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October 26, 2006

The Honorable Arlen Specter
Chairman
The Honorable Patrick J. Leahy
Ranking Minority Member
Committee on the Judiciary
United States Senate

The Honorable F. James Sensenbrenner, Jr.
Chairman
The Honorable John Conyers, Jr.
Ranking Minority Member
Committee on the Judiciary
House of Representatives

Subject: *Financial Management: Review of the Financial Statement Audit of the White House Commission on the National Moment of Remembrance for Fiscal Year 2005 and Status of GAO Audit Recommendations*

The White House Commission on the National Moment of Remembrance (Commission) was created on December 28, 2000, by the National Moment of Remembrance Act.¹ The Commission's purpose is to sustain the American spirit through acts of remembrance, not only on Memorial Day but also throughout the year, for those who died serving our country.

The National Moment of Remembrance Act requires us to annually audit the financial transactions of the Commission. However, as reflected in an Office of Management and Budget (OMB) memorandum,² the Commission is subject to the Accountability of Tax Dollars Act of 2002 which was enacted on November 7, 2002.³ This act requires the Commission to annually prepare and submit audited financial statements to OMB

¹Pub. L. No. 106-579, 114 Stat. 3078 (Dec. 28, 2000) (*reprinted at* 36 U.S.C. § 116 note).

²Office of Management and Budget, *Memorandum for the Heads of Executive Departments and Agencies, Chief Financial Officers and Inspectors General: Amendments to OMB Bulletin No. 01-02, Audit Requirements for Federal Financial Statements*, M-04-22, at 13 (Washington, D.C.: July 27, 2004).

³Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002) (*codified, as amended, at* 31 U.S.C. § 3515).

and Congress. This is the first year the Commission has prepared a complete set of financial statements and contracted with an independent public accountant (IPA) to conduct the financial statement audit. In lieu of performing an audit of the Commission's fiscal year 2005 financial transactions, which would duplicate much of the work performed by the IPA, we performed a review of the IPA's audit of the Commission's financial statements. This report provides the results of our review of the Commission's fiscal year 2005 financial statement audit and provides the status of the Commission's implementation of recommendations made by us during prior years' audits of the Commission's financial transactions. Our work was performed in accordance with U.S. generally accepted government auditing standards.

Results in Brief

We found no instances in which the IPA did not perform sufficient work to support its opinion and no instances in which the IPA did not comply, in all material respects, with U.S. generally accepted government auditing standards. In its audit of the Commission's fiscal year 2005 financial statements, the IPA found that (1) the financial statements were presented fairly, except for the Commission's failure to provide a legal representation letter; (2) the Commission's failure to provide a legal representation letter also resulted in a reportable condition;⁴ and (3) there was no reportable noncompliance with selected provisions of laws and regulations.

In our report on our audit of the Commission's fiscal year 2004 financial transactions,⁵ we made 10 recommendations to the Commission designed to improve its overall financial management and internal control. Subsequently, the Commission provided a written statement of actions it had taken or was planning to take to address the issues we reported that gave rise to our recommendations. We reviewed the actions taken by the Commission and found that the Commission had effectively implemented 9 of our 10 recommendations.

We are not making any new recommendations in this report. The Commission agreed with the results presented in this report.

Background

The Commission's purpose is to sustain the American spirit through acts of remembrance, not only on Memorial Day but also throughout the year, for those who died serving our country. Congress appropriated \$1.25 million to the Commission to fund its operations for fiscal years 2002 through 2005.⁶ In fiscal year 2005, the

⁴Reportable conditions are matters coming to the auditor's attention that in the auditor's judgment should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the entity's ability to meet the internal control objectives described in the report.

⁵GAO, *Financial Management: Audit of the White House Commission on the National Moment of Remembrance for Fiscal Year 2004*, GAO-05-791R (Washington, D.C.: July 21, 2005).

⁶Congress appropriated \$500,000 in fiscal year 2002 and \$250,000 per year in fiscal years 2003 through 2005. See, respectively, Pub. L. No. 107-117, 115 Stat. 2230, 2299 (Jan. 10, 2002); Pub. L. No. 108-7, div. J, title IV, 117 Stat. 11, 460 (Feb. 20, 2003); Pub. L. No. 108-199, div. F, title IV, 118 Stat. 3, 340 (Jan. 23, 2004); and Pub. L. No. 108-447, div. I, title III, 118 Stat. 2809, 3337 (Dec. 8, 2004).

Commission received net appropriations of approximately \$248,000, along with cash and in-kind⁷ donations of approximately \$103,000 from individuals and businesses. In addition, it had approximately \$244,000 in unexpended appropriations from prior fiscal years. The Commission expended approximately \$239,000 of appropriated funds and funded costs of approximately \$103,000 with cash and in-kind donations received during the fiscal year.

Processing of Commission Financial Transactions

The Commission utilizes the Department of Veterans Affairs (VA)—through an interagency agreement—for administrative support services, including payment of the Commission’s bills and personnel and payroll services. VA processes the Commission’s obligations, expenditures, and cash and in-kind donations recorded during the fiscal year. VA also prepares annual financial statements and monthly standard forms on budget execution for the Commission. During fiscal year 2005, the Commission employed the services of a part-time bookkeeper to help maintain its financial records.

Financial Reporting and Audit Requirements

The Commission is required under the Accountability of Tax Dollars Act of 2002 to annually prepare and submit audited financial statements. OMB Circular No. A-136, *Financial Reporting Requirements*, as amended, identifies the basic financial statements to include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. The financial statements are to be prepared in accordance with U.S. generally accepted accounting principles, and their production is intended, in part, to provide for complete, reliable, timely, and consistent financial information for use by management and Congress in the financing, management, and evaluation of federal programs.

Federal financial statements are to be audited in accordance with U.S. generally accepted government auditing standards.⁸ OMB’s guidance in OMB Circular No. A-136 requires agencies to prepare and submit their performance and accountability reports, which include agencies’ audited financial statements, to OMB and Congress no later than November 15 for agencies with a September 30 fiscal year-end. OMB granted the Commission an exemption from the requirement to prepare audited financial statements for fiscal year 2004⁹ but did not exempt the Commission from

⁷In-kind donations are noncash assets and contributed services—such as Web site hosting and the use of facilities and staff.

⁸For financial statement audits, generally accepted government auditing standards incorporate the standards of the American Institute of Certified Public Accountants.

⁹Under the Accountability of Tax Dollars Act of 2002, the Director of OMB may, under certain conditions, exempt certain covered executive agencies from the financial statement requirements of the Accountability of Tax Dollars Act of 2002 for a particular fiscal year. See Pub. L. No. 107-289, § 2(a)(4), 116 Stat. 2049 (Nov. 7, 2002) (*codified at* 31 U.S.C. § 3515(e)).

this requirement in fiscal year 2005. The Commission did not submit audited financial statements to OMB by November 15, 2005, as required by OMB guidance, and the Commission did not request an exemption from this requirement from OMB for fiscal year 2005.

Financial statement audits of federal departments and agencies, performed in accordance with generally accepted government auditing standards, are intended to provide reasonable assurance about whether the financial statements for an audited entity present fairly, in all material respects, its financial position, net cost, changes in net position, budgetary status, and financing, in conformity with U.S. generally accepted accounting principles. OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended, establishes the minimum requirements for audits of federal financial statements.¹⁰ OMB audit guidance requires auditors to (1) report whether agencies' financial statements are fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles; (2) obtain an understanding of the components of internal controls and assess the level of control risk; and (3) test whether agencies comply with laws and regulations that have a direct and material effect on the financial statements.

Objectives, Scope, and Methodology

Our objectives were to determine (1) whether the IPA performed sufficient work to support its opinion on the fiscal year 2005 financial statements of the Commission; (2) whether the financial statement audit was performed in accordance with appropriate auditing standards; and (3) whether, and to what extent, the Commission effectively implemented recommendations made by us in our prior audits of the Commission's financial transactions.

To satisfy these objectives, we reviewed the IPA's report and related audit documentation and, as necessary, met with IPA representatives and the Commission's management. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Commission's financial statements and about the effectiveness of its internal control or conclude on its compliance with laws and regulations. We performed our review in accordance with Section 650 of the GAO/President's Council on Integrity and Efficiency *Financial Audit Manual*. This guidance requires us to

- evaluate the IPA's independence and objectivity,
- evaluate the IPA's qualifications, and
- review and evaluate the IPA's work.

We evaluated the IPA's independence, objectivity, and qualifications by reviewing the following:

¹⁰OMB requirements incorporate both generally accepted government auditing standards and AICPA auditing standards. OMB Bulletin No. 01-02 was superseded by OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, on August 23, 2006.

- the most recent peer review¹¹ report for the IPA (dated September 30, 2004) and the corresponding letter of response,
- the informal request for proposal sent out by the Commission when seeking an audit firm to conduct the audit of its fiscal year 2005 financial statements,
- the engagement letter between the IPA and the Commission, and
- résumés for the IPA staff assigned to the Commission’s audit.

To determine whether the IPA performed sufficient work to support its audit opinion and whether the auditor complied with U.S. generally accepted government auditing standards, we reviewed the IPA’s planning, testing, and reporting audit documentation and made inquiries of the IPA staff.

To determine whether, and to what extent, the Commission effectively implemented recommendations we made during prior years’ audits of the Commission’s financial transactions, we reviewed the IPA’s audit documentation, made inquiries of Commission personnel, and obtained certain documentation from the Commission.

Because we did not audit the Commission’s financial statements, we do not express an opinion on the statements. Our work was performed from April 2006 through October 2006 in accordance with U.S. generally accepted government auditing standards. We provided a draft of our report to the Commission for review and comment.

IPA Is Independent, Objective, and Qualified

We determined the IPA to be independent and objective with respect to the Commission. We evaluated the IPA’s qualifications by reviewing résumés for the IPA staff assigned to the Commission’s audit, and determined the IPA to be qualified to perform the audit of the Commission.

The IPA’s most recent peer review report was unqualified; however, the report cited the need for the IPA to improve its quality control policies and procedures. The results of our review also indicated that the IPA’s quality control policies and procedures should be further enhanced.

Sufficient Audit Work Was Performed, and Audit Was Performed in Accordance with Generally Accepted Government Auditing Standards

During our preliminary review of the IPA’s audit documentation, we found areas in which further documentation was needed. In all instances, the IPA provided the

¹¹U.S. generally accepted government auditing standards require audit organizations to have an external peer review conducted at least once every 3 years by reviewers independent of the organization being reviewed. The external peer review should determine whether, during the period under review, the reviewed audit organization’s internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

additional documentation needed. Our final review of the audit of the Commission's financial statements disclosed no instances in which insufficient audit work was performed by the IPA to support its audit opinion. Our review also disclosed no instances in which the IPA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Commission Received a Qualified Audit Opinion

The Commission received a qualified opinion on its fiscal year 2005 financial statements. The IPA found that the Commission's financial statements were presented fairly, except for the Commission's failure to obtain a legal representation letter.¹² The Commission's failure to obtain a legal representation letter also resulted in a reportable condition in the IPA's report on internal control over financial reporting. The IPA found no instances of noncompliance with laws and regulations on the part of the Commission and noted no other matters to be communicated to the Commission.

Commission Has Taken Action to Improve Internal Control

In our prior work, we found that the Commission's internal control over financial transactions needed improvement.¹³ In particular, we found that (1) documentation for payroll, benefits, and payments to VA was not readily available; (2) reconciliations with VA's records were not routinely performed; (3) financial transactions were not properly coded; (4) procurement regulations were not followed; (5) travel reimbursements exceeded allowable rates; (6) cash and in-kind donations were not always recorded; and (7) greater distinction between the Commission and another nonprofit organization called No Greater Love was needed. We made 10 recommendations to the Commission for corrective actions to improve its overall financial management and internal control.

Since our audit of the Commission's fiscal year 2004 financial transactions, the Commission has taken a number of corrective actions to improve its internal control and overall accountability. Specifically, we found that the Commission has taken the following actions:

- maintains appropriate documentation for financial transactions, including biweekly time sheets for the Commission's employee;

¹²Generally accepted auditing standards require the auditor to send a letter of audit inquiry to the entity's legal counsel. A response to this letter is the auditor's primary means of obtaining corroboration of the information furnished by management concerning litigation, claims, and assessments. Evidential matter obtained from legal counsel with whom the entity consulted during the period under audit may provide the auditor with the necessary corroboration. Legal counsel for the Commission did not respond to the auditor's letter of audit inquiry because the Commission did not have a memorandum of understanding in place with VA, which provided legal counsel during fiscal year 2005.

¹³GAO-05-791R.

- solicits offers from three commercial vendors before purchasing goods or services for an amount expected to exceed the \$2,500 micropurchase threshold for federal procurements;¹⁴
- strengthened procedures for the preparation of travel vouchers to ensure that allowable rates established by federal regulation are not exceeded;¹⁵
- obtained and retained documentation for all cash and in-kind donations; and
- discontinued the listing of No Greater Love's e-mail address and fax number on the Commission's business cards to assist in furthering the distinction between the Commission and No Greater Love.

We have determined that through its actions, the Commission has effectively addressed most of the issues that gave rise to our recommendations. However, the Commission has not implemented adequate procedures to timely reconcile the Commission's financial data to the financial records maintained by its accounting services provider. The enclosure provides a list of all financial management-related recommendations we made to the Commission in our prior audits of its financial transactions, the actions taken by the Commission in response to our recommendations, and the status of those recommendations based on our review.

Agency Comments

We provided a draft of our report to the Commission for review and comment. The Commission agreed with the results presented in the report.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations and the House Committee on Appropriations; the Chairman of the White House Commission on the National Moment of Remembrance; the Secretary of Veterans Affairs; the Director, Office of Management and Budget; and other interested parties. This report is also available at no charge on the GAO Web site at <http://www.gao.gov>.

¹⁴See the Federal Acquisition Regulation on simplified acquisition procedures, *codified, in part, at* 48 C.F.R. § 13.104(b)(2004).

¹⁵The Federal Travel Regulation implements statutory requirements and executive branch policies for travel by federal civilian employees. It is promulgated by the General Services Administration and codified at 41 C.F.R., chapters 300-304.

If you or your staff have any questions, please contact me at (202) 512-3406 or by e-mail at 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 Julie T. Phillips, Assistant Director, and Peggy J. Smith.

A handwritten signature in black ink that reads "Steven J. Sebastian". The signature is written in a cursive style with a large, stylized "S" at the beginning.

Steven J. Sebastian
Director
Financial Management and Assurance

Enclosure

Status of GAO Recommendations from Prior Audits

Count	Recommendations from GAO-05-791R	Status per Commission on the National Moment of Remembrance (Commission)	Status per GAO
1	Prepare biweekly time sheets and regularly submit them to the Department of Veterans Affairs (VA) for approval and processing as evidence of actual hours worked.	As of May 2, 2005, the Commission's employee has been submitting biweekly time sheets to the financial services provider.	Closed. We verified that the Commission's employee submitted biweekly time sheets to the financial services provider.
2	Strengthen the procedures to ensure that appropriate documentation for all financial transactions--including payroll, payroll-related, and intragovernmental transactions--is maintained and readily available for review.	For fiscal year 2005, the Commission made sure to maintain and have available in its office all appropriate documentation related to its financial transactions. In addition, the Commission requested from its financial services provider submission by fax on a monthly basis of all documents supporting payroll, payroll-related, and intragovernmental transactions.	Closed. The Commission appropriately documented financial transactions, including payroll, payroll-related, and intragovernmental transactions.
3	Assess the cost of VA's services to determine if comparable services may be available from other sources at a lower cost.	To ensure the Commission was not overpaying for financial services, it looked into comparable services vendors. In the meantime, and after review of GAO's fiscal year 2004 report on the Commission, VA Financial Services offered the Commission a contract for fiscal year 2006 with a \$10,000 reduction in the annual service fee.	Closed. The Commission negotiated with VA Financial Services for a significant reduction in its annual service fee.
4	Establish procedures to (1) timely reconcile, on a monthly basis, the Commission's financial data to the financial records maintained by its accounting services provider, VA, and (2) communicate all differences to VA as the provider so that the two entities' records can be appropriately reconciled.	The Commission and VA Financial Services have now established new procedures to reconcile records appropriately and on a monthly basis. For fiscal year 2005, the Commission communicated all differences to its financial services provider. In addition, all past transactions were reconciled as noted in GAO-05-791R (p. 2): "In May 2005, the Commission and VA reconciled their records and made accounting adjustments for the differences."	Open. The Commission's year-end trial balance did not reconcile to the financial statements prepared by its accounting services provider (VA).
5	While continuing to use VA's services, code all invoices in accordance with VA guidelines to indicate the type of expenditure prior to submitting them to VA for processing.	For fiscal year 2005, the Commission has been coding all invoices in accordance with the financial service provider's guidelines.	Closed. We verified that the Commission is now coding all invoices in accordance with VA's guidelines.
6	Solicit offers or quotes from at least three commercial vendors when goods or services are expected to exceed the \$2,500 micropurchase threshold for federal procurements and when otherwise required by the Federal Acquisition Regulation (FAR).	For fiscal year 2005, the Commission solicited offers from three commercial vendors before purchasing goods or services for an amount expected to exceed the \$2,500 micropurchase threshold for federal procurements and when otherwise required by the FAR.	Closed. We verified that the Commission is now soliciting offers from three commercial vendors before purchasing goods or services for an amount expected to exceed the \$2,500 micropurchase threshold for federal procurements and when otherwise required by the FAR.
7	Strengthen procedures over preparing travel vouchers by (1) adhering to allowable rates in accordance with federal regulations and (2) ensuring that travel-related overcharges and traveler reimbursements are timely collected or offset against amounts due.	During fiscal year 2005, the Commission worked with VA Financial Services to strengthen its procedures for preparing travel vouchers. Both entities now make sure the Commission adheres to allowable rates in accordance with federal regulations while it ensures that all travel-related overcharges and traveler reimbursements are timely collected or offset against amounts due.	Closed. The Commission's employee took one business trip during fiscal year 2005. We reviewed the documentation for that trip and concluded that the Commission adhered to allowable rates per federal travel regulations.
8	Strengthen procedures over cash donations by immediately obtaining and retaining documentation that evidences the purpose and intent of the donation.	For fiscal year 2005, all cash and in-kind donations are supported. All documents concerning cash and in-kind donations are now immediately requested and filed with other donations made to the Commission.	Closed. We verified that the Commission is retaining documentation that evidences the purpose and intent of donations.

Status of GAO Recommendations from Prior Audits

Count	Recommendations from GAO-05-791R	Status per Commission on the National Moment of Remembrance (Commission)	Status per GAO
9	Develop procedures to obtain and retain supporting documentation for the estimated value of in-kind donations and require that the financial information be recorded.	The Commission now asks for all companies donating in-kind to provide documentation to support their donations. This documentation is maintained in the Commission's office and recorded in the Commission's electronic log.	Closed. The Commission obtained the proper documentation for all in-kind donations received during fiscal year 2005.
10	Discontinue listing No Greater Love's e-mail address and fax number on the Commission's business cards to assist in furthering the distinction of the Commission's and No Greater Love's management and activities.	The Commission received new business cards. The Commission would also like to reiterate what was stated in the 2004 GAO report: "No Greater Love still donates the time of one of its employees to the Commission; as of the end of June 2004, both entities have separate facilities, and separate phones and fax numbers. The White House Commission on the National Moment of Remembrance and No Greater Love are two different entities and their purposes are different. None of No Greater Love's programs were supported by the Commission."	Closed. The Commission's business cards no longer include the e-mail address and fax number for No Greater Love.

Source: GAO.

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