

Special Audit Review –SDS Financial Reports and Activities

The Special Audit Team has completed a review of 16 offices of SDS across the Republic of Srpska. We compared financial records in each SDS office with financial reports that had been presented to the Election Commission and the OHR. We reviewed bank accounts, talked to SDS staff, collected documents, and where necessary, interviewed third parties who had transactions or financial relationships with SDS. We received good cooperation from all parties.

From our review, we can say that SDS financial reports submitted to the Election Commission and the OHR are incomplete: there are additional expenses, assets, and unrecorded donations from several offices. We were unable to obtain a membership list from any SDS Office, though it is a requirement of SDS Statutes. Lack of a complete asset list for each office may be a violation of the Election Law. In addition, SDS Banja Luka says they have no responsibility for financial activity/reports of outlying SDS Offices, or the actions of SDS Officials in those offices.

Some donations and membership fees were officially reported, but in small totals in relation to estimated SDS membership of over 200,000. (200,000 is a number given to us in interviews; we were unable to confirm membership level.) In general, the SDS financial reports and records have incomplete supporting documents, and most offices have outdated record keeping systems. There were hundreds of poor invoices supporting payments among offices we reviewed. Free rent, utilities and fuel was not reported at many offices. For approximately 30% of the full time staff among those offices, SDS does not pay the required social benefit and employment tax costs, which would be a violation of the law. Since the revenue we checked (as reported on Election Commission forms) was 90% from Government account transfers made directly to SDS bank accounts, we found a majority of SDS offices make regular lump-sum cash withdraws from their bank accounts to pay most bills from petty cash, allowing the non-descriptive or unsupported invoices to suffice for payment.

The Secretary of SDS Presidency in Banja Luka Vojislav Gligić volunteered to us that Banja Luka SDS Main Office does not verify the financial records or activity of 62 SDS Municipal Offices around the country; Banja Luka SDS Main Office just collects their financial report forms, does summaries for the official forms, and forwards the forms package to the Election Commission. He went further to say that SDS municipal offices are “independent legal entities” and Banja Luka SDS Main Office does not control the activities of its Senior SDS Leaders throughout Bosnia. This claim is inconsistent with the functional and management structure of the party i.e. Presidency, Main Board and Assembly Meetings where top SDS Officials from across the RS are present as members. There is also the SDS Statute Book, which indicates SDS endorses “...establishment of lawfulness, business and financial discipline,...”.

The following is a compilation of key findings of the review

SDS Presidency and SDS Banja Luka Municipality Board:

SDS Presidency BL Total Revenue: KM 478,143 From City Budget KM 458,943 From RS Budget KM 5,000
(1 Jan 03 to 31 Mar 04) Individual Donations KM 6,000 Company Donations KM 8,200

SDS Municipality BL Total Revenue: KM 185,608 From City Budget KM 185,608 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 00 Company Donations KM 00

- SDS Presidency and SDS Municipality Boards use valuable downtown, walking street suite of offices for free for 10 years. This is allowed under Banja Luka Municipality Executive Board Decision dated 10th March 1994. The Mayor says City continues this because SDS refurbished the offices for KM 45,000, but we noted original old doors, floors, and windows were still in place, with newer paint, air conditioner and heating. No definitive documents could be provided to substantiate work done by SDS to compensate for 10 year's free rent, except for KM 10,000 painting bill in 2003. SDS even had income from the City-owned billboard on the side of the building – though the billboard was given to an Advertising Company in 2002. *The cash value of this free rent should have been reported as a donation in the financial forms provided to the Election Commission.*
- In 2003, SDS Presidency Banja Luka purchased “business premises” from Boska, state-owned department store. They paid KM 84,000. The purchase agreement indicates that SDS previously invested KM 152,000 in rebuilding of the space. (There was no detail on KM 152,000 previously spent – KM 236,000 is an extremely high price for an apartment of this size.) The “business premises” is actually an apartment located on second floor in a building behind the Hotel Bosna and parking lots, in Banja Luka center. It is reportedly used by the SDS Public Relations Employee, who is on sick leave at the moment. This requires further investigation. *The apartment/business space should have been listed as property with a value of KM 236,000, in the financial forms provided to the Election Commission.*
- SDS Party Headquarters is conducting its business and maintaining its records in Banja Luka, but it is registered in Pale. There is one SDS HQ employee in Pale. Since the new offices in Pale are still under construction, their one employee uses a City owned office in Srpsko Sarajevo Assembly Building. *The cash value of the free rent, and any utilities provided, should have been reported as a donation in the forms provided the Election Commission. The new office under construction, with an initial payment of KM 66,729 and related fees/expense, should have been reported as property asset.*
- State-owned oil company NIRS Petrol Pale Unit business records we reviewed indicate that SDS Presidency owes them KM 35,000 for fuel. SDS disputes this, but did not provide any documents to refute it. *This KM 35,000 liability should have been listed in the financial forms provided to the Election Commission.*

- 2 NGO humanitarian organizations (one Youth, one Women) for promotion of Serb interests, fallen soldiers, youth Orthodox work, etc. are registered at the address of SDS Banja Luka office. The Lady heading the Women's organization is actually an employee of SDS Banja Luka. *Even though these NGOs may not have been registered by SDS, we believe they should have been reported to the Election Commission as SDS NGOs, since they operate out of SDS offices.*
- We found a KM 22,000 payment to a printing/advertising company. This is actually a donation for promotion expenses for a Youth Orthodox Award, to the same Youth Orthodox NGO at SDS address. *This should have been reported as a donation, and NOT as a media expense.*
- There were over KM 10,000 in payments for private airplane flights, supported by handwritten, illegible invoices with no detail. *While SDS Offices had lots of un-detailed, handwritten invoices, these were especially poor, and questionable. To avoid suspicion, SDS should have all expenses properly documented and supported.*

SDS Doboј

SDS Municip DOBOJ (1 Jan 03 to 31 Mar 04)	Total Revenue: KM 98,315	From City Budget KM 21,000	From RS Budget KM 00
	Individual Donations KM 00	Company Donations KM 00	
	Rent KM 76,910	Membership KM 405	

- SDS Doboј owns new office premises in the centre of Doboј, – the building has yet to be recorded in the deed books, with remaining construction license fee paid only this year, via an advance to SDS Doboј of KM 30,000 in future rent payment from Company Duga. SDS Doboј has leased part of space as offices and restaurant to Company Duga, which it owned until February 2004. In documentation that we reviewed at SDS offices, we noted that SDS never paid any utility bill and SDS staff told us that according to the contract on lease of business premises, it was agreed that the Company Duga would pay all bills. But according to the Contract on lease of business premises Duga is obliged to pay rent of KM 2,000 per month for 237m2 and bills for electricity, water, sewage, heating, garbage collection, land tax, etc. for Duga space only. *In 2003, the income and expenses of Duga should have been combined with its owner, SDS Doboј, for the Election Commission reports. After it became a separate company owned by Ninković in February 2004, the utility payments on behalf of SDS should be reported as donations. We found past due electric bills for Duga, and need further research to see if there are unpaid utility bills of SDS Doboј, or if separate electric meters are required. Per ERS records, there are still KM 100,000 in past due electric bills at SDS offices across RS, as of 30 April. Our Special Audit detailed these past due bills last year, but little effort was made by*

ERS to collect or cut-off SDS Offices. It is also unclear if all SDS expenses for the construction of these high quality office & restaurant spaces were properly detailed in 2003 Election Commission forms this warrants further review.

- We obtained the documents and confirmed that the Company Duga doo, was wholly-owned by SDS Dobož in 2003. *Duga's 2003 assets, liabilities, capital, revenue (over KM 800,000) and expenses should have been reported as part of SDS Dobož in the financial forms sent to the Election Commission.*
- We reviewed 31 December 2003 assignment, a form of compensation agreement, signed by SDS Dobož, Nova Form Šamac furniture store, and Company Duga. At the end of this complicated transaction, it appears SDS Dobož received furniture valued at KM 35,692. *This should have been reported as a donation.*
- We were told by the SDS Dobož that they own 2 vehicles, and these were on their property list. But we did not find any bills for fuel in their financial records, and SDS staff could not explain this. *Fuel costs for SDS vehicles should be documented and included in the financial records and reports – if fuel is donated, fuel costs should be shown as donations. This omission raises questions as to lack of full reporting.*

There are questionable financial and property activities in Dobož, or Decisions of the SDS dominated Municipal Assembly, that directly involve SDS Dobož Leader Milan Ninković and his son. In addition to the list below there are other questionable Dobož City property or business transactions that we did not have time to check. The following are a few examples:

- During 2003, Dobož Municipal Assembly agreed to purchase 290,000 in TV station equipment from Company Duga, wholly owned by SDS Dobož. The Municipal Assembly is controlled by SDS coalition majority.. *This income of SDS owned Duga, should have been included in SDS income in the financial forms sent to the Election Commission.*
- We obtained an un-gazetted Municipal Assembly Decision to purchase the home owned by the son of SDS Dobož President Milan Ninković for KM 311,000. The City claims it was needed for returnee or indigent housing, but the home remains empty today. The City took loans from Nova Banjalučka Banka loans to make this and other housing purchases, which allowed a KM 100,000 profit to Mr. Ninković's son. *The un-gazetted Decision means city leaders have not made this transaction transparent to the public. SDS dominated Municipal Assembly approved the purchase, and the house is still uninhabited today, with City explaining it needs refurbishment.*
- In February 2003, the Company Duga was legally transferred from SDS Dobož, to Milan Ninković (SDS Dobož President). Within weeks, Duga had won a tender to provide road works for the City of Dobož in 2004, with no contract ceiling limit.

The tender process requires further review. Duga does construction work, and operates the large local gravel pit. Its acquisition of this property needs from the former gravel operation of state-owned Dobož Putevi (Dobož Roads Works) should be subject to further review.

SDS Trebinje

SDS Municip TREBINJE Total Revenue: KM 20,664 From City Budget KM 15,506 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 00 Company Donations KM 3,000
Membership KM 2,158

- The contractual status of the Trebinje SDS Office is complex and requires intensive further review.
- ERS writes off debt to SDS for electricity. During 2003, SDS office in Trebinje had debt for electricity of a total of KM 11,551.15. They claimed that the meter that was in SDS name covered the whole floor in the building and that there were other users as well. SDS began paying small portion of their electricity bill in mid 2002, their first recorded payments. On 29th July 2003, ERS ElektroHercegovina wrote off the KM 11,551.15 debt of SDS Trebinje, after moving it to a dummy account in their billing system. ERS staff claimed there were no initials authorizing write-off. ERS HET staff then claim that background for this write-off is actually ERS HET's 1965 debt to Orthodox Church. Allegedly Church was damaged when the Trebinje Dam/Reservoir was constructed and in 2001, though there were payments from the Yugoslav Republic. ERS HET decided to compensate this unspecified 1965 damage with the electric bills and since mid 2003, they have agreement to pay KM 4,500 per month to Church. After moving SDS Trebinje KM 11,551.15 bill to a dummy account at ERS ElektroHercegovina, on 2nd July 2003, a compensation agreement was made within ERS --- ElektroHercegovina, HET and ERS, and the bill disappeared. *This should be reported as a donation and the whole transaction requires further review.*
- Public Companies, and SDS member companies pay off SDS court debts. SDS Trebinje was sued by Company Leotar Hotel/Restaurant for unpaid bills. This resulted in a court judgement against SDS Trebinje, and the blocking of their bank account on 26th June 2003 in the amount of KM 5,634.35. SDS urged their supporters to help them clear up this debt. So, ERS HET, NIRS Petrol Trebinje, PRIMAT (contractor on the reconstruction of City Café), Housing Association PROSTOR & Municipality Trebinje all made payments to Leotar to erase the debt and lift the block. *This should be reported as a donation and the transactions should be further reviewed.*
- Accounting Agency "Poslovna Knjiga" is conducting all accounting work for SDS for free. SDS and Accounting Agency signed the contract on 1st Jan 2000 and it has been extended. It means that SDS has free bookkeeping for 36 months x KM 150 per month (usual, average accounting fee) = KM 5,400. Owner and

Manager of this Accounting Agency is SDS Member and the Chairman of ERS Steering Board. *This should be reported as a donation.*

- Two companies gave unreported loans/donations to SDS. Podstirovnik gave KM 1,300 and LeoPlastic gave KM 1,700. Few days after the loan was given, companies signed agreement to write off the loans. *This should be reported as a donation.*
- KM 3,313.79 – in telephone bills from 2002 were written off in 2003 and KM 441.29 – telephone bills from 2004 were also written off. *This should be reported as a donation.*
- The official bank account of SDS Trebinje is blocked, since a former employee has sued SDS Trebinje for KM 5,000 in unpaid salary and costs, and she got a court order for payment. The Court authorized a block for SDS bank account for the Judgement to be paid. No proof of payment was provided. *SDS Trebinje is legally obligated to pay salaries, tax and contributions to its employees.*

SDS Gacko

SDS Municipal GACKO (1 Jan 03 to 31 Mar 04) Total Revenue: KM 9,800 From City Budget KM 9,800 From RS Budget KM 00
Individual Donations KM 00 Company Donations KM 00

- On 9th February 1994, the Executive Board of Gacko Municipality made decision to give premises for temporary use to SDS Municipal Board Gacko, they do not pay rent. *Cash value of free rent should be reported as donation.*
- As SDS did not have separate meter to record the electricity used by the party, they did not pay any amount for electricity before July 2003. In July, SDS engaged company Bankom-Inženjering from Trebinje to install meter so the first bill issued to SDS Gacko was for July 2003. SDS Gacko paid one monthly bill for July 2003 and nothing more. We did not see any warning letter from the ERS which they normally send to past due consumers for unpaid bills in last 10 months.
- Although we were told that SDS Gacko does not have a car there is SDS payment of KM 300 to Petrol Trebinje for fuel, in December 2003. *SDS Gacko is required by the Election Law to provide an accurate property list.*

SDS Višegrad

SDS Municip VISEGRAD Total Revenue: KM 20,899 From City Budget KM 20,899 From RS Budget KM 00

(1 Jan 03 to 31 Mar 04)

Individual Donations KM 00

Company Donations KM 00

- SDS Višegrad and the Serb Radical Party Višegrad use free offices provided by the City in the Cultural Center. SDS Volunteer who prepares SDS financial reports is a Municipal Assembly Member, and apparently a City employee. There are no bills for electricity, as we found that the ERS Višegrad Dam has a compensation agreement with the City for electricity, which then covers SDS offices. *The cash value of any free office space should be reported as donations. Any payments in kind, compensations, or agreements that pay SDS utilities should be reported to the Election Commission as donations.*

SDS Bijeljina

SDS Municip BIJELJINA Total Revenue: KM 107,987 From City Budget KM 107,987 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 00 Company Donations KM 00

- SDS has not paid its bills for electricity or water or gas. .
- SDS Bijeljina pays no rent, and uses business premises owned by Slovenian shoe company Planika. Nobody at Bijeljina Municipality or SDS Bijeljina was able to provide any document that would indicate that there is a legal basis for SDS to use these premises. This is a two floor business building consisting of four offices on the second floor, two conference rooms on the ground floor, storage room and the café also on the ground floor. The registered owner, Planika Slovenia, has been in litigation for an extended period in an attempt to regain its building. SDS Bijeljina used money received from the Municipal budget to pay the attorney who represents them in litigation brought by Planika Slovenia.
- There is KM 6,500 withdrawal of cash from SDS Bijeljina bank account made in December 2003, for which they did not provide any supporting documents. The description for this withdrawal is "payment for solidarity and humanitarian purposes". There was no decision or any document in the office, by which we could track the beneficiaries of this cash payment or payments. *Additional indications that bookkeeping records are poor. Records provided to the Election Commission are thus incomplete.*
- There is only one registered employee at SDS Bijeljina, Ms. Slavica Savić, who works as the secretary in SDS Bijeljina. Her salary is paid from petty cash and the accountant openly said that payroll tax and social contributions were never paid for the secretary, which is the violation of the law. *The accumulated unpaid employee tax and social contributions for this and other SDS Bijeljina employees should be reported in financial reports as a liability.*

- There are unrecorded fuel bills, and possible write-offs of previous year fuel bills. SDS Bijeljina Finance Mgr. claims fuel invoices from state-owned fuel oil company NIRS unit Petrol Bijeljina are received every 2 weeks, and all fuel invoices are paid in cash. The poorly documented petty cash withdraws did not show very many fuel bill payments. When we contacted NIRS Petrol Bijeljina to verify the few fuel invoices that we found in SDS petty cash it turned out SDS Bijeljina owes KM 14,224.98 to Petrol as of 25th May 2004. And that Petrol are sending a warning letter threatening a lawsuit for the unpaid fuel bills. *This confirms that expenses and payments of SDS Bijeljina are not fully reported to the Election Commission.*

We noted that since most *acknowledged* revenue of SDS comes from RS Gov't or cities directly by bank transfer, SDS Offices generally withdraw most of the cash from the bank, and then began to disburse it from petty cash. Our review of petter case transactions shows that SDS Bijeljina have poor management controls in their management of cash

- It appears SDS Bijeljina made KM 7,500 payment by bank transfer to a company Pan-Comerce in February 2004. In March, KM 7,500 was returned to SDS by Pan-Comerce. *The nature of this transaction should be explained and fully reported to the Election Commission.*

SDS Pale

SDS Municp PALE Total Revenue: KM 22,957 From City Budget KM 21,707 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 1,250 Company Donations KM 00

- SDS Pale uses the office in the business premises owned by the Municipality Pale, which they share with the War Veterans Association. They are using this office space free of charge; they also do not pay electricity or other utilities. *Cash value of free rent and utilities should be reported as a donation to the Election Commission.*
- SDS Pale doesn't have an inventory list of assets or property. They claim that all office equipment and furniture is "inherited" from SKJ (Communist party of Yugoslavia) that was dissolved in Belgrade in 1990. *Election Commission rules require an asset or property list, this must be reported.*

SDS Prnjavor

SDS Municp PRNJAVOR Total Revenue: KM 27,450 From City Budget KM 27,350 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 100 Company Donations KM 00

- There is documentation propoirting to show that several vehicles were donated, imported, traded and sold by through the SDS Office. It is unclear wheter the cars

- have proper registration, and it is unclear who benefits from the transactions – 3 cars are valued at KM 16,000 in total. *This requires further review to ensure that these activities have been accurately reported on the Election Commission forms, either as donations, expenses or as assets.*
- SDS uses the building awarded to them by the Municipality free of charge. *The cash value of any rent and utilities should be reported as donation.*
 - The accountant of SDS Prnjavor informed us that her work is voluntary. This lady is employed at Motajica Commerce, the company owned by the former SDS Prnjavor Vice President. *The cash value of her accounting services should be reported as a donation.*

SDS Teslić

SDS Municip TESLIC Total Revenue: KM 44,509 From City Budget KM 19,689 From RS Budget KM 00
 (1 Jan 03 to 31 Mar 04) Individual Donations KM 20,000 Company Donations KM 00
 Membership KM 3,320 Sale of the car KM 1,500

- In 2004, SDS Teslić paid KM 17,750 for a 1997 Audi B5, followed by registration and insurance costs of KM 492. SDS staff could not provide any invoice or contract to confirm the origin and the real value of the vehicle. They explained that SDS Teslic Office collected KM 20,000 of donations from individuals between January and March of 2004 (20 people gave KM 1,000 each, and *these donations were reported to Election Commission*). Cash donations were kept in petty cash (it was never deposited on bank account). *SDS Teslić should maintain accurate documents for vehicles of high value. A further check on the car's origin and previous ownership may be warranted. Even though there is a petty cash payment for import/customs duties, the actual import/customs forms could not be found when we asked for them.*
- During 2003, SDS Teslić collected KM 3,320 in membership fees & donations. (Almost all other SDS Offices said they did not collect membership fees, or that their members were too poor to pay fees). SDS Teslić did not report this on the Election Commission forms because they interpreted that only donations or membership fees higher than KM 100 should be reported. They claim to have no list of members, or the members that paid membership fees. *Individuals who donate small amounts are not required to be reported, but the total of all membership and donations of any amounts IS to be reported to the Election Commission.*
- SDS Teslić uses a prefabricated building that the Municipality awarded to them free of charge. This is based on the Decision of the Executive Board of Teslić Municipality dated 31st October 1997. In this document, the building and the land are given to SDS to use for unspecified length of time. *The cash value of this free*

rent and any utilities provided by the Municipality should be reported as a donation.

- Teslić SDS founded one trading company in the late 1990's but they claim it doesn't operate anymore. *This may warrant further investigation.*

SDS Foča

SDS Municip FOCA Total Revenue: KM 47,338 From City Budget KM 46,350 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 00 Company Donations KM 00
Membership KM 988

- In January 2003, SDS paid KM 100 for the car registration, although we were told by SDS staff that they do not have any cars registered to SDS. *Verification of the asset list should be undertaken as all assets should be included in the property list submitted to the Election Commission.*
- SDS in Foča uses offices owned by the Municipality, and only pays phone bills. *The cash value of free rent and utilities should be reported as a donation.*

SDS Novo Sarajevo

SDS Municip TREBINJE Total Revenue: KM 25,742 From City Budget KM 21,704 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 00 Company Donations KM 00
Income from property KM 4,038

- On 7th May 2004 total debt for electricity was KM 456.88 as Elektrodistribucija Pale sent them warning letter saying that SDS Sarajevo will be disconnected if they do not pay the bill until 13th April 2004. *No evidence that the bill has been paid was provided.*

SDS Srpska Ilidža

SDS Municip S. ILIDZA Total Revenue: KM 15,714 From City Budget KM 15,204 From RS Budget KM 00
(1 Jan 03 to 31 Mar 04) Individual Donations KM 00 Company Donations KM 00
Membership KM 510

- SDS Ilidža uses the offices of the construction company AD Budućnost. They use these offices free of charge for several years. *The cash value of free rent and utilities should be reported as a donation.*
- The only utility that's being invoiced to SDS Srpska Ilidža is phone. *Any free electricity should be reported as a donation and the basis and legality of any such donation be reviewed.*

