

Conference on Jewish Material Claims Against Germany, Inc.

General Controller

Annual Summary Report

**Submitted:
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The following is a summary of the most significant findings/recommendations, together with updates of completed reports, that have been reviewed by the Control Committee following the July 2012 Board meeting or where there were related issues during this period.

Berlin – Successor Organization

The audit focused on the work processes of the Successor Organization in handling approvals issued by the German Ministry of Finance for compensation claims filed specifically for lost businesses. Among the matters considered were the following: the way in which the value of the lost businesses was assessed; the identity of heirs and their interest in the claim; and calculation of the amounts paid to the beneficiaries.

The audit made the following recommendations:

1. Preparations should be made in advance of the Ministry's ceasing to handle Successor Organization claims in 2018, to ensure adequate staff in the offices and financial resources that will allow the offices to function.
2. A review should occur of the costs of new computer software.
3. Two employees should be involved in any decision relating to the amount of a deduction for expected expenses in a building.

The audit also reviewed the Successor Organization office's examination process of approvals after their receipt from the Ministry of Finance; sought to ascertain whether all possible sources of information were checked for substantiating a possible timely appeal; and determined that it was difficult to arrive at a reasonable calculation of the average value of all the claims still being processed by the Ministry.

A second audit determined that a staff of 14 reviews and interfaces with the German Ministry of Finance concerning applications made by the Claims Conference for restitution of property and/or compensation for property or businesses. To date, the Claims Conference has submitted 122,863 applications to the Ministry: 100,407 have been addressed; another 22,456 are still being processed. Almost 78 percent of the remaining applications are for compensation.

The audit noted issues which it recommends should be handled by Claims Conference headquarters in New York:

1. German and EU privacy laws in regard to creating a unified database.
2. Load sharing of responsibilities between Berlin and Frankfurt offices and the supervision thereof.
3. Increased involvement with informal mid-level talks with MOF regarding potential global agreements.

The audit reviewed several files concerning property sales not by auction. The audit determined the decision not to sell the properties through auction houses was logical and reasonable, but believes that for the sake of maximum caution, special attention should be paid if there are significant differences between the appraiser's valuation and the sales price of the property.

At the date of the audit, there are close to 20,000 claims files (real estate and businesses) that have not yet been comprehensively dealt with and about which more is unknown than known. However, it is estimated that most of the very high-value property claims have already been resolved. Based on past experience, decisions made in favor of the Claims Conference are about 15 percent of the total claims filed.

Southeast Ukraine

The audit was carried out at Hesed Menachem in Dnepropetrovsk and Hesed Michael in Zaporozhya. As a general matter, the audit recommended that the JDC office in Jerusalem should issue an opinion on the hiring of homecare workers by Heseds in Ukraine, and to instruct these Heseds to act uniformly in their process of hiring homecare workers, to comply with Ukrainian law.

Hesed Menachem:

The audit had a highly favorable impression of the Hesed's work, making the following recommendations:

1. Following examination of the legal aspects, the JDC should investigate the possibility of using a uniform method of hiring HC workers.
2. Photocopies of original documents submitted by survivors related to CEEF should be stamped "True copy of the original," with the name and signature of the curator and the date on which the original document was presented to him.
3. A medical advice program that was terminated due to the advanced age of the physician at the time should be renewed. Physicians from abroad should be recruited on a volunteer basis to work for several months, with the Hesed being responsible for their accommodations. (The JDC noted that foreign doctors are not allowed to practice in Ukraine.)
4. Examine the issue of lack of appropriate professional insurance for volunteer doctors and the legal responsibility it might impose on the Hesed/JDC/CC.
5. Hesed employees should refrain from serving as committee members and individuals who do not avail themselves of Hesed's services should serve as committee members. Such people should sign a statement of non-conflict of interests, the text of which should be coordinated with JDC in Jerusalem.

Hesed Michael:

The audit also formed a highly favorable impression of this Hesed, making the following recommendations:

1. The JDC should discuss certain issues raised by the Hesed Chairman with him and with the Hesed organization.
2. A way should be developed to satisfy supermarket officials when Hesed-issued debit cards are presented at a supermarket by a client's legal representative for any client who cannot visit the market due to illness or for any another reason and sends a legal representative.
3. A review should take place to check the differences between the Exceptions Committees' decisions at Hesed Michael vs. Hesed Menachem.

Miscellaneous:

The following additional recommendations were made:

1. To set up a Complaint Center at the Heseds for employees who come into contact with clients and suppliers as a mechanism for remedying problems that arise. This would be implemented by JDC regional offices and coordinated with Hesed managers.
2. To discuss the creation of a budgetary reserve to be used to finance price rises every few months.

AREC-AJJDC Real Estate Co., Ltd.

The audit reviewed the use of approximately \$7 million the Claims Conference allocated to Heseds from 1995-2008, which was to be used to acquire/renovate buildings in the former Soviet Union. The audit also attempted to examine the ownership affinity of the Claims Conference to these buildings and the connection between AREC (AJJDC Real Estate Company Ltd., the real estate company of the American Jewish Joint Distribution Committee) and various Heseds operating in those buildings.

The Claims Conference participated in funding the acquisition of five buildings owned by AREC: in Dnepropetrovsk, Kiev, Krivoy Rog, Odessa and St. Petersburg.

The audit made these conclusions/recommendations:

1. There appears to be no legal connection between the Claims Conference and AREC or AREC's buildings/operations. Although there was no requirement for a lien when the grants were given, the Claims Conference should review its interest in establishing an ownership affinity in the AREC buildings, such as a lien or another type of security.

2. The JDC and the Claims Conference should review current maintenance expenditures of the Heseds, which are funded by the Claims Conference, operating in these buildings.
3. It is recommended to review the status of directors of AREC (specifically, Confucius Directors, LTD.).

Jewish Community Services of South Florida, Inc. (JCSSF)

The audit reviewed the operational and financial processes at JCSSF in its handling of Claims Conference allocations, compliance with terms set by the Claims Conference, and internal procedures of the organization. The audit also examined the supervision and control mechanisms at JCSSF with respect to allocations and distribution to aid programs.

JCSSF's 2011 annual budget for Nazi Victim (NV) client services was \$3.65 million and Claims Conference grants in 2011 totaled about \$3.52 million.

In its sample, the audit found orderly files that include diagnosis and follow-up documents, and that the application assessment and the diagnostic process are professional and thorough.

Further, the audit was impressed by the scope of the activity operated by JCSSF, as well as by its high level of professionalism. Services provided to NV clients meet the appropriate standards.

The audit made the following recommendations:

1. The data-entry system should be improved to prevent typographical errors in client information, such as date of birth.
2. There should be a clear delineation between Holocaust survivors, the clients of the agency, and their spouses, although reports to the Claims Conference are clear.
3. JCSSF should consider performing six-month or annual reassessments of the functional status of clients receiving homecare, rather than the current three month reassessments.
4. Investigate why almost 95 percent of JCSSF NV services are funded by the Claims Conference and whether this corresponds to budget programs approved for each project.
5. The Holocaust Survivor Advisory Committee of JCSSF should provide more detailed minutes.
6. JCSSF should keep on file original contracts with various homecare service providers.
7. The Audit was led to believe that JCSSF has available checks that are pre-signed by authorized signatories, which the agency uses for emergencies. However, JCSSF officials made it clear that they do not keep pre-signed checks. Going forward, it must be clear that this practice is unacceptable.
8. Investigate the relationship between the JCSSF and its subsidiaries Masada and Clean Sweep.

Shem Olam – Faith & the Holocaust Institute for Education, Documentation and Research

The audit was conducted following a request to conduct a focused audit of this organization, outside the regular work program of the auditing body. This report is simply a first impression based on information delivered verbally, containing a diagnosis and identification of issues that embody potential problems.

The Claims Conference's various reminders to the organization to submit paperwork for its grant failed to receive a satisfactory response. The grant was canceled but, after additional correspondence and clarifications, the balance of the grant was returned.

The audit met with Claims Conference officials in Jerusalem, read the Shem Olam file maintained by the Claims Conference, reviewed the Shem Olam website, visited Shem Olam offices, and spoke with administration officials, and reviewed other relevant documents. The Claims Conference representatives in Jerusalem noted that the organization's administrative infrastructure is inadequate.

The audit made several recommendations:

1. An analysis should be undertaken of all functions carried out by the organization and by senior management, including the development of an organizational pyramid that encourages the delegation of authority.
2. Employees should not be asked to take on tasks which are not part of their training or main responsibilities because there is insufficient staff.
3. A full-time Chief Accountant or CFO should be retained who would be an employee of the organization.
4. Projects that receive Claims Conference support should be managed on an ongoing basis, with planning and documentation, undertaken by an employee of the organization.
5. A professional analysis of administrative framework should be implemented, including pricing components.
6. The possibility of ties/connections between different organizations operating in the Kfar Ha'roeh area should be investigated.
7. The low percentage of grant amounts within the yearly budgets should be addressed in future audits of the organization's administrative framework.
8. The organization should investigate its own structural and functional systems and adapt them to the type and scope of activities in which it engages.

United States Holocaust Memorial Museum

The audit took place in July 2012. The audit “was impressed by the scope of the activity setup operated by the Museum, as well as by its high level of professionalism.” Overall the Museum is compliant with the terms of its grants. The audit focused on an in-depth review of the main grant allocated to the Museum in 2010 in the amount of \$900,000 for the Archival Acquisition and Reproduction Project, mainly from Eastern Europe, the former Soviet Union, Greece, the former Yugoslavia and Latin America.

The audit had these findings and/or recommendations:

1. Public acknowledgement is a precondition of the CC in its approval of grants; however, because the Museum is a public/private partnership, there were challenges to reaching an agreement, which was finalized on March 13, 2012 via a series of conversations. As support of the Museum’s archival acquisition initiatives have been significant, it is critical for the CC to be acknowledged in multiple formats corresponding to its various areas of support.
2. The Museum must submit at least two reports per year to the CC as required by the conditions of the grant, regardless of the project’s progress or the timing of payments.
3. The Museum must ensure that any subcontractors retained for CC-funded projects, worldwide, have no financial or family connection to the Museum and, if a connection is known, it must be reported immediately. The Museum, having its own Standards of Ethical Conduct, suggested that the CC rely on the Museum to enforce this conflict-of-interest matter. The committee agreed with the recommendation.
4. For a complete picture of a project budget, it was recommended that the project expenses funded by the Museum from matching funds should be included in the Budget Expenditure Reports submitted to funders and/or auditors.
5. There are numerous institutions working to acquire Shoah-related material and convert such material to digital media or have it copied to microfilm, and the Museum is required to maintain contact with other archival institutions around the world to avoid duplication of efforts and ensure effective use of existing resources. To avoid CC duplication of funding (although the audit understands is not happening), it is recommended that the CC pay suppliers directly for work done for a cooperative project by the Museum (with a third party). The burden of funding a joint project is to be shared equally between the parties.
6. Salaries of the department managers should be charged on the basis of a detailed calculation of the relative percentage of their position that is attributed to the supported project, and that this calculation, together with explanations, be submitted to the Claims for its approval.