the mail were opened and all contributions listed by the Communications Section before being turned over to the Controller's Office. The listing could be used for subsequent acknowledgment of the contributions and for checking the details of daily deposits by someone other than the person preparing the deposit.

Field offices generally do not advise the Home Office of the receipt of books shipped to them or to their grantees. We feel that notifications of receipt for such shipments should be required.

In prior years we have reported that at several overseas locations invoices and other supporting data have not been effectively cancelled in order to prevent duplicate payment. Of the overseas offices visited this year, we feel that action should be taken in this regard at Colombo, Kuala Lumpur, Bangkok, and Rangoon. Although the invoices that are processed in Tokyo are cancelled at the time of payment, we noted that many

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The following is a summary of the findings of the Committee:

The Committee has reviewed the records of the Department of the Army, the Department of the Navy, and the Department of the Air Force, and has found that there has been a widespread and systematic effort to suppress and destroy records of the activities of the Communist Party, particularly in the field of labor unions and public employees.

The Committee has also reviewed the records of the Federal Bureau of Investigation (FBI) and has found that there has been a widespread and systematic effort to suppress and destroy records of the activities of the Communist Party, particularly in the field of labor unions and public employees.

The Committee has also reviewed the records of the Central Intelligence Agency (CIA) and has found that there has been a widespread and systematic effort to suppress and destroy records of the activities of the Communist Party, particularly in the field of labor unions and public employees.

The Committee has also reviewed the records of the National Security Agency (NSA) and has found that there has been a widespread and systematic effort to suppress and destroy records of the activities of the Communist Party, particularly in the field of labor unions and public employees.

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With regard to projects and financial procedures, our best examination of each of the 10 cases reviewed covered approximately 50 per cent of the current year's expenditures. At the time of our visit, and our tests made at the time of the visit, the project has not visited covered approximately 80 per cent of expenditures through March 1, 1960. We have set forth a list of deficiencies and internal control and present procedures for each project in the following table.

- Our review of projects in each area revealed that signed letters of agreement had not been received, or a letter of agreement had not been carried out, in the following instances:

Rangoon, Burma

P 1004	Rangoon University Center	US\$	21
P 1007	Institute of Public Administration		16
P 1039	Afghanistan Olympic Federation		55
P 1099	Ministry of Education		233
P 2039	Consultant to Mr. Nizamuddin		115
P 8001	Bankstar News Agency		1,581
P 8003	Book Gift Program		122
P 8899	Music Appreciation Course		130

Kuala Lumpur, Malaya

P 1204	Education by Radio-Sarawak		10,672
P 4008	Malaya Literary Program		18,526
P 4405	Union Press Organizational Center		6,612

Saigon, Vietnam

P 2199	Fundamental Educational Center Cai Mon		89
P 5099	Free Pacific Association		237

Phnom Penh, Cambodia

P 1001	Sok Rot - Supplemental Scholarship Grant		28
P 1011	National School of Commerce - books		744
P 4039	Conservation Services - film		174
P 7101	World Buddhist Association		1,309

Taipei, Taiwan

P 8201	Lions International Third Asian Conference		2,500
P 8201	Starway Chem; - travel		240

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Manila, Philippines

P 3200	Traveler's Order - four months' funding of "Study for Expanding Intellectuals"	US\$ 2,211
P 3000	Benigno Serrano - travel	1,353

Seoul, Korea

P 1001	Kyung Poon University	3,016
P 1000	Text Book Translation Program	6,120
P 3200	Dr. Kung-te-Chang	844

Vientiane, Laos

P 1001	Siamese Association of University Women	675
P 1001	Souyang and Thongpane	286
P 1004	Ministry of Education	3,610
P 1007	Laos students to Philippines	3,597
P 3400	Mr. Koo Viphakone - travel	233
P 4200	Wongnat, Coannam, and Mrs. Messege - travel	293
P 4300	Father Mathias Menger and Father Jean Verhaeghe - travel	521
P 4300	Emerg. Lithat	1,153
P 5201	Hui Sien Chien	1,698
P 5200	Chinese School in Laos	303
P 9000	Po Ching & Sui Ying - travel	266

Provisions in letters of agreement requiring the grantee to submit accounting and other reports had not been complied with in the following instances:

Kabul, Afghanistan

P 2101	Rural Development Commission
P 2002	Ministry of Mines and Industries
P 4501	University of Kabul Gymnasium

Karachi, Pakistan

P 2400	Institute of Personnel Administration
P 4304	National Boy Scout Headquarters

Colombo, Ceylon

P 1000	Mr. S. K. Diasanyaka - travel
P 4300	South Ceylon Youth Council

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Bangkok, Thailand

P 3202 Chulalongkorn University - Miss Vekavakayannondha
P 4399 Children's Club of Daroon Sarn
P 4399 Chulalongkorn University - Athletes' travel
P 4399 Thammasat University - Athletes' travel

Hong Kong

1959 Loan to Scientific Supplies Agency and
Union Press Organization - Malaya Press, Ltd.

Tokyo, Japan

P 2099 Junior Executive Council of Japan
P 4099 National Council of Cultural Organization
P 5301 Council for Assistance to Korean Students

Phnom Penh, Cambodia

P 5101 Chung Chen School
P 5101 Ecole Vichea Tip

Taipei, Taiwan

P 1007 Academia Sinica Microfilm Machine
P 1012 National Taiwan University
P 1099 Lu, Hsiao-tung - travel
P 1301 English Training Center
P 3299 Chu, Hsiao-chen - travel
P 3599 Dr. Chu
P 3599 Chinese Horticultural Society
P 6101 Free China, Fortnightly
P 6102 Continent Magazine
P 8201 Mrs. Wang Tiao-yuan - travel

Manila, Philippines

P 3004 Philippines Association of Social Workers Magazine
P 4305 YMCA - Regional Training Seminars

Instances in which the terms specified in letters of agreement have not been complied with are as follows:

Rangoon, Burma

A letter of agreement, dated April 1, 1959, covering international relations training at the University of Rangoon, outlines a three year program providing for a total expenditure of \$144,200. Of this amount, \$18,000 was designated for the purchase of reference and teaching materials and related administrative costs, \$5,500 was designated for travel of local

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professors, and the remaining 120,700 was designated for expenses of visiting professors or trainees. At the time of our visit in June, 1960, funds already expended for the first two purposes outlined above exceeded the total amount allocated therefor.

Hong Kong

The terms of a letter of agreement, dated September 30, 1958, relating to the establishment of the Malaya Press, Limited, provide in part that the Press would write, publish and distribute textbooks for Chinese secondary schools in Malaya and Singapore. However, recent correspondence indicates that the Press used a portion of the funds to enter the primary school textbook field, although not authorized to do so by the letter of agreement.

Saigon, Vietnam

In a letter of agreement, dated November 25, 1959, with the University of Hue, provision was made for a maximum expenditure of \$3,000 for textbooks and classroom equipment. However, \$6,019 was spent for science laboratory equipment and the construction of study tables. We were informed that this deviation from the terms of the agreement was made on the verbal authorization of the Representative.

San Francisco

In 1954, the Foundation loaned \$25,000 to Mr. Charles Tanner, a former employee, for the purpose of establishing himself as a recognized motion picture producer in Hollywood and performing other specified functions. The correspondence files indicate that Mr. Tanner has as yet failed to accomplish these objectives and although he has confirmed his indebtedness and his willingness to repay the loan, he has stated that he is not in a position to do so at this time.

We noted instances at Karachi, Tokyo, Saigon and Vientiane wherein the payee of a grant was an individual, and not the grantee organization. It is recommended that grants to organizations be made by check wherein the grantee organization is specified as the payee. We feel that checks should be drawn in such a manner as to minimize the risk of funds being diverted from the grantee. It may be that the grantee organization does not have a bank account and objects to establishing one, in which case it is suggested that the payee of the check be specified in the letter of agreement as the trustee for the grantee organization.

Our tests disclosed instances at Kuala Lumpur in which some letters of agreement, negotiated in the latter part of 1959, relating to Civic and Community Development activities, did not clearly state the purpose or intent of the grants. At the time of our visit in June of 1960 this situation appeared to have been corrected.

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The Foundation's Operations Manual states in part that expenditures for new projects should not be made unless a letter of agreement has been signed. Based on our tests of program expenditures, it appears that the general practice at the Kuala Lumpur and the Bangkok offices has been to enclose the check covering a grant with the letter of agreement when the letter is sent to the grantee for signature. Subsequent to the time of our visit, the Bangkok Representative has indicated that this practice has been discontinued. Correspondence from the Kuala Lumpur Representative indicates that he believes this practice to be in accordance with Foundation policy. Based on our discussions at the Home office, it appears that Foundation policy in this regard has been subject to various interpretations.

At other offices we noted the following instances in which funds were expended prior to obtaining properly signed letters of agreement:

Karachi, Pakistan

P 3210 Mr. Marghoob Quraishi US\$ 1,244

Saigon, Vietnam

P 2199 Ministry of Agriculture 967

Seoul, Korea

P 3202 Korean Research Center 2,000

Manila, Philippines

P 1014 "The World's Great Religions" 1,080
P 1099 Conrado Aquino - travel 187
P 1099 Paraluman Aspillera - travel 187
P 1099 Cecilio Lopez - travel 58
P 3001 Philippine Constabulary Law Library 5,059
P 3003 Dr. Atienza - travel 250
P 3005 National Intelligence Coordinating Agency 1,539
P 3599 Liceria Sorino and Martin Jugo - travel 1,104
P 6002 Philippines Center, P.E.N. 110
P 8099 Carlos Ramos - per diem 72
P 8599 P. P. DeLeon - travel 662

Rangoon, Burma

P 3002 Rangoon Vigilance Society 149
P 6002 Printing "Military History and Defense Policy" 1,187

Bangkok, Thailand

P 1101 Association of Southeast Asian Institute of Higher Learning 1,450

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In addition to the foregoing, we noted instances at Karachi and Lahore in which items of equipment costing \$8,300 and \$11,784, respectively, were ordered before signed letters of agreement were executed. After the orders were placed a letter of agreement was obtained by the Karachi office, but not, as yet, by the Lahore office.

During the year under review, The Asia Press Limited and The Asia Pictures Limited continued their operations as described in our report of a year ago.

Before the time of our visit, the Hong Kong Representative retained the local office of Peat, Marwick, Mitchell & Co. to make a physical count of the books on hand at the Hong Kong locations of The Asia Press Limited. The count revealed a shortage of approximately 52,000 books. This shortage was explained by Mr. Chang Kuo-sin, Governing Director, as having been caused by his former business manager and other employees whom he replaced in 1957.

As previously reported, The Asia Pictures Limited constructed a new building to house a second sound stage on land rented from the Government on a month-to-month basis. We are informed that attempts to negotiate a long-term lease have failed and the only alternative would be the possibility that the land might be purchased at public auction. This would be expensive and apparently not in accordance with the present plans for this project.

To date, the Foundation has invested a total of approximately \$764,000 in The Asia Press Limited and \$337,000 in The Asia Pictures Limited. By agreement dated July 29, 1960, the Foundation is to transfer its interest in these companies to Mr. Chang as of July 31, 1960, subject to the concurrence of the Hong Kong Representative and the completion of an audit of the companies' records. In this connection, the auditors have been requested to include in their report an evaluation of capital assets so that the import of the transfer might be more clearly evident.

As mentioned in last year's report, the Foundation had not received an accounting for a grant of \$16,967 made on June 20, 1957 to Scientific Supplies Agency in Hong Kong for the writing and distribution of Chinese textbooks in Cambodia. During the current year, the Cambodian Representative recommended that all manuscripts, printed proofs and sample textbooks, together with the unused portion of the grant, be turned over to the Foundation. Correspondence from the Hong Kong Representative dated August 4, 1960 indicates that this recommendation has been carried out. Of the total grant, \$9,310 was accounted for as having been used in connection with the project. Another letter dated September 10, 1960 from the Cambodian Representative states that his review of the accounting indicates that certain reported expenditures should be investigated.

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We have previously reported that the Union Press in Hong Kong had agreed to have an audit of all local Foundation-supported Union Press projects for the year ended March 31, 1960, by independent accountants mutually acceptable to both parties. No such agreement had been reached with respect to the Press' Malaya and Thailand operations. This year we noted that the Malaya and Thailand Representatives have arranged for an audit of the Press' activities in the respective countries as of March 31, 1960. At the time of our visit to Hong Kong, we noted that an audit of the Union Press activities had been made by the firm of Chen Wong and Company for the period April 1, 1958 through July 31, 1959, only. We were unsuccessful in determining whether or not the audit was being extended to cover the remainder of the year ended March 31, 1960, because we were requested by the Representative not to contact either the auditors or the Press. We feel that unless the Union Press operations in all three countries are audited for the same period, little valuable information will be derived therefrom. The following is a brief summary of expenditures made to the Union Press:

<u>Period</u>	<u>Hong Kong</u>	<u>Malaya</u>	<u>Thailand</u>	<u>Combined</u>
1952 to July 31, 1959	\$,693,893	302,085	12,169	1,278,147
Estimated for the year ended July 31, 1960	104,000	116,600	12,000	232,600

This year it came to light that the "Economic Herald," one of several publications in Hong Kong supported by the Foundation, was receiving grants based on a reported circulation of 8,000 copies per month, whereas it was actually publishing less than 2,000 copies per month. The present publisher attempted to justify this irregularity by stating that he was only continuing to report figures that were comparable to those reported by his predecessor. As a result of the foregoing, the Foundation has discontinued its support of this publication and the Representative is endeavoring to recover HK\$10,000 (US\$1,613) advanced for a security deposit. In addition, the Representative has informed three other supported publications that an audit of their accounts will be required as of March 31, 1960.

We have previously described the circumstances surrounding a grant and loan, totaling approximately \$16,000, made to the Hong Kong Drama Tour, and the troupe's failure to make a proposed tour to Malaya. This year, the Hong Kong office was successful in recovering some lighting equipment valued at \$3,000, and as it was felt that no further recovery would be realized, the loan, \$6,370, was written off.

We again noted that there are many instances in which project expenditures and encumbrances exceed the approved project amounts.

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The following data is furnished for your general information:

Withdrawals from San Francisco bank accounts, except imprest and payroll accounts, are made by checks requiring two signatures. Checks are usually signed by the Controller or his assistant and cosigned by the President, the Director of Administration, or the Assistant to the President. Authority to draw single signature checks against bank accounts at overseas locations is granted to authorized field representatives by resolution of the Executive Committee of the Board of Trustees. The Controller is also authorized to withdraw funds from overseas bank accounts.

Advances to employees are current. Other accounts receivable amounted to \$6,903 at July 31, 1960, and of this amount, \$4,754 was over ninety days old. During the year, one account receivable in the amount of \$3,062, due from a former employee for estimated recoverable income taxes, was written off as uncollectible.

As heretofore, the general practice of the Foundation is to obtain verbal or written competitive bids on all orders over \$1,000, and to award orders to the lowest competent bidder, taking into consideration specifications to be met, freight and handling charges, and the date of delivery when time is an important factor. There are two general types of exception to this practice, namely: (1) routine orders for books, and (2) occasional orders for specified items which are purchased directly from manufacturers.

Prescribed purchasing procedures require that all orders of \$2,500 or more be approved by the President or the Director of Administration. Our tests of the purchase order files indicated only one exception to this procedure, that being the issuance of a purchase order in the amount of \$4,595 for a microfilm machine requested by the Bangkok office. In this case, the Director of Administration entered his approval when the omission was brought to his attention.

Adequate records are maintained at the Head Office which reflect the acquisition, current status, and disposition of capital equipment at all locations. In the prior year, we reported that a physical inventory had been taken of all furniture and equipment and at the year end certain items were held in suspense classifications in the Home Office records pending receipt of required information from the overseas locations. This year, all such items were cleared from the suspense classification and the equipment records are up to date.

In August, 1959, printing equipment formerly used by the Democracy Publishing Company was transferred in the form of a grant to the University of Rangoon. This equipment had been carried in the capital outlay accounts at a cost value of \$67,231. In the prior year, we reported that capital outlay

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items costing approximately \$25,000 were left with various United States citizens or organizations in Indonesia. Certain of these items, representing leasehold improvements costing \$10,751, were written off in the year under review. We noted no other item of capital equipment having a cost value of \$5,000 or more that had been disposed of.

The following employees were hired during the year and were earning a salary of \$13,500 or more at the year end:

<u>Employee</u>	<u>Present Position</u>	<u>Salary at July 31, 1960</u>
Paul J. Burnette	Librarian, Office of the Representative, Burma	\$ 13,500.
Harry H. Crosby	Director of Studies, Pakistan Air Force College, Pakistan	13,500
Arthur Paul	Economics Advisor, Afghanistan	17,500

Also, the following salary rate increases were granted whereby other employees' annual basic salaries were raised from below \$13,500 to above that amount:

<u>Employee</u>	<u>Present Position</u>	<u>Salary at July 31, 1960</u>
William T. Fleming	Representative, Malaya	\$ 14,091.
Robert B. Hall	Representative, Japan	15,000
John E. James	Representative, Korea	13,860
Paul P. Judge	Representative, Philippines	14,098
Richard J. Miller	Representative, Taiwan	14,325

It is the policy to reimburse employees for all travel and entertainment expenses incurred on behalf of the Foundation. Reimbursement is made on the basis of actual, but reasonable, costs. The reasonableness is subjected to the review and approval of supervisory personnel. In addition, all reimbursement vouchers are scrutinized by the Controller's office. During our examination we noted no instances in which such expenditures appeared to be excessive, except that, as previously reported, the former representative of the Tokyo office continued to charge the Foundation for the travel expenses of his wife when she accompanied him on official business trips out of Tokyo.

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Based on our review and inquiry, it appears that the Foundation has complied with tax and statutory requirements of Federal, State, and local authorities.

A year ago we reported that management had considered the advisability of developing an internal audit program but deemed it unwarranted because of the expense and the possible unintentional interference with the management of field representatives. Further consideration has been given to this matter during the year under review and no definite action thereon is contemplated in the immediate future.

The matters presented herein have been discussed with Messrs. John F. Richardson, Director, Department of Administration, and George E. Seitz, Controller. Should you have any questions with regard thereto, we shall be pleased to discuss them with you at your convenience.

We wish to acknowledge the courtesies extended to our representatives during the course of our examination.

Very truly yours,

Peat, Marwick, Mitchell & Co.

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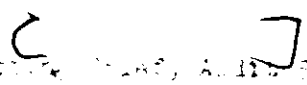
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February 1948

MEMORANDUM FOR: General (supp) Assistant to the
76. [unclear] support
[unclear]

SUBJECT: Report of Audit on The Arts Foundation
For the Year Ended 31 Dec 1947

1. Copies of subject report submitted by Deat. Herwick,
Mitchell & Co. are attached for your consideration. This report
is in addition to the letter to President in the same name.
Copies of this letter were sent to your office on 12 December 1947.
2. We have not reviewed subject report. Any significant
matters disclosed in our review will be brought to your attention


Acting Chief, Audit Staff

Attachments

AS/HAD/[unclear]:vt

Distribution:

Orig. - SSA DTS
2 - [unclear]
1 - CM

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PLANT MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

100 BUSH STREET

SAN FRANCISCO, CALIF.

CONFIDENTIAL REPORT

The Board of Trustees
The U.S. Maritime Commission:

We have examined the balance sheet of the U.S. Maritime Commission, a non-profit military corporation, as of January 1, 1945, and the related statements of income and expenses and the statement of assets and liabilities, and we have also examined the supporting schedules and related military standards and generally included such parts of the accounting records and other supporting documents as we considered necessary for the purpose.

In our opinion the financial statements referred to above in this report are a true and correct statement of the financial position, results of operations, and changes in net assets and liabilities of the U.S. Maritime Commission, as of the date and for the period stated, and in accordance with the accounting principles generally accepted in the United States of America.

The financial statements referred to above in this report are prepared in accordance with the accounting principles generally accepted in the United States of America, and are subject to the usual limitations of such statements.

We have also examined the financial statements of the assets and liabilities of the U.S. Maritime Commission, as of January 1, 1945, and the related statements:

and we have also examined the supporting schedules and related military standards and generally included such parts of the accounting records and other supporting documents as we considered necessary for the purpose.

In our opinion, the financial statements referred to above in this report are a true and correct statement of the financial position, results of operations, and changes in net assets and liabilities of the U.S. Maritime Commission, as of the date and for the period stated, and in accordance with the accounting principles generally accepted in the United States of America.

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Approved: _____
Special Agent in Charge, _____
U. S. Department of Justice, _____
Washington, D. C. _____

Approved: _____
Special Agent in Charge, _____
U. S. Department of Justice, _____
Washington, D. C. _____

Gen. Maxwell Mitchell Ho.

San Francisco, California
September 20, 1954

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Current assets:

Cash in United States banks and on hand		1,000,000	
Cash at overseas branches, including cashier equivalents of local currencies		1,000,000	
Employees' advances		100,000	
Other advances and recoverable taxes		100,000	
Prepaid expenses:			
rent	100,000		
insurance	100,000		
refundable deposits and other	100,000		
		300,000	
			3,400,000
Total current assets			4,400,000

Loan receivable, secured by mortgages on real estate 4,000,000

Capital assets, at cost (Line 2):

Land and buildings		1,000,000	
Equipment, furniture and fixtures		1,000,000	
Investments and advances, less reserves	1,000,000		
		1,000,000	
			3,000,000

Less amount allocated to the other side of the account

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Current liabilities:

Accrued vacation leave - overseas personnel
Accounts payable and accrued liabilities

1,114
1,114

Total current liabilities

General fund:

Balance at beginning of year
Excess of income over expenditures
for the year
Reserve for uncompleted projects at
beginning of year (note 1)

\$ 307,200

118,400

188,410

595,010

Accumulated funds - excess of income over
expenditures for the year

Other commitments (note 3)

595,010

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STATEMENT OF FINANCIAL OPERATIONS

FOR THE YEAR ENDED 1961

	<u>1961</u>	<u>1960</u>	<u>1959</u>
Income:			
Contributions	7,211,827	7,211,827	10,470
Miscellaneous	10,814	10,814	-
	<u>7,222,641</u>	<u>7,222,641</u>	<u>10,470</u>
Expenditures (Schedule 1):			
Program:			
Asian countries	4,211,827	4,211,827	-
Intra-Asian and special projects	1,000,000	1,000,000	10,870
	<u>5,211,827</u>	<u>5,211,827</u>	<u>10,870</u>
Administration:			
San Francisco	10,000	10,000	-
New York	1,400	1,400	-
Asian countries	1,200,000	1,200,000	-
Ballistics	100,000	100,000	-
	<u>1,311,400</u>	<u>1,311,400</u>	<u>-</u>
Capital outlay:			
San Francisco	1,000	1,000	-
New York	1,000	1,000	-
Asian countries	1,000,000	1,000,000	-
	<u>1,002,000</u>	<u>1,002,000</u>	<u>-</u>
	<u>6,525,647</u>	<u>6,525,647</u>	<u>10,870</u>
Excess of income over expenditures	<u>727,000</u>	<u>727,000</u>	<u>1,600</u>

See accompanying notes to financial statements.

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(1) Change in Accounting Methods.

During the year 1950, the Department changed its method of accounting from a cash basis to a accrual basis. However, the transition was not complete by the year-end and the necessary adjustments to the balance sheet accounts at the beginning of the year and to certain expenditures recorded on the accrual basis during the year had not been made.

On a strictly cash basis of accounting the current assets and current liabilities reflected in the balance sheet as of July 31, 1950 would be decreased by approximately \$1,000,000 and \$1,000,000, respectively, the excess of income over expenditures for the year would be decreased by approximately \$3,000,000, and the general fund balance as of July 31, 1950 would be increased by approximately \$1,000,000.

(2) Capital Outlay.

It is the policy of the Department, in the depreciation of capital outlay acquisitions over their useful lives, to provide a capital outlay reserve equal to 10% of the acquisition cost. Detailed records of the capital outlay items, including the acquisition of overseas locations, are maintained to establish a reserve fund for control purposes.

(3) Investments and Advances, Overseas Locations.

As the amount of investments and advances, overseas projects, that ultimately may be realized is not presently determinable, a reserve in equal amount has been provided therefor.

(4) Reserve for Incompleted Projects.

This reserve had been provided for outstanding commitments and other planned expenditures applicable principally to certain approved projects, for which no specific provision had been made in the budget for the regular year. At July 31, 1950 no reserve was provided for such commitments.

(5) Lease Commitments.

Lease agreements covering the use of the New York office facilities, provide for annual rentals of \$77,110 and \$81,187, and as of April 30, 1950, \$1,000,000. These leases are generally for less than three years, and the Department has provided a reserve for such commitments.

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Summary of expenditures

year ended 31 Dec 1950

	Contracted	Total	FOYFAM	
			Current Year	President's reserve fund
Asia countries:				
Afghanistan	\$ 267,037	267,502	159,547	30,357
Burma	452,502	308,432	302,892	-
Ceylon	187,560	104,540	79,686	-
Ceylon	373,003	231,088	211,017	-
India	582,540	421,735	411,735	-
Indonesia	71,428	71,428	71,427	-
Japan	21,519	18,418	18,418	-
Korea	17,144	582,757	581,757	-
Laos	514,431	14,382	14,382	-
Malaya	140,262	84,163	84,163	-
Pakistan	557,227	427,280	447,111	23,841
Philippines	754,752	552,503	477,503	70,100
Siam	182,340	143,324	143,324	-
Taiwan	88,474	30,327	30,327	-
Thailand	272,217	524,212	118,214	40,496
Vietnam	314,111	211,017	211,017	-
	<u>2,488,913</u>	<u>2,222,211</u>	<u>2,222,211</u>	<u>177,994</u>
Inter-Asia and special projects	52,000	52,000	50,000	15,000
San Francisco	37,000	-	-	-
New York	15,000	-	-	-
	<u>149,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Allocated expenditures:				
retirement plan premiums	42,777	-	-	-
payroll taxes on employees				
benefits	45,000	-	-	-
insurance	14,223	-	-	-
other	3,000	-	-	-
	<u>105,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	\$ 2,593,913	<u>2,222,211</u>	<u>4,312,211</u>	<u>193,000</u>

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Category	Total	1953			1954	1955		
		Current year	1953	1954		Total	Current year	1955
	58,880	1,180	1,180	10,000	-	1,180	1,180	-
	2,300	510	510	2,280	-	510	510	-
	3,841	70	70	3,771	-	70	70	-
	11,000	507	507	10,493	1,000	507	507	-
	21,221	574	574	20,647	-	574	574	-
	-	-	-	-	-	-	-	-
	1,007	480	480	527	-	480	480	-
	124,000	3,841	3,841	120,159	-	3,841	3,841	70
	78,000	20,000	20,000	58,000	-	20,000	20,000	-
	117,000	2,170	2,170	114,830	-	2,170	2,170	-
	200,000	2,100	2,100	197,900	-	2,100	2,100	-
	4,000	800	800	3,200	-	800	800	-
	40,000	30	30	39,970	-	30	30	-
	1,000	7,000	7,000	6,000	-	7,000	7,000	1,000
	<u>1,000,000</u>	<u>20,000</u>	<u>20,000</u>	<u>980,000</u>	<u>1,000</u>	<u>20,000</u>	<u>20,000</u>	<u>1,000</u>
	-	-	-	-	-	-	-	-
	870,000	5,000	5,000	865,000	-	5,000	5,000	1,300
	10,000	100	100	9,900	-	100	100	-
	<u>880,000</u>	<u>5,100</u>	<u>5,100</u>	<u>874,900</u>	<u>1,000</u>	<u>5,100</u>	<u>5,100</u>	<u>1,300</u>
	10,000	-	-	10,000	-	-	-	-
	40,000	-	-	40,000	-	-	-	-
	24,000	-	-	24,000	-	-	-	-
	3,000	-	-	3,000	-	-	-	-
	<u>187,000</u>	<u>5,100</u>	<u>5,100</u>	<u>181,900</u>	<u>1,000</u>	<u>5,100</u>	<u>5,100</u>	<u>1,300</u>
Total	<u>2,200,000</u>	<u>30,000</u>	<u>30,000</u>	<u>2,170,000</u>	<u>4,000</u>	<u>30,000</u>	<u>30,000</u>	<u>4,000</u>

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