

UNCLASSIFIED

INTERNAL USE ONLY

CONFIDENTIAL

SECRET

ROUTING AND RECORD SHEET

10P

SUBJECT: (Optional)
Audit of Operational Activity QRPLUMB

INSPECTOR GENERAL
91-0510

FROM:
Inspector General
2 T 21 NHB

HA

EXTENSION
75555

NO.
DATE

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

DATE
RECEIVED FORWARDED

OFFICER'S INITIALS

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

1.	C/PPS 4 N 53 NHB			
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
12.				
13.				
14.				
15.				

Report draft discussed with:
C/PPS/SIB, PPS/PMO,
PPS/QRPLUMB/CO.

cc: C/SE
C/EUR
C/ORMS
C/OFM
Comptroller
General Counsel

DECLASSIFIED AND RELEASED BY
CENTRAL INTELLIGENCE AGENCY
SOURCE METHOD EXEMPTION 3828
NAZI WAR CRIMES DISCLOSURE ACT
DATE 2007

SA/PM

NX-00941

610 USE PREVIOUS EDITIONS

SECRET

CONFIDENTIAL

INTERNAL USE ONLY

UNCLASSIFIED

RECORD COPY

26 APR 91

200-124-207/01

S E C R E T

INSPECTOR GENERAL

91-0510

26 April 1991

MEMORANDUM FOR: Chief, Political and Psychological Staff
FROM: []
Inspector General
SUBJECT: Audit of Operational Activity QRPLUMB
1 January 1989 - 30 September 1990 (Termination)

1. Subject report is attached for your review.
2. We appreciate the cooperation and assistance provided to the auditors by Headquarters and proprietary personnel.

Attachment:
As stated

DOC. MICRO. SER.

OCT 11 1994

MICROFILMED

All portions classified SECRET

CL BY []
DECL OADR

S E C R E T

S E C R E T

REPORT OF AUDIT

**Operational Activity QRPLUMB
1 January 1989 - 30 September 1990 (Termination)**

**Central Intelligence Agency
Office of Inspector General
Audit Staff**

S E C R E T

REPORT OF AUDIT
Operational Activity QRPLUMB

For the Period
1 January 1989 - 30 September 1990 (Termination)

SUMMARY

1. During the audit period, except for the weakness in controls associated with complying with Executive Order (E.O.) 12333 restrictions regarding the influence of U.S. domestic opinion or policies, internal controls and procedures for the custody and use of Agency resources were generally effective and in compliance with the applicable laws, regulations, and Administrative and Liquidation Plan requirements tested during the audit. Improvement in conditions reported upon in the prior Report of Audit was due to the engagement of professional accountants to maintain the financial records of QRPLUMB.

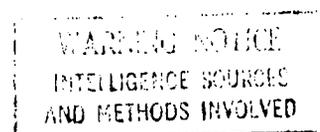
2. QRPLUMB was terminated 30 September 1990; therefore, we are not making any recommendations concerning QRPLUMB. However, this report contains comments concerning noncompliance with E.O. 12333 restrictions. We have also addressed the subject of compliance with E.O. 12333 in a separate memorandum to the Chief, Directorate of Operations/Operations Resource Management Staff (DO/ORMS). Administrative problems resolved during the audit included the need to obtain the approval of the Deputy Director of Central Intelligence for actions taken to liquidate QRPLUMB prior to obtaining an approved Liquidation Plan and for payment of a termination settlement of []

OBJECTIVES, SCOPE, AND METHODOLOGY

3. The audit, primarily a financial and compliance review, was performed in accordance with generally accepted government auditing standards and, accordingly, included such auditing procedures as we considered necessary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the activity is in compliance with applicable laws and regulations.

4. Our examination, conducted during the period November 1990 - February 1991, included a review of the overt records at the Newark proprietary office and a review of Political and Psychological Staff's (PPS) QRPLUMB records at Headquarters.

All Portions Classified SECRET



CL BY []
DECL OADR

We held discussions with personnel from PPS, the proprietary, and the outside accounting firm employed by QRPLUMB. Due to the historically sound condition of the financial records and controls at QRPLUMB's Munich office, we did not schedule an audit of that office. We did schedule an audit of QRPLUMB's London office, but worldwide travel restrictions implemented by the Agency prevented an audit of that office.

5. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements of QRPLUMB's Newark office and compliance with E.O. 12333, Agency regulations, and the Administrative and Liquidation Plans. Due to the results of the prior audits of the Newark office, we placed little reliance on its internal control structure. Consequently, we expanded substantive audit tests of the financial records at the Newark office.

BACKGROUND

6. QRPLUMB, a publishing corporation in Newark, New Jersey, with affiliates in Munich and London, was a PPS proprietary activity that published literature in Ukrainian, Russian, and English for distribution in the Soviet Ukraine, the Soviet Union, Eastern and Western Europe, and North America. The proprietary's activities were designed to provide intellectual and moral support to Ukrainians who sought social and political moderation of the Soviet system.

7. As a result of revised U.S. Government policy, the National Security Council in January 1990 directed the Agency to terminate the QRPLUMB activity within two to three years. The Agency terminated its ownership of the proprietary effective 30 September 1990. The termination included giving all proprietary property and a termination bonus to the QRPLUMB principal agents to enable them to operate for one year while seeking alternative means of support. The principal agents signed a quitclaim in February 1991 relieving the Agency of any responsibility for QRPLUMB after 30 September 1990 and acknowledging the satisfaction of any claims against the Agency.

OPINION

8. In our opinion, the accompanying financial statements, Exhibits A, B, and C, present fairly, in all material respects, the financial position of QRPLUMB's Newark office at 30 September 1990, and the results of its operations for the 21 months then ended in conformity with generally accepted accounting principles.

FINANCIAL INFORMATION

9. The Agency investment in QRPLUMB's Newark office at 30 September 1990 was [] From 1 January 1989 through 30 September 1990, the Newark office received Agency funding of [] reported earned income of \$124,150, and recorded expenses of \$2,139,824. Included in Newark's expenses are fundings of \$273,438 to the London affiliate and \$80,400 to the Munich affiliate. The Munich affiliate also received funding of [] directly from the Agency. Additional financial information regarding QRPLUMB's Newark office may be found in Exhibits A, B, and C, attached. The principal agents received all remaining assets of QRPLUMB at 30 September 1990 and subsequently received an additional [] as the final termination settlement. A portion of the termination settlement [] was paid in October 1991 and bank transfers for the balance, [], were initiated in February 1991.

DETAILED COMMENTSCompliance with E.O. 12333

10. Internal controls in effect during the operation of QRPLUMB were not sufficient to ensure that distribution of QRPLUMB's journal in the United States would not violate E.O. 12333. The prior Report of Audit recommended that PPS obtain a written opinion from the Office of General Counsel (OGC) regarding United States subscribers to QRPLUMB's journal. The OGC's written opinion in February 1990 specifically directed PPS to drop as subscribers Harvard University and certain Ukrainian church-affiliated groups. The opinion also provided the general guidance that there should be no subscriptions from universities, church-affiliated groups, or members of the U.S. media.

11. Our review of the current subscribers indicates that during all or part of the audit period there were 24 subscribers that violated the OGC guidelines. We were informed that PPS did not take action to implement the guidelines set forth in the OGC opinion because the decision to terminate QRPLUMB had been reached prior to receipt of the opinion in February 1990. PPS officials also explained that they were uncertain how to proceed with implementing the OGC guidelines and cited cover ramifications that would be inherent in QRPLUMB dropping longtime subscribers while continuing to operate as a viable voice in the Ukrainian community as a reason for not implementing the guidelines. We have addressed QRPLUMB's (and other proprietaries') noncompliance with E.O. 12333 in a separate memorandum to Chief, DO/ORMS.

QRPLUMB
Newark Office
Balance Sheet
30 September 1990

Assets

Current Assets

Cash	\$64,820
Employee advances	5,919
Accounts receivable	5,074
Prepaid expenses	806
Deposits	10,641
Total Current Assets	\$87,260

Fixed Assets

Office furniture and equipment	\$123,684
Accumulated depreciation	(90,933)
Total Fixed Assets	\$32,751

Total Assets	\$120,011
---------------------	------------------

Liabilities & Agency Investment

Liabilities	\$0
Agency Investment, Exhibit C	[]
Total Liabilities and Agency Investment	[]

SECRET

Exhibit B

QRPLUMB

Newark Office

Income Statement

1 January 1989 - 30 September 1990

Income

Agency funding (Note 1)	[]
Subscription income	99,921
Interest income	14,319
Other income	9,910

Total Income

[]

Expenses

Salary and pension	\$473,830
Research and interview	292,823
Subsidy to London affiliate	273,438
Publishing and distribution	242,545
Insurance, employees health and life	159,022
Rent	119,853
Travel	97,891
Subsidy to Munich affiliate	80,400
Photocopying and printing	76,298
Taxes	47,239
Accounting services	46,841
Office supplies	36,876
Elections	30,417
Depreciation	29,699
Subsidies to other affiliates	28,570
Leased equipment	20,136
Insurance	13,173
Postage and telephone	12,683
Miscellaneous	14,519
Consulting services	13,720
Books and periodicals	10,304
Video	6,757
Meetings	6,425
Repairs	6,365

Total expenses

\$2,139,824

Net Income (Loss), Exhibit C

[]

QRPLUMB
Domestic Operations
Statement of Changes in Agency Investment
in the Proprietary
1 January 1989 - 30 September 1990

Balance 1 January 1989		[]
Additional paid in capital		[]
Transfer from client's fund to income		[]
Net Income		[]
Balance 30 June 1990	a/	[]

a/ Recorded on Overt Records as:

Accounts payable		[]
Capital stock		[]
Paid in capital		[]
Retained earnings		[]

S E C R E T

QRPLUMB

1 January 1989 - 30 September 1990

Notes to the Financial Statements

- Note 1: Agency funding presented in both the audit report and the financial statements does not include the [] termination settlement paid subsequent to 30 September 1990. Agency funding includes [] in prior period funding received and recorded on QRPLUMB's financial records in January 1989.
- Note 2: Agency investment at 30 September 1990 does not include the reported investment balances for the unaudited London and Munich offices. These offices reported respective investment balances of \$23,844 and \$10,160 at 30 September 1990. The Agency's total investment in QRPLUMB at 30 September 1990, including the Newark, London, and Munich offices, was [] .

S E C R E T