

April 2004

STATE DEPARTMENT

Issues Affecting
Funding of Iraqi
National Congress
Support Foundation



G A O

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Highlights of [GAO-04-559](#), a report to congressional requesters

Why GAO Did This Study

As part of the efforts by the United States to oust Saddam Hussein, a critical element of U.S. policy included funding the Iraqi National Congress as the lead Iraqi opposition coalition. In 1999, the Iraqi National Congress Support Foundation (INCSF) was established to provide an organizational structure for Department of State funding. From March 2000 until September 2003, the Department of State funded several INCSF programs, including television broadcasting. INCSF's broadcasting goals included broadcasts into Iraq focusing on providing the Iraqi people unbiased news and information and updating them on efforts to bring democracy to Iraq.

GAO was asked to review (1) the history of the Department of State's funding of INCSF broadcasting activities and (2) the key issues affecting State's funding decisions.

www.gao.gov/cgi-bin/getrpt?GAO-04-559.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jess Ford at (202) 512-4268 or fordj@gao.gov.

STATE DEPARTMENT

Issues Affecting Funding of Iraqi National Congress Support Foundation

What GAO Found

State's funding of INCSF programs totaled nearly \$33 million for the period March 2000 through September 2003. This money was made available through 23 cooperative agreements and amendments that provided short-term funding at irregular intervals. The funds were provided for several purposes, including establishing new satellite television capability (Liberty TV), newspaper publication, and information collection programs. About \$10 million was earmarked for Liberty TV broadcasting activities, which included hiring staff, establishing studio operations, and actual broadcasting. There were several periods during which State did not have an agreement to fund INCSF's program, causing State to later fund INCSF activities retroactively. State's funding approach affected INCSF's ability to conduct television broadcast operations. Liberty TV broadcasted from August 2001 to May 2002, when funding shortages caused by funding and policy disputes between State and INCSF resulted in termination of broadcasting. Attempts to restart Liberty TV failed due to a combination of factors, including continued disagreements between INCSF and State over funding requirements for the broadcasts, the rapidly changing conditions associated with the war in Iraq, and INCSF's relocation of operations to Iraq in May 2003. INCSF repeatedly complained to State that the short-term nature of the funding agreements made it difficult to run an effective television broadcasting operation.

State cited three reasons why it was unable to reach long-term funding agreements with INCSF: (1) State was concerned about INCSF's accountability for funds and operational costs, based largely on results of audits of INCSF, and remained concerned even after INCSF took steps to improve its accountability during late 2001 and 2002; (2) INCSF resisted U.S. government policy prohibiting INCSF operations inside Iraq; and (3) State questioned both the usefulness of INCSF's information collection program and whether it was appropriate for State to fund it. (In May 2002 State decided to drop its funding for the information collection program, effective August 2002.) Against this background and the sporadic funding arrangements that characterized the program, the process of proposal and counterproposal continued without producing agreements that could lead to restarting Liberty TV. Through their inability to work together to restart Liberty TV, State and INCSF missed a chance to reach the Iraqi people at critical times prior to and during the March 2003 war in Iraq.

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Abbreviations

INC	Iraqi National Congress
INCSF	Iraqi National Congress Support Foundation
OIG	Office of the Inspector General

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

April 30, 2004

The Honorable Norm Coleman
Chairman
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate

The Honorable Sam Brownback
The Honorable Jon Kyl
The Honorable Rick Santorum
United States Senate

As part of long-standing efforts by the United States to oust Saddam Hussein, the Iraq Liberation Act of 1998¹ noted that regime change in Iraq should be the policy of the United States. Consistent with that act and other legislation, a critical element of U.S. policy included funding the Iraqi National Congress as the lead Iraqi opposition coalition. In 1999, the Iraqi National Congress Support Foundation (INCSF) was established to provide an organizational structure for Department of State funding. From March 2000 until September 2003, the State Department provided funds to the INCSF for several programs, including planning for the renewal of Radio Hurriah broadcasts and establishing new satellite television capability (Liberty TV), newspaper publication, and public information and information collection programs.² INCSF's broadcasting goals included direct radio and television broadcasts into Iraq focusing on providing the Iraqi people unbiased news and information and updating them on efforts to bring democracy to the country.

In response to your questions about the amounts and timing of Department of State funding for INCSF broadcasting activities, this report (1) describes the history of the Department of State's funding of INCSF broadcasting activities and (2) examines the key issues affecting State's funding decisions for the broadcasting programs. To perform our work, we reviewed State's cooperative agreement documents with the INCSF and

¹Public Law 105-338.

²The INCSF's information collection program consisted of INCSF field officers stationed in countries surrounding Iraq maintaining contact with Iraqi dissidents living inside Iraq and collecting information from them on the political, economic, and military activities of Saddam Hussein's regime.

met with State officials in the Bureau of Near Eastern Affairs and the Bureau of Administration. We also examined audit files in State's Office of the Inspector General (OIG) and met with OIG officials.³ In addition, we met with a consultant hired by INCSF to help improve the foundation's accounting and financial management systems and who frequently acted as a representative on behalf of INCSF in discussions with State, and we obtained information from INCSF's former controller and from its Liberty TV manager. To assess the reliability of the data used in this report, we reviewed relevant documents and obtained necessary information from State and INCSF personnel. We conducted our review from September 2003 to April 2004 in accordance with generally accepted government auditing standards. (See p. 16 for the details of our scope and methodology.)

Results in Brief

State's funding of cooperative agreements for INCSF totaled nearly \$33 million for the period March 2000 through September 2003 when State's funding ended. This money was made available through 23 cooperative agreements and amendments that provided short-term funding at irregular intervals. Moreover, there were several periods during which State did not have an agreement to fund INCSF's program, causing State to later fund INCSF activities retroactively. State's funding approach affected INCSF's ability to conduct broadcast operations. State provided seed money for radio broadcasting but did not provide additional funding because it could not identify a location for a transmitter that was acceptable to both State and the INCSF. About \$10 million was earmarked for Liberty TV broadcasting activities, which included hiring staff, establishing studio operations, and broadcasting. Liberty TV broadcasted from August 2001 to May 2002, when funding shortages caused by funding and policy disputes between State and INCSF resulted in termination of broadcasting. Attempts to restart Liberty TV failed due to a combination of factors, including continued disagreements between INCSF and State over funding requirements for the broadcasts, the rapidly changing conditions associated with the war in Iraq, and INCSF's relocation of operations to Iraq in May 2003. INCSF repeatedly complained to State that the short-term nature of the funding agreements made it difficult to run an effective broadcasting operation.

³OIG conducted two audits of INCSF: *Review of Awards to Iraqi National Congress Support Foundation* (01-FMA-R-092, September 2001) and *Follow Up Review of Iraqi National Congress Support Foundation* (AUD/CG-02-44, September 2002).

State cited three reasons why it was unable to reach long-term funding agreements with INCSF: (1) State was concerned about INCSF's accountability for funds and operational costs, based largely on results of audits, and remained concerned even after INCSF took steps to improve its accountability during late 2001 and 2002; (2) INCSF resisted U.S. government policy prohibiting INCSF operations inside Iraq; and (3) State questioned both the usefulness of INCSF's information collection program⁴ and whether it was appropriate for State to fund it. (In May 2002, State decided to drop its funding for this program.) Against this background and the sporadic funding arrangements that characterized the program, the process of proposal and counterproposal continued without producing agreements that could lead to restarting Liberty TV. Through their inability to work together to restart Liberty TV, State and INCSF missed a chance to reach the Iraqi people at critical times prior to and during the March 2003 war in Iraq.

Background

The Iraq Liberation Act of 1998 authorized U.S. assistance to support a transition to democracy in Iraq in key areas, including radio and television broadcasting. In 1999 President Clinton designated the Iraqi National Congress (INC) as eligible to receive assistance under the act.⁵ INC was formed in the early 1990s when the two main Kurdish militias—the Kurdistan Democratic Party and the Patriotic Union of Kurdistan—participated in a June 1992 meeting of dozens of opposition groups in Vienna.⁶ INC subsequently developed into a broad-based coalition of political organizations opposed to Saddam Hussein. In 1999, INCSF was established as a foundation to provide support to INC and to provide an organizational structure for State's funding of INC.⁷ A seven-member board of directors (the INC Leadership Council) governed INCSF. INCSF was

⁴INCSF intended its information collection program to gather data on several issues, including the Hussein government's military, political, and economic activities, and information about its alleged weapons of mass destruction programs and its ties to terrorist groups.

⁵Subsequent funding for INC came from appropriations made to carry out the Economic Support Fund provisions of the Foreign Assistance Act of 1961, as amended.

⁶In October 1992, major Shiite Islamic groups joined the coalition.

⁷INCSF was established as a foundation to provide administrative, financial, and other support to the Iraqi National Congress and was incorporated as a nonprofit organization in August 1999 in the state of Delaware.

headquartered in London, England, until the end of the war, when its operations were relocated to Baghdad. During its cooperative agreements with State, INCSF also maintained field offices in Washington, D.C.; Damascus, Syria; and Tehran, Iran. In April and May 2003, INCSF began the process of relocating its offices to Baghdad.

From the beginning of its relationship with State, INCSF's plans for broadcasting into Iraq represented one of its major initiatives, along with plans for resuming publication of a newspaper INC had established in 1992, participating in Department of Defense training programs, and establishing humanitarian and information collection programs. INCSF envisioned radio as a key medium for the dissemination of information to the Iraqi people. It planned to reestablish Radio Hurriah and have a signal receivable in Iraq by early 2001.⁸ To expand the area of coverage, INCSF also planned to purchase a high-power transmitter in Iraq. Radio broadcasting was to focus on news, current affairs, and programs dedicated to democracy and human rights. Based on its prior television experience (from August 1993 to August 1996, INC operated a television production and transmission facility in Iraqi Kurdistan), INCSF's plans for Liberty TV included setting up a studio in London and using satellite equipment to broadcast directly to Iraq. Planned programming included news, current affairs, and programs censored by the regime in Baghdad.

State's Funding Was Generally Provided on a Short-term Basis

Beginning in March 2000, State entered into a series of cooperative agreements with INCSF that included funding totaling nearly \$33 million as of September 2003, but most of this funding came under agreements and amendments provided at irregular intervals, involved some retroactive funding, and were short-term and thus affected INCSF's ability to broadcast. Table 1 describes State's cooperative agreements with INCSF in further detail.

⁸Until 1996, INC had operated Radio Hurriah from a U.S. government tower in Kuwait and broadcast into Iraq in Arabic for 14 hours daily.

Table 1: Description of State's Cooperative Agreements with INCSF

Agreement	Award date	Effective date	Agreement period	Amount	Purpose
1	3/31/00	3/31/00	3/31/00 to 9/31/00	\$267,784	Establish INCSF office and develop plan/proposal for long-term U.S. support
Amendment 1	9/19/00	3/31/00	(No change)	0	Administrative change to revise budget with no additional funds or change in performance period
Amendment 2	^a	^a	Extended to 11/30/00	0	Extend agreement period
Amendment 3	^a	^a	(No change)	0	To reflect new address of recipient
2	9/29/00	9/29/00	9/29/00 to 2/28/01	\$4 million	Support INCSF's programs, including headquarters and regional operations, broadcasting, humanitarian activities, and information collection
Amendment 1	2/28/01	2/28/01	Extended to 3/31/01	0	Extend agreement period
Amendment 2	3/30/01	3/31/01	Extended to 5/31/01	0	Extend agreement period
Amendment 3	5/30/01	6/1/01	Extended to 6/30/01	0	Extend agreement period
Amendment 4	6/29/01	6/29/01	Extended to 9/30/01	\$4 million	Continue funding of INCSF's core programs
Amendment 5	6/29/01	6/29/01	No change	\$2 million	Continue funding of INCSF's core programs
Amendment 6	9/29/01	9/30/01	Extended to 10/15/01	0	Extend agreement period
Amendment 7	10/15/01	10/15/01	Extended to 10/31/01	0	Extend agreement period
Amendment 8	10/31/01	10/15/01	Extended to 11/15/01	0	Extend agreement period
Amendment 9	12/04/01	11/01/01	Extended to 12/31/01	\$1.7 million	Continue funding of INCSF's core programs
Amendment 10	2/08/02	1/1/02	Extended to 3/31/02	\$2.9 million	Continue funding of INCSF's core programs
Amendment 11	8/20/02	3/31/02	No change	\$900,000	Add funds in August 2002 for "prior expenses"
3 "bridge grant"	5/17/02	4/1/02	4/01/02 to 5/31/02	\$2.4 million	"Austerity budget" support for personnel, direct services, television, newspaper, and other costs
4	11/15/02	6/1/02	11/15/02 to 1/31/03; providing pre-award costs from 6/01/02 to 1/31/03	\$6.58 million	Renew funding for headquarters and regional operations, television costs (including returning Liberty TV to the air), humanitarian activities, newspaper, and trainee expenses

(Continued From Previous Page)

Agreement	Award date	Effective date	Agreement period	Amount	Purpose
Amendment 1	No date ^b	12/12/02	Signed 2/05/03	\$282,042	Add funds and authorize London conference expenses
Amendment 2	3/02/03	1/23/03	Extended to 7/31/03	0	Extend agreement period
Amendment 3	6/2/02	2/5/03	2/05/03 to 7/31/03	\$7 million	Continue funding of agreement categories except humanitarian
Amendment 4	10/30/03	7/31/03	Extended to 9/30/03	0	Extend agreement period
5	11/15/02	6/1/02	6/01/02-7/31/02	\$619,800	Transition costs for information collection program, until another agency could begin funding
Total				\$32.65 million	

Source: GAO analysis of State Department data.

^aInformation not available in State's files.

^bAccording to State, the amendment was undated but covered specific costs incurred during December 2002.

Agreement 1 laid the groundwork for initial planning, and Agreement 2 described what INCSF hoped to achieve in the broadcasting area. These goals included (1) setting up a satellite television facility in London to broadcast directly into Iraq and (2) planning and preparing to resume broadcasting of Radio Hurriah from inside Iraq and via satellite and the Internet. From March 2000 through May 2002, State provided about \$17 million to INCSF through the first two cooperative agreements and amendments and Agreement 3 (the 2-month "bridge grant" for April and May 2002).⁹ Of this \$17 million, only limited funding was for Radio Hurriah, largely because an acceptable location for a transmitter could not be found. About \$5 million was earmarked for Liberty TV broadcasting activities, which included hiring staff and establishing studio operations. Liberty TV broadcasting actually began in August 2001. However, upon becoming operational, Liberty TV encountered technical problems that forced it to broadcast from the United States based on a signal transfer from London. Liberty TV had goals of original broadcasting for 24 hours a day, but at the peak of its operations it only had original broadcasts of 4 hours. It went off the air on May 1, 2002, because of funding disputes between State and INCSF which, according to an INCSF representative, left the INCSF seriously short of funds to pay its bills. After the bridge grant expired on May 31, 2002, State and INCSF did not conclude a new agreement until

⁹This total excludes \$900,000 provided under amendment 11 in August 2002.

November 2002.¹⁰ Funding in that new cooperative agreement (Agreement 4) and its amendments included about \$4.67 million for (1) restarting Liberty TV and (2) “pre-award” costs incurred by INCSF for the period not under the agreement, including salaries for Liberty TV staff retained by INCSF.

Parties Made Serious Attempts to Reach Long-term Accord but Were Unable to Do So

In the course of the relationship between the two parties, State several times offered INCSF longer-term agreements that INCSF would not accept. For example, for the period March 2000 through February 2001, State and INCSF had concluded the first two cooperative agreements totaling about \$4.27 million. In April 2001, as an alternative to short-term amendments to Agreement 2, INCSF requested a new 5-month agreement totaling \$29 million that included funding for 24-hours-a-day satellite television broadcasting, installation of a small transmitter in Iraq, and 24-hours-a-day radio broadcasting from inside Iraq. State rejected the proposal. Similarly, in September 2001, INCSF requested \$23 million over 5 months. According to the proposal, Liberty TV operations would be expanded to 24 hours a day, and radio operations would be initiated via a transmitter inside Iraq. State rejected INCSF’s proposal but in late September 2001 made a counteroffer of \$8 million for a 5-month cooperative agreement. State renewed the same offer in early November 2001. While emphasizing that it was not prepared to fund INCSF activities inside Iraq, State did offer to fund a series of activities, including publication of the newspaper, satellite TV broadcasting, information collection analysis, and startup of radio broadcasting using a transmitter based in Iran. INCSF declined State’s offer.

¹⁰In August 2002, State provided an additional \$900,000 under Amendment 11 to Agreement 2, for expenses incurred through March 31, 2002.

Inability to Reach Long-term Agreements Centered on Concerns over Financial Management, Operations in Iraq, and Information Collection

Three main concerns affected State's funding decisions for INCSF and thwarted the parties' ability to negotiate and conclude long-term funding agreements: concerns over INCSF's financial management and accountability based largely on the results of audits of INCSF; the desire of INCSF to operate inside Iraq, which was inconsistent with U.S. policy; and State's increasing concerns about the appropriateness and merits of funding INCSF's information collection program. State officials acknowledged that the use of frequent short-term amendments to the cooperative agreements, plus the substantial period of time that an agreement was not in force in 2002, significantly complicated management of the program and made it difficult for INCSF to accomplish its objectives. However, State officials said that these arrangements were necessary in view of the financial management, policy, and operational issues that arose during the program. INCSF repeatedly claimed that the short-term nature of State's funding led to financial problems in the organization and disrupted Liberty TV's ability to pay its bills.

Financial Management and Accountability Concerns

In the very early stages of State's agreements with INCSF, State received strong indications that INCSF had inadequate controls over cash transfers. For example, in 2000, a CPA firm reviewed INCSF's controls as part of Agreement 1. The review identified concerns about INCSF's travel reimbursement procedures, use of non-U.S. flag-carriers, and its cash payment practices. Also that year, State notified INCSF that it needed to rectify certain compliance issues before it could draw down funds. These issues included INCSF's lack of proper documentation to support expenditures and the questionable use of cash payments. In early 2001, another CPA audit examined INCSF's operations as part of State's agreements and identified significant noncompliance and control issues affecting implementation of Agreement 2. According to a State document, the auditor "appear[ed] to confirm what we [State] suspected—that the INCSF is not complying with the myriad of regulations that grantees are required to comply with."

Audit by State's Inspector General

Concern grew in State that there were serious mishandling of money issues that needed to be examined in INCSF to avoid a potentially embarrassing situation for the administration and for State. In early 2001, some allegations about fraud within INCSF also circulated within State. State's concerns about accountability and the potential for misuse of funds led to an audit of INCSF by State's Office of the Inspector General (OIG) in mid-2001. The OIG audit covered the initial \$4.3 million in awards to INCSF

under Agreements 1 and 2. The OIG found serious financial management and internal control weaknesses, particularly in the cash management aspects of INCSF's information collection program.¹¹ The OIG also found that INCSF had an inadequate accounting and financial management structure, insufficient accounting staff, and inadequate banking procedures and that State had not created a total budget for the second cooperative agreement incorporating the funding that had been awarded to the INCSF up to that point. The OIG questioned approximately \$2.2 million in INCSF costs. As a result, the OIG recommended that State withhold, or at least restrict, future funding to INCSF until it implemented adequate and transparent financial controls. The OIG also recommended that INCSF acquire expert financial management assistance to set up a standardized accounting system, hire a financial officer, establish cash management procedures, develop written accounting policies and procedures, and incorporate into its agreements with State a budget that accurately reflected approved costs. Although several accounting and internal control weaknesses were identified, OIG officials said that they found no evidence concerning the prior accusations of fraud. An INCSF representative acknowledged that it had financial management and accountability weaknesses in the early stages of the agreements. However, the representative believed that INCSF made significant improvements in late 2001 and early 2002 to correct the weaknesses and to respond to the OIG audit.

OIG officials said that their audits of INCSF were done in accordance with generally accepted government audit standards and that their work was similar to other grant and cooperative agreement audits they had conducted.

Concerns about Operations in Iraq and Information Collection

From the beginning of its relationship with INCSF, State had policy concerns that ultimately affected funding decisions and plans for several programs, including Radio Hurriah and Liberty TV. At the beginning of the cooperative agreements with INCSF, State officials said that the U.S. government had adopted a general policy of prohibiting INCSF operations inside Iraq. State officials said that the presence of U.S.-funded INCSF staff within Iraq could open the door to potentially disastrous diplomatic

¹¹For example, the OIG found nearly \$600,000 in unsupported cash transactions in the first audit. The OIG described the situation as including questionable disbursement policies and limited documentation.

situations if INCSF operatives were caught and/or killed by Iraqi troops. INCSF resisted this policy. From INCSF's perspective, working inside Iraq was vital for the success of many of its programs. To begin radio broadcasting inside Iraq, INCSF wanted to purchase and install a suitable transmission tower within the country. The INCSF also wanted the existing information program to collect data on the Hussein government's military, political, and economic activities for input into its newspaper, *Al Mutamar*, and for Liberty TV broadcasts. In addition, INCSF believed that elements of that data could be used in its diplomatic activities to reinforce views of the international community that the Hussein government represented a danger to its neighbors. Further, INCSF saw the program as an effort to gather information on the government's alleged weapons of mass destruction programs and its ties with international terrorist groups. However, State maintained its position, refusing to fund radio activities inside Iraq and limiting its funding of information collection to areas outside and bordering Iraq. In commenting on a draft of this report, State noted that, as the grantor, it had entire discretion to determine whether a grant to the INCSF would further and be consistent with U.S. government policies, and to condition any such grant to ensure that it would. State further believed that as a grantee, INCSF was an instrument of U.S. government policy, and, as such, was not in a position to disagree with State on how State's funds could be used.

In addition to concerns about operating inside Iraq, State's OIG had questioned the nature of INCSF's information program and its lack of controls over cash transactions, particularly those that were used as part of activities in the field. In State's view, the potential for fraud in an officially State-sponsored program posed a risk that State was not prepared to take. Finally, State officials doubted the value of the information obtained through the program, a claim that the INCSF vigorously disputed.

Continued Efforts to Reach Long-term Agreements

As these financial management and policy issues were emerging, State and INCSF continued their efforts to conclude new long-term agreements, with little success. For example, in fall 2001, State offered INCSF an \$8 million agreement for 5 months that would provide television and radio funding but did not fund operations in Iraq. INCSF did not accept State's proposal, largely because it held firm to the position that not letting INCSF operate inside Iraq would result in the disintegration of the organization. In February 2002, INCSF proposed another long-term agreement totaling \$37.5 million covering March through December 2002. As part of that proposal, INCSF believed that several elements of INCSF's mission needed

to be addressed by both parties, including the lack of a complete INCSF communications strategy without a radio program and the need for a higher-quality television operation. In addition, INCSF believed it was imperative that its information collection program be expanded to ensure timely and reliable intelligence on developments inside Iraq and provide critical information on Saddam's alleged weapons of mass destruction program and involvement in international terrorism. State determined around mid-March that the proposal was incomplete and, because INCSF indicated that it needed funds quickly, recommended that the overall proposal be considered in stages, with the first priority to get current operations in order, including Liberty TV.¹²

In late March 2002, State said it stood ready again to discuss a cooperative agreement for 9 months (April through December 2002), with an initial period funded at \$3.6 million for 3 months to provide funding continuity until full accord on the elements of the agreement could be achieved. Concerning INCSF's continuing proposals for starting up radio operations, State said that INCSF's proposals were no longer a priority because (1) the Kurdish Democratic Party and the Patriotic Union of Kurdistan opposed the plans and (2) both of those groups operated radio stations in Iraq, and the United States funded its own Radio Free Iraq. INCSF believed that State's response to its proposal called into question State's commitment to a new relationship and its general commitment to the INCSF. Of significant concern to INCSF were State's demands for a short-term (3-month) funding period, as well as its continuing lack of support for a radio station.

Negotiating Stalemate in May 2002

In lieu of a long-term agreement, State notified INCSF that it planned to award Agreement 3, referred to as the "bridge grant," for 2 months (April through May 2002). State viewed its proposal as an austerity budget that would enable INCSF to get its house in order, including Liberty TV, and notified INCSF that what State considered as cost overruns under the prior grant would be handled with one or more "mop-up" amendments.¹³ As discussed below, INCSF regarded its unpaid bills as resulting from a failure on State's part to meet its funding obligations. State's initial proposal for

¹²State officials visited Liberty TV in late 2001 and identified significant management and personnel issues.

¹³In August 2002, State provided INCSF an additional \$900,000 to cover expenses incurred under the last amendment to Agreement 2.

the bridge grant caused great concern in INCSF for several reasons. First, it called for “heightened federal stewardship,” including on-site State participation in INCSF’s budget management and approval of all costs. INCSF believed that such conditions were unjustified and unacceptable, stating that it had already taken a number of steps to improve financial management consistent with the OIG recommendations. According to INCSF, it had hired internal accounting staff and a management consultant and implemented new and consolidated accounting systems. It also said that new procedures for documenting cash transactions were being installed. According to OIG officials, in a follow-up audit in mid-2002, OIG found that INCSF had taken several steps to implement recommendations for improved financial management and controls but had not fully implemented them. According to OIG officials, limited funding by State contributed to INCSF’s difficulties in improving its financial systems. INCSF said that such funding made it difficult for INCSF to pay for implementation of a new accounting system and contributed to delays in making reforms of the foundation’s accounting systems.

Discussions between the two parties concerning the bridge grant further illuminated the financial issues faced in the program. Specifically, at the end of April 2002, INCSF complained to State that it had been operating for a month without a funding agreement and had incurred a \$2 million shortfall. According to INCSF, that shortfall occurred because State had erroneously estimated INCSF’s monthly core operating costs at \$850,000 to \$900,000 during implementation of Agreement 2, whereas INCSF believed it was operating under a previously approved budget with estimated costs of \$1.24 million. Implications for Liberty TV were particularly serious. Because of its financial shortcomings, INCSF had received notice that its service provider would terminate service for Liberty TV on April 30 because INCSF had not paid its bills.¹⁴ On May 1, 2002, Liberty TV stopped its broadcasting operations.

State subsequently modified its proposal and signed the bridge grant agreement on May 17, awarding \$2.4 million for the period April to May 2002 but deleting requirements for its on-site participation in budget

¹⁴According to INCSF documents, Liberty TV managed to stay on the air until May 2002 by delaying payment to suppliers and withholding employees’ salaries. However, INCSF said it could not pay many of its bills including satellite TV services, satellite transmission, and news services.

management and approval of costs. Although the grant budget included funding for Liberty TV, broadcasting did not resume.

No Agreement from June to November 2002

INCSF operated without an agreement from June until November 2002, largely due to an impasse between the two parties over the information collection program. At a meeting of top INCSF and State officials in late May 2002, State officials said that the department would no longer fund the information collection program. However, State offered INCSF a new 7-month cooperative agreement totaling \$8 million for the period June 10 through the end of 2002 that included about \$4.2 million for Liberty TV and represented a substantial increase over the \$400,000 per month funding levels previously supported.¹⁵ According to an INCSF representative, INCSF reacted negatively to the proposal for three reasons. First, INCSF negotiators received the proposal in the early morning of May 29, 2002, the day set for U.S./INCSF negotiations and 2 days before the bridge agreement was due to expire. Second, the proposal left INCSF with no funding for operations for the 10 days between the end of the bridge grant on May 31, 2002, and the effective date of the proposed new agreement on June 10, 2002. Third, and most important, INCSF was not willing to accept an agreement without funding for the information collection program.

INCSF documents indicated that INCSF was in serious financial difficulty by October 2002, with staff being evicted and landlords threatening legal action.¹⁶ Several freelance employees of Liberty TV were released, but Liberty TV core staff were retained in the belief that State remained committed to Liberty TV broadcasting. In an attempt to successfully conclude a new agreement, INCSF sent a draft budget proposal to State that would cover costs from June through December 2002 and envisioned renewed Liberty TV broadcasting as soon as November 2002. State noted, however, that INCSF's proposed budget differed in significant ways from State's proposals and that modifications were needed for it to serve as a basis for a new agreement. State and INCSF were able to successfully conclude a new agreement in November 2002, in part because the Department of Defense agreed to take over funding of the information

¹⁵State's proposal was in response to INCSF's earlier proposal of April 22, 2002.

¹⁶Although State provided about \$900,000 remaining on Agreement 2, State said that INCSF could not use the funds for expenses incurred after March 31—the closing date for that agreement.

collection program. The new agreement included about \$2 million in funding for Liberty TV costs incurred from June through the end of January 2003. However, Liberty TV did not become operational, primarily due to disagreements between State and INCSF over the amount of the funding provided and the time period of State's commitment. Specifically:

- INCSF expressed concern that the new agreement did not include an additional \$1 million it requested for long-term investment costs for television operations.¹⁷ State attributed this decision to its unwillingness to fund long-term capital costs and the uncertainty of congressional approval of additional funding for INCSF beyond January 2003. State indicated that one possible option for INCSF might include reducing costs of other budgeted items to cover television costs for one additional month but noted that option did not provide the type of commitment that INCSF was seeking.
- According to INCSF documents and an INCSF representative, the continued negotiations and lack of agreement over costs and commitment time periods for funding Liberty TV delayed resumption of broadcasting. INCSF told State in November 2002 that it was not prepared to begin Liberty TV broadcasts only to go off the air in 3 months. According to an INCSF representative, Liberty TV technically could have renewed limited broadcasting at this time because INCSF had retained many of the professional television staff on its payroll. However, INCSF's representative said it was not willing to run an operation that, if taken off the air once again due to a shortage of funding, would further damage INCSF's credibility.

Agreement Extension Did Not Result in Broadcasts Before and During War

INCSF continued planning for options to restart Liberty TV. INCSF proposed that Liberty TV rent fully operational facilities on a short-term basis rather than invest in its own facilities. Quotes for rental facilities were obtained, and one organization was tentatively selected. In February 2003, State extended the agreement to July 2003, and \$7 million was also added to INCSF's funding, including about \$2.67 million for television operations. INCSF notified State that it had signed two letters of intent with contractors that it hoped would get Liberty TV on the air: one for television and newspaper premises and another for television satellite

¹⁷These cost proposals included purchase of a broadcasting studio.

capability. An INCSF official believed that Liberty TV could be operational 2 to 3 days after signing the satellite contract. According to an INCSF representative, these contracts were never signed because the drawdown of funds on the new February amendment was not received until March 12, just a few days before the war began.

INCSF at this point developed yet another strategy: to open offices and install a television and radio station in northern Iraq for a 4-month period commencing upon the issuance of an Iraqi Sanctions Regulations License.¹⁸ According to an INCSF representative, this plan also fell through as the war began, and INCSF decided to move its operations to Baghdad. In early April 2003, State began working with INCSF to support its transition to Iraq, including the redirection of funding already committed to INCSF programs. According to State, those programs should include radio and television broadcasting at a time when it was critically important that Iraqis opposed to Saddam's regime take control of the airwaves. State funding of INCSF continued through September 2003 and funds were available for television operations.¹⁹ According to an INCSF representative, INCSF decided in May 2003 that it did not have a dependable offer from the Department of State to resume Liberty TV broadcasts. Echoing a similar decision in November 2002, INCSF wanted to avoid a second shutdown of Liberty TV due to a gap in State funding. INCSF instead decided to concentrate its energies on establishing offices and hiring support personnel in Baghdad.

Agency Comments and Our Evaluation

The Department of State and INCSF provided written comments on a draft of this report (see apps. I and II). State said that our draft report provided a generally accurate account of the complex and difficult relationship that existed between the Department of State and INCSF. State said its actions with respect to INCSF were responsible and fully in accordance with U.S. law and administration policy. State also said it believed our observation that State and INCSF, through their inability to work together to restart

¹⁸According to an INCSF document, Treasury had issued several prior licenses to the foundation, including authorizations to transfer money to Iran and to gather informational materials in Iraq.

¹⁹Of the \$13.865 million provided under Agreement 4, about \$4.67 million was for television costs for June 2002 through September 2003. According to INCSF, part of the money was used to pay salaries of television staff retained and other nonbroadcast costs, and the remainder was used to help set up INC operations in Baghdad.

Liberty TV, missed a chance to reach the Iraqi people at critical times prior to and during the war in Iraq lay outside the scope of our review. We disagree and believe that it is important to lay out the potential consequences of not successfully restarting Liberty TV, particularly in view of the significance that both State and INCSF attributed to television broadcasting into Iraq. State also provided some technical comments and suggested wording changes, which we have incorporated into the report as appropriate.

INCSF agreed that due to the inability of State and INCSF to work together to restart Liberty TV, important opportunities to broadcast to the Iraqi people were lost. INCSF also provided technical comments on some of the points raised in our draft report concerning financial management, negotiation with State, and Liberty TV funding. We incorporated those comments into our report as appropriate.

Scope and Methodology

To document the history of State's funding for INCSF programs and the issues affecting its funding decisions, we reviewed State's cooperative agreement files. We also reviewed documentation gathered by the OIG as part of its audits. We also obtained files and other documentation from INCSF's consultant. The documentation we reviewed included proposed and finalized cooperative agreements and amendments, letters of correspondence between State and INCSF, and e-mail traffic. We met with officials of State's Bureau of Near Eastern Affairs and Bureau of Administration and also officials in State's OIG who were responsible for audits of INCSF. In addition, we met with the consultant hired by INCSF to help improve the foundation's accounting and financial management systems, and we obtained information from INCSF's former controller and its manager of Liberty TV operations. The funding and related program data in this report were contained in State's cooperative agreement files, OIG audit files, and documentation provided by INCSF's consultant and its former controller and Liberty TV manager. Based on our examination of those data and discussions with State and INCSF's consultant, we concluded that the documents we were able to obtain were sufficiently reliable for purposes of this engagement.

We conducted our review from September 2003 to April 2004 in accordance with generally accepted government auditing standards.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. At that time, we will send copies to the Secretary of State and interested congressional committees. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4128. Janey Cohen, Richard Boudreau, John Brummet, and Lynn Moore made key contributions to this report.

A handwritten signature in black ink that reads "Jess T. Ford". The signature is written in a cursive style with a large, looping initial "J" and a long, sweeping underline.

Jess T. Ford
Director, International Affairs and Trade

Comments from the Department of State



United States Department of State
Assistant Secretary and Chief Financial Officer
Washington, D.C. 20520

APR 20 2004

Ms. Jacqueline Williams-Bridgers
Managing Director
International Affairs and Trade
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "STATE DEPARTMENT: Issues Affecting Funding of Iraqi National Congress Support Foundation," GAO-04-559, GAO Job Code 320223.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Aaron Jost, Iraq Desk Officer, Bureau of Near Eastern Affairs, at (202) 647-5211.

Sincerely,

Christopher B. Burnham

cc: GAO – John Brummet
NEA – James Larocco
State/OIG – Mark Duda
State/H – Paul Kelly

Department of State Comments on GAO Draft Report
STATE DEPARTMENT: Issues Affecting Funding of Iraqi National
Congress Support Foundation
(GAO-04-559, GAO Code 320223)

Thank you for the opportunity to review and comment on your draft report "Issues Affecting Funding of Iraqi National Congress Support Foundation." The GAO draft is generally accurate in answering the two issues GAO was asked to review, i.e. the history of State Department's funding of the Iraqi National Congress Support Foundation and the key issues affecting the State Department's funding decisions. However, the report also contains analysis that mischaracterizes the relationship between the State Department and INCSF, and certain hypothetical assertions, which we do not think the GAO is able to demonstrate. The presentation of the history of State funding for INCSF and key issues affecting State's decisions is generally an accurate account of a complex and difficult grant relationship. However, the report implies on page 3 of the draft that INCSF was funded under the Iraqi Liberation Act of 1998. In fact, State funding for INCSF came exclusively from appropriations made to carry out the Economic Support Fund (ESF) provisions of the Foreign Assistance Act of 1961, and was subject to all statutory conditions applicable to the obligation and expenditure of those appropriations.

The draft report also suggests that the relationship between State and the INCSF was one between equals, rather than one between grantor and grantee. As grantor, State had entire discretion to determine whether a grant to the INCSF would further and be consistent with U.S. Government policies, and to condition any such grant to ensure that it would. As a grantee, INCSF was an instrument of U.S. Government policy, and as such was not in a position to "disagree" with State on how State's funds could be used. It was U.S. Government policy that ESF not be used to fund INCSF operations inside Iraq. The first sentence of the second paragraph of the report's "What GAO Found" section, point (2) would more accurately state, "INCSF would not accept U.S. Government policies upon which the availability of funding was conditioned." The fourth sentence of the second paragraph of page 2 might better begin with "INCSF's continued refusal of the terms for the grant proposed by State affected/prevented..." The first full sentence on page 8 would be more accurate if it stated, "INCSF declined State's offer."

The last sentence in the draft report's "What GAO Found" section (repeated in the second paragraph on page 3) lies outside the scope of what GAO was asked to review.

More broadly, we take this opportunity to reiterate that State's actions with respect to the INCSF were responsible and fully in accordance with U.S. law and Administration policy.

Comments from the Iraqi National Congress Support Foundation



المؤتمر الوطني العراقي
Iraqi National Congress

Baghdad
15 April, 2004

John Brummet
Assistant Director
International Affairs and Trade
US General Accounting Office
Washington, DC 20548

Dear Mr. Brummet:

We wish to express our appreciation to the General Accounting Office for this study of issues concerning the funding of the Iraqi National Congress Support Foundation (INCSF) by the Department of State (DOS).

We wish to clarify several points raised in the report regarding issues of financial management, negotiations with DOS and the funding of Liberty TV.

Financial Management.

We note at the outset that the GAO report highlights the fact that allegations of fraud circulated by officials within the DOS against the INCSF have been shown to be untrue.

It is important to note that within three months INCSF had complied with all of the requirements set out by the DOS Grants Officer in regard to the initial Office of the Inspector General (OIG) audit in mid-2001. As reflected in the subsequent OIG audit in 2002, INCSF continued to improve its financial management to meet the stringent and myriad requirements for receiving federal funds. All the findings under the first audit were resolved and closed **except where DOS action was required**. Of special importance were the cash management procedures for the ICP, which INCSF designed and implemented in the fall of 2001 following the release of the first audit. DOS had still not responded to the INCSF's request for approval of these procedures at the time of the second audit several months later. The OIG reviewed the cash management procedures and found them acceptable but could not close the finding due to the lack of action on the part of the DOS. The DOS Near East Affairs Bureau's lack of attention to such a critical area as cash management appears to contradict their stated concerns regarding INCSF's financial management.

Negotiations with DOS.

This report shows a clear pattern of late, erratic and at times insufficient funding of INCSF by DOS. It is difficult to convey the negative impact of these funding deficiencies on the INCSF's ability to carry out its programs, on the safety of field

Appendix II
Comments from the Iraqi National Congress
Support Foundation



المؤتمر الوطني العراقي
Iraqi National Congress

operatives, and on the overall credibility of US policy towards the democratic Iraqi opposition.

For example, stipends to Iraqi trainees at US military facilities were often late, in some cases by several months, causing undue hardship for the trainees and their families and a consequent decline in morale. INCSF suspended its training program under the Iraq Liberation Act because many of the courses lasted longer than the terms of the grants offered by DOS. After receiving verbal and written guarantees from the DOS Deputy Director for Northern Gulf Affairs that trainees would continue to be supported for the duration of their courses, INCSF restarted the training program only to find trainees again stranded without any means of support. Trainees who were scheduled to begin their coursework in July 2002 either had to pull out of the class at the last minute or provide their own funds.

Liberty TV

With regard to TV Liberty, the INCSF fully concurs with the report's finding that important opportunities to broadcast to the Iraqi people were lost in the pre- and post-war periods.

Despite the chaotic conditions in the immediate post-war period, by early May 2003, 30 days after arriving in Baghdad, the INCSF had finalized plans to re-start television broadcasting inside Iraq. The INCSF had received earlier written and verbal assurances of support for television broadcasting through December 31, 2003 and submitted a budget and proposal in May. As of mid-June 2003, there had been no response from the DOS and hence the INCSF put its plans to restart the TV on hold. It simply did not make sense to broadcast for a short time period.

The INCSF expresses sincere gratitude to the men and women of the United States armed forces, to the US Congress, and to the American people for the liberation of Iraq from Saddam Hussein's tyranny and the bright future you have opened up for millions of Iraqis. INCSF remains a steadfast partner of the United States in our mutual goals of establishing a free and democratic Iraq at peace with its neighbors and its people.

Sincerely,

Ahmad Chalabi
On behalf of the Iraqi National Congress Support Foundation

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