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### ROUTING AND RECORD SHEET

**SUBJECT:** (Optional)  
Report of Audit of Operational Activity QRPLUMB

<b>FROM:</b> [ Deputy Inspector General for Audit 1201 Key ]	<b>EXTENSION</b> 31830	<b>NO.</b>
	<b>DATE</b> 12 September 1989	

<b>TO:</b> (Officer designation, room number, and building)	<b>DATE</b>		<b>OFFICER'S INITIALS</b>	<b>COMMENTS</b> (Number each comment to show from whom to whom. Draw a line across column after each comment.)
	RECEIVED	FORWARDED		

1. IG 2 T 21 NHB	13 Sep	14 Sep	[ ]	Report draft was discussed with: DC/PPS, PPS/PMO, C/PPS/SIB, and C/PPS/B&F.
2.				
3. C/PPS 4 N 53 NHB		18 SEP 1989	[ ]	cc: SSA/DDA C/EPS D/OFM C/EUR
4. DEPPS			[ ]	
5. C/PPS/PP				
6. PPS/PA				Action requested in 60 days
7.				
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12 SEP 89  
200-124-207/01

12 September 1989

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 January 1987 - 31 December 1988

1. Subject report is attached for your review. Please advise me within 60 days of action taken on the recommendations contained in the report.

2. It is my understanding that you have hired the services of a CPA firm so that appropriate financial controls and procedures in QRPLUMB can be obtained. We plan to visit QRPLUMB again in January 1990 to verify that the necessary controls and procedures have been implemented and are being consistently followed.

3. We appreciate the cooperation and assistance provided to the auditors by staff and proprietary personnel.

[ ]

Attachment:  
As stated

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All portions classified SECRET

CL BY [ ]  
DECL OADR

REPORT OF AUDIT  
Operational Activity QRPLUMBFor the Period  
1 January 1987 - 31 December 1988SUMMARY

1. During the audit period, internal controls and procedures governing the custody and use of QRPLUMB resources were not effective. Failure to implement certain prior audit recommendations and to establish and consistently adhere to appropriate financial controls and procedures has resulted in significant deficiencies that need to be corrected for full compliance with applicable laws, regulations, and Administrative Plan requirements. These deficiencies are addressed in recommendations regarding management control, accounting records, and the investment in proprietary account. Another recommendation concerns Executive Order 12333. Other internal control problems, including the need to obtain proper documentation for petty cash disbursements, to record book inventory, and to ensure that time sheets for freelance employees are properly approved, were discussed with responsible officials who agreed to take appropriate corrective action.

SCOPE and OPINION

2. The audit was performed in accordance with generally accepted government auditing standards and, accordingly, included such auditing procedures as we considered necessary. Our examination included a review of the overt records in the Newark, London, and Munich offices, and the related Headquarters records. We determined the effectiveness of internal controls and procedures and we tested compliance with laws, Agency regulations, and the Administrative Plan.

3. The audit identified many deficiencies in controls, procedures, and accounting records. As a result, we were unable to satisfy ourselves as to the fair valuation of the financial accounts of the QRPLUMB proprietary. Accordingly, we are unable to express, and do not express, an opinion on the financial statements of QRPLUMB for the two years ended December 31, 1988.

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CL BY [ ]  
DECL OADRWARNING NOTICE  
INTELLIGENCE SOURCES  
OR METHODS INVOLVED

BACKGROUND

4. QRPLUMB is a Political and Psychological Staff (PPS) proprietary designed to provide intellectual and moral support to Ukrainians who seek social and political moderation of the Soviet system. It consists of a publishing and distribution corporation in Newark, New Jersey, with affiliates in Munich and London. The organization publishes literature in Ukrainian, Russian, and English for distribution in the Soviet Ukraine, the Soviet Union, Eastern and Western Europe, and North America. It also funds the Ukrainian Peace Committee, a company operated by the London office, whose function is to influence West European peace groups on the USSR.

FUNDING INFORMATION

5. During the audit period, QRPLUMB received Agency funding of [ ] of which [ ] went to the Newark office and [ ] went to the Munich office. Newark, in turn, transferred [ ] to the London office.

DETAILED COMMENTSManagement Control

6. Management oversight and financial review need strengthening to ensure that proper accounting controls and procedures are established and consistently followed. Prior audit recommendations concerning the need to record all bank accounts in the financial records, to obtain protective documentation for all bank accounts, and to accurately maintain current books of account were not implemented. More stringent management oversight and the consistent implementation of prior audit recommendations would have precluded additional comments in this report regarding insufficient accounting records.

7. Management has not maintained acceptable systems of internal controls at the Newark and London offices. At the Newark office, there was no segregation of accounting duties, particularly with regard to cash. The same person maintains the accounting records, collects and disburses cash, and maintains the bank account and signs checks. At the London office, no official accounting or control system exists and bookkeeping records were not maintained.

8. It is because of these conditions that we are unable to express an opinion on the financial statements of QRPLUMB for the two years ended December 31, 1988. The failure to provide for adequate controls and procedures to the extent that the financial statements of an entity cannot be relied upon is a

serious matter that should not be taken lightly. It is the responsibility of management to establish and maintain a system of internal accounting control that provides reasonable assurance that assets are safeguarded against unauthorized use or disposition, and that transactions are executed in accordance with management authorization and are recorded properly to permit the preparation of financial statements in accord with generally accepted accounting principles.

RECOMMENDATION #1: Strengthen management oversight of QRPLUMB.

RECOMMENDATION #2: Establish an appropriate system of internal accounting control for QRPLUMB.

#### Accounting Records

9. The Newark office does not maintain adequate records for their Fixed Assets, Accumulated Depreciation, and Advances to Employees general ledger accounts. Advances to Employees totaling \$19,101 at year-end 1988 are not supported by subsidiary records broken down by advancee and amount; therefore, the composition of the balance is not available and advances could not be verified. Fixed Asset and Accumulated Depreciation accounts do not agree with supporting schedules; the property account is understated by \$7,600 as a result. In addition, the listing of property is incomplete and adjustments identified in the prior audit as necessary to properly record insurance proceeds for a stolen computer, sale of office furniture to a prior employee, and trade-in of a copier were made incorrectly.

RECOMMENDATION #3: Maintain accurate subsidiaries for advance and property accounts.

10. Approximately \$32,000 of the research expenses sampled at the Newark office were paid by check to the treasurer and others and expensed without supporting invoices or receipts. The treasurer explained that he and other office employees used the funds to fund dissident groups in foreign countries, to purchase equipment and supplies, or to pay office expenses. Appropriate receipts and invoices were found to support \$11,000 of these expenses and proprietary officials ensured us that they would obtain documentation to substantiate the remaining \$21,000.

RECOMMENDATION #4: Obtain supporting documentation for the above expenses and continue to adequately document such expenses.

11. Since January 1988, Newark's cash-in-bank accounts do not reconcile to supporting bank statements. Newark prepares reconciliations, but often inaccurately, and took no action to resolve unexplained reconciling differences. The net unexplained reconciling difference was \$417 in December 1988.

12. Moreover, the Administrative Plan requires that a schedule of cash-in-bank accounts be submitted quarterly. A certification that bank reconciliations have been prepared is also required. This certification and the accompanying schedule are not being submitted to Headquarters.

RECOMMENDATION #5: Resolve the unexplained reconciling difference in the cash-in-bank accounts, and ensure that the required cash schedule and certification are submitted to Headquarters as required by the Administrative Plan.

13. Newark's accounting records do not record the bank account and activity of the North American operations of Sucasnist. Sucasnist is a registered, assumed name of the Newark corporation that was established to account for the North American distribution of the "Sucasnist" journal published in Munich. During the audit period, Sucasnist had approximately \$50,000 in subscription sales, and the related bank balance at 31 December 1988 was over \$8,000.

14. A recommendation from the prior audit to record this activity on Newark's accounting records was not implemented. The Newark treasurer assumed that the the Munich office was recording the Sucasnist activity, but Munich was not, and should not be doing that. Sucasnist is registered under the Newark entity and its financial results must be consolidated with Newark's for reporting to the Agency as well as to taxing authorities.

RECOMMENDATION #6: Record and consolidate the activity of North American Sucasnist into Newark's financial records.

15. Newark does not properly record funding to the London office. Newark expenses fundings when transfers are made instead of properly recording the fundings in an investment account. The investment account would later be reduced for actual expenses as reported to Newark by the London office. Failure to establish appropriate recording procedures has resulted in an overstatement of expenses on Newark's records and a corresponding understatement of assets in the amount of \$34,600 at the audit date, consisting of \$31,000 in cash and \$3,600 in equipment held and, thus, not expensed by the London office.

RECOMMENDATION #7: Establish proper procedures for recording Newark's fundings to the London office.

16. The prior audit report noted that the Newark treasurer, who is charged with maintaining the financial records, is not an accountant and has not received adequate training. The report recommended that PPS determine whether obtaining the services of an accountant or providing training to the treasurer would ensure that the accounting records are properly maintained. PPS obtained the services of a former Agency finance officer who visited the Newark office for one day. The current state of Newark's accounting records indicates that these actions were not sufficient to provide for adequate recordkeeping.

RECOMMENDATION #8: Ensure that the person responsible for maintaining the accounting records receives adequate training and professional accounting support.

17. Similarly, the person responsible for maintaining the accounting records at the London office has no training or experience in bookkeeping. Cash flow statements prepared for the two companies, the Society of Soviet Nationality Studies (SSNS) and the Ukranian Peace Committee (UPC), that are operated by the London office do not reconcile to respective bank account balances. Appropriate accounting records and financial statements including ledgers of account, income statements, and balance sheets are not maintained.

18. In addition, the operations of UPC are not being submitted to the Chartered Accountant who prepares tax reports for SSNS, and the results of UPC are not being reported to British tax authorities. SSNS is incorporated as a not-for-profit organization under British law; it is unclear whether UPC should be similarly incorporated or if its operations should simply be combined with those of SSNS. Regardless, the Chartered Accountant should be consulted on this matter to ensure compliance with British incorporation and tax reporting laws.

RECOMMENDATION #9: Establish an accounting system at the London office and provide necessary training and professional support to the office bookkeeper.

RECOMMENDATION #10: Ensure that the operations of the UPC are reported and registered in accord with British law.

Investment in Proprietary Account

19. The Agency's general ledger (GL) account 1601, "Investments in Proprietary Projects," for QRPLUMB is not being adjusted for the operations of the Munich office. The balance sheets and income statements submitted to the Agency only contain Newark's activity. Cash flow statements reporting Munich's activity are attached to these statements. Proprietary Systems Branch (PSB)/Office of Financial Management, the office responsible for maintaining the GL 1601, assumed that the balance sheets and income statements already included Munich's activity. The G.L. 1601 account was, therefore, only updated for Newark's financial results. Because of this problem in reporting, none of the Agency's \$195,000 funding to Munich has been accounted for in the Agency's G.L. 1601 account.

RECOMMENDATION #11: Submit financial statements required by the Administrative Plan which reflect the consolidated operations of QRPLUMB.

RECOMMENDATION #12: Provide PSB with the data necessary to adjust the G.L. 1601 account for the operations of the Munich office.

Executive Order 12333

20. United States subscriptions to QRPLUMB's "Sucasnist" journal raise the concern that the distribution of this journal might violate the provision of Executive Order (E.O.) 12333. The E.O. precludes the Agency from undertaking propaganda activities intended to influence United States political processes, public opinion, policies, or media. Approximately 750 of the subscribers to this Ukrainian-language journal reside in the United States. The Policy Guidance Group of the Directorate of Operation's Policy Coordination Staff (PCS) and the Office of General Counsel (OGC) have stated that propaganda publications which have some distribution in the United States are reviewed on a case-by-case basis to ensure that the impact of such distribution does not give rise to any concern that E.O. 12333 is being violated. An initial meeting with representatives of the Audit Staff, PPS, PCS, and OGC was recently held to initiate action on this matter.

RECOMMENDATION #13: Coordinate with Policy Coordination Staff and Office of General Counsel and obtain a written opinion that the circumstances of U.S. subscriptions to the "Sucasnist" journal are in compliance with E.O. 12333.