The Heritage Foundation Backgrounder

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HOUSE AUDIT REVEALS GROSS WASTE AND MISMANAGEMENT

INTRODUCTION

On January 4, 1995, the House of Representatives voted 430-1 for an internal audit to be performed by an outside accounting firm. It was a matter of bipartisan conventional wisdom that the management of the House had been permeated with "abuses and management inefficiencies," in the words of House Majority Leader Richard A. Gephardt (D-MO) in 1992. Although a few House accounts had been audited by the General Accounting Office, it is likely that many have never been reviewed by an independent examiner. Since one such audit uncovered the House Bank scandal, a full accounting was long overdue.

The accounting practices of the 103rd Congress that the Price Waterhouse audit revealed demonstrate that the House's financial and operational controls are worse than even the House's harshest critics had imagined. The fourteen material weaknesses that auditors uncovered would be troubling if they appeared in a medium-sized business. Their presence in the 13,000-employee House of Representatives is a national disgrace. Most disturbing are the conclusions that the House was:

- **Wasting millions of dollars on inefficient purchasing practices and superfluous staff;**
- **Permitting employee theft through multiple reimbursements for the same purchase;**
- **Allowing the use of official resources for campaign purposes; and**
- **Keeping such careless records that the magnitude of losses to the public will probably never be known.**

THE HOUSE'S SUBSTANDARD ACCOUNTING METHODS

The Price Waterhouse audit reveals that the House Office of Finance did not use generally accepted accounting principles when recording financial transactions. Instead, it kept track of House operations almost exclusively on a cash basis, tracking inflows and outflows of money. Revenue and obligations went unrecorded. Such a system is roughly similar to keeping track of everything an individual owns solely by reference to his checkbook. Indeed, consumers who had computerized their checkbooks were more sophisticated than the House, since its Office of Finance kept track of $700 million in annual salaries and other expenditures on hand-written ledgers.

Since the Office of Finance failed to keep track of such items as accounts receivable, accounts payable, inventory, furniture and equipment, and budgetary authority, House managers lacked information to make decisions about purchasing, leasing, repairing, or warehousing of House property. Furthermore, since the Office did not keep track of debts incurred by the House (as when, for example, individual offices received items they had ordered), there was little assurance that sufficient funds would be available to pay these debts. For instance, at the end of the third quarter of 1994 the House had over $39 million of outstanding but unrecorded obligations. The dearth of information on House financial liabilities hamstrung the Office's ability to plan for future expenditures.

Generally accepted accounting principles dictate that financial statements offer the reader a high degree of credibility, are dependable, and fairly reflect the institution's financial position, routine operations expenses, and expected cash flows. The House accounting system and financial statements lacked these basic elements. Any flaw in a financial system that could jeopardize the safeguarding of its assets or materially misstates finances is considered a "material weakness" and a humiliating indictment of the designers of the system. The House audit uncovered *fourteen* material weaknesses, the hazards of which are discussed below.

LOOSE CONTROLS CREATED OPPORTUNITIES FOR THEFT

Numerous Members and staff were paid twice for travel costs. Auditors found over 2,200 pairs of disbursements where the House Office of Finance may have paid twice for the same travel voucher. A more extensive examination of the 50 largest payments found 43 cases (86 percent of the sample) in which the House reimbursed a Member or staffer twice—with those duplicate payments totaling nearly $10,000. There is no evidence that any overpayment in these 43 cases was ever refunded to the House. All 43 of the double reimbursements were triggered by applications that violate *Congressional Handbook* rules about timely application or inclusion of travel receipts. All 43 were processed anyway.

Another opportunity for diversion of funds lay in the House's computerized reimbursement system. Numerous computer clerks in the House Office of Finance who enter the data file used to produce reimbursement checks had the opportunity to divert funds to themselves or to a confederate simply by substituting a different name and address. The only safeguard against this possible problem was the payments listing sent to the relevant Member or committee office for review each quarter. However, the volume of payments issued by the House made this control ineffective.

Security in House Computer Systems was weak or nonexistent. Access was not frozen when invalid passwords were used. Users were not logged out after a period of inactivity. The system did not record attempts at unauthorized access. No procedures were in place to end access by ex-employees, leaving the House exposed to the risk of ex-employees changing or eliminating proprietary data.

Finally, House charge cards were used to purchase some items that fall outside their purchase authority. Although these cards are not supposed to be used for non-travel expenses, auditors found nearly 350 charges for "retail" items totaling more than $31,000. Although it appears that the public may have been reimbursed for the purchase of personal items, Members and staff should not be using a government charge card to purchase personal items.

MEMBERS SPENT MONEY THEY DIDN'T HAVE

At the end of fiscal 1994, Members had overspent the sum of their appropriated expense allowance by over $14 million. This was a result of the House practice that set appropriations for Members' expense accounts significantly below the sum of those 435 allowances, since it was assumed that some Members would not spend up to their limit.

In FY 1994, however, total spending on Members' office accounts exceeded their appropriations. This $14 million shortfall was covered by reprogramming roughly $11.6 million from other FY 1994 House appropriations and $2.6 million from unused appropriations left over from prior years (FY 1991 and 1992).

The necessity of reprogramming funds demonstrates that the House Office of Finance's inadequate monitoring failed to prevent Member allowance overspending. The Office failed to extrapolate spending trends over the course of the fiscal year, focusing only on spending that already had taken place.

Five Members overspent their official allowances in 1994. Since the *Handbook* specifies that any overspending Member is personally liable for the overage, the auditors referred the names of the five Members to the House Office of Finance for followup.

This problem of Member overspending is only one illustration of a general problem: House managers routinely failed to check whether they had funds available before ordering goods and services or writing payroll checks, creating the risk of spending funds the House did not have. Although the managers of the House's financial system had the capability of checking to see whether there was money available to spend on goods and services, they did not do so. House managers therefore never knew how much already had been committed, or whether there was any danger that the House might lack funds to cover expenditures. Because of the routine near-the-limit use of Members' allowances, and their collective under-funding, there was a particular danger of overspending those accounts.

INADEQUATE CONTROLS LED TO FRANKING ABUSES

The audit revealed that Members may have broken House franking rules. The use of the frank (taxpayer-funded congressional mail) is regulated by Congress to lessen the possibility of Members' use of official resources to strengthen their reelection prospects.

Two types of mass mailing regulations—Franking Commission approval (to ensure that the mailing is not inappropriately self-publicizing) and deadline rules (to ensure that the mailing does not appear in voters' mailboxes too soon before elections)—appear to have been violated. In the course of sampling several hundred mailings, auditors found three instances where the House paid for printing of mass mailings without Franking Commission approval, and six instances where mass mailings apparently were sent after preelection deadlines. These are serious improprieties, since they suggest end runs around rules designed to ensure a minimum standard of fairness in federal elections.

INEFFICIENT ADMINISTRATION AND CARELESS RECORD-KEEPING: A RECIPE FOR WASTE AND CONFUSION

The auditors highlighted numerous areas of waste by House administrators: for example, deciding not to use temporary or part-time workers during peak workload periods, choosing instead to keep high staff levels throughout the year. Hundreds of full-time support employees were paid essentially to sit idle during the 241 days the House was not in session in 1994. House Members' paychecks were processed at a cost of roughly $46 apiece, although private companies could have done the job at less than 2 percent of the cost. House administrators also spent over $5 million on a computer that did not meet House needs.

Auditors also detected numerous flaws in the House's system of internal records. A lackadaisical attitude towards record-keeping requirements can lead to numerous problems: in addition to waste, opportunity for fraud, and administrative incoherence, poor record-keeping also breeds a careless attitude about getting the job done right. House records were extremely deficient in many areas.

The House's payroll policy permitted payroll adjustments to be filed by Members even after payday deadlines. Late payroll adjustments produced 3,400 supplemental paychecks during the audit period, resulting in $299,000 in overpayments to employees. Although most of those overpayments were repaid, nearly $13,000 in 1994 overpayments remains uncollected. This unwieldy system of pay distribution caused the House routinely to run a supplemental payroll every payday and incur large system and labor costs to produce and reconcile extra checks manually.

The incomplete records of the catering service run by House Restaurant Systems (HRS) provided remarkable opportunities to cheat the public. When HRS was privatized in July of 1994, it sent numerous letters to Members and non-Members notifying them that they still had outstanding bills. Many putative debtors replied by stating that they had already paid their bills, and HRS accepted all these replies at face value. Its debt-tracking system was in "disarray," according to auditors, and HRS multiplied this disarray by failing to keep copies of the debt collection letters, any responses to them, its pre-July 1994 receivable balance, or a cash ledger which matched inflows of money to creditors. The only records that HRS was able to show investigators were check stubs and deposit slips for catering services that had been intermingled with "records" for other HRS functions.

The Office of Finance failed to keep accurate records of property that the House owned and leased. Not only did a records vacuum make it difficult for House managers to discover efficiencies in buying, leasing, and maintaining equipment, but it increased the risk of undiscovered loss or theft of House property. Responsibility for property records was dispersed over ten different offices, and none of the three offices responsible for recording the bulk of House property kept ledgers that met the requirements followed by executive branch agencies. Combined with the absence of any system in the House Finance Office to track lease or sale costs, these accounting weaknesses increased the possibility of the House entering into contracts with unfavorable terms. For instance, the $9,000 that the Office of Finance paid to lease an outdated laser printer could have been used to lease or buy several newer printers. Auditors estimate that the House spent at least $750,000 on leases and related services for outdated equipment or equipment that could have been purchased more cheaply.

The House frequently was late in paying its bills. Of the $279 million paid during the 15-month audit period, over 25 percent of the payments were for goods and services received over four months before the payment date, and over 15 percent of the payments were over a year old. Additional tests of payments made during the 104th Congress revealed that over $1.5 million covered services received in 1991, and some payments were made for services dating as far back as 1986.

In many cases, no House office retained the required Certificates of Relationship/Non-Relationship to Any Current Member of Congress that each employee must complete and file when hired. This form is designed to alert House administrators to the possibility of nepotism in hiring. Absence of these required forms cripples a system designed to raise a red flag at the possibility of nepotistic hiring. Furthermore, House administrators failed to retain accurate leave cards, which record the amount of overtime pay and accrued leave to which House employees are entitled. Auditors who investigated a representative sample of 181 employees found that nearly half of the cards were missing, and a quarter of the remainder were useless because they were incompletely filled out.

MEMBERS GOT A FREE RIDE

The House routinely subsidized many services Members purchase through office accounts. These subsidies obscured any comparison of costs between Members, made purchasers unaware of the true cost of goods, and forced other parts of the House to bear burdens incurred by Members' personal offices.

For instance, the House Office of Telecommunications charged Members only a fraction of the price of the communications service they purchased. Members' clerk-hire allowance was charged for staff salaries, but not for staff benefits, thus obscuring the payroll amount available for each Member by roughly 30 percent. Members were not charged for the funds the House spent on calendars (more than $1 million alone), the use of the House Folding Room to process mass mailings, the cost of furnishing Capitol offices, or the expense of numerous House computer services. Such costs ultimately were paid for with funds appropriated for non-Member accounts.

Members also were allowed to spread out the cost of systems purchased so as to obscure their expense and, in some cases, escape part of their cost. For instance, Members were given the option of spreading the cost of capital purchases over three years. If a Member purchasing the equipment retired or failed to be reelected to office, those costs would be written off and subsidized by another House account, thus allowing Members to escape a substantial portion of the debt.

This system of hidden subsidies failed to hold purchasers accountable for the expenses they incur and gave them little incentive to manage expenses efficiently.

IS CONGRESS ABOVE THE LAW?

Many of the House's financial problems would likely have been curbed had Congress been subject to the same laws and regulations that apply to the executive branch and other federal agencies. Numerous laws that apply to the executive branch, such as the Chief Financial Officers Act of 1990 and the Federal Managers' Financial Integrity Act of 1982, do not apply to the House. The Antideficiency Act, which forbids any federal office from incurring obligations and spending monies that total more than its yearly appropriation during that fiscal year, almost certainly does not apply to the House. The House did not follow guidelines for federal agencies provided by the Joint Financial Management Improvement Program. Only the rules the House makes for itself and the procedures in the *Congressional Handbook* control House procedure, and those are easily skirted.

Indeed, the House granted exceptions to its own rules so frequently as to make those rules, in some cases, operationally non-binding. For instance, the House had produced an Approved List of office equipment and software, which was intended to ensure reasonable prices, eliminate the necessity for multiple quotes, and avoid a lengthy bid solicitation process. Over 30 percent of the $18 million that the House spent on equipment and software in the 103rd Congress, however, was on unapproved material for which Members had requested exemptions. The Committee on House Administration routinely granted exemptions, denying only 3 percent of the 1,026 exemption requests.

A liberal exemption policy created numerous opportunities for waste and corruption:

- ✘ Routine approval of reimbursement for travel vouchers that were submitted late or incomplete created the possibility for double payment to careless or dishonest filers.
- ✘ Numerous House offices required three price quotes when making purchases, but auditors found that 72 percent of the purchases of the House Office of Special Services and 100 percent of the purchases of House Information Services were made without benefit of these multiple quotes. The majority of these purchases were made without benefit of any competitive bidding whatsoever.
- ✘ Nearly 400 retroactive pay raises were approved for Members' staffs—a practice prohibited by the *Congressional Handbook*, presumably because it permits large lump sums of public money to be deposited in staffers' accounts as bonuses.

THE SILVER LINING

The good news is that the new Congress, under the leadership of Speaker Newt Gingrich (R-GA), House Oversight Committee Chairman Bill Thomas (R-CA), Representative Jim Nussle (R-IA), its administrative officers, and the management team they brought in, has taken aggressive action to correct the deficiencies identified by the audit. Many of the 226 recommendations the auditors made already have been implemented, and the remainder are being implemented. The Democratic leadership has pledged to work for full implementation of the audit's recommendations and to continue the practice of annual open audits of the House.

CONCLUSION

The numerous opportunities for waste, fraud, and corruption that Price Waterhouse found in the House's financial system constitute an indictment of House officers, members of the House Administration Committee, and the House leadership that permitted this financial disaster to happen. This system is so punctured by missing records and other gaps that its accounts are fundamentally not auditable. The audit paints a portrait of business conducted through rules that were routinely overridden by the House leadership, which contributed to partisan abuse reminiscent of a Soviet-style bureaucracy. Although the stories it tells are eye-opening, its greatest importance lies in the recommendations for actions it implies. The House has taken quick action to eliminate the auditing defects that Price Waterhouse detected, and investigate the administrative abuses that the auditors noted they lacked the resources to pursue fully, by referring auditors' questions directly to the Inspector General for a forensic audit. These questions include whether:

1. **Exceptions to House Rules were granted in a partisan fashion;**
2. **The House Restaurant System was defrauded;**
3. **Retroactive pay hikes were granted inappropriately; and**
4. **Franking and mass mailing rules were broken.**

In sum, the audits reveal a House of Representatives so penetrated by sloppy management practices that the public will likely never know exactly how many millions of dollars it wasted. The House audit scandal is an unhappy but predictable consequence of a hidebound institution hidden from public scrutiny, protected from the laws that govern its public and private counterparts, and thought by too many for too long to be invulnerable to shifts in control determined by the electoral process.

Dan Greenberg
Congressional Analyst