



Accounting and Information
Management Division

B-274434

September 18, 1996

The Honorable William F. Clinger, Jr.
Chairman, Committee on Government
Reform and Oversight
House of Representatives

Dear Mr. Chairman:

In May 1994 and January 1996, we reported to the Congress on issues related to the White House Travel Office.¹ We identified and used 29 specific criteria to evaluate the financial management of the Travel Office in these reports. In the May 1994 report, we stated that as of April 1994, the Travel Office had developed policies and implemented procedures consistent with 20 of the criteria and had begun, or agreed to take, action on the remaining 9. In January 1996, we reported that as of August 1995, the Travel Office had developed policies and implemented procedures consistent with 26 of the 29 criteria.

In February 1996, you requested additional information on Travel Office financial management practices during certain periods of time in 1993. Specifically, you requested that we

- summarize, as of July 2, 1993, the Travel Office's compliance with the 29 financial management criteria and
- determine whether the Travel Office could produce financial statements for the period May 20, 1993, through December 31, 1993, that could be audited.

As shown in table 1 on page 3, we found that as of July 2, 1993, the Travel Office had implemented procedures that addressed 8 of the 29 criteria and had not implemented procedures for 15 of the criteria. We could not determine the implementation status for the remaining 6 criteria.

¹White House: Travel Office Operations (GAO/GGD-94-132, May 2, 1994) and White House Travel (GAO/AIMD-96-19R, January 23, 1996).

On August 27, 1996, the White House commented on a draft of this letter. The White House did not disagree with any of our factual findings. However, it disagreed with how we summarized our findings for 13 of the 29 financial management criteria. In particular, for 12 criteria for which we said "procedures not implemented" or "cannot determine," the White House asked that we say "planned (draft policies in circulation)" or "planned (system purchased and in process of implementation)."

We could not determine the implementation status for several of the financial management criteria or independently evaluate White House plans or the status of implementation of those plans as of July 1993, principally because of the elapsed time between July 1993 and the time of our work in 1996. For our previous reports on Travel Office operations, we were able to conduct our audit work during or immediately after the period under review. This permitted us to observe, discuss, and review plans with key White House officials and to fairly gauge timetables for implementation of new procedures. In response to the White House's comments, we have incorporated our April 1994 assessment of the status of implementation of the financial management criteria into table 1.

The Travel Office prepared financial statements for the period May 20, 1993, through December 31, 1993. It obtained the amounts shown on these statements from summary schedules prepared from files for trips occurring during the period and from calculations using information on those schedules. The trip files contained documents and records for travel-related costs incurred during press trips. As agreed with your staff, we did not audit the financial statements.

SCOPE AND METHODOLOGY

In examining the status of the Travel Office's use of the 29 financial management criteria, we

- reviewed documentation of Travel Office policies and procedures;
- reviewed all records and documents contained in individual files for each of the 11 trips that occurred from May 20, 1993, through July 2, 1993; and
- interviewed White House officials and Travel Office staff.

For our May 1994 report, we developed and used a framework of 29 financial management and procurement practices for evaluating Travel Office press travel operations.² White House officials agreed that this framework was prudent and

²Page 24 and Appendix I of our May 1994 report provided a detailed discussion of the 29 criteria and our methodology in developing them.

reasonable. We used these same 29 criteria in evaluating Travel Office financial management activities during the period from May 20, 1993, through July 2, 1993. Our evaluations and conclusions were largely based on the review of documentation contained in the files that the Travel Office prepared for each presidential and vice presidential trip that occurred during this time frame.

Because of the elapsed time between the trips and the start of our work, we were unable to observe actual procedures followed by Travel Office staff on a daily basis in obtaining, maintaining, and recording documentation supporting trip costs and reimbursements by press travelers. As a result, we could not determine the implementation status for several of the criteria or independently evaluate White House plans or the status of implementation of those plans as of July 1993.

Regarding the preparation of financial statements for the period May 20, 1993, through December 31, 1993, we reviewed Travel Office-prepared financial statements and related notes; determined the method used to collect, summarize, and report on the accounting transactions reflected in the financial statements; and reviewed the documentation maintained in trip files to support the transactions recorded in the accounting system.

We conducted our review from March 16, 1996, through June 19, 1996, in accordance with generally accepted government auditing standards. We requested comments from the White House on a draft of this letter. The Assistant to the President for Management and Administration provided us with written comments, which are included as an enclosure to this letter.

TWENTY-NINE FINANCIAL MANAGEMENT CRITERIA

Table 1 summarizes our assessment of the Travel Office actions on each of the 29 financial management criteria as of July 2, 1993, and April 1994.

Table 1: Status of Financial Management Criteria Implementation

<i>Financial management criteria</i>	<i>GAO assessment- July 1993</i>	<i>GAO assessment- April 1994^a</i>
Written policies and procedures should be clearly described and communicated.	Cannot determine	Revised and expanded (May 1994)

<i>Financial management criteria</i>	<i>GAO assessment- July 1993</i>	<i>GAO assessment- April 1994^a</i>
Duties should be appropriately segregated and responsibilities and lines of authority should be clearly communicated.	Procedures implemented	Revised and expanded (May 1994)
Audits should be periodically conducted.	Procedures not implemented	Planned (December 1994)
Oversight and guidance should be provided by upper-level management and other interested parties to foster effective management.	Procedures implemented	Procedures in place ^b
Goods and services that satisfy customers' needs should be determined.	Procedures not implemented	Procedures in place ^b
Goods and services should be acquired in a manner that obtains good value and uses competition when appropriate.	Procedures implemented	Procedures in place
Written contracts should be obtained showing prices, terms, and quantities.	Procedures implemented	Procedures in place
The system should identify and record all costs associated with a function.	Procedures not implemented	Procedures in place ^b
The system should determine which costs should be recovered.	Procedures implemented	Procedures in place ^b
The system should provide accurate data for billing customers.	Procedures not implemented	Procedures in place ^b
Billings should be prepared and mailed within a cost-effective time period after service has been rendered.	Procedures not implemented	Backlog eliminated (May 1994)

<i>Financial management criteria</i>	<i>GAO assessment- July 1993</i>	<i>GAO assessment- April 1994^a</i>
The date payment is due should be on the billing document and should not be more than 30 days later than the date of the billing document.	Procedures implemented	Procedures in place ^b
The system should maintain a history of billings and receipts.	Procedures not implemented	Procedures in place
The system should apply receipts to the appropriate outstanding bill or bills.	Cannot determine	Procedures in place
The system should track and report the length of time that money owed has not been paid and produce collection letters for overdue accounts.	Procedures not implemented	Procedures in place ^b
Vouchers and supporting documentation should be reviewed and approved.	Procedures implemented	Procedures in place
Procedures, such as matching original invoices to authorizing and receiving documents or reviewing previous payments made to vendors, should be established to prevent duplicate payments.	Cannot determine	Procedures in place ^b
Payments to vendors should be made on time and cash discounts taken when appropriate.	Procedures not implemented	Backlog eliminated (June 1994) ^b
Receipts should be deposited on the day they are received or, if they are received too late, on the next business day.	Cannot determine	Procedures in place ^b

<i>Financial management criteria</i>	<i>GAO assessment- July 1993</i>	<i>GAO assessment- April 1994^a</i>
Receipts of relatively small amounts should be accumulated and deposited at least once a week.	Procedures implemented	Procedures in place ^b
Adequate internal controls should be in place to ensure the security of all undeposited funds by restricting access to the funds and keeping them locked in a safe.	Cannot determine	Procedures in place ^b
Bank reconciliations should be performed periodically to ensure that the cash balance according to the accounting records equals the cash balance according to the bank's records and identify any discrepancies for prompt resolution.	Cannot determine	Procedures in place ^b
All transactions should be identified and accurately recorded in an accounting system that can disclose these transactions in financial reports.	Procedures not implemented	Procedures in place
A general ledger should be used to capture, classify, summarize, and report current and cumulative financial data.	Procedures not implemented	Procedures in place
The general ledger should be supported by subsidiary ledgers that provide detailed information and these subsidiary ledgers should be periodically reconciled with the general ledger.	Procedures not implemented	Procedures in place

<i>Financial management criteria</i>	<i>GAO assessment- July 1993</i>	<i>GAO assessment- April 1994^a</i>
The system should provide financial information in a timely and useful manner that supports management's fiduciary role, program delivery, and decision-making.	Procedures not implemented	Planned (July 1994)
A Report on Financial Position as of a certain date should be prepared.	Procedures not implemented	Planned (July 1994)
A Report on Operations, including revenues and expenses for a specific period, should be prepared.	Procedures not implemented	Planned (July 1994)
A Report on Cash Flow that depicts the sources and uses of cash during a reporting period should be prepared.	Procedures not implemented	Planned (July 1994)

^aSee pages 43 and 44, White House: Travel Office Operations (GAO/GGD-94-132, May 2, 1994).

^bThe Travel Office's operating procedures varied from the procedures described in the Office's Accounting Procedures Handbook.

As of July 2, 1993, the Travel Office had implemented procedures that addressed 8 of the 29 financial management criteria. In May 1994, we reported that as of April 1994, the Travel Office had developed policies and implemented procedures consistent with 20 of the criteria and had begun, or agreed to take, action on the remaining 9. A review of the files for the 11 trips that occurred from May 20, 1993, through July 2, 1993, showed, among other things, adequate segregation of duties, competitive bids for air travel, and appropriate review and approval of bills received from vendors prior to payment. For example, on one trip, the Travel Office solicited bids from six air charter companies. It selected a bidder based on factors including the types of plane used, seating available, and meals provided. The trip file contained a signed written agreement between the Travel Office and this company.

As of July 2, 1993, the Travel Office had not implemented procedures related to 15 of the financial management criteria. For example, it did not have an adequate system for accurately recording and disclosing financial transactions, did not maintain subsidiary ledgers to provide detail on individual traveler or traveler organization billing records, and did not require financial statements or annual audits of those statements. In another area, we found that while the Travel Office had determined the costs that typically should be recovered from the press, those costs were not consistently identified and recorded in the individual trip files.

Our May 1994 report discussed a number of steps the Travel Office took to strengthen its financial operations. One of these was the acquisition of an off-the-shelf accounting system on the recommendation of the Office of Management and Budget.

A second step taken was utilizing two detailees from the Department of Housing and Urban Development to (1) review all files for trips occurring after May 19, 1993, and ensure that they contained documents supporting all trip-related expenses incurred, (2) reconcile the cash balance as contained in the accounting system with the bank statement and other cash records, and (3) assist the Travel Office in preparing for the planned audit of the Travel Office's 1994 financial statements. That audit was conducted by an independent public accounting firm and the firm issued an unqualified opinion on the 1994 statements on April 24, 1995.

For the remaining 6 criteria, we were unable to determine the status of the Travel Office's compliance. For these criteria, observation of personnel actions in processing, approving, and recording specific transactions or activities was critical to our evaluating whether procedures were in place and operating. Because the activities we examined generally occurred in 1993, we could not conduct the necessary observations. For example, although it appeared that White House officials were drafting written policies and procedures to guide the Travel Office's operations, we could not determine when these policies and procedures were finalized and communicated to the Travel Office staff. Also, based on a review of cash records, we determined that cash deposits were generally made weekly, but we could not determine when the amounts deposited were received and processed by the Travel Office staff since the Travel Office did not implement a cash receipts journal until December 1993.

FINANCIAL STATEMENTS FOR MAY 20, 1993,
THROUGH DECEMBER 31, 1993

Prior to December 31, 1993, the Travel Office did not prepare financial statements showing its financial position, results of operations, and cash flows. Subsequent to the receipt of your request for this review and at our request, the Travel Office prepared financial statements for the period from May 20, 1993, through December 31, 1993.

An accounting system should contain policies and procedures for identifying, recording, summarizing, and reporting an organization's financial transactions at any point in time. Normally a system is automated; that is, after initial data input, computer software sorts and summarizes the financial transactions and prepares the financial statements. Automated systems process financial information more efficiently and effectively than would be possible in a manual or nonautomated system. This reduces the opportunity for errors by essentially eliminating the need for accounting personnel to sort and summarize the accounting information.

While the Travel Office was in the process of implementing an automated system during 1993, this system was not capable of generating financial statements at December 31, 1993. The Travel Office developed the balances shown on its December 31, 1993, financial statements in two ways. First, the Travel Office computed revenue and expense balances by reviewing the 1993 trip files and summarizing the documents that pertained to revenue (that is, amounts billed to the press who participated on the trip) and expense (that is, vendor invoices, etc.) activities. Then it summarized the expense information by type of expense incurred (that is, air and ground transportation, hotel rooms, telephone charges, etc.).

Second, using the revenue, expense, and cash receipts and disbursements information developed based on a review of trip files, the Travel Office staff calculated accounts receivable and accounts payable balances as follows. They determined accounts receivable by subtracting cash receipts from total revenues for the period. Accounts payable was determined by subtracting cash disbursements from total expenses. The accuracy of these balances was dependent upon the completeness of the trip files and accuracy of the revenue, expense, and cash information contained therein.

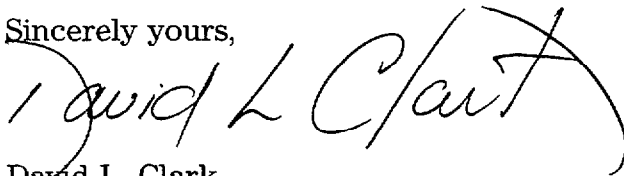
As a result of the Travel Office's efforts, the trip files we examined contained detailed documentation pertaining to the December 31, 1993, financial statement balances for revenues, expenses, cash, and (indirectly) accounts receivable and

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accounts payable. For example, each of the 11 trip files contained invoices for airline and telephone charges, when appropriate. These were the two largest charges typically incurred on a trip. Generally, the files also contained invoices from caterers, bus contract information, and manifests showing the press members traveling on the charter planes and on Air Force One. In addition, the Travel Office kept all bank statements and related reconciliations.

If you or your staff have any questions about our work, I can be reached on (202) 512-9489.

Sincerely yours,

A handwritten signature in black ink that reads "David L. Clark". The signature is written in a cursive style with a large, sweeping flourish at the end.

David L. Clark
Director, Audit Oversight and Liaison

COMMENTS FROM THE WHITE HOUSE

Note: GAO comments supplementing those in the letter appear at the end of the enclosure.

THE WHITE HOUSE
WASHINGTON
August 27, 1996

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information
Management Division
General Accounting Office
Washington, DC 20548

Dear Mr. Dodaro:

We have reviewed the draft of GAO's proposed letter on the White House Travel Office, relating to the state of the Travel Office as of July 2, 1993.

We do not disagree with any of the factual findings in the letter. Indeed, the report confirms that the Travel Office had undertaken significant steps toward imposing adequate managerial and financial controls, within just six weeks of the staff change of May 19, 1993.

See comment 1.

We do, however, disagree with the manner in which GAO has chosen to summarize its findings in the chart relating to the 29 criteria. This is the fourth chart that the GAO has published on the status of the Travel Office at various points in time. The first chart was as of mid-May 1993, prior to the staff change; the second chart as of April 1994; the third chart as of August 1995; and this fourth chart as of July 1993.

In its prior charts, GAO stated for each criterion: "procedures implemented"; "procedures not implemented"; "cannot be determined"; or, where procedures had not been fully implemented, "some procedures in place" or "planned." But in this fourth chart, GAO has chosen to eliminate the middle categories. Instead, GAO has treated instances where procedures were partly in place, or were planned, as "procedures not implemented," or "could not be determined."

We ask simply that GAO use the same descriptors in this fourth chart that it has in the earlier charts. Where the Travel Office had some procedures in place -- or where such procedures were planned -- we ask that the report so indicate.

Based on the facts that you have found and disclosed elsewhere in your draft report, we believe that such a revised chart would look like the enclosed chart.

COMMENTS FROM THE WHITE HOUSE

COMMENTS FROM THE WHITE HOUSE (CONT.)

This revised chart -- giving credit to the Travel Office for partial steps and procedures planned but not implemented -- paints a more accurate picture of the Travel Office's progress in just six weeks after the management changes of May 19, 1993:

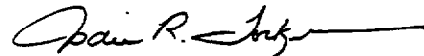
Of the 29 criteria

- 10 were fully or partially implemented;
- 12 were planned and in progress;
- 4 were not implemented; and
- 4 could not be determined.

In addition to revising the chart, we request that you revise the report language to reflect these revised numbers on pages 2 and 8-10.

Thank you for your assistance in this matter.

Sincerely,



Jodie R. Torkelson
Assistant to the President for
Management and Administration

encl.

COMMENTS FROM THE WHITE HOUSE (CONT.)

COMMENTS FROM THE WHITE HOUSE (CONT.)

Revised Chart of 29 Financial Management Criteria				
	<i>Financial Management Criteria</i>	<i>July 1993 GAO Draft Report</i>	<i>July 1993 Suggested Revision</i>	
	1	Written policies and procedures should be clearly described and communicated.	Cannot determine	Planned (draft policies in circulation)
	2	Duties should be appropriately segregated and responsibilities and lines of authority should be clearly communicated.	Procedures implemented	Procedures implemented
	3	Audits should be periodically conducted.	Procedures not implemented	Procedures not implemented
	4	Oversight and guidance should be provided by upper-level management and other interested parties to foster effective management.	Procedures implemented	Procedures implemented
	5	Goods and services that satisfy customers' needs should be determined.	Procedures not implemented	Procedures not implemented
	6	Goods and services should be acquired in a manner that obtains good value and uses competition when appropriate.	Procedures implemented	Procedures implemented
	7	Written contracts should be obtained showing prices, terms, and quantities.	Procedures implemented	Procedures implemented
See comment 2.	8	The system should identify and record all costs associated with a function.	Procedures not implemented	Some procedures in place
	9	The system should determine which costs should be recovered.	Procedures implemented	Procedures implemented
	10	The system should provide accurate data for billing customers	Procedures not implemented	Planned (system purchased and in process of implementation)
	11	Billings should be prepared and mailed within a cost-effective time period after service has been rendered.	Procedures not implemented	Procedures not implemented

COMMENTS FROM THE WHITE HOUSE (CONT.)

COMMENTS FROM THE WHITE HOUSE (CONT.)

	<i>Financial Management Criteria</i>	<i>July 1993 GAO Draft Report</i>	<i>July 1993 Suggested Revision</i>
12	The date payment is due should be on the billing document and should not be more than 30 days later than the date of the billing document.	Procedures implemented	Procedures implemented
13	The system should maintain a history of billings of receipts.	Procedures not implemented	Planned (system purchased and in process of implementation)
14	The system should apply receipts to the appropriate outstanding bill or bills.	Cannot determine	Planned (system purchased and in process of implementation)
15	The system should track and report the length of time that money owed has not been paid and produce collection letters for overdue accounts.	Procedures not implemented	Planned (system purchased and in process of implementation)
16	Vouchers and supporting documentation should be reviewed and approved.	Procedures implemented	Procedures implemented
17	Procedures, such as matching original invoices to authorizing and receiving documents or reviewing previous payments made to vendors, should be established to prevent duplicate payments.	Cannot determine	Cannot determine
18	Payments to vendors should be made on time and cash discounts taken when appropriate.	Procedures not implemented	Procedures not implemented
19	Receipts should be deposited on the day they are received, or if they are received too late, on the next business day.	Cannot determine	Cannot determine
20	Receipts of relatively small amounts should be accumulated and deposited at least once a week.	Procedures implemented	Procedures implemented

COMMENTS FROM THE WHITE HOUSE (CONT.)

COMMENTS FROM THE WHITE HOUSE (CONT.)

	<i>Financial Management Criteria</i>	<i>July 1993 GAO Draft Report</i>	<i>July 1993 Suggested Revision</i>
21	Adequate internal controls should be in place to ensure the security of all undeposited funds by restricting access to the funds and keeping them locked in a safe.	Cannot determine	Cannot determine
22	Bank reconciliations should be performed periodically to ensure that the cash balance according to the accounting records equals the cash balance according to the bank's records and identify any discrepancies for prompt resolution.	Cannot determine	Cannot determine
23	All transactions should be identified and accurately recorded in an accounting system that can disclose these transactions in financial reports.	Procedures not implemented	Planned (system purchased and in process of implementation)
24	A general ledger should be used to capture, classify, summarize, and report current and cumulative financial data.	Procedures not implemented	Planned (system purchased and in process of implementation)
25	The general ledger should be supported by subsidiary ledgers that provide detailed information and these subsidiary ledgers should be periodically reconciled with the general ledger.	Procedures not implemented	Planned (system purchased and in process of implementation)
26	The system should provide financial information in a timely and useful manner that supports management's fiduciary role, program delivery, and decision-making.	Procedures not implemented	Planned (system purchased and in process of implementation)
27	A Report on Financial Position as of a certain date should be prepared.	Procedures not implemented	Planned (system purchased and in process of implementation)

COMMENTS FROM THE WHITE HOUSE (CONT.)

COMMENTS FROM THE WHITE HOUSE (CONT.)

	<i>Financial Management Criteria</i>	<i>July 1993 GAO Draft Report</i>	<i>July 1993 Suggested Revision</i>
28	A Report on Operations, including revenues and expenses for a specific period, should be prepared.	Procedures not implemented	Planned (system purchased and in process of implementation)
29	A Report on Cash Flow that depicts the sources and uses of cash during a reporting period should be prepared.	Procedures not implemented	Planned (system purchased and in process of implementation)

COMMENTS FROM THE WHITE HOUSE

ENCLOSURE

ENCLOSURE

The following are GAO's comments on the White House's letter dated August 27, 1996.

GAO COMMENTS

1. Discussed on page 2 in letter.
2. We do not disagree that some procedures were in place, but they were not adequate to ensure that all costs were identified and recorded.

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