

OFFICE OF AUDITS
MEMORANDUM REPORT 98-CI-006
AUDIT OF FINANCIAL, PROCUREMENT, AND PERSONNEL ACTIVITIES AT THE
INTERNATIONAL LAW ENFORCEMENT ACADEMY IN BUDAPEST, HUNGARY
FEBRUARY 1998

In February 1997, the Assistant Secretary of the Bureau for International Narcotics and Law Enforcement Affairs (INL) requested that the Office of Inspector General (OIG) audit the financial and procurement management practices at the International Law Enforcement Academy (ILEA) in Budapest, Hungary. ILEA is a multinational criminal justice training program being implemented by INL, the Federal Bureau of Investigation (FBI), and the Government of Hungary. ILEA, established in April 1995 with bilateral agreements between the United States and Hungary, provides law enforcement training to officials from Central Europe, Russia, and the Newly Independent States. Total Federal funding in support of ILEA over the 2-year period ending April 1997 was about \$11.2 million. Included in this total was about \$5.1 million directly allotted by INL to Embassy Budapest for ILEA building renovations and teaching and administrative operations between April 1995 and April 1997.¹ In making the request, the Assistant Secretary noted that because of concerns about management matters, he had proposed that the Department provide a deputy director for management at ILEA.

In concurrence with INL officials, we audited the nearly \$5.1 million allotted directly by INL to Embassy Budapest. Between February and August 1997, OIG met with responsible INL and Department of Justice officials in Washington, D.C. During April 1997, we reviewed ILEA activities in Budapest, Hungary where we met with the ILEA director and Embassy Budapest officials. We briefed the U.S. Ambassador, senior INL officials, and the assistant director of the FBI academy on the results of our work. We also visited the Financial Services Center (FSC) in Paris, France, where we discussed accounting issues regarding ILEA.

Our review found that the United States and Hungary met the financial obligations, as stated in the April 1995 bilateral agreements creating ILEA, requiring contributions of \$2.5 million and \$500,000, respectively. We verified that funds were spent as intended by the agreements. The Hungarian Ministry of the Interior, responsible for the ILEA building renovation project, maintained an acceptable accounting system that could track project costs. However, the Hungarian National Police (HNP),² the organization responsible for providing financial management over ILEA training operations, did not have an accounting system that Embassy Budapest officials believed would provide acceptable accountability for U.S. contributions. As a

¹ In a subsequent audit requested by INL, OIG is reviewing the remaining ILEA funding of about \$6.1 million as administered by other Federal law enforcement agencies and U.S. embassies. INL provides assistance to other Federal agencies primarily for instructors supporting ILEA training and course development.

² The Hungarian National Police is a department under the Ministry of the Interior.

result, the Embassy decided to retain administrative control of funds being provided for ILEA administrative and training activities.

Overall, while we could generally account for how the ILEA funding of \$5.1 million allotted to Embassy Budapest was spent, at times Embassy Budapest and ILEA staff who exercised oversight for U.S. contributions employed inappropriate procedures both to obligate and to expend ILEA funding. In addition, the Embassy's decision to retain administrative control over ILEA operational funds, while a prudent step in view of accounting problems encountered with the HNP, placed unanticipated responsibilities on Embassy financial management and general services staff.

The ILEA director now believes that the HNP has improved to the point where it could handle the fiscal administration responsibilities stipulated in the 1995 bilateral agreements. Consequently, ILEA will need an experienced financial assistant, fluent in English and Hungarian, to account for U.S. funds and provide daily financial liaison and oversight with the HNP. We estimate that about 80 percent of annual U.S. assistance for ILEA operations could be advanced to the HNP. An ILEA financial assistant position should substantially reduce Embassy Budapest administrative support requirements and remove the need for the INL-funded accounting technician position proposed for the Embassy budget and fiscal office. In any event, we do not believe an ILEA deputy director for management position can be justified on the basis of day-to-day financial and procurement management operations at the academy.

Our review found that the ILEA Steering Group did not communicate effectively with Embassy Budapest regarding Steering Group recommendations for the ILEA deputy director position and other issues. As the ILEA concept expands to other regions of the world, we urge all parties to improve communication and to consider the lessons learned in developing the ILEA in Budapest.

We recommended that INL reassess HNP financial management capabilities with the objective of returning to an advance funding model for the majority of ILEA operational expenses as envisioned originally in the bilateral agreements. We also recommended that the Embassy hire a local financial assistant to work at ILEA in lieu of the proposed Embassy Budapest accounting technician position. These recommendations were accepted.

PURPOSE AND SCOPE

We performed this work in response to a request made by the former INL Assistant Secretary to audit the financial and procurement management practices at ILEA and make recommendations on these practices from the perspective of prudent management controls. In requesting the audit, the former Assistant Secretary noted that he had proposed that the Department of State provide a deputy director for management at ILEA. While the Ambassador had agreed in principle (if the FBI concurred), the former INL Assistant Secretary said he had been unable to secure the support of the Director of the FBI for his proposal. In concurrence with INL officials at our audit entrance conference, OIG focused the present audit on funding of about \$5.1 million allotted directly by INL to Embassy Budapest for ILEA building renovations

and teaching and administrative operations between April 1995 and April 1997. We examined two specific sets of issues concerning INL-allotted funds to ILEA: (1) financial and procurement management procedures used to administer ILEA funds, and (2) ILEA staffing and other administrative practices relating to financial and procurement management.

Between February and August 1997, we discussed relevant issues with responsible INL and Department of Justice officials in Washington, D.C. During April 1997 we audited ILEA activities in Budapest, Hungary, where we met with the ILEA director and staff and Embassy Budapest officials including the deputy chief of mission, administrative counselor, financial management officer, political officer, and general services officer (GSO). We outbriefed the U.S. Ambassador on the preliminary results of our work. Also in Budapest, we outbriefed the ILEA director, senior Embassy staff and the visiting assistant director of the FBI Academy in Quantico, Virginia. In Budapest, we met with senior officials of the Hungarian State Audit Office who have audit cognizance over the Hungarian Ministry of Interior and the HNP. These entities are responsible for U.S. contributions to ILEA. We also visited the FSC in Paris, France, where we discussed with the FSC director and other officials accounting issues regarding ILEA, including the proposed accounting requirements of INL's standard project accounting system. Prior to our fieldwork in Budapest, we were briefed by professional staff from the House International Relations Committee on background matters. In October and November 1997, we provided the results of the audit to the FBI and Committee staff, respectively.

Through April 1997, INL estimated that total funding for ILEA amounted to about \$11.2 million. In auditing the \$5.1 million directly allotted to ILEA through Embassy Budapest, we reviewed U.S. and Hungarian financial records, contracts, agreements, and related documentation for about \$2.6 million in building renovations and about \$2.5 million allotted for teaching and administrative operations. We relied on ILEA and Embassy Budapest officials for translation of documents from Hungarian to English.

In June 1997, we discussed the results of our audit with the Acting INL Assistant Secretary. At this time, the Acting Assistant Secretary requested that OIG review the balance of about \$6.1 million spent on the ILEA from 1995 to 1997 by other Federal law enforcement agencies, primarily within the Departments of Justice and the Treasury, and by U.S. embassies in central Europe, Russia, and the Newly Independent States. INL makes funding available to other Federal agencies for ILEA instruction and course development and to U.S. embassies for student travel to ILEA.

OIG agreed to INL's request and is reviewing ILEA funding administered by other Federal law enforcement agencies and U.S. embassies. We also plan to perform a follow-up evaluation concerning actions taken by INL, Embassy Budapest, and ILEA in response to the findings and recommendations made in this report. Our future work will update information in this report and provide a more comprehensive picture of total U.S. Government support to ILEA.

Comments on a draft of this report that were received from Embassy Budapest (a consolidated response with ILEA), INL, and the Office of the Legal Advisor (L) were

incorporated into the final report, as appropriate. The complete text of these responses are included in the report as Appendixes A-C.

The audit was conducted in accordance with generally accepted government audit standards. Major contributors to the audit were David Wise, division director; Richard Astor, audit manager; Patrick Holland and Sheree Moser, auditors; and Robert Retka, consultant.

BACKGROUND

Mission And Infrastructure

ILEA, established in April 1995, provides law enforcement training to officials from Central Europe, Russia, and the Newly Independent States. The academy supports two types of training. The central program is a recurring 8-week professional development course for mid-level police managers. This course focuses on leadership, personnel and financial management, ethics, the rule of law, and the management of the investigative process. The FBI Academy in Quantico, Virginia, developed the training curriculum. ILEA also hosts specialized courses on organized crime, financial law enforcement, nuclear smuggling, narcotics trafficking, money laundering, and other topics relevant to law enforcement in Central Europe, Russia, and the Newly Independent States.

On-site American staffing at ILEA consists of an FBI officer assigned to Embassy Budapest who acts as the program director. Two host country national administrative assistants employed on personal services contracts by the Embassy support the ILEA director. A “visiting faculty” concept provides instructors for training at ILEA. There are no permanent instructors resident in Budapest. Several Federal and foreign law enforcement agencies teach the 8-week professional development and specialized courses. Instructors come from the FBI, other Federal law enforcement agencies (the Internal Revenue Service, U.S. Customs Service, Drug Enforcement Administration, U.S. Secret Service, and the Federal Law Enforcement Training Center), and European law enforcement agencies (Ireland, Germany, the United Kingdom, Canada, Italy, Russia, and the Council of Europe). Courses use simultaneous translation to eliminate the need for students to speak English.



An Amphitheater Training Room with Seating for 50 Students



HNP Classroom Building

ILEA is located on the grounds of the HNP training center. Through a U.S. and Hungarian bilateral construction project, HNP facilities were renovated, and ILEA now occupies two dormitory buildings; one floor of the HNP classroom building, which houses two amphitheater-style instruction rooms and one large seminar classroom (all having simultaneous translation booths and audiovisual support), small meeting rooms, and various technical support and instructors' offices; and an office suite on the

second floor of the main HNP training center administration building. The program also uses the training center's cafeteria, gymnasium, auditorium, health and recreational facilities, some of which were refurbished under the ILEA binational renovation effort.

Supporting Authorities and Bilateral Agreements

INL supports ILEA using program authorities provided under the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2291). Funding for the ILEA project has come from appropriations for the Freedom Support Act (FSA), the Support for Eastern European Democracies Act (SEED), Economic Support Funds, INL's annual counternarcotics and criminal justice program, and the FBI.

TABLE 1 TOTAL ILEA FUNDING BY SOURCE	
Source	Amount
Support for Eastern European Democracy Act (INL)	\$4,318,699
Freedom Support Act (INL)	\$4,069,972
Economic Support Fund (INL)	\$2,340,000
Federal Bureau of Investigation	\$475,000
TOTAL	\$11,203,671

Two bilateral agreements define the roles of the U.S. and Hungarian Governments in managing ILEA. The exchange of diplomatic notes was completed in November 1995. One agreement relates to ILEA renovations (*The Agreement on the Establishing of an International Law Enforcement Academy*) and the other to ILEA operations (*The Agreement on the Implementation of the Agreement on the Establishing of an International Law Enforcement Academy*).

Under the April 1995 bilateral agreements, the United States committed itself to contribute \$2.5 million of the estimated \$3 million cost of renovating and furnishing ILEA facilities. The Government of Hungary agreed to contribute \$500,000. The parties also agreed to ensure subsequent operations of the academy through financial contributions, in-kind contributions, and the provision of services and personnel. The United States agreed to pay an unspecified amount for teaching and administrative personnel, interpreters, trainee clothing, office furniture, travel of trainees and staff, instructional materials, and per diem for non-Hungarian trainees.

The April 1995 bilateral agreements established an advance of funds system whereby Hungarian Government entities would be responsible for administering ILEA funding. The agreements specified that two non-interest bearing accounts would be opened by the Government of Hungary at the Hungarian National Bank to administer ILEA funds. One account was to be identified as “International Academy of Law Enforcement, Renovations” and the other as “International Academy of Law Enforcement, Operations.” These accounts were administered by the Hungarian Ministry of the Interior and the HNP, respectively. The bilateral agreements stated that both accounts would operate on the basis of advance payments by the American party “on a mutually acceptable schedule.” U.S. financial management responsibilities consisted of planning ILEA budgets, providing advances to the Government of Hungary and monitoring use of the funds on an after-the-fact basis. Day-to-day funds control, procurement, and expenditure accounting were the responsibility of the Government of Hungary.

Interagency Agreements for Teaching and Other Services

In addition to the recurring 8-week course for mid-level law enforcement managers developed and implemented by the FBI, other Federal law enforcement agencies use ILEA to teach specialized training programs. The agencies primarily use SEED and FSA moneys made available for international law enforcement training through INL. When INL provides such funding, it signs an interagency memorandum of understanding with the recipient agency specifying the amount of funding, the statutory source of the money, and the general purposes for which it is to be used. Twenty-seven such courses had been conducted or were scheduled to take place between December 1995 and December 1997. Embassy Budapest pays expenses of these courses against Washington-held allotments using fiscal data provided by the sponsoring agency.

Policy Direction

The on-site ILEA director exercises day-to-day oversight and management control of training, financial, and administrative activities. The interagency ILEA Steering Group, composed of representatives from the Departments of State, Justice, and the Treasury, provides policy guidance and direction to the academy. The ILEA Steering Group also sets program priorities for use of ILEA facilities and resources by various Federal law enforcement agencies. The Law Enforcement Interagency Working Group serves as the advisory board to the ILEA Steering Group. The advisory board has a role in overseeing curriculum development and implementation.

RESULTS OF AUDIT

Financial And Procurement Management Issues

The United States and Hungary met the funding and support obligations stated in the April 1995 bilateral agreements creating ILEA. While the Ministry of the Interior accounting systems could track the costs for ILEA building renovations, the HNP was unable to provide adequate financial management for funds provided for early ILEA training operations. As a result, Embassy Budapest retained administrative control of funds being provided for ILEA administration and training activities. We found that while Embassy Budapest could account for ILEA funding, at times Embassy Budapest and ILEA staff who exercised oversight for U.S. contributions employed inappropriate procedures both to obligate and to expend ILEA funding.

ILEA staff stated that changes in the HNP administrative structure have resulted in improved financial management capabilities. HNP financial management systems now permit returning to the advance funding model originally envisioned for ILEA training operations.

Both Governments Met Their Financial Obligations

Our audit found that both governments met the financial obligations stated in the April 1995 bilateral agreements creating ILEA. The United States committed itself to providing \$2.5 million to renovate and equip ILEA facilities. Embassy records showed that as of April 25, 1997, the United States had provided a total of \$2,577,287 for ILEA renovations. This total included funds transferred to the control of the Ministry of the Interior to pay the contractor that carried out renovation construction work as well as the costs of interpretation and equipment contracted by the Government of Hungary but paid for directly to the vendor by the Embassy. In addition to the money spent directly on ILEA renovations, Embassy Budapest contracted with a local architectural and engineering firm to oversee ILEA construction work. The Embassy charged oversight contract costs of \$37,711 to the ILEA operations budget. We believe that these funds are more appropriately accounted for as ILEA renovation expenses. (See below for revised project accounting records.)

TABLE 2			
USE OF ILEA FUNDING ALLOTTED TO			
EMBASSY BUDAPEST			
As of April 25, 1997			
Use of Funds	Allotted	Obligated	Liquidated
Facility Renovations*	\$2,615,000	\$2,615,000	\$2,614,998
Training/Administration	\$2,460,000	\$2,060,000	\$1,956,548
TOTAL	\$5,075,000	\$4,675,000	\$4,571,546
* Renovations total includes funding used for construction oversight contract.			

The Hungarian Government met and exceeded its April 1995 commitment to provide \$500,000 toward ILEA renovations in two ways. First, the HNP training center underwent a series of preliminary renovation projects before U.S. representatives were stationed at the academy. The project costs of about 42.7 million Hungarian forints (\$366,564), included renovation of the suite of offices now used by the ILEA director and his staff, construction of a gymnasium and temporary classrooms, and the purchase of furniture. The second part of the Hungarian renovation contribution consisted of a November 1995 deposit of 29 million Hungarian forints (\$248,927) to the bank account established for the renovation project. These funds, along with those transferred from Embassy Budapest, paid for the major renovation of ILEA facilities. This latter deposit, combined with the preliminary HNP-funded renovation projects, resulted in a total Hungarian renovation contribution of \$615,491.³

The United States provides ongoing funding for administrative and teaching operations at ILEA. Hungarian support for ILEA operations does not involve a financial contribution, but the Hungarian Government does provide in-kind services. As ILEA is located with the HNP training program, the academy benefits from overall security, maintenance, medical and dental, kitchen, sanitation, and administrative support provided by the HNP.

Hungarian Accounting Was Adequate For Renovations But Not For Operations

Our review of renovation account documentation agreed with the ILEA director's view that the Ministry of the Interior was adequately accounting for construction project funds. Embassy Budapest transferred a total of \$2,360,158 (325,915,200 Hungarian forints), to the renovation account by means of eight deposits between July 1995 and April 1996. The Government of Hungary deposited an additional 29 million forints. As of March 31, 1997, the Ministry of Interior reported that about 314,451,136 Hungarian forints had been paid out (net of value-added taxes), leaving an available balance of about 40,413,528 Hungarian forints (\$227,042)⁴ in the renovation account. The Embassy and ILEA management staff have developed plans to use these remaining funds for additional renovations that will support the ILEA mission and programs.

Embassy Budapest used an innovative approach in administering the U.S. financial contribution to the renovation project. Early in the project, Embassy Budapest and the Hungarian Government agreed that they would defer deposit of U.S. funds until they needed funds to make contractor payments for renovations. Earlier conversion of U.S. dollar contributions to the renovation account would have resulted in lower Hungarian currency deposits since the Hungarian Government's fiscal austerity measures included a scheduled local-currency devaluation of 1.5 percent per month. As a result, the longer U.S. contributions to the renovation project remained as dollars, the greater the final contribution in local currency.

³ According to Article 9 of the bilateral agreement establishing ILEA, the equivalent dollar value of Hungarian contributions is calculated at the exchange rate in effect on the date the agreement was signed. On April 24, 1995, the exchange rate was 116.5 Hungarian forints to one U.S. dollar.

⁴ This dollar equivalent is based on the April 1997 exchange rate of 178 Hungarian forints to one U.S. dollar.



HNP Building Renovations

While financial management of ILEA renovations proceeded as envisioned in the April 1995 agreements, problems in the management of funding for early ILEA training programs convinced the Embassy to retain administrative control of operational funds. In June 1995, for example, Embassy Budapest advanced \$20,000 to the HNP for early ILEA training operations. At the time of our review (almost 2 years later), the HNP had not yet accounted for these funds. Similarly, the HNP had also not requested reimbursement from ILEA for approximately \$140,000 worth of

services the HNP rendered in support of ILEA training sessions 2 and 3. These problems convinced the Embassy that managing the operations account on the basis of advances followed by subsequent reconciliation of HNP accounts would be unwise. Instead, Embassy personnel elected to retain administrative control of ILEA operational funding until payments were required. Under the revised financial management system for current ILEA operations, Embassy Budapest either reimburses the HNP for expenses incurred in ILEA programs or pays vendor invoices directly. Reimbursements to the HNP cover student room and board, uniforms, and miscellaneous operational costs paid by the HNP. Training expenses paid directly to vendors include translation and interpretation costs, hotel charges, airline ticket and other travel expenses, office supplies, courier services, and other costs.

Embassy Funds Spent as Intended but Incorrect Procedures Sometimes Used

Our review found that, overall, funding allotted to Embassy Budapest for ILEA activities was accounted for and spent as intended. However during the first year of ILEA, which included building renovations and initial teaching operations, Embassy Budapest and ILEA staff did not always employ appropriate procedures for obligating and spending ILEA funds under their control. The Embassy's decision to retain administrative control of ILEA operational funding created confusion regarding whether Federal procurement regulations governed ILEA funds. While Embassy Budapest and ILEA handled most procurements in accordance with applicable Federal and Department regulations, proper documentation or approvals did not accompany some actions. For example, oral agreements led to payment of U.S. currency in amounts of up to \$14,400 for interpreter costs during some ILEA training programs. This method of payment exceeded the limits of the subcashiering authority delegated to the ILEA director. Heavy reliance on dollar cash payments was explained by ILEA and Embassy staff as a practical necessity due to the non-convertibility of the Hungarian forint outside of Hungary and because the interpreters used for early ILEA courses did not have dollar-denominated bank accounts in which to deposit dollar checks.

The ILEA director subsequently requested Embassy assistance in obtaining interpreting services, and the Embassy GSO began signing contracts with a local firm for these services. These contracts were signed by a properly warranted Embassy procurement officer, but they did not adequately protect the government’s interests. For example, the vendor proposed, and the Embassy accepted, contract provisions that did not place a dollar limit on contract costs. The Embassy GSO acknowledged that such contracts were “not the correct form of contract we should be using” and subsequently corrected the problem by establishing a blanket purchase agreement with a local vendor to provide interpreters and translation services for ILEA training sessions.

Recommendation 1: Embassy Budapest should ensure that all procurements undertaken by the Embassy in support of International Law Enforcement Academy (ILEA) activities are approved by authorized procurement agents and are properly documented in Embassy and ILEA files.

Embassy Budapest agreed with the recommendation. Based on additional procurement controls reported by Embassy Budapest, the recommendation is closed.

Government of Hungary’s Ability to Administer Funding Reassessed

In view of the HNP’s difficulties in managing funding for early ILEA training, we believe the Embassy acted prudently in assuming control of financial administration for ILEA operations. During our visit to Budapest, however, the ILEA director reported that HNP management had improved and that the HNP could now handle the fiscal administration responsibilities stipulated in the April 1995 bilateral agreements. Financial management for the bulk of current ILEA operations is relatively uncomplicated. Our analysis of the proposed ILEA budget for 1997 indicated that two cost categories -- student and instructor room, board, and related expenses and interpretation and translation costs -- account for about 80 percent of costs. The HNP is already providing student and instructor room, board, and related training expenses with after-the-fact reimbursement by the Embassy. While translation costs currently are paid through an Embassy contract, the ILEA director is exploring the possibility of having the HNP assume responsibility for obtaining these services in the future.

TABLE 3	
ESTIMATED FY 1997 ILEA OPERATIONAL COSTS	
Cost Category	Estimated Amount
Student Room, Board, and Clothing	\$ 803,168
Interpretation	500,000
Instruction Overhead Costs	277,720
Office Overhead Costs	108,552
Other Mid-Level Seminar Session Costs	66,580
Less Estimated Value-Added Tax Recovery	-125,000
TOTAL	\$1,631,020

We conclude that HNP financial management systems should be assessed with the objective of determining whether the Embassy can return to an advance funding financial management model for the bulk of ILEA operational funding. We found that the HNP, as a first-time recipient of a Federally funded assistance program, had not had its financial operations reviewed at the inception of the project to ensure that accounting systems were adequate to account for U.S. advance funding. International accounting standards as described by the World Bank indicate that an adequate accounting and reporting system should: (1) identify the receipt and expenditure of all funds by source; (2) refer to easily located, subsidiary records that support accounting entries; (3) provide accurate and current financial reporting; and (4) include adequate internal controls to safeguard the funds and assets covered, check the accuracy of accounting data, promote operational efficiency, and adhere to prescribed policies and agreements.

Recommendation 2: The International Law Enforcement Academy, in coordination with the Bureau for International Narcotics and Law Enforcement Affairs and Embassy Budapest, should review Hungarian National Police (HNP) financial management systems to determine if the HNP can adequately account for U.S. Government assistance.

Embassy Budapest and INL agreed with the recommendation. Embassy Budapest reported that the HNP's financial management system appears to be capable of accounting for U.S. Government funds. The Hungarian State Audit Office will audit HNP financial capabilities during March 1998. The ILEA director advised the Hungarian Assistant Minister of Finances of the U.S. Government's desire to revert to an advanced funding model. This recommendation is resolved and will be closed with the report from the Hungarian State Audit Office confirming that the HNP's financial management system can adequately account for U.S. Government funds.

Recommendation 3: If a review of Hungarian National Police financial management systems does not support a return to the advance funding model specified in the original bilateral agreements creating the International Law Enforcement Academy, the Bureau for International Narcotics and Law Enforcement Affairs and Embassy Budapest should take steps to amend the bilateral agreements to document U.S. responsibility for operational funds control.

Based on the response to recommendation 2, this recommendation is resolved and will be closed with all actions completed under recommendation 2.

Annual Audit

OIG concluded that if a review of HNP financial management systems supported a return to the advance funding model originally envisioned for ILEA operations, ILEA operational expenditures administered by the HNP should be audited on an annual basis. The bilateral agreement's provision for financial review of operational costs is not adequate. The agreement states "From time to time the Hungarian party shall submit invoices concerning operational expenses and copies of the invoices shall be submitted to the American party." Article 12 of the agreement allows the Hungarian and U.S. parties to evaluate together the implementation of the agreement annually. During this evaluation, the United States should propose the requirement for

an annual audit, funding for which should be a recurring budgeted operational expense. The United States should make clear to their Hungarian counterparts that when/if they assume financial control of funds to support ILEA, they will be responsible for reimbursing the United States for all ineligible expenses identified during the audit. One area we strongly recommend including in an annual audit is the review of property since ownership of all assets purchased or provided by the United States “shall belong to the Hungarian party from the date of the purchase or the date of its delivery in Hungary.” The bilateral agreements also stipulate that assets shall only be used to support ILEA activities or else be returned or reimbursed to the U.S. Government.

Our discussions with an official of the U.S. Agency for International Development’s Office of Inspector General, resident in Budapest, confirmed that major international accounting firms have local affiliate offices that could be commissioned to undertake annual audits. The Hungarian State Audit office may also be able to provide audit support and oversight and must be notified of any audits undertaken affecting agencies of the Hungarian Government.

Recommendation 4: Embassy Budapest, in coordination with the Bureau for International Narcotics and Law Enforcement Affairs, should propose to the Government of Hungary the requirement of commissioning annual audits of the International Law Enforcement Academy operational expenses advanced to the Hungarian National Police and should notify the Hungarian State Audit Office of these audits.

Embassy Budapest and INL agreed with the recommendation. The Hungarian Ministry of the Interior has agreed to annual audits by the Hungarian State Audit Office. The recommendation is closed.

Annual Budget

ILEA, now almost 2 years into training operations, has sufficient experience to develop realistic annual budgets for anticipated program and administrative expenses. Under an annual budget, INL could advance funds periodically to the HNP based on expenditures anticipated less any unexpended amounts remaining from prior payments. According to the U.S. Treasury Department’s *Financial Manual*, section 8065 Restrictions on Financial Transactions With Foreign Countries and International Organizations: “Dollar outlays for international programs requiring [Federal Government] funding shall be made as closely as possible to current program expenditure needs. Monthly payments are the norm.”

We note also that an annual budget for academy operations, to be developed 1 month before the beginning of each calendar year, is required under article III-3.3 of the bilateral agreement on operations. As of April 1997, INL had not finalized the ILEA operating budget for 1997. The Embassy and INL must ensure that ILEA operating budgets are developed by December 1 each year both to enhance the efficiency of program management and to comply fully with the bilateral agreement that governs ILEA operations.

Recommendation 5: The Bureau for International Narcotics and Law Enforcement Affairs and Embassy Budapest should ensure that annual International Law Enforcement Academy operating budgets are developed annually by December 1.

Embassy Budapest and INL agreed with the recommendation. The ILEA director reported preparing a detailed operating budget for fiscal year (FY) 1998. The budget will be appended to the bilateral agreement. This recommendation is closed. OIG requests a copy of the FY 1998 budget.

Simplified Financial Accounting System May Be Warranted

Embassy Budapest financial management personnel disagreed with INL instructions regarding use of standard INL project accounting procedures for the ILEA project. These procedures would require the Embassy to establish bulk obligations for operational funding allotments and then create multiple subobligations to support individual procurements as project activities are implemented. In accordance with oral instructions provided by INL personnel in Washington, embassy officials regularly establish bulk obligations for ILEA funding, but they do not establish subobligations. The Embassy was not told to use the subobligation procedure until an INL financial management officer visited Budapest in December 1996. They did not receive a copy of the INL *Financial Management Handbook* until February 1997. Embassy officers believed that subobligating prior-fiscal year funds would not be possible since the Paris FSC would reject subobligations entered against prior-year appropriations. Embassy Budapest personnel also questioned whether the standard INL project accounting system was needed since the bulk of recurring ILEA expenses consist of student and instructor room and board and interpretation and translation costs.

Officials at Embassy Budapest and FSC Paris now believe that respective financial systems can accommodate the accounting requirements of the standard INL project accounting system. Nevertheless, we found merit in Embassy Budapest's argument that the INL project accounting system is more detailed and labor-intensive than necessary, given that most ILEA funding is used for a small number of recurring operational expenses. We concluded that INL should allow Embassy Budapest to design and use a streamlined project accounting system for ILEA.

Recommendation 6: Embassy Budapest should develop a simplified accounting model for managing ongoing operational funding of the International Law Enforcement Academy and submit it for review by the Bureau for International Narcotics and Law Enforcement Affairs.

Embassy Budapest and INL agreed with the recommendation. This recommendation can be closed upon implementation of the proposed simplified accounting model. OIG requests that INL review the applicability of this accounting model at proposed ILEAs.

Funds May Not Have Been Properly Obligated

While the initial \$2.6 million in INL funding for ILEA renovations was properly obligated by the April 1995 agreements and a subsequent bilateral exchange of diplomatic notes, we raised questions that succeeding allotments may not have been properly obligated. We had several concerns based on appropriation accounting criteria found in 31 U.S.C. 1501(a)(1)(A-B), which states in part:

An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is in writing, in a way and form, and for a purpose authorized by law; and executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided.

First, the agreement covering ILEA operations did not include a specific funding level. Instead, it referred to an annual budget which would become an annex to the agreement. We found no evidence that an annual budget was attached to the agreement or was sent to the Hungarian Government. Second, while Embassy Budapest registered all allotments of ILEA funding with FSC Paris, Embassy Budapest did not inform the Hungarian Government of two funding installments until more than a year after the funds were received by the Embassy. Specifically, diplomatic notes 173 and 174 informing the Government of Hungary that the United States had provided funding increments of \$500,000 and \$200,000 in February and June 1996, respectively, were not sent to Hungarian Government officials until April 10, 1997. Third, Embassy Budapest neither requested nor received any communication from the Government of Hungary formally documenting its acceptance of ILEA funding beyond the initial \$2.6 million obligated under the April 1995 agreements for facility renovations.

We therefore believed that Embassy Budapest's diplomatic notes informing the Government of Hungary of ILEA funding increases constituted an offer of such funding, but without formal Hungarian acceptance there may not have been a formal binding agreement. This issue needed an immediate resolution since some of the funds in question were 2-year fixed appropriations for which obligation authority lapsed at the end of FY 1996 or would have lapsed at the end of FY 1997.

Recommendation 7: The Bureau for International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Legal Adviser, should review and report on whether retroactive, unilateral notifications to the Government of Hungary of International Law Enforcement Academy (ILEA) funding increments for operations represent adequate legal obligating documents. If any ILEA obligations are invalid, then liquidated obligations will require payment from current year obligations.

The Office of the Legal Advisor (L) concluded that based on available facts, the obligations and expenditures in question were valid. However, L commented that a portion of the appropriation authority may have expired. L agreed to work with INL to review funding of

approximately \$145,000 and express an opinion on the validity of that obligation. Any expenditure from an expired appropriation should be charged to a currently valid appropriation. This recommendation can be closed upon notification to OIG that any expired appropriations have been returned to the Department of the Treasury as a miscellaneous receipt and any invalid expenditures have been charged to currently valid appropriations.

Staffing And Other Issues

If the HNP financial management system can support a return to the advance funding model originally envisioned for ILEA operations, ILEA will need an experienced financial assistant fluent in English and Hungarian to account for U.S. controlled ILEA funds and to provide daily financial liaison and oversight with the HNP. This position should substantially reduce Embassy Budapest administrative support requirements and remove the need for the INL-funded accounting technician position proposed for the Embassy budget and fiscal office. We do not believe the creation of a deputy director for management position at ILEA can be justified by the financial and procurement management requirements of the ILEA project. Our review also found that communication was lacking between the ILEA Steering Group and Embassy Budapest regarding ILEA staffing and policy issues.

Financial and Procurement Activities Support a Financial Assistant Position but Not the Proposed Deputy

To protect U.S. interests under the proposed advance funding system with the HNP, we believe that Embassy Budapest should hire a local personal services contractor to act as an ILEA financial assistant. This position, to be physically located at ILEA, requires an individual fluent in English and Hungarian and capable of providing daily financial oversight and program liaison with the HNP. We believe a financial assistant could reduce some of the time-consuming financial and administrative tasks required of the ILEA director. Under this arrangement, the support of Embassy Budapest officers and foreign national staff on ILEA matters should also be reduced. At present, Embassy officers and foreign national staff assist ILEA with finance, accounting, contracting and procurement, and personnel. Assuming return to an advance funding system with the HNP and the employment of a financial assistant at ILEA, the proposed accounting technician position at the Embassy would not be necessary. Eliminating this latter position would offset the cost of adding the ILEA financial assistant.

Based on our review of ILEA financial and procurement management practices and controls, we concluded that the proposed ILEA deputy director for management position is not warranted to assure adequate controls over these activities. We found the current ILEA director has the necessary financial and management skills to supervise ongoing teaching and administrative operations. Embassy financial management and procurement personnel are now involved in ongoing ILEA procurement activities. Addition of the proposed ILEA financial assistant will provide the day-to-day administrative support that will be needed assuming a return to advance funding to the HNP for recurring ILEA training expenses. We concluded that these changes and controls are adequate to address the financial and procurement management problems identified in the course of this audit.

Recommendation 8: The Bureau for International Narcotics and Law Enforcement Affairs and Embassy Budapest should hire a local financial assistant fluent in Hungarian and English at the International Law Enforcement Academy in lieu of the proposed Embassy Budapest accounting technician position.

Embassy Budapest and INL proposed an alternative arrangement to the recommendation. A local hire position at ILEA, responsible for financial liaison with the HNP and reviewing and approving invoices submitted by the HNP before approving payments, would be jointly funded by INL and the FBI. Embassy Budapest, using INL funds, will create a part-time position in the Budget and Fiscal Office to support ILEA activities and other Federal law enforcement training held in the Budapest outside of ILEA. OIG agrees to this action, and the recommendation is closed .

Embassy Budapest Not Kept Current on Steering Group Proposals

Communication from the Department and the ILEA Steering Group with senior Embassy Budapest staff has not been timely. The ILEA Steering Group develops policies and specific proposals for improving ILEA operations. However, we found that the Department did not consult or inform Embassy Budapest staff, including officers closely supporting ILEA operations, of recent personnel management proposals. We also learned that there is no consistent communication channel to inform the Embassy of Steering Group proposals and recommendations. When the audit team advised Embassy officials that the ILEA Steering Group had proposed, in the fall of 1996, the creation of four deputy director positions, the deputy chief of mission, political counselor, and other senior officers expressed surprise to learn of this important development. Embassy Budapest officials said they do not receive the minutes of ILEA Steering Group meetings. They believe Embassy personnel should be apprised of any decisions or proposals affecting ILEA.

Recommendation 9: The Bureau for International Narcotics and Law Enforcement Affairs and the Bureau of European and Canadian Affairs should provide all International Law Enforcement Academy Steering Group reports to Embassy Budapest for information and possible input.

INL agreed to implement the recommendation. The recommendation is closed.

Part-Time Staff Need Formal Work Agreements

Our review identified a need to prepare work agreements for part-time and temporary ILEA staff being paid through petty cash. For example, an audiovisual technician employed and funded by the HNP training center provides support to ILEA after his regular 8 hour workday and on weekends. ILEA also uses the petty cash fund to obtain temporary support when the regular administrative assistants are ill or otherwise unavailable for extended periods of time. We were advised by Embassy officials that persons providing part-time or short-term personal services to

ILEA and being paid by U.S. funds need to have a formal contractual work agreement regarding their services and compensation by the Embassy.

Recommendation 10: Embassy Budapest and the International Law Enforcement Academy should require formal work agreements for all part-time and temporary staff.

Embassy Budapest and ILEA agreed with the recommendation. A blanket purchase order agreement for technical support was executed on May 27, 1997. The recommendation is closed.

Development of New Academies Should Build on Lessons Learned in Budapest

The ILEA Steering Group has agreed, as a long term direction, to establish similar international law enforcement academies in other parts of the world. Detailed planning for additional ILEAs in Asia and Latin America is proceeding. Our review found that ILEA Budapest experienced a number of administrative problems early in its development. Even after approximately 2 years of operations, basic issues of financial administration, budget planning and academy staffing still need to be resolved. We urge all parties involved in further developing the ILEA concept to consider the lessons learned in developing ILEA Budapest and to avoid the administrative and financial problems experienced in that effort.

Recommendation 11: The Bureau for International Narcotics and Law Enforcement Affairs should ensure that international law enforcement academies being planned for other regions of the world benefit from the administrative and financial lessons learned in connection with the Budapest academy.

INL agreed with the recommendation and reported that a team involved in establishing an ILEA in Bangkok, Thailand visited ILEA Budapest enroute to Bangkok. The recommendation is closed.