

Conference on Jewish Material Claims Against Germany, Inc.

General Controller

Annual Summary Report

**Submitted:
Yigal Molad
July 8, 2008**

General Controller
Annual Summary Report
July 8, 2008

The following is a summary of the most significant findings/recommendations together with updates of completed reports which have been reviewed by the Control Committee following the July 2007 Board meeting or where there were related issues during this period.

Frankfurt Office - Successor Organization
January 14 – 17, 2008

A series of sample cases being handled by the Successor Organization were reviewed.

1. Properties sold which were wholly or partially owned by the CC

One issue concerned the possibility of receiving an advance payment when a contract for sale of property is signed. The Frankfurt office indicated that this is likely to limit potential purchasers. The issue will be reviewed.

A second issue related to a case where the sale price at the auction was significantly higher than the appraisal amount. Due to the official rules for appraisers in Germany, it is not unusual for the sale price to be significantly higher than the appraisal amount, thereby reflecting the actual state of the market at the time of sale. The Successor Organization Committee continues to review this issue in the context of the sales process.

2. Properties sold for which the consideration was deposited with a notary

The approximately 3 - 4 cases where funds are held by a receiver in a liquidation should be identified separately from those where monies are held by notaries. There were no other comments on the cases reviewed.

3. Payments to those eligible for compensation through Goodwill

There were no comments on the cases reviewed.

4. Compensation receipts for Entschädigung für Unternehmen transactions

Compensation is determined according to German legislation. The recommendation was that the office should review on a monthly bases the cases where interest is owing.

There were no other comments on the cases reviewed.

5. Claims against the Successor Organization (e.g., amount of rent owed to Claims Conference, value of investments in a building by German owner, etc.)

There were no comments on the cases reviewed.

6. Funds

The Audit reviewed the office's operation of the Article 2, Hardship and CEEF funds.

Work procedures have been compiled into one single volume.

The appropriateness of deduction of lawyers' fees for Article 2 and Hardship Fund cases was reviewed. The system was subsequently amended so that in the future no deductions will be made.

* * * * *

Frankfurt Office - Successor Organization **September 11 – 15, 2006**

As the report dated January 14 – 17, 2008 contained a number of related issues, a summary of the report of September 11-15, 2006 follows:

1. Future Running of the Office

It was recommended that a review should take place regarding staffing and other needs for the Frankfurt Office for future years. There have been a number of developments since then that have affected staffing needs.

2. Sales

The issue of whether additional signatures in the sales recommendation beyond that of the Director of the Successor Organization, was examined. The Control Committee decided to maintain the current system whereby sales recommendations are also signed by the Deputy Director of the Successor Organization.

The audit examined whether it was worthwhile to have an additional review by the mortgage bank AHB of the appraisal carried out by the independent appraiser. The Successor Organization Committee decided that the review by AHB was not relevant.

When the realization of an asset is in the hands of an entity beyond the control of the Claims Conference (e.g., sale by court order), no approval of sale is necessary. If the approval of the Claims Conference is required, then the approval procedure should be carried out.

3. Unsold Property

The actual values of three items of unsold property examined were estimated by the audit to probably be lower than the appraised values which are included in a note in the Financial Statements. Since that time, there has been a change of approach in estimating the value of unsold property. In addition, this amount is now included in the Financial Statements and is audited by Ernst & Young.

4. Realization of Properties of Low Value

There are many properties which have a very low value, and the cost of obtaining an appraisal for them would be disproportionately high. The establishment of a special expedited procedure for dealing with their sale was reviewed.

5. Compensation for Businesses

The audit examined the system for recovery or compensation for business assets. Sample cases were reviewed. The professional work of the staff was noted.

6. Computation of Payments to Heirs Under the Goodwill Fund

The system of determination of eligibility and computation of amounts due to Goodwill Fund claimants was reviewed.

7. Claims Against the Successor Organization (e.g., amount of rent owed to Claims Conference, value of investments in a building by German owner, etc.)

There were no comments on the sample cases reviewed.

Michael Siegmund – Employee of the Successor Organization

May 27, 2008

In view of questions this year which were raised regarding this issue which was dealt with previously, an update report regarding the subject follows:

Mr. Michael Siegmund is a lawyer by profession who served as a full-time employee of the Successor Organization in Frankfurt for approximately 10 years. As of April 15, 2005 he ended his work as a salaried employee and instead became an independent service provider working one day per week for the organization. By all accounts he was an excellent and capable staff member who assisted the work of the organization greatly.

In 1998 Mr. Siegmund commenced serving as a member of the Inspection Committee of Deutsche Grundstücksauktionen AG (DGA) and as a board member in two subsidiaries of that company since 1998. The DGA carries out auctions of property on behalf of the Claims Conference.

Mr. Michael Siegmund requested and received permission at the time for his activity at DGA from the Director of the Claims Conference Successor Organization, Dr. Karl Brozik who was in full coordination with New York Headquarters.

The DGA is unquestionably an effective choice for sale of properties in the region for the following reasons:

DGA is the major and most well respected auction house dealing with such properties and the overwhelming majority of sales by auctions in the relevant areas are carried out by DGA. Some 40,000 copies of its announcements of properties to be auctioned are distributed.

The Claims Conference does not pay fees to DGA.

The auctions are carried out in a public, open and transparent manner and the price is set by the market and not by the auction house.

Even though no conflict of interest existed, to avoid even the potential appearance of one which could create a negative image of the Claims Conference, it was recommended to consider changing this situation.

The Control Committee reviewed the issue on May 30, 2007.

Since mid-2007 Mr. Siegmund is no longer working as a service provider for the Claims Conference in any capacity.

The Claims Conference continues to utilize DGA for all the reasons described above.

* * * * *

JFCS – Gladys Alpert Jewish Family & Children's Service
June 2007

In March 2007, the West Palm Beach newspapers published news/articles indicating, among other things, financial instability deriving from irregularities and administrative failure in the Gladys and Alpert Jewish Family & Children's Service of Palm Beach County, FL ("the Agency"). On their own initiative, the heads of the Agency contacted the Claims Conference and denied the content of the articles and provided explanations. Subsequently, the Audit was requested to investigate the accusations. The Audit restricted itself to checking the accusations only.

Findings

Below are the main accusations that appeared in Susan R. Miller's article in the Palm Beach Post on 13.2.07, with the findings and position of the Audit.

A. The agency was pushed out of the campus

The Agency did indeed relocate from the office campus of the local Federation to new premises about three miles distant. It was explained to the Audit that the previous offices, which were allocated to it in the Federation building, were too small for the Agency's ever-increasing activities and the staff who attend to them. Since the Federation was unable to offer additional space in the building, the relocation was agreed upon after consultation with the Federation management. The Audit found that the new offices, in a single-storey building, are more spacious and provide a suitable response to the needs of the Agency and its clients.

B. Clients are unable to access the new offices

It is the Audit's impression that the new offices meet the needs of the Agency's clients. The building is new and well maintained, physical access is convenient and the public space is comfortable. It was found that not only is there a large car-park, but that the offices are accessible by public transport. In addition, there are numerous public services in the vicinity, such as a hospital, medical laboratories, welfare services, firms of the free professions and others, which serve many of the Agency's clients on a regular basis.

C. The Agency's relations with the Federation are strained

Our audit revealed that the current relations between the Agency and the Federation are good and proper. While it is true that in the past, due to poor financial management which resulted in deficits, the relations between the Agency's managers and the Federation (which is the Agency's largest funder) were strained, it is clear today that the situation has changed. In evidence of this is the ongoing cooperation and support which the Agency enjoys from the Federation. Recent documents were presented to the Audit, received by the Agency from the Federation, which support this description of the relations between them.

D. A scathing audit issued by Agency's accountant in January 2005

The following reports were reviewed:

- Children's Services Council of Palm Beach County – January 2007
- Independent Auditors, Rampell & Rampell. P.A. – October 2006

The Audit believes that the findings of the auditors are not exceptional findings requiring special action, except for the adoption of the recommendations to correct the administrative faults found. At the date of our audit, it was reported to us that most of the recommendations of the two reports have been implemented.

E. The agency has suffered from several years of deficits

The Agency stabilized itself and went from deficit in 2005 to a surplus in 2006. Our audit of the partial data for 2007 indicates continuation of this trend and that 2007 will also end with a surplus.

- F. The Agency ran programs that did not cover overhead cost and was unable to complete basic accounting functions

Since this matter was not covered by the Audit's remit, the Audit satisfied itself with a general analysis of the expenses of the programs for Holocaust survivors and examination of the general and administrative expenses attributed to them. It is clarified that the Holocaust Survivors assistance program focuses mainly on financing home care hours for clients with limited mobility, which are provided by carers employed by the Agency. The operating expenses for the Holocaust Program (which are mainly general and administrative expenses) comprise about 10% of the total program expenses.

- G. Other agencies in the region present better financial performance

The Audit did not examine the financial data presented by other agencies in the region. Such an examination was not possible in the brief time allocated for assessing the other urgent issues.

- H. Consulting firm alleged a "considerable blind spot" relating to management

The Audit read carefully the report submitted by Open Minds Co., whose services were hired by the local Federation to examine the activities of the Agency and how it is run. Except for the urgent need to appoint a senior financial manager able to control the overall financial set-up of the Agency's activities (a recommendation which was adopted immediately), the other findings of the consultants were not exceptional in their severity and were also attended to by the Agency.

- I. Family relations between two employees

The audit noted the family relationship between two employees. Besides the fact that American law does not prohibit employment of workers with family relations in the same organization, the Audit found that the two employees have many significant achievements to their credit and are responsible for the development and growth of the agency, including services to Holocaust survivors. In view of these facts, the Audit believes that the situation need not be changed at present.

The Holocaust survivors program

The Audit believes that the Agency should coordinate the assistance it provides for Holocaust survivors with the company that provides similar assistance on behalf of the Federation. Such lack of coordination can lead to unfair use of the total resources. The Agency noted that it is attempting to coordinate services to Holocaust survivors with its sister agencies, and has already begun to develop a system to accomplish such.

Interim Report – March of the Living **October 18, 2007**

Background

A preliminary audit report on behalf of the CC General Controller, as well as several media reports, raised lately concerns regarding the functioning of March of the Living (MOL). In view of this, it has been decided to conduct an extended audit that will examine in depth and over a period of time the following issues:

1. Payments to MOL service providers who are associates with persons involved in the project.
2. Fees paid to MOL Board members
3. Usage and record-keeping of cash amounts in MOL organizations
4. Pricing of tour packages and accompanying services offered by MOL
5. Costing of travel and hospitality expenses of MOL directors and functionaries

Extent and Complexity of the Audit

Preliminary examinations conducted in the framework of preparation for the extended audit showed, from the outset, the extent and complexity of the task, due to a number of factors, foremost of which are:

1. Multi-year audit—nearly ten years of activity
2. Involvement of a number of related organizations—at least four of which have been directly involved in administering the project
3. Geographical decentralization of activities—mainly in the US, Israel and Poland
4. High public sensitivity—in view of the direct involvement of the former Israeli finance minister

The above require reading and examination of a large quantity of documents (some not immediately available), meetings and conversations with a large number of present and past functionaries, travel abroad requiring planning, coordination and advance preparation, and multi-systemic examination of all of the activities in question.

Parallel Audits by the Israeli Authorities

Two Israeli authorities are presently conducting parallel audits of the organizations of the March of the Living:

1. The Registrar of Friendly Societies
2. The Office of the State Comptroller

Both of these authorities enjoy a special status by force of law. This status provides them with the means to oblige the audited body to cooperate, and in particular, to provide access to the relevant documents for the purpose of obtaining a full and adequate picture of the nature of its administration. It is thought that the audits of the above authorities

will be completed within a few months and that their findings, which will be made public, may prove useful for our audit.

Summary

In view of the aforesaid concerning the scope and great complexity of the task, the delays stemming from summer and holiday vacations, the inadequate cooperation on the part of the audited bodies, and the possibility of utilizing the results of the audit of the authorities in Israel, our estimate is that our audit will continue for some time.

Current Status as of July 8, 2008

A detailed draft report on the above issues was prepared and reviewed by the Control Committee on February 28, 2008. It has not been completed as additional information requested from March of the Living has not yet been provided.

St. Petersburg November 4 – 9, 2007

This report covers Hessed Avraham, the W. Rosenwald Regional Institute for Communal and Welfare Workers ("the Rosenwald Institute"), and separately – the CC office in the city.

Implementation of recommendations from Previous Audit Report

A previous report recommended recognition of the Jewish population that was living in Leningrad during the German siege, as Holocaust survivors. The Hessed manager told the Audit that he had not received notice of a change of status of those still alive from that group. He added that a partial solution had recently been enabled when the JDC found, aided in significant part by the CC, a French source of funds willing to finance the remaining members of that population for three years.

Homecare through EVA

EVA is a non-profit organization specializing in this type of services, and its activities include other assistance for the elderly (including Holocaust survivors), such as a supermarket, food parcels and a soup kitchen. The Audit found that the hourly pay to carers (56-74 rubles) is far lower than the market rate for this type of service. Although the fact that with a given budget, low pay means that more hours of care can be provided, some thought should be given to the potential problems this could generate, such as difficulty in recruiting carers, inferior quality of care/carers, and encouragement of finding compensation in improper ways.

In order to comply with the requirements of the law and government regulations in a way that does not endanger the status of EVA as a non-profit organization, and also out of

various tax considerations, about two years ago EVA established two secondary organizations – EVA Center and EVA Plus. These run the homecare services for EVA, utilizing the advantages afforded them by the law, including the tax advantages. Since this would appear to be a formal change only, made two years ago and involving no real change in EVA's overall operation, the Audit sought to ascertain that the new structure has not meant an artificial change that might not be recognized by the authorities. Steps were outlined to obtain full legal clarification on the issue.

SOS Committee

A significant source for the activities of the SOS Committee is the Swiss Fund – \$142,435 (\$244,315 in 2006). The balance comes mostly from JDC sources. The members of the committee are its chairman, two medical physicians and 2 volunteers, none of whom is a hessed employee, a committee coordinator, and a hessed employee. The committee meets once a week. In the six months May – October 2007 the committee met 25 times and discussed 1,198 applications, of which 70 were rejected. The aid is intended for needy persons who subsist on their pension alone. Emergency assistance grants are provided under this program.

The Audit examined 6 applications, of which one was approved and 5 were rejected. The recommendations are based on the applications it examined. The Audit believes that the committee's decisions should be made on a professional level, and that the question of financing is the responsibility of the hessed's management. It is recommended that the head of the medical program (a physician) be consulted in relevant cases. It is recommended that a binding procedure require a "True copy of the original" stamp, plus signature and date, to minimize the risk of false documents being submitted. It is recommended that the employees handling the SOS applications should forward to the committee only those in which the documentation is complete. It is therefore recommended that where a different view is held by the physician member of the committee to the other committee members, such a case be forwarded to the head of the medical program, who will exercise his discretion and/or consult with his colleagues on the medical team. It is recommended that applications for renovations be transferred from the SOS committee to another committee or sub-committee, whose members are appropriate professionals. The Audit's recommendation that the members of the SOS committee not be hessed employees, has been implemented. It is recommended that a rotation system be introduced, so that the committee members not be subjected to pressures from interested parties.

Home visits

The Audit made three home visits. All the information provided by the interviewees was checked and found to tally with the information in the database.

Bequeathing apartments to the hessed

The issue of beneficiaries bequeathing their apartment to the hessed organization should be reviewed.

Rosenwald Institute

Studies at the institute include management, business planning, leadership, student plan, community and the Jewish family, volunteering, education for members of Jewish communities, organizational advice and promotion. The students there are organization managers and employee, including hessed staff members in Russia, as well as volunteers and other Russian residents. It is recommended that ways be found to increase the use of the classrooms.

Acknowledgement

The agreement between the CC and allocation recipients requires them, inter alia, to disclose information provided by the donors (CC, ICHEIC) in their publications, in their reports, and on the stickers on food parcels and medical equipment. A review of the institute's publications revealed that this clause of the agreement is not upheld, nor is there a sign noting the role of the CC in financing the activities of the institute. It is recommended that this situation be corrected. It was indicated that the issue will be addressed.

Claims Conference Representation in St. Petersburg

General

The office deals with residents who live in the city and its environs (in western Russia), and reports to the Tel Aviv office through the Coordinator, Mrs. Andrea Haas. The office handles applications for the Central and Eastern European Fund (CEEF), Swiss Fund, German Fund (this population is no longer dealt with), and the Austrian Fund.

Living confirmations

These confirmations, which are required once a year, are forwarded to the Frankfurt office. Without these confirmations, no payments are made to eligible persons. Living confirmations are submitted to the office by allocation recipients or by their legal representatives. They are signed and notarized. Various ways in which to facilitate this process were examined. The option they examined involves matching cases against the hessed database which is being updated.

* * * * *