United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Follow Up Review of Iraqi National Congress Support Foundation

Report Number AUD/CG-02-44, September 2002

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Report No. AUD/CG-02-44

FOLLOW UP REVIEW OF IRAQI NATIONAL CONGRESS SUPPORT FOUNDATION

September 2002

SUMMARY

At the request of the Department of State's (the Department) Bureau of Near Eastern Affairs, Office of Northern Gulf Affairs (NEA/NGA), the Office of Inspector General (OIG) conducted a follow up review related to recommendations in OIG Report "Review of Awards to Iraqi National Congress Support Foundation" (Report Number 01-FMA-R-092, dated September 2001). Specifically, OIG reviewed corrective actions taken by the Iraqi National Congress Support Foundation (INCSF) and also examined costs incurred between June 1, 2001, and March 31, 2002, to determine whether INCSF expended Federal funds: (a) for the intended purpose of the agreements, and (b) in accordance with applicable Federal laws and regulations. OIG found that INCSF:

- had taken significant steps to implement OIG's recommendations. However, INCSF had not fully implemented all portions of the two recommendations, in part, because of a lack of funding. OIG concluded that, based on INCSF's level of compliance with previous recommendations 2 and 4, the restriction of funds recommended in the prior audit report is no longer necessary. As a result, OIG considers its prior recommendation, to withhold or restrict future funding until INCSF implements adequate financial controls, to be closed.

- incurred questioned costs totaling $110,851 including [(b)(2)----------

  ----------]. Other questioned costs related to non-compliance with Federal travel regulations and applicable circulars.

- had strengthened some financial controls, but had been unable to establish effective financial management, in part, because the INCSF did not have a long term agreement or a consolidated budget plan. As of March 31, 2002, INCSF had about $1 million in unfunded liabilities. Subsequent to OIG's review, the Department provided an additional $900,000, and released $113,000 previously withheld, to cover these unfunded liabilities. However, INCSF has operated without a grant agreement since June 1, 2002, and lacks funding to meet financial obligations incurred since that date.

OIG conducted an exit briefing on June 10, 2002, in London, attended by two of the six active members of the Iraqi National Congress (INC) Leadership Council, which governs the INCSF. After the completion of our fieldwork, INCSF provided additional explanations, documentation, and comments. Their comments are incorporated in the body of the report as applicable. On July 19, 2002, we also conducted a meeting with NEA and Office of Acquisition (A/LM/AQM) officials to discuss our review results. Subsequent to these meetings, we conducted a joint exit conference with NEA/NGA and INCSF officials on September 26, 2002.

This report discusses each of the above findings in detail and presents OIG's recommendations for resolution of the findings. The questioned costs are discussed in detail in the notes to Schedule 1.

BACKGROUND

The Iraq Liberation Act (ILA) of 1998[1] established a program to support a transition to democracy in Iraq. The ILA authorized the President to provide assistance in several areas: Broadcasting, Military, and Humanitarian. The ILA required the President to designate one or more Iraqi democratic opposition organizations as eligible to receive Federal assistance. On February 4, 1999, then 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 (INA)
- The Iraqi National Congress (INC)
- The Islamic Movement of Iraqi Kurdistan (IMIK)
- The Kurdistan Democratic Party (KDP)
- The Movement for Constitutional Monarchy (MCM)
- The Patriotic Union of Kurdistan (PUK)
- The Supreme Council for the Islamic Revolution in Iraq

The INC is a broad coalition of political organizations that oppose the regime of Saddam Hussein. The INC's primary goal is the removal of Saddam Hussein and his regime and the institution of a democratic government in Iraq. Established in 1992, the INC 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 INC is working to instill the values of human rights and democracy in Iraq and to establish a federal parliamentary government in a constitutional system based upon the rule of law.

INCSF was established as a foundation to provide administrative, financial, and other support to the INC. INCSF was incorporated in the state of Delaware as a non-profit organization, in August 1999 under Section 501(c)(3) of the Internal Revenue Code of 1986. In February 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

[1] Pub. L. No. 105-338 (1998); 22 U.S.C. 2151 note (2002).

June 2002, INCSF headquarters was located in London, England. INCSF also maintained offices in other cities, namely, Washington, DC, [(b)(2)/(b)(6)----------]

From March 2000 to May 2002, INCSF received three cooperative agreements (and subsequent amendments) totaling approximately $17.3 million as shown in the Table 1.

Table 1- Department of State Funding to INCSF

Award/Amendment Number	Period	Amount
S-LMAQM-99-H-0020	3/31/00 to 9/30/00	$267,784
Amendment #1	*(No change)*[2]	$0.00
Amendment #2	Extended to 11/30/00	$0.00
Amendment #3	*(No change)*[3]	$0.00
S-LMAQM-00-H-0152	9/29/00 to 2/28/01	$4,000,000
Amendment #1	Extended to 3/31/01	$0.00
Amendment #2	Extended to 5/31/01	$0.00
Amendment #3	Extended to 6/30/01	$0.00
Amendment #4	Extended to 9/30/01	$4,000,000
Amendment #5	*(No change)*[4]	$2,000,000
Amendment #6	Extended to 10/15/01	$0.00
Amendment #7	Extended to 10/31/01	$0.00
Amendment #8	Extended to 11/15/01	$0.00
Amendment #9	Extended to 12/31/01	$1,700,000
Amendment #10	Extended to 3/31/02	$2,900,000
S-LMAQM-02-H-0055	4/1/02 – 5/31/02	$2,400,000
Total		$17,267,784

Source: Cooperative agreements and amendments as of 5/31/02

The funds provided under these agreements have supported various activities including, meetings with international diplomatic representatives, establishment of a television station with broadcasting to Iraq, the printing and distribution of the "*al Mutamar*" newspaper, maintenance of a website, facilitating training programs under the ILA, and the collection and dissemination of information.

[2] Amendment one was for administrative purposes – to revise budget with no additional funds or change in performance period.
[3] Amendment three was for administrative purposes – to reflect new address of the recipient.
[4] Amendments four and five were issued concurrently to account for two different fund cites for the cumulative amount being added to the award. Amendment four awarded an additional $4 million and extended the performance period, while amendment five awarded an additional $2 million.

PRIOR AUDITS

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 establishing the necessity for and nature of the cash expenses.

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. In a draft report, the British firm also noted significant non-compliance and accounting issues.

In June 2001, at the request of the NEA/NGA, OIG conducted a review related to cooperative agreements S-LMAQM-99-H-0020 and S-LMAQM-00-H-0152 awarded to INCSF. In OIG report number 01-FMA-R-092, dated September 2001, OIG made four recommendations and questioned costs totaling about $2.2 million. Of the four recommendations, two were directed to Department offices and two required action by INCSF. OIG found that INCSF needed significant improvements in accountability to ensure that Federal funds were properly accounted for and spent for the intended purposes of the agreements. OIG also found that INCSF needed to strengthen certain internal controls. The recommendations to the Department addressed oversight issues.

PURPOSE, SCOPE AND METHODOLOGY

OIG assessed corrective actions in response to recommendations to INCSF in the prior OIG audit report, "Review of Awards to Iraqi National Congress Support Foundation" (Report Number 01-FMA-R-092, dated September 2001). OIG also examined costs incurred between June 1, 2001, and March 31, 2002, to ensure that INCSF expended Federal funds: (a) for the intended purpose of the agreements, and (b) in accordance with applicable Federal laws and regulations. During this period, INCSF received seven amendments to cooperative agreement S-LMAQM-00-H-0152 that cumulatively added an additional $10.6 million to the original agreement amount of $4 million. Although not included in our scope when examining costs incurred, OIG did consider the award of cooperative agreement S-LMAQM-02-H-0055 (the "bridge grant"), which covered the period April through May 2002, when analyzing current procedures of INCSF and the overall management of Department awards to INCSF. OIG tested £2,481,302, or approximately $3.5 million, of costs incurred between June 1, 2001, and March 31, 2002.

To assess corrective actions in response to recommendations in the OIG audit report, we examined the current policies and practices of the organization in relationship to the recommendations made. We also reviewed actions taken by the Department with regard to the recommendations.

To obtain information on the accountability and allowability of costs related to Federal expenditures, we reviewed INCSF's financial records, supporting documentation, 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 examined data including agreements, amendments, payment records, financial and program reports. We held discussions with officials from the Department (NEA/NGA and A/LM/AQM) and INCSF (London and Washington offices). We also traced incurred costs from the general ledger and subsidiary ledgers to the INCSF's cash disbursement journal, bank statements, and other relevant documents. In examining payables, we traced costs from outstanding invoices and supporting documentation to the ledgers.

To determine compliance we considered applicable criteria in examining the books, records and supporting documentation. Criteria used in the review included: Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations;* OMB Circular A-122, *Cost Principles for Non-Profit Organizations*; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; the cooperative agreements and related amendments and documents such as proposals and correspondence; the ILA and Internal Revenue Service Publications: *Instructions for Form 990; Tax Topic 758 – Form 941-Employer's Quarterly Fed. Tax Return*; *Instructions for Forms W-2 and W-3*; and *FAQ – Form 1099-MISC & Independent Contractors*.

OIG conducted fieldwork in London, England from May 23 to June 13, 2002. In addition, OIG conducted fieldwork at the INCSF's Washington DC[(b)(2)/(b)(6)----] from June 19 to 28. We also conducted fieldwork at Department offices. 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. OIG's Office of Audits, Contracts and Grants Division conducted the review. Major contributors to this report were [(b)(6]----------].

REVIEW RESULTS

STATUS OF RECOMMENDATIONS FROM AUDIT REPORT 01-FMA-R-092

In 2001, at the request of the Department's Bureau of Near Eastern Affairs, Office of Northern Gulf Affairs (NEA/NGA), OIG conducted a review related to cooperative agreements S-LMAQM-99-H-0020 and S-LMAQM-00-H-0152 awarded to INCSF. The resulting report, OIG audit report 01-FMA-R-092, September 2001, contained four recommendations. Of the four recommendations, numbers one and three required action by the Department offices, while recommendation numbers two and four required action by INCSF.

In recommendation one, OIG recommended that the Department should withhold, or at least restrict, future funding to the Iraqi National Congress Support Foundation until the INCSF had implemented adequate and transparent financial controls. Based on INCSF's level of compliance with previous recommendations, as discussed in detail below, OIG determined that the restriction of funds recommended in the prior audit report is no longer necessary. As a result, OIG considers its prior recommendation, to withhold or restrict future funding, to be closed. In recommendation three, OIG recommended that the Department formally incorporate into the agreement a budget totaling $10 million (which was the total amount awarded at that time) that adequately and accurately reflected the approved and authorized administrative and program costs. This was not done. This matter is discussed further under the section "Other Matters – Factors that Hindered Effective Financial Management." Because agreement 0152 has expired, OIG considers this recommendation to be overtaken by events and, therefore, closed. However, OIG recommends that any future awards, and any subsequent amendments, should contain a budget that adequately and accurately reflects the total approved amount.

The remainder of this section discusses in detail the significant actions that INCSF had taken in response to prior recommendations number two and four. OIG considered portions of the recommendations resolved and closed. However, portions of both recommendations remain unresolved and/or open. Listed below each section is OIG's determination of the current status of that portion of the recommendation. Appendix A presents all the recommendations and their status in a consolidated format.

Audit Report 01-FMA-R-092 – Recommendation Two

OIG recommended that the grants officer, in coordination with the program office (NEA/NGA), require INCSF 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;***

OIG found that the INCSF had taken several actions in response to this portion of the recommendation. For example, INCSF procured the services of a consultant knowledgeable with U.S. Government policies, procedures and regulations related to grants. In November 2001, INCSF began converting the accounting system in London from a cash basis to an accrual method. Thus, London and DC offices were operating under the same method of accounting for expenses. However, as of the date of our fieldwork, the controller was still making adjusting entries for the London offices. As a result, the books for the period ended December 31, 2001, had not been closed at the time OIG's fieldwork began – six months after the end of the reporting period. In June 2002, during OIG's review, INCSF's controller closed the books.

INCSF requested approval to purchase a new accounting software package - Navision. This was a modification to prior plans that called for an upgrade of the Sage accounting system. The controller explained that the Navision software package was preferable to the Sage system because it allows for multiple currencies, can convert and report in US dollars, and allows for multiple sources of funding (i.e. funding received under more than one grant can be traced). INCSF planned to run the two systems concurrently for a period to test Navision functionality. Specifically, the controller planned to compare data from the two systems for the month of January 2002, and, barring any complications, would have the system fully operational by March 31, 2002. However, according to the controller, the full implementation date has been delayed for several reasons, including the need to respond to numerous requests for data from the Department and a general lack of qualified accounting staff. In addition, due to unpaid bills, including an unpaid annual support contract, INCSF was unable to obtain technical support for the new system except under special circumstances. According to the controller, INCSF had to abandon its original plan and carry on entering data for subsequent months. As a result, all invoices and related transactions for the period June 1 onwards would be entered into Navision and not into Sage. The controller also noted that a fairly extensive review of the entries would need to be undertaken, particularly for April, to try to ensure that they [the entries] are allocated to the correct agreement.

INCSF had also developed a standardized chart of accounts under the Navision system. As of June 2002, the Washington, DC office was using still using QuickBooks, but was coding the expenses according to the Navision chart of accounts. However, because of the delay in London's conversion, the controller explained that INCSF was still recording expenses in the Sage systems. With each delay in full implementation, the amount of data that INCSF will have to convert from Sage to Navision increases, as does the possibility of accounting errors.

Once INCSF fully implements the Navision system, and its chart of accounts is fully implemented by INCSF, it should be able to produce organizational-wide financial reports.

Therefore, OIG considers this portion of the recommendation resolved but not closed until such time as verification is received that the Navision system is fully operational.

- ***hire a financial officer with ability and authority to manage the financial operations of the organization and also hire and train sufficient accounting staff;***

In September 2001, INCSF hired someone to function as the finance controller. This person, who began full-time work in October 2001, oversees the finance department. In addition, INCSF hired an additional staff member to work in the finance department, bringing the total number of employees in that department to three. In August 2001, INCSF sent an employee to the US to received training specifically related to grants. Further, in April 2002, INCSF arranged for the finance staff to receive training on the new Navision accounting software. Therefore, OIG considers this portion of the recommendation resolved and closed. However, we think that the newly hired staff in the accounting department, and perhaps other employees within the organization, would also benefit from attending training specifically related to grants and would therefore suggest that similar opportunities be afforded them as resources permit.

- ***develop an agreed upon set of procedures for cash disbursements to ensure adequate source documentation for these types of payment;***

INCSF developed a set of procedures for cash disbursements and began testing the procedures in November 2001. INCSF provided these to the Department for comment in January 2002. According to INCSF, as of June 2002, the Department had not provided any response as to the adequacy of the procedures. Notwithstanding a lack of feedback, the INCSF continued utilizing the procedures. However, pending comments on the cash disbursement procedures from the Department, INCSF has not formally included these procedures into its written policy and procedures manual. In testing the cash expenditures, OIG found that the audit trail from the receipt to the payment voucher to the cashbook was not always clear for a non-Arabic speaker. Thus, OIG recommended that the amount and purpose of the expenditure, at a minimum, be noted on the face of the receipt in English and that English language numbers be recorded in the cashbook. INCSF agreed and immediately revised the cash-based field operations procedures to reflect these changes. Therefore, OIG considers this portion of the recommendation resolved but not closed pending a formal determination from the Department as to the adequacy of the procedures.

- ***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;***

INCSF established procedures that seek to manage its cash so as to maintain low cash balances and yet still have sufficient cash to pay invoices on a timely basis. INCSF's procedures call for payment requests to be prepared based on an analysis of funds needed. Further, in the "bridge grant" that covered the period April 1 through May 31, 2002, the grant officer revised the terms and conditions related to payments. Specifically, paragraph d of provision XI was changed to read, "Advances shall be approved for periods **not to exceed 5 business days**." Although this action does appear responsive to OIG's previous recommendation, we question whether such a short time frame is administratively viable on behalf of both the Department and the recipient, especially given the fact that the revised provision also states that "Each drawdown

under this agreement will be authorized by the grants officer **after review of specific costs**[5] to be covered or reimbursed by the funds." [Emphasis added.] Nevertheless, OIG considers this portion of the recommendation resolved and closed.

- ***deposit Federal funds in interest-bearing accounts and remit annually interest earned in excess of $250 to the Department;***

According to the current grants officer, the Department determined that the possible interest that would have been earned would not have offset the bank charges, an allowable cost under the agreement, for maintaining an interest bearing account. Therefore, the Department permitted INCSF to maintain its current bank accounts, which are not interest bearing. If INCSF is to receive new funding, an interest bearing account should be established. Therefore, OIG considers this portion of the recommendation unresolved and open.

- ***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;***

As INCSF has hired additional financial staff, it has increased the separation of duties. For example, INCSF's current policies and procedures establish that the controller conducts the bank reconciliation that is in turn reviewed by the operations officer. Further, the controller reviews all postings made by the financial staff prior to inclusion into the accounting system. In addition, INCSF hired [(b)(2)/(b)(6)----------]. This person has been tasked with reviewing and preparing all accounting entries for all Information Collection Program (ICP)-related data. Therefore, OIG considers this portion of the recommendation resolved and closed.

- ***develop written accounting policies and procedures.***

INCSF established written accounting policies and procedures in critical areas: procurement, wire transfers, cash management procedures for the field, cash disbursements, travel and accounts payable. INCSF finalized and implemented these procedures, with the exception of cash management for the field as previously discussed. INCSF stated, in its response to OIG as to status to recommendations, that they planned to continue to add to the written policies. Therefore, OIG considers this portion of the recommendation resolved and closed.

[5]Under the regulations implementing the Paperwork Reduction Act of 1995 (5 CFR §1320.5(d)(2)) and OMB Circular A-110, a recipient is not required to submit more than an original Standard Form 270 (SF-270) and two copies. The SF-270 does not require a recipient to itemize costs by line item. A recipient can be required to submit a Standard Form 272, Federal Cash Transaction Report. However, this form requires submission of only cumulative amounts disbursed.

Audit Report 01-FMA-R-092 – Recommendation Four

OIG further recommended that the grants officer, in coordination with the program office (NEA/NGA), require INCSF 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;***

The Department had not yet required INCSF to reimburse the Department for the unallowable costs identified in OIG's prior review. The [A/LM/AQM] grant officer did withhold approximately $113,000 of funds available while certain costs were verified. OIG considers this portion of the recommendation unresolved and not closed pending receipt of a final determination letter issued by the grants officer.

- ***prepare, report, and provide, retroactively if applicable, appropriate tax documents;***

INCSF filed its IRS Form 990, *Return of Organization Exempt from Income Tax*, for 2000 and requested a filing extension (until August 2002) for its 2001 submission. INCSF also filed and provided to applicable people Form 1099-MISC, *Miscellaneous Income*, for the tax year 2001, for its Washington, DC office staff. However, INCSF did not file Form 1099-MISC for the tax year 2001 for any consultant/contactor subject to US tax requirements that invoiced directly to the INCSF office in London. When OIG brought this matter to management's attention, INCSF acknowledged the oversight and said that it would immediately request that the Washington, DC office (who was more familiar with US tax requirements) retroactively prepare the Form 1099s for the US vendors who billed the UK office directly. During the course of our Washington, DC fieldwork, OIG reviewed copies of the forms that had been prepared for those organizations subject to US tax requirements that had invoiced the UK office. We also reviewed forms that the Washington, DC office had prepared for its staff and consultants. Therefore, OIG considers this portion of the recommendation resolved and closed.

- ***implement the requirement that timesheets be completed and implement procedures to include instructions for proper completion of timesheets to all employees and contractors;***

In January 2002, INCSF established new time and attendance procedures. We verified 100 percent of the timesheets for UK-based permanent employees for the month of February 2002. Even though OIG did not include temporary staff ("freelancers[6]") in our scope, we did note that this group was also preparing timesheets. OIG completed attribute testing to determine whether the timesheets were completed, signed, reviewed by a supervisor and properly supported by documentation. OIG noted no exceptions.

In conducting the fieldwork in Washington, DC, we also tested time sheets for the month of February. We noted that 1 out of [(b)(6)] timesheets was not available[7]. In addition, the

[6] "Freelancers" were people hired on a intermittent basis to perform various tasks related to the media activities (i.e. Liberty TV) of INCSF.

[7] Employees completed a weekly time sheet running from Sunday to Saturday. Because the employees started a new sheet midweek when the month changed, there should have been five timesheets for each employee (week ending: 2/2, 2/9, 2/16, 2/23, and 2/28).

[(b)(2)/(b)(6)] in Washington, DC were using a time and attendance form that was different from that observed in the UK[(b)(2)/(b)(6)---] We discussed this with the INCSF consultant who had developed the new time and attendance procedures. The consultant explained that the Washington, DC-based staff had been using a system of timesheets, as noted in OIG's prior report, and therefore attention had been focused on the other offices. However, the consultant stated that it was INCSF's intention to switch the Washington, DC [(b)(2)/(b)(6)] to the new form. Both forms of the time sheets, however, appeared adequate to meet the criteria when properly completed. OIG also reviewed timesheets submitted by the [(b)(2)/(b)(6)] regional representation office. OIG did not examine timesheets for [(b)(2)/(b)(6)---]. OIG considers this portion of the recommendation to be resolved and closed.

- ***consolidate the property listings and conduct annual inventories as outlined in applicable regulations;***

INCSF had consolidated the various computer lists, office equipment lists, and office furniture lists. Instead of a list of each type for each office, INCSF now had a consolidated list for each type. OIG noted that incomplete information was included for some of the regional representation offices, and one regional representation office was not included at all. However, it should be noted that most of the items purchased by INCSF fell below the OMB established threshold for accountable equipment. "Equipment," as defined in 22 CFR 145.2(m), is

> "…tangible nonexpendable personal property including exempt property charged directly to the award having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, consistent with recipient policy, lower limits may be established."

INCSF, in its accounting policies and procedures, stated its intention to maintain solid inventory over all equipment, both expendable and non-expendable. OIG reconciled the property listing to the general ledger, as of May 2002, and tested equipment with a value greater than $5,000 purchased since June 2001. OIG was unable to locate one of six items tested. INCSF provided documentation to show that the item in question had been exchanged for two different components. Therefore, OIG considers this portion of the recommendation resolved and closed.

- ***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;***

INCSF developed a personnel handbook. Among other things, the (draft) personnel handbook contained guidance on

- conditions of employment,
- attendance and approved absences,
- fringe benefits, and
- other terms of employment.

According to INCSF's "Status of Major Financial Management Improvements," INCSF drafted the personnel policies but has not yet had them reviewed by a lawyer to determine whether they comply with applicable UK laws. INCSF explained that the legal review has been delayed because of funding difficulties.

INCSF also began the use of a "Personnel Action Form" to document the basic terms of employment. INCSF also prepared position descriptions. Therefore, OIG considers this recommendation resolved but not closed, pending finalization and full implementation of the Personnel Handbook.

- ***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);***

INCSF drafted and implemented travel policies including the use of a Travel Advance Authorization form that documents the purpose of the trip and its dates. INCSF also planned to hold staff training sessions on the travel policies. Therefore, OIG considers this portion of the recommendation resolved and closed.

- ***establish a system to ensure that all program reports are submitted within the required time frames.***

INCSF had not established a formal system since, to date, INCSF, for all intents and purposes, had only one grant at any one time. However, INCSF was aware that financial and programmatic reports are due within 90 days of the close of the agreement. In light of possible multiple sources of funding, INCSF recognized the need for a more established system. INCSF developed a checklist with due dates listing all grants that will be maintained in accounting to minimize delays in the submission of reports. The INC leadership had not yet approved this new approach. Therefore, OIG considers this portion of the recommendation resolved but not closed until we receive verification that the new system is approved and operational.

Conclusion

INCSF had taken many actions in response to OIG's prior recommendations. As a result, INCSF has improved its controls; however, additional work is still needed. We encourage INCSF to continue to strengthen its controls and strive to implement OIG's recommendations fully.

NON-COMPLIANCE WITH LAWS AND AGREEMENT PROVISIONS

During the followup review, OIG identified instances of non-compliance with applicable laws and grant terms and conditions or other applicable regulations. As a result, OIG questioned costs as unallowable totaling about $110,851 as shown in Schedule 1. As discussed below and in the notes to Schedule 1, the majority of the questioned costs related to expenditures affected by [(b)(2)/(b)(6)----------]. Other questioned costs related to non-compliance with Federal travel regulations and applicable circulars.

[(b)(b2)/(b)(6)------]

INCSF incurred costs that exceeded the limits placed [(b)(b2)/(b)(6)----------], which resulted in questioned costs of [(b)(2)/(b)6)----------

----------] to transfer [(b)(2)/(b)(6)----------] We found, however, that during that period INCSF had booked in its accounting records expenditures of[(b)(2)/(b)(6)], a difference of [(b)(2)/(b)(6)] between actual expenditures and the authorized amount.

INCSF notified [(b)(2)/(b)(6)]of this situation in conjunction [(b)(2)/(b)(6)----------] In a letter dated February 1, 2002, INCSF's legal representatives explained that this had happened because "…in large part, the organization was unaware of the violation because it did not have accounting systems fully in place to track these expenditures." INCSF also explained that although these amounts were earmarked [(b)(2)/(b)(6)] the INCSF did not have precise information on how much was spent [(b)(b2)/(b)(6)---------] on items permissible [(b)(2)/(b)(6)----------]

In addition, OIG found that INCSF transferred funds after December 31, 2001, [(b)(2)/(b)(6)----------] As a result, we questioned a total of [(b)(2)/(b)(6)] transferred in January and February 2002. [(b)(2)/(b)(6)----------]

Conclusions

Compliance with 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. INCSF had taken many actions in response to OIG's prior recommendations. However, INCSF incurred certain costs that are unallowable under the grant terms and conditions. Therefore, we make the following recommendation.

Recommendation 1: We recommend that the Office of Acquisitions grants officer, in coordination with the Bureau of Near Eastern Affairs, resolve the questioned costs and if disallowed, require the Iraqi National Congress Support Foundation to reimburse the Department for the disallowed amounts.

[8] [(b)(2)----------]

OTHER MATTERS

Factors That Hindered Effective Financial Management

INCSF has been unable to establish effective financial management due, in part, to INCSF's not having a long-term agreement or a consolidated budget plan that adequately and accurately reflected costs by specific programs and categories. As a result, INCSF had about $1 million in unfunded liabilities as of March 31, 2002. While the Department provided an additional $900,000 to cover the liabilities for that period, as well as released $113,000 previously withheld, INCSF has operated without an agreement since June 1, 2002, and it lacks funding to meet financial obligations incurred since that date.

Lack of a Long Term Agreement

Between February 2001 and March 2002, INCSF operated under a series of short-term amendments to cooperative agreement S-LMAQM-00-H-0152. As illustrated in Table 2, the longest amendment covered a three-month period, while the shortest covered merely 15 days.

Table 2 Extensions to Cooperative Agreement S-LMAQM-00-H-0152

AMENDMENT NUMBER	LENGTH OF EXTENSION
1	1 month
2	2 months
3	1 month
4/5*	3 months
6	15 days
7	16 days
8	15 days
9	1 ½ months
10	3 months

Source: Amendment documents.
*Amendments 4 and 5 were issued concurrently.

Between September 2001 and May 2002, the Department several times offered INCSF specific terms for new six to eight month agreements; however, they were unable to reach agreement with INCSF on the terms. As a result, the Department's grant officers used the short term, and, in some cases, post dated amendments to provide continuity of funding to INCSF. A two-month cooperative agreement, termed a "bridge grant" by the Department, covered the months of April and May 2002.

INCSF has operated without a signed agreement since June 1. The lack of a long-term agreement has created additional burdens on both the Department and the recipient. Both the Department and the recipient have expended considerable efforts in preparing the various documents necessary to execute these numerous amendments. For example, time has been spent preparing, reviewing, and negotiating various proposals and budget documents.

Further, a lack of a long-term agreement negatively affected the financial planning for the agreement. On several different occasions, the Department asked INCSF to make reductions to the budget operating levels. However, according to INCSF, given the short time periods, INCSF found it virtually impossible to reduce costs to meet the funding levels being offered by the Department. In three instances (amendments eight, nine, and ten) the Department issued the subsequent amendment after the expiration date of the previous amendment. For example, the Department unilaterally[9], signed amendment nine on December 4, 2001. Yet, the amendment identified an effective date of November 1, 2001.[10] Therefore, the recipient did not know the approved funding level for November until after the month was over. The Department also unilaterally issued amendment ten on February 4, 2002, but backdated the effective date to January 1. On April 4, 2002, four days after the expiration date noted in amendment ten, INCSF received a letter from an NEA/NGA official stating the Department's intention unilaterally to extend the agreement to April 30 and add an additional $1.2 million. However, the Department did not issue such an amendment. Instead, the Department and the recipient negotiated the terms of a new agreement to cover the months of April and May 2002. The new cooperative agreement was not signed until May 17, just two weeks prior to its expiration date.

In addition, the lack of a long-term agreement has negatively affected the programs the agreement was intended to support. For example, INCSF states that the month-to-month uncertainty of funding did not allow it sufficient time to make commitments to trainees for training available under the Iraq Liberation Act (ILA) According to INCSF's coordinator, the ILA courses require at least 45 days notice to set-up and plan. In February 2002, an official (other than the grants officer) of the NEA/NGA sent a letter to INCSF advising and encouraging INCSF to resume programming students. However, provision XIX, of agreement S-LMAQM-00-H-0152, states that

> …The Grants Officer is the only person authorized to approve changes in any of the requirements of this Grant. In the event the Recipient effects any change at the direction an any person other than the Grants Officer, the change(s) will be considered to have been made without authority and no adjustment will be made in the Grant price to cover any increase in costs incurred as a result thereof.

Further, the letter stated that funding was conditional upon "a signed agreement." According to an INCSF official, since INCSF did not at the time have a signed agreement to cover the period during which the training would occur, it did not resume programming students.

Lack of Consolidated (Comprehensive) Budget

In the prior report, OIG recommended that the Office of Acquisitions grants officer, in coordination with NEA, formally incorporate into the agreement a budget totaling $10 million (which had been award by that time) that adequately and accurately reflected the approved and

[9] "Unilateral" in this sense means that only the Department signed the document. The Department did not require the recipient to sign the amendment, even though Provision XIII of the agreement says that the period of performance can be amended during the period of performance upon **mutual** agreement between the parties.
[10] The effective date of amendment ten (November 1) actually overlapped the end date of amendment nine, which was November 15.

authorized administrative and program costs. This was not done. Further, the Department executed additional amendments that provided further funding and still a comprehensive budget covering the entire grant period was not developed. As of June 2002, cooperative agreement S-LMAQM-00-H-0152, which then totaled over $14 million, did not have a consolidated budget plan that adequately and accurately reflected the cumulative funding levels for the programs as approved by the Department. Lacking a final budget for the full agreement amount, OIG was unable to compare costs incurred to specific budget categories. In addition, OIG could not determine whether the organization exceeded the 15 percent threshold for budget line item adjustments.

> **Recommendation 2:** We recommend that the Bureau of Near Eastern Affairs ensure that any future award, and any subsequent amendments, include a budget that adequately and accurately reflect the approved and authorized administrative and program costs.

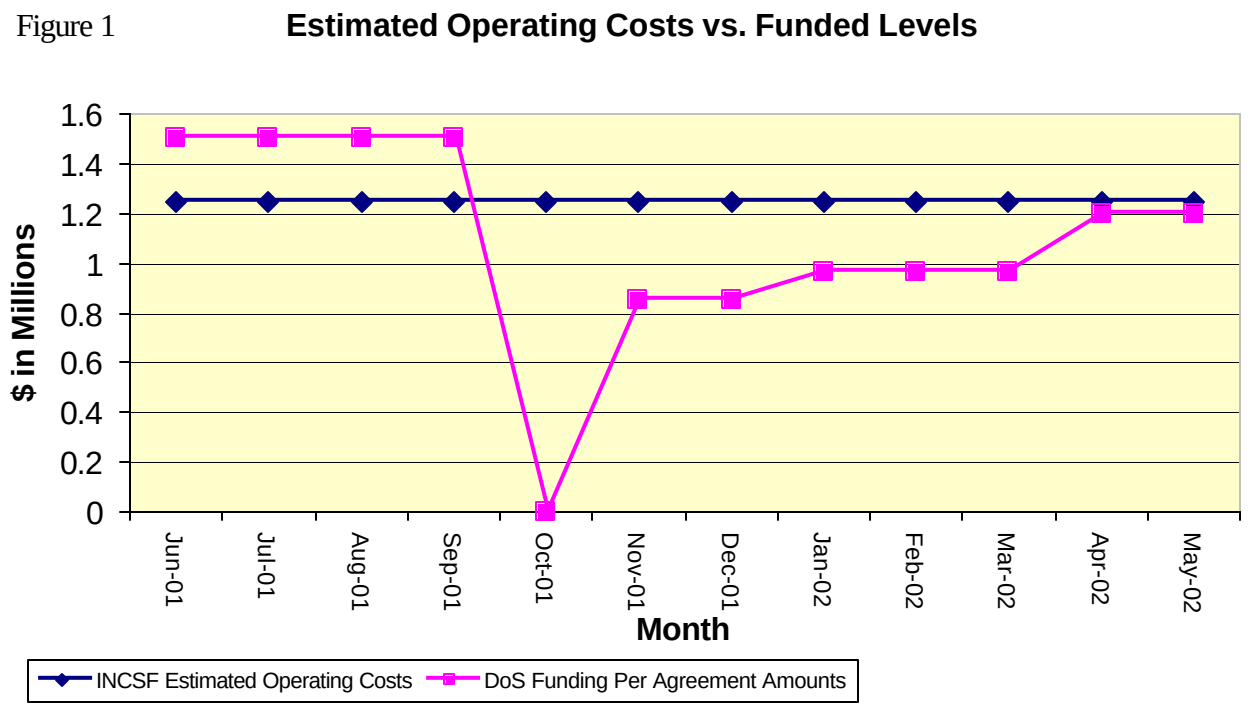
Unfunded Liabilities

As of March 31, 2002, INCSF had about $1 million in unfunded liabilities. This occurred, in part, because INCSF incorrectly had notified the Department that INCSF had sufficient funds in its bank account for the September through October 2001 timeframe. However, INCSF was still operating under the cash method instead of the accrual method of accounting, and most of the funds in its account were needed to cover expenses already incurred but for which payment had not yet been made. The funding levels for the months of November 2001 to March 2002 also contributed to the problem. Amendments four and five, which covered the period June through September 2001, provided approximately $1.2 million monthly for operating expenses.[11] Amendment nine, which was signed unilaterally, provided funds for November through December and totaled $1.7 million dollars or approximately $850,000 per month, which the grants officer believed to be sufficient at the time. Further, under another unilateral amendment, number ten, the Department provided $2.9 million for programs the Department intended to fund for the 3 months ended March 31, 2002. Under the last mutually agreed upon budget, monthly operating expenses were about $1.2 million; at that level, INCSF's total quarterly expenditures would have been $3.7 million, a shortfall of about $800,000. As shown in Figure 1, Department supplied funding[12] was less than the $1.2 million operating level for eight of the 12 months ended May 2002. In May 2002, the Department proposed terms for a new agreement totaling $8 million with the INCSF. As of September 2002, INCSF and the Department had not signed a new agreement.

[11] Amendments four and five also provided funding for certain "one-time" costs. These included unpaid liabilities and start-up costs for the broadcasting operation.

[12] OIG used average funded amounts, determined by dividing the amount of the amendments by the time period covered.

Figure 1



A mendments 4and 5 provided a combined $6 million for June - Sept; however amount also included several one time costs

According to INCSF's controller, as of June 2002, creditors were threatening legal actions and had cut off services to the grantee. For example, INCSF had to cease broadcasting "Liberty TV" when the satellite uplink provider terminated services due to unpaid invoices.

Iraqi National Congress Support Foundation
Schedule of Incurred/Claimed Costs
Award No. S-LMAQM-00-H-0152
For the period June 1, 2001 – March 31, 2002

Category	Costs Incurred 6/1/01-3/31/02	Questioned Costs: Unauthorized/ Unallowable	Questioned Costs: Unsupported	Questioned Costs: Total	Notes
OMC Trainees etc.	$ 67,206	$ -	$ -	$ -	
Human Rights Conference	20,732	-	-	-	
Newspaper	667,174	-	-	-	
TV Transmission etc.	1,233,742	-	-	-	
ICP Program	1,877,860	3,708	-	3,708	1
Sub-total	**$ 3,866,714**	**$ 3,708**	**$ -**	**$ 3,708**	
Salaries & Staff Costs	3,711,084	$ 78,900	$ -	$ 78,900	2
Rent/Utilities	1,044,472	900	-	900	2
Professional & Legal Costs	576,226	-	-	-	
Equipment inc.Software	561,123	-	-	-	
Lease/HP Charges	12,172	-	-	-	
Communication inc.website	665,931	1,000	-	1,000	2
Office Supplies	345,597	3,500	-	3,500	2
Postage/Courier	7,437	-	-	-	
Vehicle Expenses	127,871	10,800	-	10,800	2
Travel to HQ & Accom	65,939	3,000	-	3,000	2
Travel Diplomatic Trips	60,143	-	-	-	
Bank charges & exchange differences	(5,269)	-	-	-	
Overseas offices	135,735	703	-	703	3
Sub-total	**$ 7,308,459**	**$ 98,803**	**$ -**	**$ 98,803**	
Total Costs	**$ 11,175,173**	**$ 102,511**	**$ -**	**$ 102,511**	
Unclaimed Costs[1]					
Court Costs & Legal Fees		$ 8,340	$ -	$ 8,340	4
Total including Unclaimed Costs		**$ 110,851**	**$ -**	**$ 110,851**	

[1] Unclaimed costs - Costs paid but not claimed in final financial report.

Notes to Schedule 1
S-LMAQM-00-H-0152

1. Federal Travel Regulations

OIG questioned and deemed unallowable $2,676 claimed for travel costs. We identified an instance where INCSF (ICP-DC office) used a foreign air carrier for travel that originated in the United States. In addition, we found no indication that this was a code-share flight, nor was the supporting documentation accompanied by a certified statement as to why a non-US flag carrier was used for the segment form Washington to London. Federal travel regulations, specifically the Fly America Act[13], 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.

OIG questioned and deemed unallowable $1,032 claimed for travel costs. We identified two instances where INCSF (ICP) used a foreign air carrier for travel that originated in the United States. In addition, we found no indication that this was not a code-share flight, nor was the supporting documentation accompanied by a certified statement as to why a-non-US flag carrier was used for the segment from Washington [(b)(2)/(b)(6)] and Washington to [(b)(2)/(b)(6)] As noted above, Federal travel regulations require the use of U.S.-flag carriers for U.S. Government-funded international air transportation, unless otherwise authorized.

2. [(b)(2)/(b)(6)-----]

OIG questioned [(b)(2)/(b)(6)] for expenditures that exceeded the limit [(b)(2)/(b)(6)----------
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found, however, that INCSF had booked in its accounting records expenditures of [(b)(2)/(b)(6)]

OIG questioned [(b)(2)/(b)(6)] of costs transferred in January and February, 2002, [(b)(2)/(b)(6)--
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[13] Pub. L. No. 96-192 (1980); 49 U.S.C. 1301 et seq. (2002)

3. Organization Costs

OIG questioned $703 claimed for registration fees for organizations related to INCSF. OMB Circular A-122 states "expenditures, such as incorporation fees, … in connection with establishment or reorganization of an organization, are unallowable except with prior approval of the awarding agency." According to the grants officers, no prior approval was given.

4. Court Costs & Legal Fees

In our prior audit report, Report 01-FMA-R-092, OIG questioned $5,541 of professional costs incurred for court costs and legal fees associated with the utilization of a residential apartment as office space. During this review, OIG identified additional costs recorded in INCSF's accounting system. These costs were not claimed in the final financial report of the grant agreement. INCSF recognizes that these costs are to be reimbursed from non-government funds. Therefore, OIG questioned the difference of $8,340 – the amount recorded in the accounting system minus the previously questioned figure.

Appendix A

Status of Recommendations from OIG Audit Report 01-FMA-R-092

Recommendation	Status
	OIG considers this
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.	Resolved and closed.
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;	Resolved but not closed.
• hire a financial officer with ability and authority to manage the financial operations of the organization and also hire and train sufficient accounting staff;	Resolved and closed.
• develop an agreed upon set of procedures for cash disbursements to ensure adequate source documentation for these types of payment;	Resolved but not closed.
• 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;	Resolved and closed.
• deposit Federal funds in interest-bearing accounts and remit annually interest earned in excess of $250 to the Department;	Unresolved and not closed.
• 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	Resolved and closed.

Recommendation	Status
	OIG considers this
• develop written accounting policies and procedures.	Resolved and closed.
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.	Unresolved and not closed.
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;	Unresolved and not closed.
• prepare, report, and provide, retroactively if applicable, appropriate tax documents;	Resolved and closed.
• implement the requirement that timesheets be completed and implement procedures to include instructions for proper completion of timesheets to all employees and contractors;	Resolved and closed.
• consolidate the property listings and conduct annual inventories as outlined in applicable regulations;	Resolved and closed.
• 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;	Resolved but not closed.
• 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	Resolved and closed.

Recommendation	Status
	OIG considers this
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.	Resolved but not closed.