

March 1997

FINANCIAL AUDIT

Independent Counsel Expenditures for the Six Months Ended September 30, 1996



**Accounting and Information
Management Division**

B-275388

March 31, 1997

Congressional Committees

Enclosed is our opinion on the statements of expenditures of six offices of independent counsel for the 6 months ended September 30, 1996. This audit was required by 28 U.S.C. 596(c)(2) (1994) 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 independent counsels included in our audit, and other interested parties. Copies will be made available to others upon request.



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
IRS	Internal Revenue Service
OIC	Office of Independent Counsel

**Accounting and Information
Management Division**

B-275388

Congressional Committees

This report presents the results of our audits of expenditures¹ reported by six offices of independent counsel for the 6 months ended September 30, 1996. The Department of Justice and the independent counsels are required under 28 U.S.C. 594(d)(2),(h), and 596(c)(1) (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) and Public Law 100-202, we audit the statements of expenditures prepared by the independent counsels.

We found that the statements of expenditures presented in appendixes I through VI, respectively, for the offices of independent counsel Arlin M. Adams/Larry D. Thompson, David M. Barrett, Joseph E. diGenova/Michael F. Zeldin, Daniel S. Pearson, Donald C. Smaltz, and Kenneth W. Starr were reliable in all material respects. Our consideration of internal controls, which was limited for the purpose of determining our procedures for auditing the statements of expenditures, disclosed no material weaknesses. Further, our audits included limited tests of compliance with laws and regulations that disclosed no reportable instances of noncompliance with the 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 Ethics in Government Act of 1978 amended title 28 of the United States Code to authorize the judicial appointment of independent counsels when the Attorney General determines that reasonable grounds exist to warrant further investigation of high-ranking government officials for certain alleged crimes. The independent counsel law (28 U.S.C. 591-599 (1994)) is intended to preserve and promote the accountability and integrity of public officials and of the institutions of the federal government. The Independent Counsel Reauthorization Act of 1994 further amended title 28 of the United States Code to establish certain procedural requirements and extend the law's expiration date to June 30, 1999.

The independent counsel law directs the 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 U.S. Courts (AOUSC) for independent counsels' administrative

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

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 permanent, indefinite appropriation and to report our findings to appropriate congressional committees.

During any 6-month period, other significant costs incurred in support of the work of independent counsels 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 statements of expenditures. However, these unaudited costs are identified and discussed in the notes to the statements presented in the appendixes to this report.

Also, these statements and related notes do not include certain expenditures related to the investigation by former independent counsel Lawrence E. Walsh. Mr. Walsh's office officially closed in March 1994, and accordingly, no longer prepares financial statements. However, in December 1995 and January 1996, a special division of the U.S. Court of Appeals for the D.C. Circuit awarded reimbursements of \$62,474 for attorneys' fees and expenses to individuals who had been investigated by Mr. Walsh but not indicted. The reimbursements were made in April 1996 from the permanent fund established for the payment of judgments.

Opinion on Statements of Expenditures

The statements of expenditures, including the accompanying notes, for the offices of independent counsel Arlin M. Adams/Larry D. Thompson, David M. Barrett, Joseph E. diGenova/Michael F. Zeldin, Daniel S. Pearson, Donald C. Smaltz, and Kenneth W. Starr present fairly, in all material respects, in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, as described in note 1 to each office's statement, the respective expenditures of each office for the 6 months ended September 30, 1996. 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

We gained an understanding of internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the statements of expenditures; and
- properly record, process, and summarize transactions to permit the preparation of reliable statements of expenditures and to maintain accountability for assets.

The purpose of our consideration of internal controls was to determine our procedures for auditing the statements of expenditures, and accordingly, we do not express an opinion on internal controls. However, for the controls we tested, we found no material weaknesses in the internal control structure and its operations for the 6-month period ended September 30, 1996. 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 level the risk that errors or irregularities in amounts that would be material to the statements of expenditures may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses.

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 in conformity with the basis of accounting described in the accompanying notes,
- establishing and maintaining an internal control structure 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 all material respects, in conformity with the basis of accounting described in the accompanying notes). Also, we are responsible for obtaining a sufficient understanding of internal controls to plan the audits, and 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 by management;
- evaluated the overall presentation of the statement of expenditures;
- obtained an understanding of the internal control structure related to safeguarding assets, compliance with laws and regulations, including execution of transactions in accordance with budget authority, and financial reporting;
- tested relevant internal controls over safeguarding assets, compliance, and financial reporting; and
- tested compliance with certain aspects of selected provisions of the independent counsel provisions of 28 U.S.C. 591-599 (1994), 5 U.S.C. Chapter 55, and implementing regulations relating to pay administration.

We limited our internal control testing to those controls necessary to achieve the objectives outlined in our statement on internal controls. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our 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.

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 of

the U.S. Customs Service; and the Office of Inspector General of the Federal Deposit Insurance Corporation.

We discussed the results of our work with representatives of the six offices of independent counsel 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 that reads "David L. Clark". The signature is written in a cursive style with a large, stylized initial "D".

David L. Clark
Director, Audit Oversight and Liaison

March 14, 1997

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Statement of Expenditures for Independent Counsel Adams/Thompson

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL
ADAMS/THOMPSON

ARLIN M. ADAMS/LARRY D. THOMPSON

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended September 30, 1996

Personnel compensation and benefits	\$231,886
Travel	6,322
Rent, communications, and utilities (note 2)	220,439
Contractual services (note 3)	162,139
Supplies and materials	2,072
Administrative services (note 4)	<u>39,027</u>
Total expenditures	<u>\$661,885</u>

The accompanying notes are an integral part of this statement.

ARLIN M. ADAMS/LARRY D. THOMPSON

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/Larry D. Thompson (OIC-Adams/Thompson) for the 6 months ended September 30, 1996. 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, at which time he was succeeded by Mr. Larry D. Thompson as independent counsel.

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 personnel compensation and benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most personnel compensation and benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$216,500 in office rent is included in rent, communications, and utilities.

Note 3 - Contractual services

Contractual services primarily consists of litigation support services and products that help attorneys acquire, screen, analyze and organize investigatory, evidentiary and other documents to prepare for and conduct trials.

Note 4 - Administrative services

AOUSC receives an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-Adams/Thompson. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$17,444, incurred by AOUSC and the Department of Justice in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC or Justice, paid from the independent counsel appropriation, and allocated to the OIC.

Appendix I
Statement of Expenditures for Independent
Counsel Adams/Thompson

Note 5 - Other operating costs (unaudited)

Certain costs relating to employees assigned to work with the OIC by the Inspector General of the Department of Housing and Urban Development (HUD IG) were financed through funds appropriated to HUD and, accordingly, are not included in the statement of expenditures. The HUD IG is 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 the HUD IG.

	Costs (<u>unaudited</u>)
HUD IG	\$19,764

Statement of Expenditures for Independent Counsel Barrett

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL BARRETT

DAVID M. BARRETT

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended September 30, 1996

Personnel compensation and benefits	\$ 481,652
Travel	158,809
Rent, communications, and utilities (note 2)	233,801
Contractual services (note 3)	40,258
Acquisition of capital assets (note 4)	29,713
Supplies and materials	12,136
Administrative services (note 5)	<u>69,230</u>
Total expenditures	<u>\$1,025,599</u>

The accompanying notes are an integral part of this statement.

DAVID M. BARRETT

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 - David M. Barrett (OIC-Barrett) for the 6 months ended September 30, 1996. 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. Barrett was appointed on May 24, 1995, to investigate certain allegations against the Secretary of the Department of Housing and Urban Development.

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 personnel compensation and benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most personnel compensation and benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$197,800 in office rent is included in rent, communications, and utilities.

Note 3 - Contractual services

Contractual services primarily consists of advisory and assistance services of an expert consultant.

Note 4 - Acquisition of capital assets

The capital assets expenditures are for office automation 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-Barrett. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$39,271 incurred by AOUSC and the Department of Justice in providing administrative guidance and support to independent counsel

Appendix II
Statement of Expenditures for Independent
Counsel Barrett

offices. These costs were certified by AOUSC or Justice, 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) were financed through funds appropriated to the FBI and, accordingly, are not included in the statement of expenditures. The FBI is 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 the FBI.

	Costs (unaudited)
FBI	\$229,489

Statement of Expenditures for Independent Counsel diGenova/Zeldin

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL diGENOVA/ZELDIN

JOSEPH E. diGENOVA/MICHAEL F. ZELDIN

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended September 30, 1996

Personnel compensation and benefits and travel	\$ 22,456
Rent, communications, and utilities (note 2)	74,956
Contractual services and supplies	4,296
Administrative services (note 3)	<u>10,046</u>
Total expenditures	<u>\$111,754</u>

The accompanying notes are an integral part of this statement.

JOSEPH E. diGENOVA/MICHAEL F. ZELDIN

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/Michael F. Zeldin (OIC-diGenova/Zeldin) for the 6 months ended September 30, 1996. 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 concluded on November 30, 1995, when the office issued its report. On January 11, 1996, Joseph diGenova resigned as Independent Counsel and was succeeded by Michael F. Zeldin. The office remained open while the Department of Justice and the OIC evaluated petitions for attorneys' fees. Approved fees will be paid from funds outside of the OIC's appropriations. The office closed on June 1, 1996.

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 personnel compensation and benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most personnel compensation and benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$61,300 in office rent is included in rent, communications, and utilities.

Note 3 - Administrative services

AOUSC receives an administrative fee equal to 3 percent of OIC expenditures for performing disbursement and accounting functions for OIC-diGenova/Zeldin. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$4,991, incurred by AOUSC and Justice in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC or Justice, paid from the independent counsel appropriation, and allocated to the OIC.

Statement of Expenditures for Independent Counsel Pearson

STATEMENT OF EXPENDITURES FOR INDEPENDENT COUNSEL PEARSON

DANIEL S. PEARSON

Office of Independent Counsel

Statement of Expenditures
(Cash basis)

Six Months Ended September 30, 1996

Personnel compensation and benefits	\$ 205,584
Travel	33,128
Rent, communications, and utilities (note 2)	297,680
Contractual services (note 3)	432,727
Acquisition of capital assets (note 4)	98,969
Supplies and materials	9,719
Administrative services (note 5)	<u>37,970</u>
Total expenditures	<u>\$1,115,777</u>

The accompanying notes are an integral part of this statement.

DANIEL S. PEARSON

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 - Daniel S. Pearson (OIC-Pearson) for the 6 months ended September 30, 1996. 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. Pearson was appointed on July 6, 1995, to investigate certain allegations against the Secretary of Commerce. On April 3, 1996, the Secretary was killed in a plane crash. Shortly thereafter, the independent counsel closed the investigation of the Secretary and transferred the investigation related to other parties to the Department of Justice. Mr. Pearson'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 November 14, 1996. As explained below, OIC-Pearson's statement of expenditures was prepared principally on the cash basis of accounting, and accordingly included some expenditures paid during the 6-month period ended September 30, 1996, for which the related expenses were incurred in a prior period.

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 personnel compensation and benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most personnel compensation and benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$270,900 in office rent is included in rent, communications, and utilities.

Note 3 - Contractual services

Contractual services primarily consists of litigation support services and products that help attorneys acquire, screen, analyze and organize investigatory, evidentiary and other documents to prepare for and conduct trials.

**Appendix IV
Statement of Expenditures for Independent
Counsel Pearson**

Note 4 - Acquisition of capital assets

The capital assets expenditures are primarily for office automation and telephone systems. 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-Pearson. Payment of these fees generally occurs in the month following the services. Also included in administrative services are other costs, amounting to \$14,518, incurred by AOUSC and Justice in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC or Justice, 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 OIC-Pearson by the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS), and the Inspector General of the Federal Deposit Insurance Corporation (FDIC 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	\$115,055
FDIC IG	73,964
IRS	<u>40,971</u>
	<u>\$229,990</u>

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 September 30, 1996

Personnel compensation and benefits	\$1,305,448
Travel	226,664
Rent, communications, and utilities (note 2)	253,559
Contractual services (note 3)	292,366
Acquisition of capital assets (note 4)	51,936
Supplies and materials	55,516
Administrative services (note 5)	<u>137,767</u>
Total expenditures	<u>\$2,323,256</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 September 30, 1996. 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.

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 personnel compensation and benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most personnel compensation and benefits are recorded at the end of the pay period when earned.

Note 2 - Rent, communications, and utilities

Approximately \$136,700 in office rent is included in rent, communications, and utilities.

Note 3 - Contractual services

Contractual services includes investigative, court reporting, and legal assistance services.

Note 4 - Acquisition of capital assets

The capital assets expenditures are for data communications equipment and office furniture and fixtures. 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 \$71,619, incurred by AOUSC and the Department of Justice in providing administrative guidance and support to independent counsel

Appendix V
Statement of Expenditures for Independent
Counsel Smaltz

offices. These costs were certified by AOUSC or Justice, 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), the Department of Justice, the Office of Investigations of the U.S. Customs Service, and the Inspector General of the Department of Agriculture 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	\$288,892
Other Justice	3,370
Customs	55,408
Agriculture IG	<u>155,084</u>
	<u>\$502,754</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 September 30, 1996

Personnel compensation and benefits	\$1,286,017
Travel (note 2)	1,663,788
Rent, communications, and utilities (note 3)	367,435
Contractual services (note 4)	424,999
Acquisition of capital assets (note 5)	30,076
Supplies and materials	48,758
Administrative services (note 6)	<u>173,549</u>
Total expenditures	<u>\$3,994,622</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 September 30, 1996. 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. The U.S. Court of Appeals subsequently expanded OIC-Starr's jurisdiction to include selected White House Travel Office and access to personnel file issues on March 22, 1996, and June 21, 1996, respectively.

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 personnel compensation and benefits, expenditures are recorded when the funds are disbursed by AOUSC or, for noncash transfers, when charged by AOUSC. Most personnel compensation and benefits are recorded at the end of the pay period when earned.

Note 2 - Travel

Travel includes approximately \$1,275,000 for FBI personnel travel expenses related to the investigation. The FBI amount included travel processed since January 1, 1995, but paid during the 6-month period ended September 30, 1996.

Note 3 - Rent, communications, and utilities

Approximately \$229,069 in office rent is included in rent, communications, and utilities.

Note 4 - Contractual services

Contractual services primarily consist of expenditures for investigators, consultants, and other specialists in areas of interest to the investigation as well as legal research and payments for transcripts.

**Appendix VI
Statement of Expenditures for Independent
Counsel Starr**

Note 5 - Acquisition of capital assets

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

Note 6 - 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 \$60,404, incurred by AOUSC and the Department of Justice in providing administrative guidance and support to independent counsel offices. These costs were certified by AOUSC or Justice, paid from the independent counsel appropriation, and allocated to the OIC.

Note 7 - Other operating costs (unaudited)

Certain costs relating to employees assigned to work with the OIC by the 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)
FBI	\$ 979,318
IRS	<u>75,685</u>
	<u>\$1,055,003</u>

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Penalty for Private Use \$300**

Address Correction Requested

