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United States Government Accountability Office
Washington, DC 20548

July 23, 2010

The Honorable Max Cleland, Secretary
American Battle Monuments Commission
Courthouse Plaza II, Suite 500
2300 Clarendon Boulevard
Arlington, VA 22201

Subject: *Management Report: Improvements Needed in American Battle
Monuments Commission's Internal Controls and Accounting Procedures*

Dear Mr. Secretary:

On March 1, 2010, we issued our report expressing our opinion on the American Battle Monuments Commission's (the Commission) fiscal years 2009 and 2008 financial statements and our opinion on the Commission's internal control as of September 30, 2009.¹ We also reported on the results of our tests of the Commission's compliance with selected provisions of laws and regulations during fiscal year 2009. We reported that although certain internal controls should be improved, the Commission maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009. However, we also reported on a significant deficiency² in the Commission's governance structure related to vacant Commissioner positions and one instance of noncompliance with the Antideficiency Act related to a Commission contract with a commercial employment services firm to provide temporary employees.

During our fiscal year 2009 audit, we also identified other internal control deficiencies³ that, while not material, individually or in the aggregate, to the Commission's financial statements, nevertheless warrant management's attention. The purpose of this report is to present these deficiencies, provide additional detailed information on the significant deficiency and compliance issue identified in our fiscal year 2009 audit report, provide recommendations to address these matters, and provide an update on the status of our prior year recommendations. Because of the sensitive nature of the issues, we are providing detailed information regarding our findings and recommendations on the Commission's information systems security in a separate Limited Official Use Only report.

¹ GAO, *Financial Audit: American Battle Monuments Commission's Financial Statements for Fiscal Years 2009 and 2008*, GAO-10-399 (Washington, D.C.: Mar. 1, 2010).

² A significant deficiency in internal control is less severe than a material weakness, yet is important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

³ A control deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

RESULTS IN BRIEF

During our fiscal year 2009 financial statement audit, we identified a total of 18 control deficiencies in the Commission's internal controls and accounting procedures at Commission headquarters, its European Regional (ER) and Mediterranean Regional (MR) Offices, and at the Manila American Cemetery.

At the Commission's headquarters, we identified the following internal control and accounting procedure deficiencies:

1. No written delegation of governance authority from Commissioners.
2. Inadequate controls to prevent Antideficiency Act violations.
3. Internal control reviews were completed, but were not fully validated.
4. Procurements did not follow required procedures.
5. Not all trust fund receipts were reported in the trial balance.
6. No support for calculating and reporting of full-time equivalent employees.
7. Documentation of personnel actions was not current.
8. Guidelines for donated services were not followed.
9. Engineering project lists had inaccuracies.

At the Commission's ER Office, we identified the following internal control and accounting procedure deficiencies:

1. Imprest cash counts were not timely and reports had inaccuracies.
2. Miscellaneous receipt activity was not included in budgetary accounts.
3. Not all expenditure transactions were adequately documented.
4. Not all payroll transactions were properly processed.
5. Funds were commingled in the Commission's *Aged Vendor Liability Report*.
6. Not all year-end liabilities were identified for accrual.
7. Undelivered orders report was not reconciled with the general ledger.

At the Commission's MR Office, we identified a control deficiency concerning the calculation of holiday pay and the processing of current pay authorizations. At the Commission's Manila American Cemetery, we identified a control deficiency regarding the lack of support for certain expenditure transactions.

To assist Commission management in addressing these findings, this report contains 45 detailed recommendations. In its July 15, 2010, letter, the Commission agreed with the issues raised in our draft report. (See enclosure II).

As a result of our fiscal years 2005 through 2008 financial statement audits, we have provided the Commission's worldwide locations with 60 recommendations to improve its internal control and accounting procedures. As summarized in table 1, through January 31, 2010, the Commission had implemented 43, or about 72 percent, of our recommendations related to our prior years' findings on internal control and accounting procedures issues.

Table 1: Status of Fiscal Years 2005 through 2008 Internal Control and Accounting Procedure Recommendations

Fiscal year ended September 30	Total number of recommendations	Number of closed recommendations	Number of open recommendations
2005	14	12	2
2006	15	13	2
2007	5	4	1
2008	26	14	12
Total	60	43	17

Source: GAO analysis as of January 31, 2010.

The Commission had actions under way to address the remaining 17 recommendations. The Commission was provided a draft of this report for comment, and its response is reprinted in its entirety in enclosure II.

SCOPE AND METHODOLOGY

As part of our fiscal year 2009 financial statement audit of the Commission, we determined whether the Commission maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009. We also tested compliance with selected provisions of laws and regulations that had a direct and material effect on the financial statements. In conducting the audit, we reviewed applicable Commission policies and procedures, assessed controls over the recording and processing of transactions, examined relevant documents and records, and interviewed management and staff. We also tested internal control over financial reporting. We did not evaluate all internal controls relevant to operating objectives, such as controls relevant to ensuring efficient operations. We limited our internal control testing to those controls over financial reporting. We performed our audit of the Commission's fiscal year 2009 financial statements in accordance with U.S. generally accepted government auditing standards. We believe that our audit provided a reasonable basis for our conclusions in this report. Further details on our fiscal year 2009 Commission financial statement audit methodology are presented in enclosure I.

FINDINGS AT COMMISSION HEADQUARTERS

During our fiscal year 2009 audit, we identified nine control deficiencies related to accounting procedures at the Commission's headquarters in Arlington, Virginia. After the discussion of each of our findings, we present related recommendations for corrective action.

1. No written delegation of governance authority from Commissioners.

In our fiscal year 2009 audit report, we disclosed a significant deficiency in the Commission's governance structure. While all Commissioner positions were vacant through the last 8 months of fiscal year 2009, there was no evidence that the

Commissioners delegated their governance authority and responsibilities to other Commission officials before their resignations. The Commissioners are charged with the execution of the Commission's mission, but may delegate any of its authorities to the Commission Chairman, the Secretary, or other Commission officials. Consistent with U.S. generally accepted government auditing standards, the Commissioners, the Secretary, and other designated officials collectively function as the Commission's governance structure.

On or about January 20, 2009, all 11 Commissioners and the Secretary resigned. Although the President of the United States appointed a new Commission Secretary on June 3, 2009, no Commissioner appointments were made through February 17, 2010, our audit completion date. Therefore, Commissioners were not available to provide high-level strategic oversight of Commission internal control over operations and financial reporting for over a year. While Commissioner appointments are dependent upon Presidential actions, written delegation of authority and assignment of responsibilities to the Secretary or other designated officials should have been made. However, the Commission did not formally delegate authority and responsibility before the Commissioners resigned.

Recommendation:

We recommend that the Secretary of the Commission take action to:

1. Obtain written delegation of authority and assignment of responsibilities to the Secretary or other designated officials when Commissioners are appointed.

2. Inadequate controls to prevent Antideficiency Act violations.

During our fiscal year 2009 audit, we identified an Antideficiency Act violation during our tests of the Commission's compliance with selected provisions of laws and regulations. Specifically, we determined that a Commission contract with a commercial employment services firm to provide temporary employees to the Commission violated the Antideficiency Act because it contained an open-ended hold-harmless clause that subjected the Commission to potentially unlimited liability.⁴ While the contractor terminated the contract before September 30, 2009, Commission officials agreed with our conclusion that the hold-harmless clause was an Antideficiency Act violation. However, because the Commission was not aware that a hold-harmless clause was a violation of the act, it had no written policies or procedures to prevent contracts from containing such clauses. Additionally, because our testing of contracts during the audit was limited, the Commission may have other contracts that contain hold-harmless clauses.

⁴ The Antideficiency Act prohibits officers and employees of the U.S. government from obligating or spending in advance or in excess of appropriations. 31 U.S.C. §1341(a). The U.S. Supreme Court and the Comptroller General have held that open-ended indemnification agreements violate this prohibition in the absence of specific statutory authority. *See Hercules, Inc. v. United States*, 516 U.S. 417, 427-28 (1996); B-242146, August 16, 1991.

In accordance with the act, once a violation is identified, the Commission is to take various steps to resolve the violation, depending on its nature, including contract modification, deobligation, or adjustment of budget authority. An executive agency that violates the act must provide a report of the violation with relevant facts, circumstances, and actions taken by the entity, to the Congress and the President of the United States, with a copy to the Comptroller General, following the guidance issued by the Office of Management and Budget (OMB). Commission officials stated that they were unfamiliar with the investigation and reporting process, but would research and report the violation in accordance with prescribed guidance. In mid-September 2009, we advised the Commission of this potential violation, however, through February 17, 2010, our date of audit completion, the Commission had not reported the Antideficiency Act violation.

Recommendations

We recommend that the Director of Personnel and Administration responsible for procurement at Commission headquarters take action to:

2. Follow the guidance issued by the Office of Management and Budget to timely resolve and report the Antideficiency Act violation regarding the contract containing a hold-harmless clause to the Congress and the President of the United States, with a copy to the Comptroller General.
3. Modify written contracting policy and procedures to identify and evaluate hold-harmless clauses in all future contracts for compliance with the Antideficiency Act.
4. Conduct a review of existing contracts to identify any hold-harmless clauses and take necessary actions to resolve any that may violate the Antideficiency Act.

3. Internal control reviews were completed, but not fully validated.

During our fiscal year 2009 audit, we found that results of reviews monitoring the Commission's effectiveness of internal controls over financial reporting were completed, but were not fully validated by Commission management. In June 2009, the Commission contracted with a firm to provide a baseline internal control and risk assessment to determine if the Commission's internal mechanisms and business processes were designed and functioning in accordance with federal guidelines and best practices. This included compliance with internal control review and report requirements of 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA), and OMB Circular No. A-123, *Management's Responsibility for Internal Control* (revised December 21, 2004). Additionally, beginning in fiscal year 2009, the Commission was to provide a report on the effectiveness of its internal control over financial reporting that is included in the annual audit report of its financial statements.⁵ Specifically, through February 17, 2010, the date of our audit completion, we found the following:

⁵ American Institute of Certified Public Accountants, Codification of Statements on Auditing Standards, AT Section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, (January 2009).

- The contractor prepared a draft of an *Internal Control Handbook* for the Commission dated August 18, 2009, which had not been finalized and issued. This handbook documented walkthroughs as part of the assessment of internal control that provided support for management assertions in the Commission's report on internal control over financial reporting. However, 6 months later we were not provided with evidence that the handbook had been finalized and issued. The Commission's Chief Accountant stated that the handbook was still under management review as part of a Commissionwide review of policies and procedures.
- The Commission provided summarized evidence of a contractor-prepared report on an internal control risk assessment of the Commission for fiscal year 2009 dated October 27, 2009. The contractor concluded that the Commission's management control program was effective in meeting management's expectations for compliance with federal requirements. However, 5 months later Commission management had not yet validated the evidence supporting the contractor's conclusion and recommendations.
- The Commission had not finalized the documentation of its monitoring of internal controls for fiscal year 2009, which continued for over 4 months after fiscal year-end. While the Commission relied upon a contractor to perform risk assessments and internal control reviews, Commission management remains responsible for monitoring and documenting the contractor's efforts and its overall FMFIA compliance. OMB Circular No. A-123 states that management should have a clear, organized monitoring strategy with well-defined documentation processes that contain an audit trail and verifiable results.
- No definitive plan was established to continue internal control assessments after fiscal year 2009. The contractor's work for fiscal year 2009 outlined the internal control areas to be reviewed, developed a detail task plan to evaluate and test processes, conducted walk-throughs, and developed cycle memos and flowcharts. However, it did not provide for the roles and responsibilities of Commission personnel and contractors for future annual assessments., nor did the Commission have such a plan.

Recommendations:

We recommend that the Director of Finance at Commission headquarters take action to:

5. Finalize management review and issue the *Internal Control Handbook* or equivalent for use by Commission personnel.
6. Complete validation of the evidence, conclusions, and recommendations of the contractor's internal control risk assessment of the Commission for fiscal year 2009.
7. Finalize the strategy for monitoring internal controls for compliance with FMFIA to include documentation of results and an audit trail in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*.

8. Determine who will conduct future annual internal control risk assessments and evaluations and document the planned roles and responsibilities of Commission personnel and any contractors to execute the strategy for monitoring internal controls.

4. Procurements did not follow required procedures.

During our fiscal year 2009 audit, we identified several areas in the Commission's procurement process that did not follow required procedures. While we did not perform a detailed review of the Commission's contracting policies and procedures, we reviewed selected contracts and purchase orders associated with samples selected for expenditure testing. We reviewed larger contracts and also considered the results of an internal contract review performed by an outside contractor hired by the Commission to assist it with contract support. Specifically, we found the following:

- Some contract files were missing or incomplete, thus providing inadequate documentation to support expenditures.
- Three out of nine active contracts had dates that indicated funds were obligated before the contract was signed. While a budget check was made to be sure funds were available, 31 U.S.C. § 1501 requires that contracts be completed and signed before funds are obligated.
- Some contract-related transactions, such as contract modifications, were dated after the original contract had expired, which could lead to the obligation of funds from an incorrect fiscal year.
- One contractual obligation was recorded at an insufficient amount to cover projected expenditures.
- Some contract modifications contained mathematical errors that could cause expenditures to exceed recorded obligations, which presents the risk of an Antideficiency Act violation.
- One multiyear contract was funded on an annual basis, but no documentation existed to support the legal authority for this arrangement, which could reflect an Antideficiency Act violation.
- Some contractors were not registered with the Central Contractor Registration (CCR), as required by Federal Acquisition Regulation (FAR).⁶
- Some contract files did not contain evidence of competition, which may violate the Competition in Contracting Act of 1984 [Pub. L. No. 98-369, 98 Stat. 494, 1175 (July 18, 1984)], and the FAR if certain conditions are not met.

⁶ The CCR database is the primary repository for contractor information required for the conduct of business with the federal government. CCR collects, validates, stores and disseminates data in support of agency acquisition missions. Both current and potential federal government registrants are required to register in CCR in order to be awarded contracts by the federal government. According to the FAR 4.11, prospective vendors must be registered in CCR prior to the award of a contract; basic agreement, basic ordering agreement, or blanket purchase agreement. The FAR is the principal set of rules in place to govern the acquisition process of federal government agencies.

We identified several factors which contributed to these control deficiencies as follows:

- Procurement at Commission headquarters was assigned as an additional duty of the Personnel and Administration Department, which resulted in a lack of focus on procurement activities.
- While the Commission has established procurement policies and procedures, they were not always followed.
- Procurement activities initiated by the regional offices may be handled exclusively by the regional office or forwarded to Commission headquarters for review and approval by the Engineering and Maintenance Director or the Executive Secretary. As a result, procurement procedures, training, and reviews were inconsistent and inadequate to prevent and/or detect errors, or to ensure full compliance with applicable procurement laws and regulations. The Commission is authorized to procure certain goods and services notwithstanding government-wide procurement laws and regulations, but it is required to comply with such laws and regulations for all contracts executed within the United States. For contracts outside the United States, Commission officials stated that they try to comply with the principles underlying these legal restrictions where possible, obtaining several bids for contracts whenever practical.
- The Commission lacked coordination between procurement personnel who create the obligation and finance personnel who record the obligation.

These deficiencies may further weaken the control environment after September 30, 2009, because of subsequent turnover of headquarters procurement and finance staff and a lack of procurement training for new procurement personnel.

Recommendations:

We recommend that the Director of Personnel and Administration at Commission headquarters follow established policies and procedures in taking action to:

9. Conduct a review of contracts and purchase orders outstanding for completeness, accuracy, and proper dates.
10. Verify that contracts are completed and signed before funds are obligated.
11. Coordinate procurement activity with finance personnel to ensure accurate and compliant obligation of funding of procurements, including proper application of multiyear contract terms.
12. Document compliance with requirements for Central Contractor Registration and competition or authorized exceptions.
13. Provide training to personnel assigned to perform procurement activities.

5. Not all trust fund receipts were reported in the trial balance.

During our fiscal year 2009 audit, we found that some of the trust fund receipts from third parties for private memorial repair and maintenance entered by the Commission in its accounting system were not reported in the trial balance generated by the system. *Standards for Internal Control in the Federal Government*⁷ states that transactions should be completely and accurately recorded. When journal entries are made into an accounting system, the effect of the entries should be reflected in related accounts throughout the financial management system, including accounts that provide detailed transaction information, and particularly in the trial balance that summarizes activity for the fiscal year. Further, the *Treasury Financial Manual* and Commission accounting procedures require that cash balances be reconciled with supporting transactions monthly.

We found that the Commission's detailed listings of trust fund receipts by program code included about \$7,400 in collections that were not reported on its trial balance in its trust fund receipts account. As a result, trust fund receipts and cash balances were underreported by about \$7,400. While this amount was not material to the financial statements, it raises concerns about the completeness and accuracy of reporting from the accounting system. Additionally, because trust funds come from the public and originate outside the budgetary control process, they are more susceptible to theft or loss if not properly controlled. As a result, our audit procedures included reconciliations of detail transactions to balance sheet accounts, a proof of cash, and other substantive testing to provide assurance that trust fund accounts were complete and materially accurate.

The Commission's Chief Accountant told us that the \$7,400 difference was caused by a long-standing problem in the accounting system. Transactions entered into detail accounts do not always post into the general ledger because the system occasionally does not recognize the posting code to process the transaction. This causes an imbalance in the accounts. Such an imbalance can be fixed by a data repair to the general ledger for specific transaction postings. While the Commission has ongoing efforts to develop a new financial management system, it is still responsible for ensuring the accuracy of the data in the existing system while this effort is under way.

Recommendations:

We recommend that the Director of Finance at Commission headquarters take action to:

14. Implement a specific data repair to the accounting system to correct the underreporting of fiscal year 2009 trust fund receipts.
15. Enforce existing reconciliation procedures to ensure the complete and accurate recording and reporting of trust fund receipts in the accounting system.

⁷ GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

6. No support for calculating and reporting of full-time equivalent employees.

The number of authorized full-time equivalent employees (FTE) a federal agency may pay for is part of the federal budgetary process under OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (August 2009). Federal agencies must prepare budget estimates relating to personnel requirements in terms of FTE employment and agency heads must ensure close management of budgeted FTE levels for their respective agencies. Further, monthly reporting is monitored by the Office of Personnel Management (OPM) using a Standard Form (SF) 113-A, *Report of Federal Civilian Employment*. For fiscal year 2009, the Commission was authorized 409 FTEs.

During our fiscal year 2009 audit, we identified the following deficiencies with the Commission's methodology for accounting and reporting of FTEs.

- The Commission last reported FTEs to OPM using a position method of accounting in its June 30, 2009, SF 113-A. This method uses the number of full- and part-time positions to calculate FTEs. Beginning July 1, 2009, the Commission changed its method of calculating FTEs to an hourly method whereby the actual number of hours worked was accumulated and divided by 2,087 to calculate an FTE. The Commission adopted this new method because the standard workweek for the Commission's Foreign Service National (FSN) employees varies depending upon host country agreements. For example, French FSN employees work a standard 35-hour week, Belgian FSN employees work a standard 38-hour week, and Tunisian FSN employees work a standard 44-hour week. However, the Commission had not established a written policy for its new accounting method of calculating FTEs. *Standards for Internal Control in the Federal Government* provides that administrative policies should clearly documented, properly managed, and maintained. Lacking documentation policies for FTE calculations, such calculations may be performed inconsistently, figures reported to OPM may be inaccurate, and the Commission may exceed its FTE authorization.
- OPM relies on information collected monthly in the SF 113-A to provide a timely count of governmentwide employment, payroll, and turnover data that are used by the Congress, the White House, OMB, and other federal agencies. To gather this information, OPM requires federal agencies to submit to it monthly SF 113-A reports by the 15th of the following month. However, the Commission provided no evidence that it submitted the monthly SF-113A reports to OPM after June 30, 2009, nor could the Commission provide evidence of supporting FTE calculations to document that it had not exceeded its FTE authorization. Using a Commission roster of personnel and positions of as of September 30, 2009, we verified that the Commission did not exceed its authorized ceiling of 409 FTEs based upon a position method of accounting. However, OPM cannot provide accurate data if it does not receive accurate, timely reports from all applicable agencies, including the Commission.

Recommendations:

We recommend that the Director of Human Resources at Commission headquarters take action to:

16. Issue written Commission policy and procedures regarding its accounting method for calculating full time equivalent employment.
17. Prepare and document calculations of full time equivalent employment to support the monthly SF 113-A, *Report of Federal Civilian Employment*.
18. Document the monthly submittal of SF 113-A reports to the Office of Personnel Management.

7. Documentation of personnel actions was not current.

During our fiscal year 2009 audit, we found that the Commission did not always ensure that employee personnel files were kept up to date. In testing a statistical sample of payroll transactions, we found that for 20 percent of employees' personnel files reviewed, the Commission did not have a current SF-50, *Notification of Personnel Action*. The pay rate on the SF-50 provided to us did not agree with the pay rate for the sample item we selected because it did not reflect an authorized pay increase. However, the Commission later provided additional documentation to show that the employee's pay correctly reflected the authorized pay increase. Commission personnel acknowledged that SF-50s were not always prepared on a timely basis.

According to OPM, the SF-50 is used to document official personnel actions, such as pay increases and promotions, and a copy is to be placed in each employee's official personnel file. Because the SF-50 is also used to make future employment, pay, and qualification decisions, incomplete personnel files could affect such decisions.

Recommendation:

We recommend that the Director of Human Resources at Commission headquarters take action to:

19. Follow Office of Personnel Management guidance to ensure that employee payroll data, including SF-50, *Notification of Personnel Action*, are kept current in official personnel files.

8. Guidelines for donated services were not followed.

During our fiscal year 2009 audit, we found that the Commission was not following its own guidelines for accepting, documenting, and accounting for donated services from an individual during fiscal year 2009. Specifically, we found that the Commission did not

- Document its "acceptance" of the donated services, including the scope of services to be provided.

- Assess and document that the voluntary services were not from a prohibited source.⁸
- Perform complete and proper accounting of donated funds and other in-kind gifts. Based upon information provided by the Commission, a volunteer provided 240 hours of service valued at \$240 per hour for a total donation of \$57,600.

While 31 U.S.C. § 1342 generally prohibits federal agencies from accepting voluntary services, the Commission has special legislative authority to accept such services under 36 U.S.C. § 2103(e). In accordance with this authority, the Commission established written guidance, *Guidelines for Acceptance of Funds and In-kind Donations and Gifts*, dated April 21, 2003. However, personnel were generally unaware of this guidance and had not had any experience regarding voluntary services until fiscal year 2009. *Standards for Internal Control in the Federal Government* states that all transactions should be documented and completely and accurately recorded. Because the Commission did not follow its own guidelines, it did not recognize \$57,600 in donated revenue and related service expenditures in its fiscal year 2009 financial statements. However, this amount did not materially affect the fair presentation of the statements.

Recommendations:

We recommend that the Directors of Human Resources and Finance at Commission headquarters coordinate action to:

20. Document acceptance and scope of voluntary services, including that services are from a non-prohibited source, in accordance with established Commission guidelines.
21. Document quantities and valuation of voluntary services to support journal entries into the general ledger.
22. Remind personnel of the existing Commission guidance for accepting funds and in-kind donations and gifts and, as necessary, conduct training.

9. Engineering project lists had inaccuracies.

During our review of engineering project lists conducted as part of our fiscal year 2009 audit, we noted several errors with respect to information contained on the lists. The Director of Engineering and Maintenance at Commission headquarters is responsible for engineering projects and agencywide funding. The Commission's 24 cemeteries follow a calendar year work plan that is updated on a monthly basis. Engineering projects are tracked using the Lookback List, which tracks projects completed during the fiscal year, and the Lookforward List, which tracks cost estimates of projects for the next year. Amounts from these lists are used by the Commission to report "Maintenance, Repairs, and Improvements" as unaudited Required Supplementary Information (RSI) in its annual financial statements.

⁸ Commission guidelines on prohibited sources indicate that personnel shall not knowingly solicit or accept donations from persons and entities that seek benefits or conduct activities subject to Commission oversight.

During our audit, we selected projects at the ER Office and four cemeteries to verify the accuracy of these lists as a tracking and reporting tool and identified the following errors:

- The Commission's largest project on the Lookback List, to construct two new residences and renovate the service area to support the Normandy Visitor Center, used an incorrect exchange rate as indicated by contract files. This resulted in a change to the project cost from \$2.2 million to \$3.0 million.
- At the Ardennes Cemetery, the cemetery superintendent stated that a chimney renovation project with an estimated cost of \$15,000 and a rewelding zinc roofing project with an estimated cost of \$884 had both been completed during fiscal year 2009. Therefore, these projects should have been on the Lookback List instead of the Lookforward List, with the actual cost disclosed.
- At the Netherlands Cemetery, the cemetery superintendent stated that a battle maps project with an estimated cost of \$5,000 had been completed during fiscal year 2009 at a cost of \$3,800. Therefore, this project should have been on the Lookback List, instead of the Lookforward List, with the actual cost disclosed. Additionally, a \$1,000 project to create ventilation under a roof was cancelled and should have been deleted from the Lookforward List.

Standards for Internal Control in the Federal Government provides that transactions should be accurately and timely recorded to maintain their relevance and value to management in controlling operations and making decisions.

Based upon our testing and subsequent discussions with Commission personnel, we determined that the Commission had procedures for periodic review of projects. However, the errors we identified were the result of an ineffective project review process between Commission headquarters and field operations. Although these errors did not have a significant impact on the financial statements, there may be more errors on the lists for the other 20 Commission cemeteries that we did not review. As a result, management decisions regarding budgeting for projects may be adversely impacted, and amounts in the unaudited RSI in the Commission's financial statements may be incorrectly reported.

Recommendation:

We recommend that the Director of Engineering at Commission headquarters take action to:

23. Follow established procedures for periodic review of projects to include coordination with regional offices and cemeteries in reviewing the completeness and accuracy of the Lookforward and Lookback Lists.

FINDINGS AT THE COMMISSION'S EUROPEAN REGIONAL OFFICE

During our fiscal year 2009 audit, we identified seven control deficiencies related to accounting procedures at the Commission's ER Office in Garches, France. After the discussion of each of our findings, we present related recommendations for corrective action.

1. Imprest cash counts were not timely and reports had inaccuracies.

During our fiscal year 2009 audit, we identified issues with the Commission's ER Office imprest (petty) cash counts and the reporting of imprest cash to the Department of the Treasury, Financial Management Service (FMS). Specifically:

- Although the Commission's ER Office conducted some imprest cash counts during periodic regional visits to its 17 ER cemeteries, we found that imprest cash was not being counted at least annually as required by the Commission's statement of policy on imprest funds. Of the 18 imprest cash accounts in the region, the ER Office had only counted cash for 3 of these accounts within 12 months of the previous count, with the most delinquent count taken about 9 months past its scheduled date. This condition existed because the ER Office had not yet fully implemented all procedures in the policy, which was revised in January 2008. Because cash is vulnerable to theft or loss, adequate internal controls are needed to ensure that cash is properly safeguarded.
- During our review of the Commission-prepared FMS 1219, *Statement of Accountability*, for September 2009, we found that the "Advances to Agents" line in this monthly report to Treasury was understated by about \$6,700. The FMS 1219 is used to report the accountability of funds held outside the U.S. Treasury each month. It is to include the beginning balance for the month, monthly receipts, monthly disbursements, and ending balance for the month. For the Commission, this consists of foreign currency in foreign bank accounts and on hand to pay local foreign vendors converted to U.S. dollars at a standard exchange rate. The "Advances to Agents" line of this report represents the amount of imprest cash advanced to fund custodians at the ER Office and its 17 ER cemeteries.

The *Treasury Financial Manual* provides instructions for accurately reporting amounts on the FMS 1219 from the general ledger with support by underlying documentation. However, these instructions were not followed. Our analysis indicated that the underreported amount occurred because ER Office accounting personnel did not adjust the reported amount to Treasury for (1) changes in authorized amounts at several cemeteries because of the Commission's revised imprest fund procedure, and (2) foreign currency fluctuations at the year-end Treasury rate.

- During our review of the FMS 1219 for September, 2009, we also found that the imprest cash "Receivables and Deferred Voucher Charges" amount per the report had not changed in several years. According to ER accounting personnel, this receivable of about \$2,100 had been on the books since 1996. Because of its age and the lack of a record of who it is due from, it is doubtful that this small amount is collectible.

If cash counts are not performed timely or Treasury reports are not prepared correctly, there is an increased risk that potential fraud could go undetected. In addition, the validity of data presented in U.S. government financial reports published by Treasury depends on the accuracy of the monthly reports from each agency, including the Commission.

Recommendations:

We recommend that the Finance Officer at the Commission's European Regional Office take action to:

24. Ensure that all imprest cash is counted at least annually in accordance with the Commission's *Imprest Fund Handbook*.
25. Ensure that cash balances reported on the monthly FMS 1219, *Statement of Accountability*, reconcile to actual cash amounts on hand in accordance with the Treasury Financial Manual.
26. Write off the pre-1996 receivable amount reported on the monthly FMS 1219, *Statement of Accountability* as uncollectible.

2. Miscellaneous receipt activity was not included in budgetary accounts.

The Commission uses Fund 3220 to record miscellaneous receipts that the agency collects on behalf of Treasury. The miscellaneous receipts statute [31 U.S.C. § 3302(b), (c)] and Treasury regulations (31 C.F.R. § 206.5) require agencies to remit miscellaneous receipts from third parties to Treasury. During our fiscal year 2009 audit, we reviewed the Commission's ER trial balance and found that while receipt activity was correctly reported in proprietary accounts, there were no corresponding entries to the budgetary accounts for this fund. As a result, the Fund 3220 budgetary accounts did not balance with the proprietary accounts at the end of the fiscal year.

Treasury budgetary accounting requires that the 4000 series of accounts in the *U.S. Standard General Ledger* be used to record changes to, and current balances of, budgetary resources of the entity. Commission officials confirmed that no journal entries were made to record this activity in the budgetary accounts. While the Commission has adopted Treasury budgetary accounting policies, review procedures at the ER Office did not identify these entries as a budgetary resource because of the occasional small amount of miscellaneous receipts remitted by third parties. We proposed an audit adjustment of about \$51,000 to correctly record Fund 3220 budgetary activity for fiscal year 2009, which the Commission subsequently booked and included in its fiscal year 2009 financial statements.

Recommendations:

We recommend that the Finance Officer at the Commission's European Regional Office comply with Treasury requirements in taking action to:

27. Strengthen review procedures to ensure that personnel record both budgetary and proprietary accounting entries when recognizing miscellaneous receipt activity in Fund 3220.

28. Review budgetary and proprietary accounting for Fund 3220 monthly to ensure that miscellaneous receipt activity is properly recorded.

3. Not all expenditure transactions were adequately documented.

During our fiscal year 2009 audit, we found that the Commission did not always maintain or retain appropriate documentation for some nonpayroll expenditures. We conducted a Commission-wide statistical test of nonpayroll expenditures for fiscal year 2009, and examined 75 payment transactions and 9 credit transactions for the Commission's ER Office. We found the following deficiencies:

- Eight expenditures, consisting of five utility payments, two pension payments, and a reissued vendor payment, did not include an Invoice Approval Sheet. This document, developed during fiscal year 2008 by the Finance Directorate of the ER Office, was to be included in every voucher package. It documents procurement approval, receipt of goods or services, certification that the item is complete or partially received, review of the voucher package, acceptance of the invoice to be paid, and approval to pay. According to ER Office accounting procedures, only after this sheet has been completed is the invoice to be paid. However, this procedure was still relatively new for fiscal year 2009 and was not always followed by the ER Office, particularly for "recurring" expenses like pensions and payroll taxes, and for utilities where the bills move quickly to payment to prevent disruption of services. Nevertheless, any missing items should have been identified during the voucher package review process by the Finance Directorate.
- Six expenditures did not contain evidence of a Director's approval to pay the invoice. In four of these expenditures, a Finance Directorate pay assistant initialed approval to pay a retirement plan disbursement, a quarterly Belgium Social Security payment, and two school tuition payments. However, while we determined that these transactions were valid, this was not an authorized signature for approval to pay. We also tested nine ER credit transactions and noted that for two transactions, a pension plan refund and an overpayment of travel expenses, the documentation did not contain evidence of a director's review approval or date. ER Office accounting procedures provide that transactions are to be approved and dated by a director before processing. However, ER directors travel frequently and rather than hold up payment, vouchers for "recurring" operating expenditures are generally approved and processed by the Finance Directorate.
- One invoice for over \$225,000 for storm drainage improvements and the re-asphalting of roads at the Meuse-Argonne Cemetery was not stamped "certified" as received and approved for payment as evidenced by initials or signature and date by the Engineering Director of the ER Office. While the voucher package documented the cemetery superintendent's signature and certification (but was not dated), this was not sufficient. Although we determined that this transaction was valid, ER Office accounting procedures require approval of invoices by the Engineering Director to indicate that large project expenditures were reviewed and approved before payment.

Standards for Internal Control in the Federal Government provides that transactions should be authorized and executed only by persons acting within the scope of their authority, and all transactions should be clearly documented. Failure to implement these control activities could result in the processing of improper payments.

Recommendations:

We recommend that the Finance Officer at the Commission's European Regional Office take action to follow established accounting procedures to:

29. Include an Invoice Approval Sheet in every voucher package.
30. Obtain evidence of director approval for all invoices.
31. Review voucher packages for completeness before they are processed for payment.

4. Not all payroll transactions were properly processed.

In a statistical sample of Commission payroll transactions tested as part of our fiscal year 2009 audit, we selected 10 U.S. General Schedule (USGS) employees and 44 FSN employees at the Commission's ER Office. In testing these transactions, we found the following deficiencies:

- The ER Human Resources Officer, a USGS employee, approved his own time and attendance record electronically. This action violates standards regarding adequate separation of duties and weakens internal controls. ER Office policy requires the ER Deputy Director to approve time and attendance records for USGS employees. However, ER Office policy did not clearly state that employees should not approve their own time and attendance records.
- Three of the 10 USGS employees in our sample received erroneous amounts for their monthly foreign post allowance because of incorrect factors used to calculate the allowance as provided by the U.S. State Department. This is a variable allowance that encompasses several factors for accurate calculation including gross pay amount, number of dependents, physical location, and a fluctuating foreign exchange rate. As a result, the percentage rate used to calculate this allowance has the potential to vary every biweekly pay period and should be closely reviewed. However, this did not occur. While payroll personnel eventually identified these errors and corrected them in a subsequent pay period, in some cases this took several months.
- One French FSN employee accrued a negative 231.5 hours as a result of maternity leave. ER Office sick leave procedures provide that once an employee has exhausted sick leave hours, any additional time off is to be leave without pay. Both the ER Finance Officer and the Human Resources Officer agreed that the accrual of this large amount of negative leave would not have happened if proper monitoring had occurred.

- Two employees experienced delays in receiving an authorized pay increase. We found that while one employee's pay was adjusted in the following biweekly pay period, the other employee did not receive the pay increase for 8 pay periods. This long delay occurred because the former Human Resources Director had not promptly signed off on the pay authorization increase.

Payroll and benefits constitute 49 percent of Commission total expenditures and is therefore significant to Commission operations. *Standards for Internal Control in the Federal Government* provides that transactions be complete, accurate, and timely recorded. These standards also stress the need for appropriate segregation of duties. A failure to follow established accounting and personnel procedures can result in erroneous or improper payments and could have a detrimental effect on employee morale.

Recommendations:

We recommend that the Finance Officer at the Commission's European Regional Office take action to:

32. Clarify existing policy for approval of time and attendance records to ensure employees do not approve their own time card.
33. Routinely review the calculation of monthly foreign post allowances for accuracy and timely correct any errors.
34. Routinely monitor annual and sick leave balances, particularly for negative balances.
35. Process authorized pay increases timely.

5. Funds were commingled in the Commission's *Aged Vendor Liability Report*.

During our fiscal year 2009 audit, we found that the general fund and trust fund accounts payable were commingled on the Commission's *Aged Vendor Liability Report* as of September 30, 2009. As a result, general fund accounts payable were overstated by about \$5,000 and trust fund accounts payable were understated by the same amount. This occurred because two trust fund vouchers were miscoded by the Finance Directorate, which created incorrect postings to the general ledger accounts. The miscoding of the small amount from this one transaction was initially overlooked during supervisory review.

Federal accounting and the U.S. Standard General Ledger provide that budgetary and proprietary accounts must balance. The Finance Directorate identified the imbalance during year-end closing; however, the amount was too small to adjust the year-end closing totals. While in consolidation the total accounts payable reported were correct, both general fund and trust fund accounts payable were incorrect by an immaterial amount.

Recommendation:

We recommend that the Finance Officer at the Commission's European Regional Office take action to:

- 36. Timely review the *Aged Vendor Liability Reports* for proper fund classification and reconcile balances with the general ledger monthly.

6. Not all year-end liabilities were identified for accrual.

During our fiscal year 2009 audit, we identified seven vouchers totaling over \$427,000 for which goods and services had been received before September 30, 2009, but were not recorded by the Finance Directorate as liabilities until the next fiscal year. This was contrary to year-end closing instructions issued by Commission headquarters, which emphasized proper cutoff at fiscal year-end. Specifically, we found the following:

- Two invoices for horticultural supplies were not recorded because the Horticulture Specialist was on leave and consequently did not submit them to the Finance Directorate for year-end accrual until his return.
- A fourth quarter pension plan and a Belgian Social Security payment were not recorded because payroll-related transactions throughout the year were frequently recorded when paid rather than accrued in the period they were incurred.
- Two vouchers were not recorded for August and September 2009 construction work on two residences related to the Normandy Visitor Center, the ER Office's largest engineering project, because invoices had not been received before year-end closing.
- A September 2009 voucher was not recorded for an engineering project to renovate the chapel roof at the Henri-Chapelle American Cemetery because the invoice had not been received before year-end closing.

Engineering projects pose a significant challenge as they generally involve large sums, are done by outside contractors, require an estimate of the amount of work completed but not billed, and are frequently billed late. As a result, project engineers in the Engineering Directorate are tasked with reviewing projects to estimate the amount of work performed but not yet billed and providing the results to the Finance Directorate to accrue engineering project liabilities at year-end. However, we found that this task was not always well-coordinated, resulting in some liabilities not being appropriately accrued at fiscal year-end.

Standards for Internal Control in the Federal Government states that effective internal control activities include accurate and timely recording of transactions. We proposed, and the Commission recorded, audit adjustments to include these amounts in its fiscal year 2009 financial statements. While these errors were not material to the fiscal year 2009 financial statements, internal controls are weakened and misstatements could occur if transactions are not accurately recorded in the proper accounting period, particularly for year-end reporting.

Recommendations:

We recommend that the Finance Officer at the Commission's European Regional Office take action to:

- 37. Ensure that invoices, undelivered orders, and payroll accounts are reviewed to identify any goods and services received and liabilities incurred before September 30 so amounts are properly accrued in accordance with closing instructions at year-end.
- 38. Coordinate with the Engineering Directorate a review of engineering contracts with unpaid balances to identify projects for which work has been performed and liabilities incurred before September 30 so that amounts are properly accrued in accordance with closing instructions at year-end.

7. Undelivered orders report was not reconciled with the general ledger.

During our fiscal year 2009 audit, we found that the amounts shown on a detail report of the Commission's undelivered orders, consisting of obligated but unpaid contracts and purchase orders, continued to be out-of-balance with the ER Office's general ledger by about \$40,000. Because the composition of this amount was unknown and immaterial to the fiscal year 2009 financial statements, no adjustment was proposed to the general ledger or the statements. This condition has existed since the initial configuration of the accounting system was placed into service on October 1, 2001.

Because of this recurring difference, a systems accountant initiated a review of the ER Office purchase order subsystem to identify entries, amounts, and categories causing the out-of-balance condition. While the analysis had not been completed, the findings included adjustments being recorded in the general ledger that were not supported by purchase orders, closed orders that were not closed in the ledger but should have been, and old adjustments prior to 2006 that are large nonreversing entries relating to entries for "erroneous" or "unknown" balances. *Standards for Internal Control in the Federal Government* states that all transactions need to be clearly documented and completely and accurately recorded.

Recommendation:

We recommend that the Finance Officer at the Commission's European Regional Office take action to:

- 39. Complete the analysis of undelivered orders and make appropriate adjustments so the detail report of undelivered orders reconciles to and supports the general ledger balance.

FINDING AT THE COMMISSION'S MEDITERRANEAN REGIONAL OFFICE

In a statistical sample of Commission payroll transactions tested as part of our fiscal year 2009 audit, we selected two USGS employees and seven FSN employees at the Commission's MR Office in Rome, Italy. In testing these transactions, we identified a control deficiency in how holiday pay was calculated and how pay authorizations were processed. Specifically, we found the following:

- One FSN employee who worked a 9-hour flexible work schedule charged and was paid for 9 hours of holiday pay. According to OPM, full-time employees who have flexible work schedules are allowed only 8 hours of holiday pay even if they would otherwise work more hours on that day. This error was not identified and corrected through supervisor approval and subsequent reviews because of a lack of awareness of the OPM requirement. The Commission's existing policy on public holiday leave states that the employee will be paid at the rate for the hours in the employee's basic workweek. However, this policy was not clear that employees on flexible work schedules are allowed only 8 hours of holiday pay.
- One FSN employee's official personnel file did not contain a current SF-50, *Notification of Personnel Action*. This form is used to document official personnel actions, such as pay increases and promotions, and a copy is to be placed in each employee's official personnel file. The pay rate on the SF-50 provided to us, dated February 5, 2006, did not agree with the pay rate for the sample pay period for which the employee was paid. The MR Office later provided us with additional documentation to show that the employee's pay was correct based upon an authorized pay increase on March 4, 2007. Because the SF-50 is also used to make future employment, pay, and qualification decisions, incomplete files could affect these decisions.

Recommendations:

We recommend that the Director of the Commission's Mediterranean Regional Office take action to:

40. Revise the existing holiday leave policy to clearly provide that employees can charge no more than 8 hours for a holiday, regardless of their work schedules.
41. Notify employees of the policy clarification prohibiting charging more than 8 hours for a holiday, regardless of their work schedules.
42. Notify supervisors and other payroll reviewers to check that holiday hours charged by employees are correct before processing payroll.
43. Ensure that employee payroll data, including SF-50s, are kept current in official personnel files.

FINDING AT THE COMMISSION'S MANILA AMERICAN CEMETERY

During a Commission-wide statistical test of nonpayroll expenditures conducted as part of our fiscal year 2009 financial audit, we examined 12 payment transactions for the Commission's Manila American Cemetery in the Philippines. In testing these transactions, we identified a control deficiency regarding the lack of support for certain expenditures. Specifically, we found that

- two expenditure transactions lacked evidence of receipt of goods or services,
- four transactions had signatures to indicate receipt of goods or services but no receipt dates, and
- four transactions did not have an indication of the vendor identification number on the supporting documentation.

These issues occurred because the Manila Cemetery Superintendent, as the approving official, did not follow established Commission accounting procedures. Further, *Standards for Internal Control in the Federal Government* states that all transactions need to be clearly documented. Without appropriate evidence of receipt and acceptance of goods and services increases, the risk of improper payments increases. A vendor identification number provides evidence to support that a valid vendor provides goods and services.

Recommendations:

We recommend that the superintendent of the Commission's Manila American Cemetery follow established accounting procedures to:

44. Provide a signature and date in voucher packages when goods and services were received.
45. Ensure that voucher packages include vendor identification numbers.

CONCLUSIONS AND RECOMMENDATIONS

The Commission has strengthened internal controls over its accounting procedures to include reconciliation of accounts, accruing expenses, tracking engineering projects, and reporting. However, opportunities exist for further improvements. Appropriate actions by Commission management to implement our 45 recommendations in this report and to address the open recommendations from our previous audits will further improve internal control at Commission locations worldwide.

COMMISSION COMMENTS AND OUR EVALUATION

In its written comments, reprinted in enclosure II, the Commission stated that it agreed with the issues raised in the report and that it was considering our recommendations and would provide a full response to each recommendation as part of its 31 U.S.C. 720 letter to the Congress. As part of our fiscal year 2010 financial

statement audit, we will follow up on all of these matters to determine the status of related corrective actions.

* * * * *

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform within 60 days of the date of this report. You must also send a written statement to the House and Senate Committees on Appropriations with the Commission's first request for appropriations made over 60 days after the date of this report.

We are sending copies of this report to interested congressional committees and the Director of the Office of Management and Budget. This report is available at no charge on the GAO Web site at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by Commission management and staff during our audit of the Commission's fiscal year 2009 financial statements. If you have any questions regarding this report, please contact me at (202) 512-3406 or sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Contributors to this report were Roger R. Stoltz, Assistant Director; Patricia A. Summers; Cara H. Larson; and Melanie B. Swift.

Sincerely yours,



Steven J. Sebastian
Director
Financial Management and Assurance

Enclosures - 2

Enclosure I

Details on Audit Methodology

In order to fulfill our responsibilities as the auditor of the American Battle Monuments Commission's (Commission) fiscal year 2009 financial statements, we did the following:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. This included selecting statistical samples of payroll and nonpayroll expenditures primarily to determine the validity of activities reported in the Commission's financial statements. We projected any errors in dollar amounts to the population of transactions from which they were selected. In testing some of these samples, certain attributes were identified that indicated deficiencies in the design or operation of internal control. These attributes, where applicable, were statistically projected to the appropriate populations.
- Assessed the accounting principles used and significant estimates made by Commission management.
- Evaluated the overall presentation of the financial statements.
- Obtained an understanding of the Commission and its operations, including its internal control over financial reporting.
- Considered the Commission's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA.
- Assessed the risk of (1) material misstatements in the financial statements, and (2) material weaknesses in internal control over financial reporting.
- Tested relevant internal control over financial reporting.
- Evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Tested compliance with selected provisions of the following laws and regulations:
 - the Commission's enabling legislation codified in 36 U.S.C. Chapter 21;
 - public laws applicable to the World War II Memorial Fund;
 - the Buffalo Soldiers Commemoration Act of 2005;
 - the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009;
 - the Antideficiency Act;
 - the Pay and Allowance System for Civilian Employees; and
 - the Prompt Payment Act.

We performed site work at the Commission's headquarters in Arlington, Virginia, its European Regional Office in Garches, France; and its American cemeteries at Ardennes in Neupre, Belgium; Flanders Field in Waregem, Belgium; Henri-Chapelle in Henri-Chapelle, Belgium; and Netherlands in Margraten, Holland. We also conducted analytical reviews and other audit procedures on the Commission's Mediterranean Regional Office in Rome, Italy, and its Manila American Cemetery in the Philippines.

Our work was conducted from May 11, 2009, through February 17, 2010, pursuant to our authority to conduct an annual audit of the Commission's financial statements under 36 U.S.C. § 2103.

Enclosure II

Comments from the American Battle Monuments Commission



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AMERICAN BATTLE MONUMENTS COMMISSION

Courthouse Plaza II, Suite 500
2300 Clarendon Boulevard
Arlington, VA 22201-3367

July 15, 2010

Mr. Steven J. Sebastian
Director, Financial Management and Assurance
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Sebastian:

This responds to your June 23, 2010, memorandum regarding your proposed report:
Management Report: Improvements Needed in American Battle Monuments Commission's Internal Controls and Accounting Procedures (GAO-10-596R).

We agree with the issues raised in your report and are considering its recommendations, but we have no specific response at this time. However, we do not anticipate that we will disagree with any of the recommendations. The Commission will provide a full response to each recommendation as part of our 31 U.S.C. 720 letter to the Congress, which is due 60 days after the issuance of the report.

Most respectfully,

A handwritten signature in black ink, appearing to read "Max Cleland".

Max Cleland
Secretary

(196220)

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