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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Report of Audit QRPLUMB

FROM:

Audit Staff
1201 Key

EXTENSION

31831

NO.

DATE

7 December 1987

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. IG
6E18 Hdqs

10 Dec 87 []

2.

3. C/PPS
3D01 Hdqs

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4. DC/PPS

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5. PPS/PM

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c/SIB - }
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7. c/SIB

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8. Marty

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The recommendations right away, wot? Ron H. should be consulted. B.

9. PPS/PM

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RECORD COPY

4 December 1987

MEMORANDUM FOR: Chief, Political and Psychological Staff

VIA: Inspector General

FROM: [Deputy Inspector General for Audit]

SUBJECT: Report of Audit of Operational Activity
QRPLUMB, 1 April 1983 - 31 December 1986

1. Subject report is attached for your review. Please advise me of action taken on the recommendations contained in the report.

2. We appreciate the cooperation and assistance extended by Staff personnel during the audit.

[]
[]

Attachment:
As stated

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All portions Classified SECRET

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DECL OADR

SUBJECT: Report of Audit of Operational Activity
QRPLUMB, 1 April 1983 - 31 December 1986

C/CAG/AS/[]:jb/x2873 (4 Dec 87)

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REPORT OF AUDIT
QRPLUMBFor the Period
1 April 1983 - 31 December 1986SUMMARY

1. Internal controls and procedures governing the custody and use of Agency resources were generally effective and in conformance with applicable regulations and the Administrative Plan. This report contains recommendations concerning the need to comply with financial reporting requirements and insurance coverage requirements and to better maintain QR TENURE's financial records. Other administrative problems were discussed with responsible officials and resolved during the audit.

SCOPE AND OPINION

2. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included a review of the overt records of the New York entity, QR TENURE, and the Munich entity, QR TERRACE, the related Headquarters records, and the effectiveness of internal controls and procedures to ensure the propriety of expenditures, the fair presentation of financial statements, and compliance with Agency regulations and the Administrative Plan.

3. In our opinion, the accompanying financial statements, Exhibits A, B, and C, present fairly the financial position of QRPLUMB at 31 December 1986 and the results of its operations for the 21 months then ended in conformity with generally accepted accounting principles applied on a consistent basis. Exhibit D presents fairly the results of the activity of QRPLUMB as a controlled subsidy during the period 1 April 1983 to 31 March 1985.

BACKGROUND

4. QRPLUMB is a Political and Psychological Staff (PPS) activity designed to provide intellectual and moral support to Ukrainians in the Soviet Union who seek moderation of the Soviet political system. Ukrainian language literature is distributed to the Ukraine and sold in Western Europe and North America. QRPLUMB also conducts a program relating to travelers to the Ukraine to obtain intelligence and to infiltrate literature. At the beginning of the audit period, the entity was classified as a controlled subsidy. The Agency acquired

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equity control as of 31 March 1985 and reclassified the activity as a proprietary.

FINANCIAL INFORMATION

5. The Agency investment balance in QRPLUMB at 31 December 1986 was \$[] [] During the audit period, Agency funding to the entity totalled [] []. Additional financial information may be found in Exhibits A, B, C, and D attached.

DETAILED COMMENTS

Financial Reporting Requirements

6. There are two bank accounts managed by QRTENURE that have not been recorded on its financial records or included in the accountings submitted to Headquarters. An unrecorded bank account was the subject of a recommendation in the previous audit report. The unrecorded bank accounts are used to deposit subscription and book sale receipts collected by QRTENURE for QRTERRACE. One account is in the name of QRTERRACE's journal, but the second is in the name of QRTENURE's administrative assistant, who manages both accounts. She and another unwitting employee are the signatories on the two accounts. There is no protective documentation on file at Headquarters for these bank accounts. At the audit date, the balance in the two accounts was \$10,651.

7. The account in the administrative assistant's name should be closed immediately. The second account should be recorded on QRTENURE's financial records. The contra entry to cash-in-bank should be the liability account, Deposits for Transfer. The balance in that liability account should be mirrored by an asset account at QRTERRACE. The activity in the bank account would be reflected on QRTERRACE's financial records as revenue and expenses. The balance in both accounts should be reconciled to the monthly reports prepared by the administrative assistant.

Recommendation #1: Close the bank account in the administrative assistant's name.

Recommendation #2: Record the second bank account on QRTENURE's financial records.

Recommendation #3: Obtain protective documentation for the remaining bank account as required by the QRPLUMB Administrative Plan.

QR TENURE Financial Records

8. Greater care needs to be exercised in the maintenance of QR TENURE's company books of account. During the audit field work, many arithmetic errors in the books hampered our collection of data regarding general ledger account activity during the audit period. In addition, accurate subsidiaries have not been maintained for the Fixed Assets, Accumulated Depreciation, and Advances to Employees general ledger accounts. The Treasurer of QR TENURE is charged with the maintenance of the company records, but he is not an accountant, and he has not been provided any training since he assumed his duties. Moreover, the time he can devote to improving the bookkeeping system is limited by his workload of other administrative duties. PPS should determine whether obtaining the services of an accountant or providing training to the Treasurer would better ensure that the books of account are properly maintained.

Recommendation #4: Ensure that QR TENURE books of account are maintained with greater care and proper attention to detail.

Insurance Coverage Requirements

9. QR TENURE has purchased a property liability insurance policy from a private insurance broker without the concurrence of Central Cover Staff (CCS). The QR PLUMB Administrative Plan requires that all insurance coverage be placed through [], or that CCS's concurrence be obtained prior to the purchase of alternate coverage.

Recommendation #5: Ensure that the provisions of the Administrative Plan on insurance coverage are observed.

QRPLUMB
Balance Sheet
31 December 1986

ASSETS

	<u>QR TENURE</u> (New York)	<u>QR TERRACE</u> (Munich)	<u>QR PLUMB</u> TOTAL
<u>Current Assets</u>			
Cash and time deposits	\$201,706	\$25,259	\$226,965
Accounts receivable		1,853	1,853
Advances	3,071		3,071
Due from QR TENURE		7,153	7,153
Other assets	16,740	5,774	22,514
Total Current Assets	<u>\$221,517</u>	<u>\$40,039</u>	<u>\$261,556</u>
<u>Fixed Assets</u>			
Furniture and equipment	\$ 74,767	\$24,239	\$ 99,006
Accumulated depreciation	(26,464)	(19,693)	(46,157)
Total Fixed Assets	<u>\$ 48,303</u>	<u>\$ 4,546</u>	<u>\$ 52,849</u>
Total Assets	<u>\$269,820</u>	<u>\$44,585</u>	<u>\$314,405</u>

LIABILITIES AND AGENCY INVESTMENT

Current Liabilities

Accounts payable	\$135,984	\$10,402	\$146,386
Clients' funds	111,460		111,460
Deposits for QR TERRACE	7,153		7,153
Other payables	1,797		1,797
Total Liabilities	<u>\$256,394</u>	<u>\$10,402</u>	<u>\$266,796</u>
Agency Investment (Exhibit C)	()	()	()
Total Liabilities and Agency Investment	<u>()</u>	<u>()</u>	<u>()</u>

QRPLUMB
Statement of Income and Expenses
1 April 1985 - 31 December 1986

<u>Income</u>	<u>QR TENURE</u> (New York)	<u>QR TERRACE</u> (Munich)	<u>QR PLUMB</u> TOTAL
Agency funding	()	()	()
Sales		175,701	175,701
Other income	22,036	230	22,266
Total Income	()	()	()
 <u>Expenses</u>			
Salaries	\$ 467,908	\$126,758	\$ 594,666
Payroll taxes	125,691	90,852	216,543
Consultant fees	180,546	240	180,786
Rent and utilities	157,252	22,636	179,888
Printing and publishing		101,768	101,768
Taxes	59,235	137	59,372
Depreciation	23,064	449	23,513
Travel and transportation	22,269	423	22,692
Supplies and services	20,685	1,074	21,759
Telephone	11,689	1,579	13,268
Repairs	5,020	6,067	11,087
Books and publications	8,755	1,272	10,027
Postage	5,757	539	6,296
Insurance	2,829	2,940	5,769
Lease of equipment	4,006		4,006
Entertainment	2,184	1,657	3,841
Meeting expenses and dues	3,055		3,055
Miscellaneous	758	1,489	2,247
Bank charges		1,001	1,001
Advertising		244	244
Interest		228	228
Total Expenses	<u>\$1,100,703</u>	<u>\$361,353</u>	<u>\$1,462,056</u>
 Net Income (Exhibit C)	 ()	 ()	 ()

QRPLUMB
Statement of Changes in Agency Investment
In the Proprietary
1 April 1985 - 31 December 1986

	<u>QRTENURE</u> (New York)	<u>QRTERRACE</u> (Munich)	<u>QRPLUMB</u> TOTAL
Balance, 1 April 1985 (Exhibit D)	\$ (268)	\$ 3,524	\$ 3,256
Adjustment for conversion to proprietary (Note 1)	<u>62,337</u>	<u>7,102</u>	<u>69,439</u>
Adjusted balance <u>a/</u>	<u>\$ 62,069</u>	<u>\$10,626</u>	<u>\$ 72,695</u>
Net Income/(Loss) (Exhibit B)	(40,667)	14,578	(26,089)
Agency funding recorded as:			
Accounts payable	()		()
Clients' funds	()		()
Other income in Clients' funds	15,733		15,733
Clients' funds expenses	(505,249)		(505,249)
Gain on currency conversion	<u> </u>	<u>8,979</u>	<u>8,979</u>
Balance 31 December 1986 <u>b/</u>	<u>()</u>	<u>()</u>	<u>()</u>

<u>a/</u> Recorded as:			
Capital	\$ 20,000	\$ 6,369	\$ 26,369
Retained Earnings	34,093	4,257	38,350
Clients' Funds	<u>7,976</u>		<u>7,976</u>
Equity, 1 April 1985	<u>\$ 62,069</u>	<u>\$10,626</u>	<u>\$ 72,695</u>

<u>b/</u> Recorded as:			
Capital	\$ 20,000	\$10,870	\$ 30,870
Retained Earnings	(6,574)	23,313	16,739
Funding in			
Clients' Funds	111,460		111,460
Accounts payable	<u>125,000</u>	<u> </u>	<u>125,000</u>
Equity, 31 December 1986	<u>\$249,886</u>	<u>\$34,183</u>	<u>\$284,069</u>

QRPLUMB
Statement of Changes in Agency Investment
In the Controlled Subsidy
1 April 1983 - 31 March 1985

	<u>QR TENURE</u> (New York)	<u>QR TERRACE</u> (Munich)	<u>QR PLUMB</u> TOTAL
Cash Balance, 1 April 1983	\$ 250,406	\$ 7,062	\$ 257,468
Agency funding			
4/1/83 - 9/30/84	()	()	()
10/1/84 - 3/31/85	()	()	()
Total funding	<u>()</u>	<u>()</u>	<u>()</u>
Payments from Clients' Funds			
4/1/83 - 9/30/84	(361,344)		(361,344)
10/1/84 - 3/31/85	(12,347)		(12,347)
Total payments	<u>(373,691)</u>	<u> </u>	<u>(373,691)</u>
Net expenses			
4/1/83 - 9/30/84	(803,841)	(160,284)	(964,125)
10/1/84 - 3/31/85	(351,142)	(48,254)	(399,396)
Total expenses	<u>(1,154,983)</u>	<u>(208,538)</u>	<u>(1,363,521)</u>
Cash Balance, 31 March 1985	<u>()</u>	<u>()</u>	<u>()</u>

QRPLUMB
Notes to Financial Statements
1 October 1984 - 31 December 1986

Note 1 QRPLUMB was converted to a proprietary from a controlled subsidiary 1 April 1985. Agency investment in a controlled subsidiary is considered to be the cash and investments held by the entity. Agency investment in a proprietary is the book value (the equity) of the proprietary. This change in calculation of the Agency investment in the entity resulted in a debit adjustment of \$() for QRTEENURE and of \$() for QRTEERRACE, for a total increase in accountability of \$69,439.

Note 2 The currency translation adjustment was necessary to record the change in currency exchange rates during the audit period. The rates prevailing at the translation dates were:

1 October 1984	DM 2.99 to U.S. \$1
31 March 1985	DM 3.14 to U.S. \$1
31 December 1986	DM 1.84 to U.S. \$1