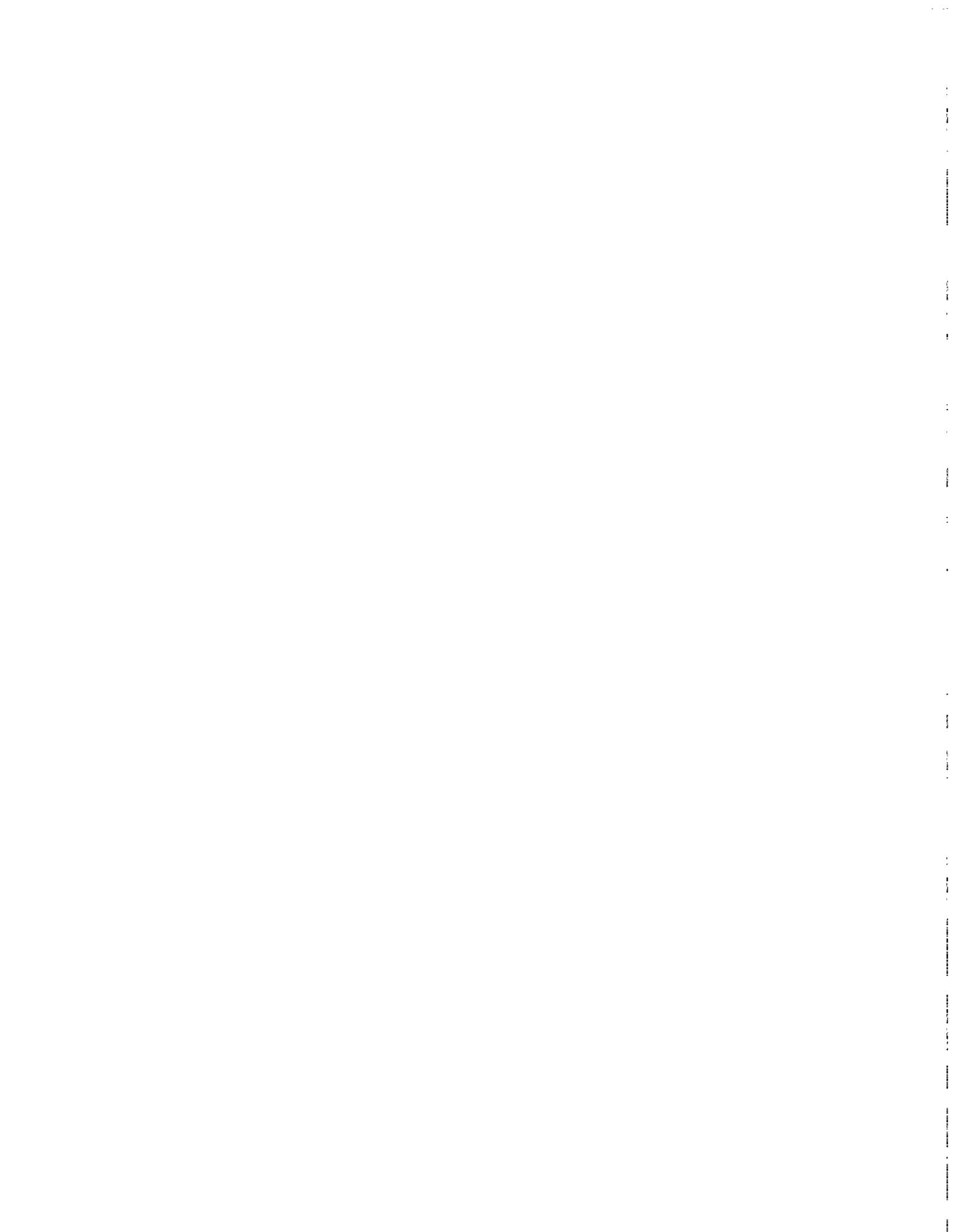


April 1994

# FINANCIAL AUDIT

## Expenditures By Three Independent Counsels







United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Information  
Management Division

B-250044

April 15, 1994

Congressional Committees

This report presents the results of our audits of expenditures reported by the three active independent counsels for various periods ended on March 31, 1993. Independent counsels and the Department of Justice are required under 28 U.S.C. 594 to report on expenditures from a permanent, indefinite appropriation established within Justice to fund independent counsel activities. We are required under 28 U.S.C. 596 and Public Law 100-202 to audit those expenditures.

## Results in Brief

For the periods we audited, the three independent counsels reported expenditures of \$6.4 million. This included expenditures of \$3.6 million by Independent Counsel Arlin M. Adams (9 months ended March 31, 1993); \$2.7 million by Independent Counsel Lawrence E. Walsh (6 months ended March 31, 1993); and \$79,000 by Independent Counsel Joseph E. diGenova (period from his appointment on December 14, 1992, through March 31, 1993). We found the reported expenditures to be reliable in all material respects.

In our two prior reports on independent counsel audits,<sup>1</sup> we identified a number of serious internal control weaknesses at independent counsel offices and the Administrative Office of the U.S. Courts (AOUSC), which performs disbursing and accounting functions for independent counsel offices. Reported weaknesses included inadequate internal control procedures to ensure that expenditures were properly charged and inadequate segregation of duties. We also identified instances of noncompliance with certain laws and regulations, including improper expenditures for pay and travel.

The audit periods for two of the three independent counsels covered by this report began prior to the issuance of our two previous reports. Accordingly, because AOUSC and independent counsels did not have the benefit of these reports, we anticipated and noted certain of the same internal control weaknesses in the audit periods covered by this report. In addition, during this audit, we identified one new issue concerning noncompliance with certain payroll regulations. Most executive branch employees may not, within any biweekly pay period, earn compensation in

<sup>1</sup>Financial Audit: Expenditures by Nine Independent Counsels (GAO/AFMD-93-1, October 9, 1992) and Financial Audit: Expenditures by Three Independent Counsels (GAO/AFMD-93-60, April 21, 1993).

excess of the maximum rate allowed by law for a biweekly rate of pay. One of Mr. Adams' independent counsel employees was incorrectly paid more than the maximum allowable biweekly rate of pay for several pay periods during this audit period. The overpayments occurred because AOUSC, which provides administrative services to the federal judiciary, erroneously applied an annual pay cap applicable to judiciary employees rather than the biweekly pay cap that is applicable to most executive branch employees. Independent Counsel Adams' office has requested a waiver under 5 U.S.C. 5584 of reimbursement for the overpayments.

In response to the problems identified in our prior reports, and subsequent to the periods covered by this audit, independent counsels and AOUSC officials have begun to act to strengthen controls and ensure compliance with laws and regulations. In future audits, we will evaluate the extent to which these actions are effective in resolving the problems we identified. The Senate and House of Representatives have recently passed bills to reauthorize the independent counsel law. The bills contain similar provisions, which more clearly define administrative roles and responsibilities and address many of the weaknesses identified in our prior reports. As of March 25, 1994, the two bills were awaiting action by the conference committee.

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## Background

The independent counsel provisions of the Ethics in Government Act of 1978 (28 U.S.C. 591-599), which expired on December 15, 1992, 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 provided for the judicial appointment of temporary, special prosecutors<sup>2</sup> when the Attorney General determined that reasonable grounds existed to warrant further investigation of high-ranking executive branch officers or presidential campaign officials for certain crimes. Though the independent counsel law expired, it contained provisions which authorized the three independent counsels in this audit to continue their work until completed.

The independent counsel law directs Justice to pay all costs relating to the establishment and operation of independent counsel offices. In December 1987, Public Law 100-202 established a permanent, indefinite appropriation within Justice to fund expenditures by independent counsels. Independent counsels are required to file reports of their expenditures from the appropriation with a division of the U.S. Court of

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<sup>2</sup>In 1983, the title of these positions was changed from special prosecutor to independent counsel.

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Appeals for the District of Columbia every 6 months. Justice is required to report to the Congress on such expenditures within 30 days after the end of each fiscal year.

AOUSC has provided services to independent counsels pursuant to a formal agreement with Justice and receives an administrative fee of 3 percent of expenditures to perform most of the disbursement and accounting functions for independent counsels. Typically, administrative officers for independent counsels submit payment requests to AOUSC. AOUSC receives the requests and any supporting documentation, disburses the necessary funds, and records the transactions in its accounting records. AOUSC also prepares a monthly report summarizing expenditures and submits it to each independent counsel.

The Senate and House of Representatives have recently passed bills to reauthorize the independent counsel law. As of March 25, 1994, the two bills were awaiting action by the conference committee. The bills contain similar provisions, which address many of the weaknesses identified in our prior reports, and, if enacted, would require stronger fiscal controls and place tighter constraints on independent counsel expenditures. The bills, as drafted, delineate administrative responsibility for independent counsels, AOUSC, and the General Services Administration, and specifically require independent counsels to comply with the established policies of the Department of Justice regarding expenditures. The bills would also require us to perform semiannual audits of independent counsel expenditures.

Independent counsels often incur 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). While independent counsels are not required to and do not include the cost of all their activities in reported expenditures, the nature of these other costs is identified and discussed in the notes to the statements of expenditures presented in the appendixes to this report.

In order to carry out their financial operations and to ensure accountability, independent counsels should

- prepare statements of expenditures;

- establish and maintain internal controls and systems to provide reasonable assurance that assets are safeguarded, transactions are properly accounted for, and laws and regulations are complied with; and
- comply with applicable laws and regulations.

## Objectives, Scope, and Methodology

This report covers our audits of expenditures reported by the three active independent counsel offices during various periods ended March 31, 1993. Beginning with the 6-month period ended September 30, 1993, we will audit the three independent counsels' expenditures on the same 6-month cycles to coincide with the semiannual audits which would be required if the Senate and House bills are enacted.

We are responsible for obtaining reasonable assurance about whether (1) the statements of expenditures reported by independent counsels are free of material misstatement and presented fairly in accordance with the bases of accounting described in accompanying notes and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with provisions of selected laws and regulations.

Specifically, for each office, 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; and
- evaluated selected internal controls encompassing the financial reporting of payroll, travel, and procurement of goods and services.

We also 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); and
- 5 U.S.C. Chapter 55, and implementing regulations, relating to pay administration.

We limited our work to accounting and other controls necessary to properly record, process, and summarize transactions to permit the preparation of expenditure statements and to maintain accountability for

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assets and to ensure the execution of transactions in accordance with provisions of laws and regulations we tested.

We did not evaluate the efficiency or effectiveness of independent counsels' operations or the internal controls relevant to operating objectives. Also, we did not review or evaluate the effectiveness of new procedures instituted by AOUSC and independent counsels subsequent to the audit periods covered by this report. We will evaluate those procedures in our next audits of independent counsels.

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; the Department of Justice, including the FBI; the Internal Revenue Service; and the Office of Inspector General of the Department of Housing and Urban Development.

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

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## Expenditures

For the periods we audited, the three independent counsels reported expenditures of \$6.4 million. This included expenditures of \$3.6 million by Independent Counsel Adams for the 9 months ended March 31, 1993; \$2.7 million by Independent Counsel Walsh for the 6 months ended March 31, 1993; and \$79,000 by Independent Counsel diGenova for the period from his appointment on December 14, 1992, through March 31, 1993. We audited the accompanying expenditure reports for all three offices and determined that the statements of expenditures for each of them presented fairly, in all material respects, the expenditures of these offices. The statements of expenditures and related notes regarding bases of accounting and additional pertinent information are provided in appendixes I through III.

As discussed in note 2 to appendix III, Independent Counsel diGenova's cash basis statement of expenditures does not include any costs other than personnel compensation and benefits. Through March 31, 1993, these were the only costs that were submitted to and processed by AOUSC and charged to the independent counsel appropriation. All other costs of Mr. diGenova's independent counsel operations were paid by his law firm or law firms of appointed associate independent counsels. This occurred

because as of March 31, 1993, office space and complete administrative support functions had not been arranged for Mr. diGenova's Office of Independent Counsel. These costs will be included in future expenditure statements when reimbursements are requested by Mr. diGenova and his associate independent counsels, and AOUSC processes, pays, and records them. The pending Senate and House independent counsel bills contain provisions for the prompt acquisition of office space and administrative support for newly appointed independent counsels.

## Internal Controls

Internal control weaknesses discussed in our previous reports included inadequate procedures to ensure that expenditures were charged properly and inadequate segregation of duties. The audit periods for two of the three independent counsels covered by this report began prior to the issuance of our two previous reports. Accordingly, because AOUSC and independent counsels did not have the benefit of these reports, we anticipated and noted certain of the same internal control weaknesses in these audit periods.

While certain new internal control procedures were initiated by independent counsels and AOUSC near the end of and subsequent to the periods covered by these audits, internal controls were generally not sufficient to allow for the preparation of accurate expenditure reports by AOUSC and independent counsels. For example, costs for an entire biweekly payroll period were omitted from expenditure statements prepared by AOUSC and submitted to the offices of independent counsels Adams and Walsh. As a result, payroll and employee benefits originally reported in the expenditure statements for the periods ended March 31, 1993, which were submitted to the U.S. Court of Appeals for the District of Columbia by those two independent counsels, were understated by about \$96,000, and \$135,000, respectively.

Also, as a result of a key-punch error, AOUSC incorrectly charged Mr. Adams' office for \$14,771 in consulting services incurred by Mr. Walsh's office. Because Mr. Walsh's financial officer maintained certain accounting records independent of AOUSC, this charge was properly included in Mr. Walsh's expenditure statement; however, Mr. Adams' March 1993 statement incorrectly included it as well. The errors were disclosed during our audits and the expenditure statements appearing in appendixes I and II have been adjusted to correct these errors.

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These errors occurred because AOUSC had not established adequate internal controls to ensure that all expenditures processed by it were properly charged to and included in the expenditure reports that it produced and submitted to independent counsel offices. AOUSC officials have informed us that they are establishing procedures to address the causes of these types of errors and are establishing additional internal controls to ensure that such errors do not occur or go undetected.

Because of the inadequate internal controls over financial reporting, we had to extend our substantive testing in order to opine on the expenditure reports presented in appendixes I, II, and III.

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## Compliance With Laws and Regulations

In our previous report, we stated that noncompliance with laws and regulations for travel occurred when two independent counsels were continuing to receive reimbursement for travel between their residences and Washington, D.C., where they perform most of their independent counsel duties. Mr. Adams and Mr. Walsh continued this practice during the audit periods covered by this report. However, as we previously reported, in order to allow the Congress an opportunity to address the issue, we have not objected to continuing these reimbursements. The pending Senate and House bills to reauthorize the independent counsel law address this issue by establishing time limits for such reimbursements to independent counsels or their employees.

During the current audit of independent counsel Adams' office, we did identify one new issue related to noncompliance with payroll laws and regulations. Under 5 U.S.C. 5504, most executive branch employees are required to be paid on a pay period basis, which covers 2 administrative work weeks. Employees may not, within any biweekly pay period, earn compensation computed under section 5504 that is in excess of the rate of basic pay for level V of the Executive Schedule. Employees of independent counsel offices are required to be paid consistent with the provisions of section 5504 and are limited to a maximum rate of basic pay not to exceed level V of the Executive Schedule.<sup>3</sup>

During the audit period, Mr. Adams' office paid one employee more than the maximum allowable amount for four pay periods. The overpayments

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<sup>3</sup>Under 28 U.S.C. 594, employees of independent counsel offices may not be paid more than the pay of GS-18, a grade under the General Schedule that no longer exists. The prescribed rate of pay for GS-18 is a rate not to exceed level V of the Executive Schedule. (See 70 Comp. Gen. 404(1991)). The pending Congressional bills would authorize independent counsel employees to be compensated at levels not to exceed the rate of basic pay for level IV of the Executive Schedule.

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of approximately \$9,000 occurred because AOUSC, which provides administrative services to the federal judiciary, erroneously applied an annual pay cap applicable to judiciary employees rather than the biweekly pay cap that is applicable to most executive branch employees. Independent Counsel Adams' office has requested a waiver of reimbursement for the overpayments to the employee. The basis for requesting the waiver stems from the Independent Counsel's reliance on the erroneous guidance given by AOUSC.

Under 5 U.S.C. 5584 and regulations issued by our office (4 C.F.R. parts 91-92), collection of such overpayments may be waived if it is determined that collection would be against equity and good conscience and not in the best interests of the United States. Generally, the criteria for waiver are met when there is no indication of fraud, misrepresentation, fault, or lack of good faith on the part of the recipient of the overpayment. In particular, consideration is given to whether the recipient knew or reasonably should have known of the error.

Our other tests for compliance with certain aspects of selected provisions of laws and regulations disclosed no material instances of noncompliance for the periods ended March 31, 1993. Also, nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred.

We performed our audits in accordance with generally accepted government auditing standards. We completed our audit work on February 25, 1994.

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



David L. Clark  
Director, Legislative Reviews  
and Audit Oversight

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House of Representatives

The Honorable Jack Brooks  
Chairman

The Honorable Hamilton Fish, Jr.  
Ranking Minority Member  
Committee on the Judiciary  
House of Representatives

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## Abbreviations

AOUSC	Administrative Office of the U.S. Courts
FBI	Federal Bureau of Investigation
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
OIC	office of independent counsel



# Statement of Expenditures for Independent Counsel Adams

ARLIN M. ADAMS

Office of Independent Counsel

Statement of Expenditures  
(Cash basis)

Nine Months Ended March 31, 1993

Personnel compensation and benefits	\$1,935,252
Travel	165,255
Rent, communications, and equipment (note 3)	435,450
Contractual services (note 4)	874,054
Supplies and materials	22,214
Acquisition of capital assets	22,177
Administrative services (note 5)	<u>111,730</u>
Total expenditures	<u>\$3,566,132</u>

The accompanying notes are an integral part of this statement.

**Appendix I**  
**Statement of Expenditures for Independent**  
**Counsel Adams**

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 9 months ended March 31, 1993. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through 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. OIC-Adams' investigation is ongoing. As of March 31, 1993, OIC-Adams had 36 full-time and 5 part-time employees.

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 the Administrative Office of the U.S. Courts (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 retroactive retirement coverage discussed in note 2 is to be recorded when paid. 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 - Contingency

Under the laws governing federal employee retirement coverage and the regulations implemented by the Office of Personnel Management, federal employees appointed for periods exceeding 1 year generally are covered by federal employee retirement programs. Certain employees of the office of independent counsel with qualifying appointments were erroneously not provided retirement coverage. In August 1992, AOUSC determined that these employees should be retroactively provided retirement plan coverage and is in the process of reviewing individual employee personnel files to determine specific coverage requirements. In December 1992, qualified employees, then employed by the OIC, became members of the retirement plan and began receiving current retirement coverage. The ultimate cost of providing retroactive retirement contributions for current and former OIC employees, which is not

**Appendix I  
Statement of Expenditures for Independent  
Counsel Adams**

yet known, will be determined upon the completion of the review of individual personnel records.

Note 3 - Rent, communications, and equipment

Approximately \$369,000 in office rent is included in rent, communications, and equipment.

Note 4 - Contractual services

Contractual services primarily consists of court reporting services and outside consulting services in support of litigation.

Note 5 - Administrative services

AOUSC earns an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-Adams. Payment and recording of these fees generally occur in the fiscal quarter following the services.

Note 6 - Corrections to other reports

As a result of GAO's audit, it was determined that costs for personnel compensation and benefits for one biweekly payroll period were omitted from the amounts presented in the March 31, 1993, expenditure report which the OIC submitted to the U.S. Court of Appeals for the District of Columbia. Because this statement has been adjusted to correct the error, the cost of personnel compensation and benefits in the accompanying statement of expenditures is \$96,447 greater than the cost reflected in the OIC's previously submitted report.

Note 7 - Other operating costs (unaudited)

Certain costs relating to employees assigned to work with the OIC by the Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS), and 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 9-month period, based on information provided by officials of these agencies.

	Costs (unaudited)
FBI	\$488,000
IRS	74,000
HUD IG	173,000
	<u>\$735,000</u>

# Statement of Expenditures for Independent Counsel Walsh

LAWRENCE E. WALSH

Office of Independent Counsel

Statement of Expenditures  
(Modified-cash basis)

Six Months Ended March 31, 1993

Personnel compensation and benefits	\$1,624,974
Travel	77,924
Rent, communications, and equipment (note 3)	652,559
Contractual services (note 4)	286,540
Supplies and materials	4,312
Acquisition of capital assets	25,891
Administrative services (note 5)	<u>72,670</u>
Total expenditures	<u>\$2,744,870</u>

The accompanying notes are an integral part of this statement.

Appendix II  
Statement of Expenditures for Independent  
Counsel Walsh

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 costs of the Office of Independent Counsel - Lawrence E. Walsh (OIC-Walsh) for the 6 months ended March 31, 1993. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through AOUSC and the OIC. 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. OIC-Walsh had 41 full-time and 2 part-time employees as of the end of the period.

Basis of accounting: The accompanying statement of expenditures was prepared on a modified-cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, most expenditures for goods and services are recorded when invoices are received and certified for payment. Certain major expenditures such as rent, utilities, and administrative fees, are accrued on a monthly basis. No accrual is made for salaries and benefits earned but not yet paid at the end of the reporting period. The cost of retroactive employment coverage discussed in note 2 is to be recorded when paid. The cost of purchased capital assets, consisting of office furniture and equipment, is expensed and no provision is made for depreciation. These assets will remain the property of the federal government after they are no longer needed by the OIC.

Note 2 - Contingency

Under the laws governing federal employee retirement coverage and the regulations implemented by the Office of Personnel Management, federal employees appointed for periods exceeding 1 year generally are covered by federal employee retirement programs. Certain employees of the office of independent counsel with qualifying appointments were erroneously not provided retirement coverage. In August 1992, AOUSC determined that these employees should be retroactively provided retirement plan coverage and is in the process of reviewing individual employee personnel files to determine specific coverage requirements. In December 1992, qualified employees, then employed by the OIC, became members of the retirement plan and began receiving current retirement coverage. The ultimate cost of providing retroactive retirement contributions for current and former OIC employees, which is not

Appendix II  
Statement of Expenditures for Independent  
Counsel Walsh

yet known, will be determined upon the completion of the review of individual personnel records.

Note 3 - Rent, communications, and equipment

Office rent, including heating, ventilation, and air conditioning during regular business hours, totaled about \$504,000 during the 6-month period. Also included in rent, communications, and equipment are additional charges of approximately \$87,000 for utility usage during evenings and weekends.

Note 4 - Contractual services

Contractual services consists primarily of outside consulting services in support of litigation, protective services, equipment maintenance, and court reporting services.

Note 5 - Administrative services

AOUSC earns an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-Walsh. These fees are generally recorded in the period when the services are rendered.

Note 6 - Other expenditures from the independent counsel appropriation

During the 6 months ended March 31, 1993, the Department of Justice spent for security guard services for the OIC's sensitive compartmented information facility (defense SCIF), an additional \$276,000 from the independent counsel appropriation. This court-ordered facility was established to provide defendants and their attorneys a fully secure site to review classified documents. Payments for these expenditures were made directly by Justice from the independent counsel appropriation. Therefore, they are not included on the face of the statement of expenditures because the statement includes only those expenditures processed through the OIC and AOUSC.

Note 7 - Corrections to other reports

In April 1993, the OIC submitted its report of expenses to the U.S. Court of Appeals for the District of Columbia for the 6 months ended March 31, 1993. As a result of GAO's audit, it was determined that costs for personnel compensation and benefits for one biweekly payroll period were omitted from the amounts presented in that report. Because this statement has been adjusted to correct the error, the cost of personnel compensation and benefits in the accompanying statement of expenditures is \$135,545 greater than the cost reflected in the OIC's April 1993 report previously submitted.

Appendix II  
Statement of Expenditures for Independent  
Counsel Walsh

Note 8 - Other operating costs (unaudited)

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

	Costs (unaudited)
FBI	\$141,000
Other Justice	132,000
	<u>\$273,000</u>

Note 9 - Prior period adjustment

In 1988 and 1989 the General Services Administration made alterations to the OIC's defense SCIF. These alterations, which cost \$338,351, were initially paid for by the Department of Justice from its appropriation, but, because of administrative error, Justice was not reimbursed from the independent counsel appropriation. In July 1993, AOUSC reimbursed Justice for these costs from the independent counsel appropriation. Accordingly, expenditures reported for periods prior to 1990 were understated by this amount.

# Statement of Expenditures for Independent Counsel diGenova

JOSEPH E. diGENOVA	
Office of Independent Counsel	
Statement of Expenditures (Cash basis)	
Period From December 14, 1992 Through March 31, 1993	
Personnel compensation and benefits	<u>\$78,687</u>
Operating expenditures (note 2)	
The accompanying notes are an integral part of this statement.	

**Appendix III  
Statement of Expenditures for Independent  
Counsel diGenova**

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 period from his appointment on December 14, 1992, through March 31, 1993. The statement of expenditures includes only expenditures made from the permanent, indefinite appropriation for the offices of independent counsel that are processed through AOUSC and the OIC. Mr. diGenova was appointed to investigate a preelection search of passport files. OIC-diGenova's investigation is ongoing. As of March 31, 1993, OIC-diGenova had 5 full-time and 7 part-time employees.

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 the Administrative Office of U.S. Courts (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. As of March 31, 1993, no expenditures other than payroll and employee benefits had been processed and paid by AOUSC.

Note 2 - Operating expenditures

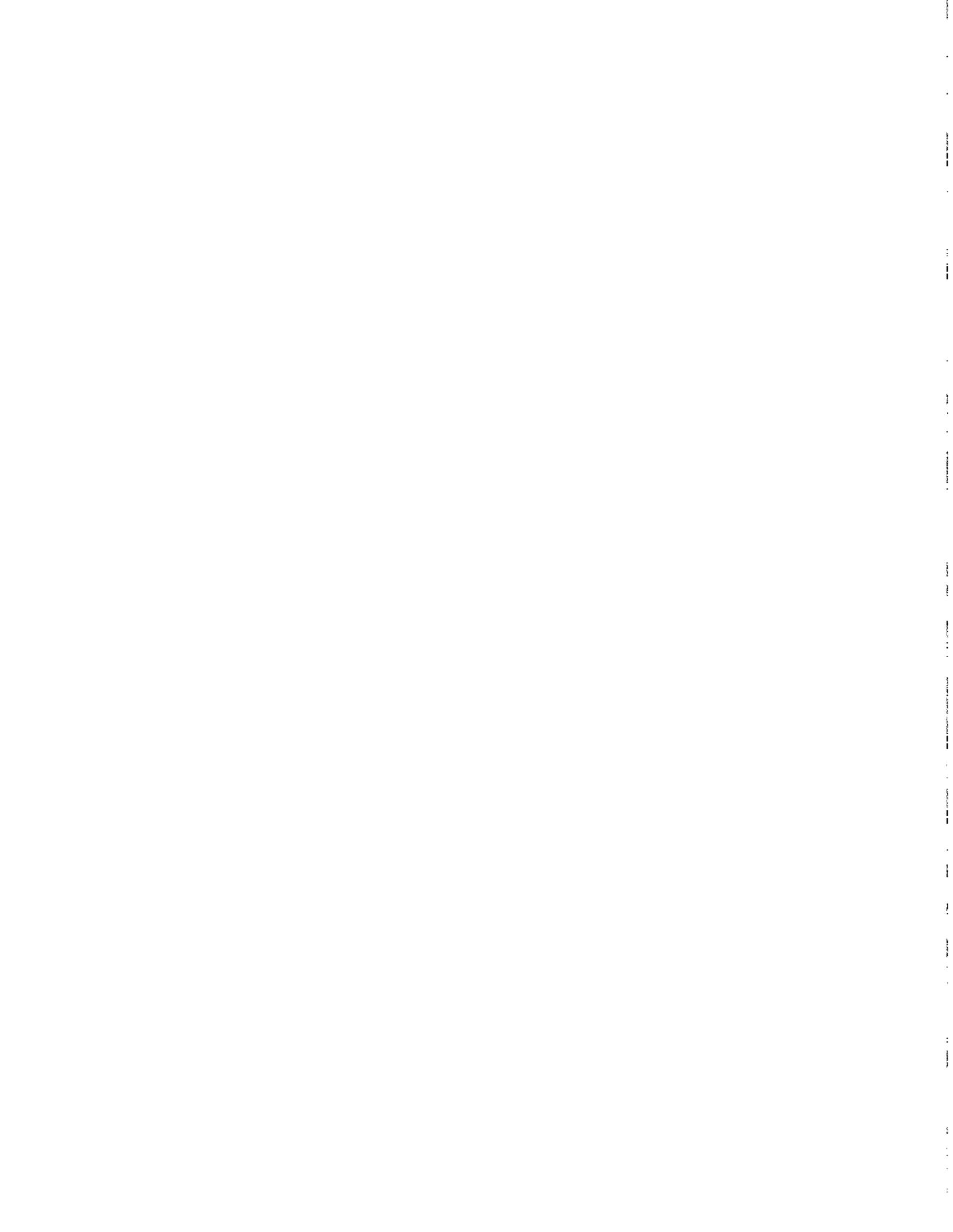
OIC-diGenova's cash basis Statement of Expenditures does not include any costs other than personnel compensation and benefits. Through March 31, 1993, these were the only costs that were submitted to and processed by AOUSC and charged to the independent counsel appropriation. All other costs of OIC-diGenova were paid by Mr. diGenova's law firm or law firms of appointed associate independent counsels. This occurred because as of March 31, 1993, office space and complete administrative support functions had not been arranged for Mr. diGenova's Office of Independent Counsel. These costs will be included in future expenditure statements when reimbursements are requested by Mr. diGenova and his associate independent counsels, and AOUSC processes, pays, and records them.

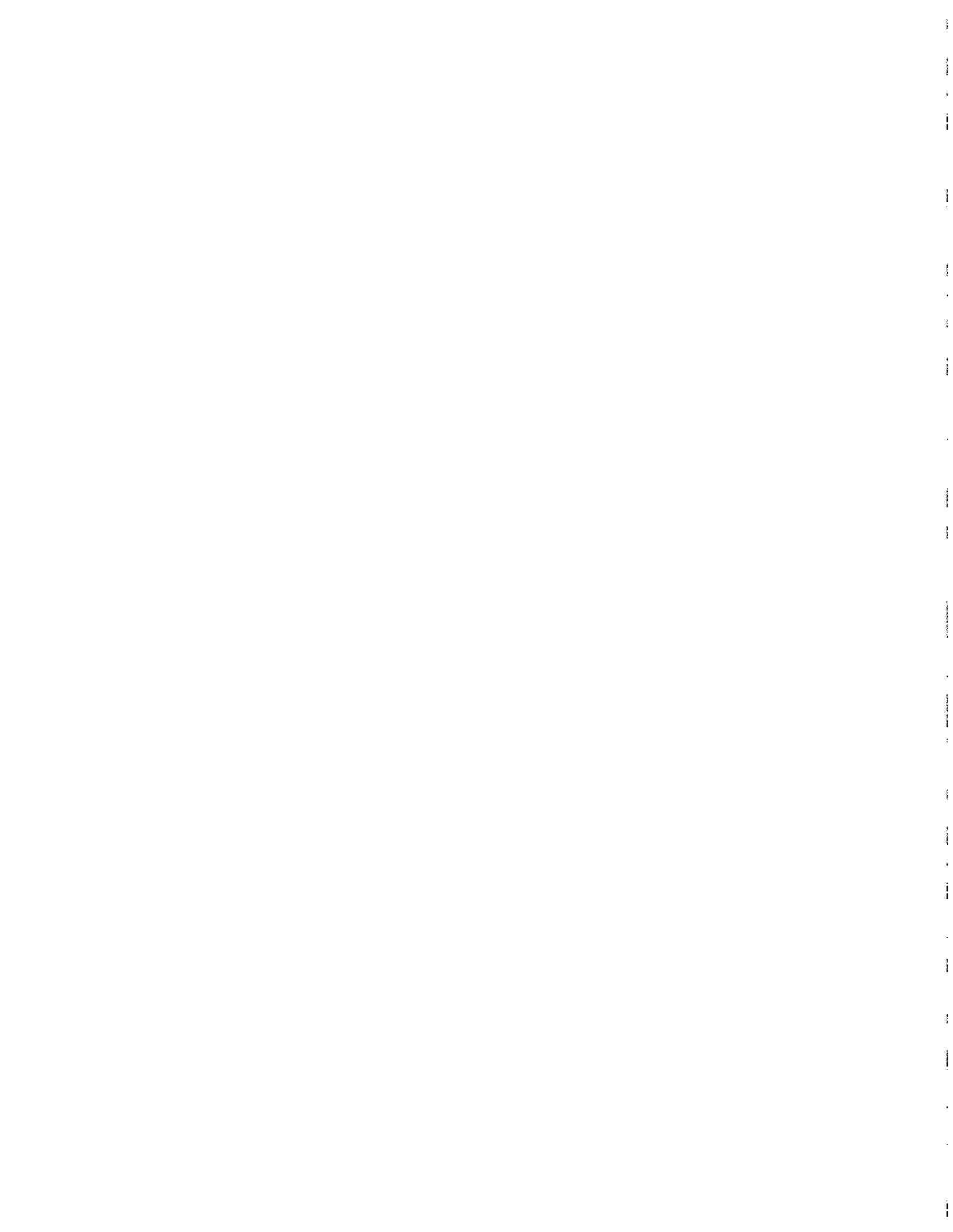
Note 3 - Other operating costs (unaudited)

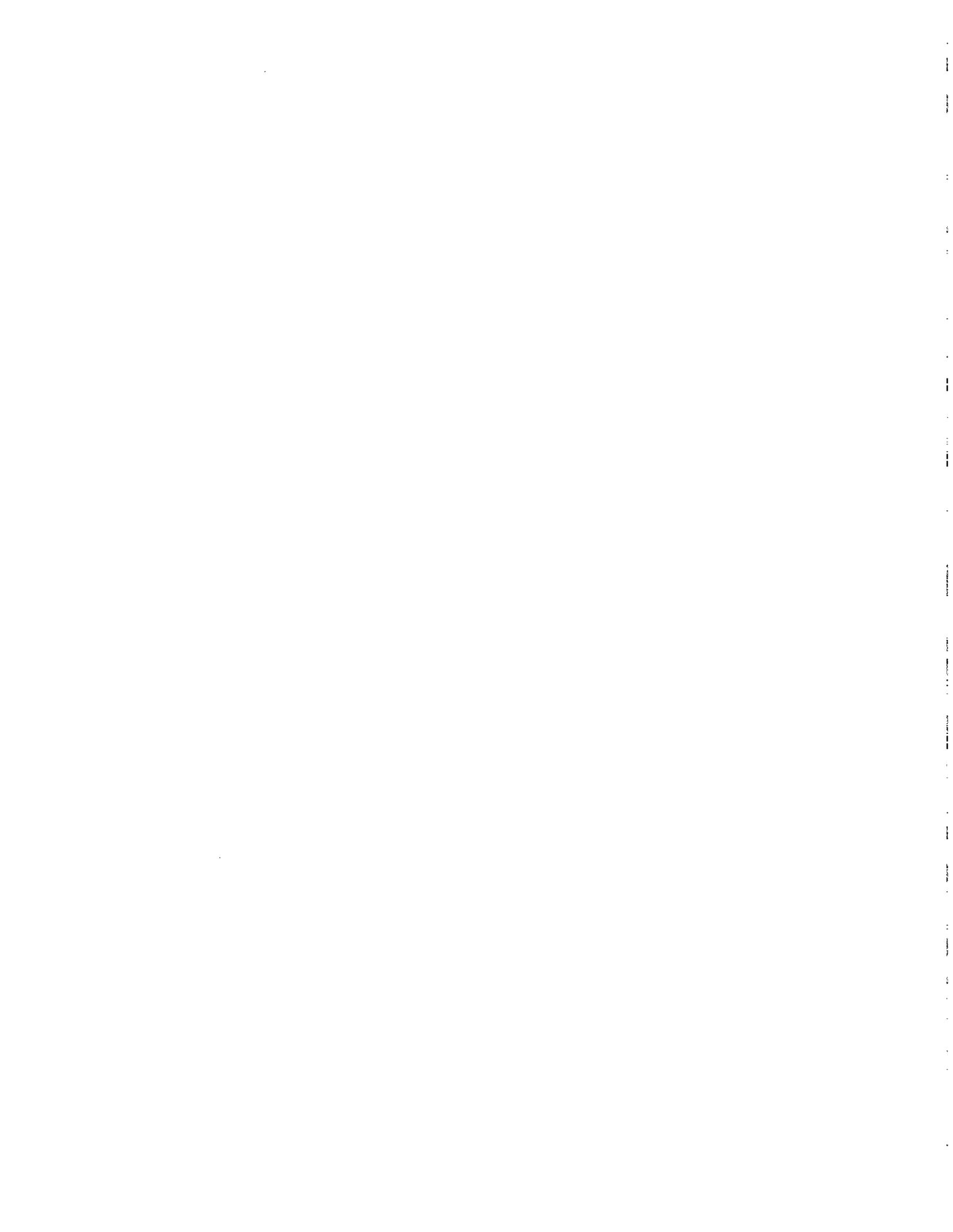
Certain costs relating to employees assigned to work with the OIC by the Federal Bureau of Investigation (FBI) were financed through funds appropriated to the FBI and, accordingly, are not included in

**Appendix III**  
**Statement of Expenditures for Independent**  
**Counsel diGenova**

the statement of expenditures. The FBI is not reimbursed for these costs. The estimated cost (unaudited) of the other assistance provided to the OIC during the period, based on information provided by FBI officials, was \$27,000.







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