

September 1995

FINANCIAL AUDIT

Expenditures by Six Independent Counsels for the Six Months Ended March 31, 1995



Accounting and Information
Management Division

B-265988

September 29, 1995

Congressional Committees

Enclosed is our opinion on the statements of expenditures by six independent counsels for the 6 months ended March 31, 1995, as well as our consideration of the internal control structure for this audit period. This report also discusses our evaluation of the counsels' compliance with laws and regulations for the 6 months ended March 31, 1995. This review was required by 28 U.S.C. 596(c)(2), as amended, and Public Law 100-202.

We are sending copies of this report to the Attorney General, the Director of the Administrative Office of the U.S. Courts, the six independent counsels included in our audit, and other interested parties. Copies will be made available to others upon request.

A handwritten signature in black ink, reading "David L. Clark". The signature is stylized with a large, sweeping "D" and a prominent "X" at the end of the last name.

David L. Clark
Director, Audit Oversight and Liaison

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Abbreviations

AOUSC	Administrative Office of the U.S. Courts
FBI	Federal Bureau of Investigation

Accounting and Information
Management Division

B-265988

Congressional Committees

This report presents the results of our audits of expenditures¹ reported by six independent counsels for the 6 months ended March 31, 1995. The Department of Justice and the independent counsels are required under 28 U.S.C. 594 (d)(2), (h), and 596 (c)(1) as amended by section 3 (i) of the Independent Counsel Reauthorization Act of 1994, to report on expenditures from a permanent, indefinite appropriation established within Justice to fund independent counsel activities. To satisfy the requirements of 28 U.S.C. 596 (c)(2), as amended, and Public Law 100-202, we audit the statements of expenditures prepared by independent counsels.

We found that the statements of expenditures presented in appendixes I through VI for independent counsels Arlin M. Adams, Joseph E. diGenova, Robert B. Fiske, Jr., Donald C. Smaltz, Kenneth W. Starr, and Lawrence E. Walsh, respectively, were reliable in all material respects. Our audit also included limited tests of internal controls that disclosed a material weakness in internal controls over reporting of expenditures. As a result of this weakness, we extended our substantive testing in order to opine on the expenditure reports presented in the appendixes to this report. Further, our audit included limited tests of compliance with laws and regulations that disclosed no reportable noncompliance with laws and regulations we tested.

The following sections provide background information, outline each conclusion in more detail, and discuss the scope of our audits.

Background

The independent counsel provisions of the Ethics in Government Act of 1978 (28 U.S.C. 591-599) established a process for the appointment of independent counsels so as to preserve and promote the accountability and integrity of public officials and of institutions of the federal government. The law provides for the judicial appointment of temporary independent counsels when the Attorney General determines that reasonable grounds exist to warrant further investigation of high-ranking government officials for certain alleged crimes.

On June 30, 1994, the Independent Counsel Reauthorization Act of 1994 (Public Law 103-270) was enacted, reauthorizing the independent counsel law for an additional 5 years. The independent counsel law directs the

¹The term expenditures as used in this report generally means cash disbursed.

Department of Justice to pay all costs relating to the establishment and operation of independent counsel offices and designates specific responsibilities to the Administrative Office of the United States Courts (AOUSC) for independent counsels' administrative support. Justice periodically disburses lump-sum payments to AOUSC for this purpose. In 1987, Public Law 100-202 established a permanent, indefinite appropriation within Justice to fund expenditures by independent counsels. Independent counsels are required to report their expenditures from the appropriation for each 6-month period in which they have operations. We are required to audit expenditures from the independent counsel appropriation and to report our findings to appropriate committees of the Congress.

In January 1994, Justice determined that the appropriation established by Public Law 100-202 to fund expenditures by independent counsels appointed under 28 U.S.C. 591-599, could also fund the expenditures of Robert B. Fiske, Jr., who was appointed as a regulatory independent counsel² by the Attorney General in January 1994. Since we are required to audit all expenditures from that appropriation, the expenditures Mr. Fiske's office made during this audit period are covered by this report. Also, in March 1994, Lawrence E. Walsh's independent counsel office closed; however, certain costs incurred prior to the closing of his office and paid by AOUSC after Mr. Walsh's operations ceased, are covered by this report.

During any 6-month period, independent counsels may also incur other significant costs that are paid from appropriations other than the permanent, indefinite appropriation established to fund independent counsel activities. These costs arise, for example, from the use of detailees from other federal agencies, such as the Federal Bureau of Investigation (FBI). Independent counsels are not required to and do not include such costs in their reports on expenditures. However, these other significant costs are identified and discussed in the notes to the statements of expenditures presented in the appendixes to this report.

Opinion on Statements of Expenditures

The statements of expenditures for independent counsels Arlin M. Adams, Joseph E. diGenova, Robert B. Fiske, Jr., Donald C. Smaltz, Kenneth W. Starr, and Lawrence E. Walsh present fairly, in all material respects, the respective expenditures of these independent counsel offices for the 6

²Regulatory independent counsels are appointed pursuant to 5 U.S.C. 301; 25 U.S.C. 509, 510, and 543. See also 28 C.F.R. Parts 601 and 603 (1994).

months ended March 31, 1995. The statements of expenditures and related notes regarding the basis of accounting and additional pertinent information are in appendixes I through VI.

Consideration of Internal Control Structure

For this audit period, the internal controls we considered for each of the five active independent counsels, and for AOUSC and Justice regarding the administrative support and accounting services they perform for independent counsels, were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with management authority and with laws and regulations; and
- properly record, process, and summarize transactions to permit the preparation of expenditure statements in accordance with the applicable basis of accounting.

In this audit period, we continued to find a material weakness in internal controls over the reporting of expenditures. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low risk that errors or irregularities in amounts that would be material to the expenditure statements may occur and not be detected promptly by employees in the normal course of their duties.

Independent counsel offices submit payment vouchers, payroll information, and supporting documentation to AOUSC. On the independent counsels' behalf, AOUSC expends funds and records the expenditures in its payroll and accounting systems. AOUSC also prepares monthly summarized expenditure reports and submits them to the independent counsels. Justice performed similar functions for Mr. Fiske's independent counsel office.

Independent counsels have generally fulfilled their financial reporting requirements by using the summarized expenditure reports prepared by AOUSC. During this audit period, and as discussed in our prior reports,³ AOUSC expenditure reports had errors, requiring us to propose—and independent counsels to accept—audit adjustments. These errors were caused by certain independent counsels submitting incorrect information to AOUSC, or by AOUSC incorrectly recording information submitted by

³Financial audit of expenditures by independent counsels (GAO/AFMD-93-1, October 9, 1992; GAO/AFMD-93-60, April 21, 1993; GAO/AIMD-94-76, April 15, 1994; GAO/AIMD-95-85, March 31, 1995; GAO/AIMD-95-112, March 31, 1995; and GAO/AIMD-95-113, March 31, 1995).

independent counsels. We believe that independent counsels may continue to experience problems reporting their expenditures until they and AOUSC establish effective internal controls for accurately processing and summarizing independent counsel expenditures.

Subsequent to the audit period, and prior to the completion of our audit, we noted that AOUSC and certain independent counsels had taken additional steps to improve internal controls over financial reporting. AOUSC hired a senior staff member with accounting and financial reporting expertise whose duties include the review of monthly AOUSC reports prior to their submission to independent counsels. Also, certain independent counsels utilized the services of a financial consultant to review transactions for appropriate line-item coding prior to their submission to AOUSC for payment and to review AOUSC reports and reconcile them to independent counsel records.

Compliance With Laws and Regulations

Our audit tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

In order to carry out their financial operations and to ensure accountability, independent counsels are responsible for

- preparing statements of expenditures,
- establishing and maintaining internal controls and systems to provide reasonable assurance that the internal control objectives previously mentioned are met, and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the statements of expenditures reported by independent counsels are reliable (free of material misstatement and presented fairly in accordance with the basis of accounting described in the accompanying notes). Also, we are responsible for considering the internal control structure in order to determine our auditing procedures for expressing an opinion on the statements of expenditures, not to provide assurance on the internal

control structure. In addition, we are responsible for testing compliance with selected provisions of laws and regulations.

In order to fulfill these responsibilities, for each independent counsel, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the statement of expenditures and notes thereto, except items indicated as unaudited;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the statement of expenditures;
- obtained an understanding of the design of relevant internal control structure policies and procedures, determined whether they had been placed in operation, assessed the associated control risk, and conducted limited tests of relevant internal controls, including those over expenditure authorizations and financial reporting; and
- tested compliance with certain aspects of selected provisions of the independent counsel provisions of the Ethics in Government Act of 1978 (28 U.S.C. 591-599), 5 U.S.C. Chapter 55, and implementing regulations, relating to pay administration.

It is important to note that because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements may nevertheless occur and not be detected. Also, projecting any evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. As a result of the material internal control weakness over reported expenditures previously discussed, we extended our substantive testing in order to opine on the expenditure reports presented in the appendixes.

We obtained, but did not audit, information on costs that were not paid from the permanent, indefinite appropriation established to fund independent counsel activities. We obtained information on these costs from the independent counsel offices; Justice, including the FBI; the Internal Revenue Service; the Office of Inspector General of the Department of Housing and Urban Development; the Office of Inspector General for the Department of Agriculture; the Office of Investigations for the U.S. Customs Service; and the Postal Inspection Service.

We discussed the results of our work with the six independent counsels or their representatives and representatives of AOUSC and Justice, and incorporated their comments where appropriate.

We performed our audits in accordance with generally accepted government auditing standards.

A handwritten signature in black ink, reading "David L. Clark". The signature is written in a cursive style with a large, stylized "D" and "C".

David L. Clark
Director, Audit Oversight and Liaison

August 31, 1995

List of Committees

The Honorable Mark O. Hatfield
Chairman

The Honorable Robert C. Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable Ted Stevens
Chairman

The Honorable John Glenn
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Orrin G. Hatch
Chairman

The Honorable Joseph R. Biden
Ranking Minority Member
Committee on the Judiciary
United States Senate

The Honorable Robert L. Livingston
Chairman

The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

The Honorable William F. Clinger
Chairman

The Honorable Cardiss Collins
Ranking Minority Member
Committee on Government Reform and Oversight
House of Representatives

The Honorable Henry J. Hyde
Chairman

The Honorable John Conyers, Jr.
Ranking Minority Member
Committee on the Judiciary
House of Representatives

Statement of Expenditures for Independent Counsel Adams

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL ADAMS

ARLIN M. ADAMS

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended March 31, 1995

Personnel compensation and benefits	\$ 535,580
Travel	27,209
Rent, communications, and utilities (note 2)	185,199
Contractual services (note 3)	274,264
Acquisition of capital assets (note 4)	7,064
Administrative services (note 5)	<u>49,496</u>
Total expenditures	<u>\$1,078,812</u>

The accompanying notes are an integral part of this statement.

ARLIN M. ADAMS

Office of Independent Counsel

Notes to Statement of Expenditures

Note 1 - Accounting policies

Reporting entity: The accompanying statement of expenditures presents the expenditures of the Office of Independent Counsel - Arlin M. Adams (OIC-Adams) for the 6 months ended March 31, 1995. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through the Administrative Office of the U.S. Courts (AOUSC) and the OIC. Mr. Adams was appointed on March 1, 1990, to investigate the administration of various programs of the Department of Housing and Urban Development (HUD) from 1983 to 1989. On May 15, 1995, Mr. Adams resigned his appointment, effective July 3, 1995. Lawrence Thompson was appointed to continue this investigation on May 31, 1995.

Basis of accounting: The accompanying statement of expenditures was prepared principally on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, except for payroll and employee benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most payroll and related employee benefits are recorded at the end of the pay period when earned. The cost of purchased capital assets, which principally consist of office equipment and furniture, is recorded in the statement of expenditures when paid. These assets will remain with the federal government when they are no longer needed by the OIC.

Note 2 - Rent, communications, and utilities

Approximately \$160,000 in office rent is included in rent, communications, and utilities.

Note 3 - Contractual services

Contractual services primarily consists of litigation support services.

Note 4 - Acquisition of capital assets

These assets remain the property of the federal government at the conclusion of the investigation.

Appendix I
Statement of Expenditures for Independent
Counsel Adams

Note 5 - Administrative services

AOUSC receives an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-Adams. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$17,558, incurred by AOUSC in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC, paid from the independent counsel appropriation, and allocated to the OIC.

Note 6 - Other operating costs (unaudited)

Certain costs relating to employees assigned to work with the OIC by the Federal Bureau of Investigation (FBI) and the Inspector General of the Department of Housing and Urban Development (HUD IG) were financed through funds appropriated to these agencies and, accordingly, are not included in the statement of expenditures. These agencies are not reimbursed for these costs. The schedule below shows the estimated costs (unaudited) of the assistance provided to the OIC during the 6-month period, based on information provided by officials of these agencies.

	Costs (unaudited)
FBI	\$ 92,000
HUD IG	<u>83,000</u>
	<u>\$175,000</u>

Statement of Expenditures for Independent Counsel diGenova

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL diGENOVA

JOSEPH E. diGENOVA

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended March 31, 1995

Personnel compensation and benefits	\$233,898
Travel	3,799
Rent, communications, and utilities (note 2)	74,119
Contractual services and supplies (note 3)	3,159
Administrative services (note 4)	<u>20,591</u>
Total expenditures	<u>\$335,566</u>

The accompanying notes are an integral part of this statement.

JOSEPH E. diGENOVA

Office of Independent Counsel

Notes to Statement of Expenditures

Note 1 - Accounting policies

Reporting entity: The accompanying statement of expenditures presents the expenditures of the Office of Independent Counsel - Joseph E. diGenova (OIC-diGenova) for the 6 months ended March 31, 1995. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through the Administrative Office of the U.S. Courts (AOUSC) and the OIC. Mr. diGenova was appointed on December 14, 1992, to investigate a preelection search of passport files. OIC-diGenova's investigation is ongoing.

Basis of accounting: The accompanying statement of expenditures was prepared principally on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, except for payroll and employee benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most payroll and related employee benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$60,000 in office rent is included in rent, communications, and utilities.

Note 3 - Contractual services and supplies

Contractual services and supplies consist primarily of court reporting services and office supplies.

Note 4 - Administrative services

AOUSC receives an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-diGenova. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$12,251, incurred by AOUSC in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC, paid from the independent counsel appropriation, and allocated to the OIC.

Statement of Expenditures for Independent Counsel Fiske

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL FISKE

ROBERT B. FISKE, JR.

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended March 31, 1995

Personnel compensation and benefits	\$128,858
Travel	75,311
Rent, communications, and utilities (note 2)	41,982
Contractual services (note 3)	53,646
Supplies and materials	10,628
Acquisition of capital assets (note 4)	<u>41,582</u>
Total expenditures	<u>\$352,007</u>

The accompanying notes are an integral part of this statement.

ROBERT B. FISKE, JR.

Office of Independent Counsel

Notes to Statement of Expenditures

Note 1 - Accounting policies

Reporting entity: The accompanying statement of expenditures presents the expenditures of the Office of Independent Counsel - Robert B. Fiske, Jr. (OIC-Fiske) for the 6 months ended March 31, 1995. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for OIC-Fiske processed through the Department of Justice.

Robert B. Fiske, Jr., was appointed by Attorney General Janet Reno on January 24, 1994, to investigate criminal and civil violations of the U.S. Code in Re: Madison Guaranty Savings and Loan. On August 5, 1994, pursuant to 28 U.S.C. 592 (c)(1)(A), as amended by Public Law No. 103-270, the U.S. Court of Appeals for the District of Columbia appointed Kenneth W. Starr to conduct the investigation. After completing a transition of operation to Mr. Starr, Robert B. Fiske, Jr., terminated his appointment on October 6, 1994.

Basis of accounting: The accompanying statement of expenditures was prepared principally on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, expenditures are recorded when the funds are disbursed by the Department of Justice. Most payroll and related employee benefits are recorded at the end of the pay period when earned. Although Mr. Fiske terminated his appointment on October 6, 1994, most of the costs included in this statement of expenditures reflect costs incurred prior to his termination, yet paid during the current period.

Note 2 - Rent, communications, and utilities

This amount consists primarily of printing costs and copier equipment rental.

Note 3 - Contractual services

Contractual services include litigative and office support services.

Note 4 - Acquisition of capital assets

The capital assets expenditures are for office furniture and equipment. These assets have been transferred to the investigation headed by Independent Counsel Kenneth W. Starr.

Statement of Expenditures for Independent Counsel Smaltz

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL SMALTZ**DONALD C. SMALTZ****Office of Independent Counsel****Statement of Expenditures
(Cash basis)****Six Months Ended March 31, 1995**

Personnel compensation and benefits	\$ 476,135
Travel	133,172
Rent, communications, and utilities (note 2)	32,010
Contractual services (note 3)	37,648
Supplies and materials	30,704
Acquisition of capital assets (note 4)	291,706
Administrative services (note 5)	<u>39,884</u>
Total expenditures	<u>\$1,041,259</u>

The accompanying notes are an integral part of this statement.

DONALD C. SMALTZ

Office of Independent Counsel

Notes to Statement of Expenditures

Note 1 - Accounting policies

Reporting entity: The accompanying statement of expenditures presents the expenditures of the Office of Independent Counsel - Donald C. Smaltz (OIC-Smaltz) for the 6 months ended March 31, 1995. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through the Administrative Office of U.S. Courts (AOUSC) and the OIC. Mr. Smaltz was appointed on September 9, 1994, to investigate activities of a former Secretary of the Department of Agriculture. OIC-Smaltz's investigation is ongoing.

Basis of accounting: The accompanying statement of expenditures was prepared principally on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, except for payroll and employee benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most payroll and related employee benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$5,000 in office rent is included in rent, communications, and utilities. The office moved in December 1994 and rent charges for the new location were not paid as of the end of the period.

Note 3 - Contractual services

Contractual services includes investigative and court reporting services.

Note 4 - Acquisition of capital assets

The capital assets expenditures are for computer hardware and software and office furniture and equipment. These assets remain the property of the federal government at the conclusion of the investigation.

Note 5 - Administrative services

AOUSC receives an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-Smaltz. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$16,403, incurred by AOUSC in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC, paid from the independent counsel appropriation, and allocated to the OIC.

Note 6 - Other operating costs (unaudited)

Certain costs relating to employees assigned to work with the OIC by the Federal Bureau of Investigation (FBI), U.S. Customs Service, the Department of Agriculture, the Internal Revenue Service (IRS), and the Postal Inspection Service, were financed through funds appropriated to these agencies and, accordingly, are not included in the statement of expenditures. These agencies were not reimbursed for these costs. The schedule below shows the estimated costs (unaudited) of the assistance provided to the OIC during the 6-month period, based on information provided by officials of these agencies.

	Costs (unaudited)
FBI	\$180,000
Other Justice	49,000
Agriculture	57,000
Postal Inspection	51,000
IRS	23,000
Customs	<u>16,000</u>
	<u>\$376,000</u>

Statement of Expenditures for Independent Counsel Starr

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL STARR

KENNETH W. STARR

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended March 31, 1995

Personnel compensation and benefits	\$ 734,471
Travel	278,708
Rent, communications, and utilities (note 2)	272,173
Contractual services (note 3)	138,429
Acquisition of capital assets (note 4)	171,834
Supplies and materials	48,140
Administrative services (note 5)	<u>54,811</u>
Total expenditures	<u>\$1,698,566</u>

The accompanying notes are an integral part of this statement.

KENNETH W. STARR

Office of Independent Counsel

Notes to Statement of Expenditures

Note 1 - Accounting policies

Reporting entity: The accompanying statement of expenditures presents the expenditures of the Office of Independent Counsel - Kenneth W. Starr (OIC-Starr) for the 6 months ended March 31, 1995. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through the Administrative Office of U.S. Courts (AOUSC) and the OIC. Mr. Starr was appointed on August 5, 1994, to assume the investigation of possible violations of federal criminal law in Re: Madison Guaranty Savings and Loan Association and other entities, which was begun by regulatory Independent Counsel Robert B. Fiske, Jr.

Basis of accounting: The accompanying statement of expenditures was prepared principally on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, except for payroll and employee benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most payroll and related employee benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$195,000 in office rent is included in rent, communications, and utilities.

Note 3 - Contractual services

Contractual services primarily consists of consulting services in support of litigation.

Note 4 - Acquisition of capital assets

The capital assets expenditures are for office furniture and equipment. These assets will remain the property of the federal government at the conclusion of the investigation.

Note 5 - Administrative services

AOUSC receives an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC Starr. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$23,697, incurred by AOUSC in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC, paid from the independent counsel appropriation, and allocated to the OIC.

Note 6 - Other operating costs (unaudited)

Certain costs relating to employees assigned to work with the OIC by the Department of Justice, the Federal Bureau of Investigation (FBI), and the Internal Revenue Service (IRS) were financed through funds appropriated to these agencies and, accordingly, are not included in the statement of expenditures. These agencies are not reimbursed for these costs. The schedule below shows the estimated costs (unaudited) of the assistance provided to the OIC during the 6-month period, based on information provided by officials of these agencies.

	Costs (unaudited)
Justice	\$ 84,000
FBI	4,306,000
IRS	<u>439,000</u>
	<u>\$4,829,000</u>

Statement of Expenditures for Independent Counsel Walsh

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL WALSH

LAWRENCE E. WALSH

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended March 31, 1995

Personnel compensation and benefits (note 2)	\$28,511
Rent, communications, and utilities (note 3)	3,478
Administrative services (note 4)	<u>6,228</u>
Total expenditures	<u>\$38,217</u>

The accompanying notes are an integral part of this statement.

LAWRENCE E. WALSH

Office of Independent Counsel

Notes to Statement of Expenditures

Note 1 - Accounting policies

Reporting entity: The accompanying statement of expenditures presents the expenditures of the Office of Independent Counsel - Lawrence E. Walsh (OIC-Walsh) for the 6 months ended March 31, 1995. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through the Administrative Office of U.S. Courts (AOUSC). Mr. Walsh was appointed on December 19, 1986, to investigate allegations of crimes relating to the sales of arms to Iran; the diversion of funds to, and other support of, the Nicaraguan Contras; and the prosecution of any indictments stemming from the investigation. Mr. Walsh's final report covering his independent counsel activities was released to the public by the U.S. Court of Appeals for the District of Columbia Circuit on January 18, 1994. Mr. Walsh's office officially closed on March 30, 1994.

Basis of accounting: The accompanying statement of expenditures was prepared principally on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. When active, Mr. Walsh's office used the modified cash basis of accounting and accrued and reported certain expenses prior to payment.

Note 2 - Personnel compensation and benefits

AOUSC paid \$28,511 in unemployment costs for former OIC-Walsh employees. These costs may continue in future periods depending upon the former employees' status.

Note 3 - Rent, communications, and utilities

As noted in footnote 1, OIC-Walsh accrued certain expenses and reported those expenses when accrued. As a result of changing the basis of accounting from the modified cash to the cash basis, payments totaling \$3,027 were recorded. They previously had been reported at \$5,120.

Note 4 - Administrative services

AOUSC receives an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-Walsh. Payment for administrative service fees includes fees for expenditures reported in September 1994. Fees for expenditures reported in March 1995 will be recorded in April 1995.

Note 5 - Legal representation fees

Upon the request of an individual who was the subject of an independent counsel's investigation but who was not indicted, a special division of the U.S. Court of Appeals for the D.C. Circuit may award reimbursement of reasonable attorney's fees to that individual. During the 6-month period ended March 31, 1995, approximately \$80,260 in awarded legal representation fees were paid from a special judgment fund established for such reimbursements. Accordingly, the legal representation fees are not included in the statement of expenditures.

Note 6 - Retroactive retirement coverage

As discussed in prior notes to statements of expenditures, certain employees of the office of independent counsel with qualifying appointments were erroneously not provided retirement coverage. AOUSC began processing retroactive retirement adjustments for these employees during fiscal year 1994. AOUSC is continuing to process retroactive retirement adjustments; however, none were recorded in the current period. We anticipate that additional adjustments will be recorded in future periods.

Appendix VI
Statement of Expenditures for Independent
Counsel Walsh

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

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