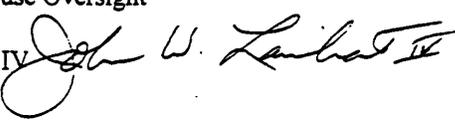


Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

MEMORANDUM

TO: The Honorable Bill Thomas, Chairman
Committee on House Oversight

The Honorable Vic Fazio, Ranking Minority Member
Committee on House Oversight

FROM: John W. Lainhart IV 
Inspector General

DATE: July 18, 1995

SUBJECT: Audits of Administrative Operations - A Compilation Report
(Report No. 95-HOC-23)

Attached is a compilation of 18 individual audit reports prepared by Price Waterhouse LLP that focus on economy, efficiency, and effectiveness issues as well as the internal controls environment in various House administrative operations. This report is a companion to the Price Waterhouse LLP financial statements audit report, entitled *Audit of Financial Statements for the 15-Month Period Ended December 31, 1994, Report No. 95-HOC-22*.

Attachment

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Members, Committee on House Oversight

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I. Introduction

Our 18 individual performance audits of the administrative and information systems operations of the U.S. House of Representatives (House) culminated in the completion of this combined report. The report is unique in many ways. It is the first time the House has comprehensively evaluated itself with reference to external standards and benchmarks. Perhaps more importantly, it is the first time the House has subjected itself to such a high degree of public accountability. The performance audits together with the financial statement audit provide the House with opportunities to achieve immediate cost savings, to report and monitor on-going economy via the financial statements, and to provide an inducement to make future decisions that duly consider both the quality and cost of providing services to Members.

II. Summary of Results

In conducting our performance audits, some overriding observations emerged. First, because the House did not expose its financial and administrative operations to full public accountability, incentives and information to avoid excessive costs were lacking. Members were not provided with modern management tools and information that would have allowed them to better manage their finances.

Secondly, the House generally operated in a way that erred on the side of providing Members with the services they wanted without due regard to economy. Mechanisms were not in place to encourage Members and administrative management to acquire and use goods and services with economy and efficiency. Incentives for economy would be enhanced by having Members pay all the costs they incur from their own operating budgets.

Finally, the House operated under rules and requirements that were less restrictive than those of other organizations. This had the effect of creating a control and operating environment that was too lenient. Coupled with the absence of full public accountability, lenient controls can significantly impair an organization's ability to continually operate in accordance with its own rules and standards and with the expectations of the public. In this regard, public accountability should be viewed as a powerful and necessary control mechanism.

Poor Financial Accountability Exposed the House to Waste

For a legislative body such as the House, financial accountability over administrative functions is best achieved through periodic reporting of performance to the public. Such accountability provides an effective inducement to acquire goods and services economically and to use them efficiently. This also means that Members and the administrative management of the House must be provided with the necessary tools, such as modern technology that produces reliable and useful financial information, to make decisions that balance the quality of the goods and services they need with their cost.

In the case of the House, however, no means were available through which financial performance could be

measured or comprehensively reported. Neither were Members or administrative managers provided with the information that would allow them to make cost-effective decisions. On occasion, this led to poor decision-making, and in turn, to incurring unnecessary costs as shown in the table below.

Unnecessary Costs in Administrative Functions	Amount
Cost of Designing a Computer System That Did Not Meet House Needs	\$5,000,000
Cost of Maintenance and Lease Fees for Outdated Equipment	\$2,956,000
Duplicate Services, Tasks, Technologies, and Payments	\$1,232,000
Overpayments in Employees' Salaries and Benefits	\$76,000
Total	\$9,264,000

Table 1 - The House lost \$9.3 million due to unnecessary costs in administrative functions.

Table 1 demonstrates four types of waste: (1) developing poorly designed systems, (2) continuing to pay maintenance and lease fees for old, obsolete equipment, (3) providing duplicate services, and (4) making overpayments to employees in salaries and benefits contributions.

At the time of our audit, the House was completing the design of a new Financial Management System (FMS) to replace an existing system that was nearly 20 years old and capable of producing only rudimentary cash-basis information. Its primary use was as an automated checkbook. The development of a new FMS was originally planned to last less than two years, at an estimated budgeted cost of \$1 million to \$2 million. But after nine years and more than \$5 million, the new FMS was still not complete. Even if it were complete, it would not have provided information to allow the House to operate like a private organization, or even an Executive Branch Agency.

The design of the new system did not incorporate more modern and acceptable features such as accrual-based accounting, budgetary control at the time of order rather than at the time of payment, and allocation of costs to individual cost centers. Had the House followed a proven systems development methodology consistent with either private industry or government standards, it would have identified the need to design a system that accommodated more modern financial management standards and practices. But because it did not, the system could not be salvaged and had to be abandoned.

An effective financial management system would also have prevented inefficient spending. It could have prompted members and employees that they were making payments on old or outdated equipment. But because the House lacked such a system, inefficient spending occurred.

Members' offices, committees, and administrative offices paid maintenance fees for purchased equipment over six years old and of questionable utility. As a result, the House spent an estimated \$2.2 million to maintain outdated equipment. In addition, we estimated the House spent, at least, \$756,000 for leases and related services on outdated equipment. Duplicate services, activities, and payments were made by House

administrative offices. Offices with these problems included: the Office of Finance, Media Services, Human Resources, and HIS.

Services Provided to Members Were not Always Cost Effective

According to the Customer Satisfaction Survey we conducted in March 1995, with only a few exceptions, Members and House employees were generally satisfied with the services provided. Administrative offices aimed to please their customers and the results of the survey bear this out. But another important question is whether services were provided and delivered in an economical and cost-effective manner. Here the results of our performance audits are mixed at best. Services tend to be delivered without an accurate knowledge of costs, particularly as compared to costs of an acceptable level of service delivered by a comparable source. The difficult task for most government and private organizations is to provide a high level of customer satisfaction at the most economical cost.

Compared to other government agencies and private sector organizations, many House services are inefficient and expensive. Top organizations continually compare themselves with the best practices in other organizations. This comparison allows them to evaluate and improve their operations and cost structure to be cost competitive.

Because the House did not routinely compare its costs to benchmarks, it did not identify opportunities to eliminate excess costs and inefficiencies. Table 2 summarizes opportunities for cost savings identified by our audits.

Opportunities for Cost Savings	Amount
Employees Staffed at Peak Workload rather than Seasonal Workload	\$5,133,000
Higher Wages Compared to Private Sector Organizations	\$4,108,000
Payments for Unnecessary Services	\$1,907,000
Charge for Less than the Full Cost of Goods and Services	\$535,000
Total	\$11,683,000

Table 2- The House has opportunities to achieve \$11.7 million in cost savings.

Four major inefficient practices were performed across numerous administrative offices. First, administrative offices maintained services for Members on a full-time basis even though in some periods these services were rarely used. As a result, many employees were underutilized and paid for idle time. For example, we estimate the House paid \$1 million annually for idle employee time in Office Furnishings.

A second common inefficiency was paying wages that were significantly higher than those paid by private organizations for comparable job duties and responsibilities. For example, we estimate the House overpaid certain Publications and Distribution employees by \$668,000 as compared to private sector organizations.

A third inefficiency is that House administrative offices made payments for unnecessary services. These payments occurred because offices were not held accountable for minimizing costs and providing services in an economical way. For example, we estimate that House administrative offices stored old, outdated furniture and equipment at a cost of \$211,000.

House administrative offices often charged less than full cost for their services. Due to the limitations of their financial management system, offices did not know the full cost of their operations. This resulted in unrecovered costs as the House did not charge the users the full cost of these services. For example, the House lost \$240,000 on its sales of American flags to the public because the mark-up on these flags did not recover the full cost.

All of these instances were caused by a desire to serve Members without due concern for the cost. Using benchmarks, providing public accountability for the cost of services, and ensuring that users pay the full cost for services will provide a strong inducement to achieve greater economy.

The House's Computer Systems Were Vulnerable to Misuse and Unauthorized Access

Information stored on House computer systems was vulnerable to tampering or destruction by unauthorized users within the House or from "hackers" breaking into the information systems by telephones or through the Internet. This meant that unauthorized users had the opportunity to read, download, or alter sensitive information contained on the personal computers and local area

networks of Members and committees.

The House had too few information security staff to detect security breaches in a timely manner. The existing information security staff focused their efforts on protecting the mainframe computer and spent little time focusing on security over office-level systems including local area networks, use of the Internet¹, stand alone microcomputers, and other distributed computing systems used by Members, committees, and House administrative offices.

The House had inadequate disaster recovery plans for the mainframe computer, telecommunication systems, and office-level systems. If major problems caused the computers to fail, the House would have probably been unable to recover any of the information stored on those systems.

The House did not conduct adequate security checks on its personnel. Employee background checks were performed in the past by the former HIS Security Officer, but were limited in scope and inconsistently applied. New HIS employees were subject to the background checks, however, the process was not formalized and supporting documentation was not maintained. Existing HIS employees were not subject to background checks. Furthermore, security clearances are not periodically updated, as required of Executive Branch employees by the Federal Personnel Management Regulations (FPMR).

Although the risks from these inadequacies are non-quantifiable, they are significant. For example if a Member's e-mail system were penetrated, confidential information could be obtained. Inadequate disaster recovery plans could result in essential financial data being lost. Information would have to be reconstructed from paper files at a great cost.

Significant Weaknesses Existed in the House's Internal Control Structure

Internal controls were weak throughout House administrative operations. Among the objectives of internal controls are to help assure reliable financial reporting, safeguard assets from loss and misuse, stay within budget limitations, and comply with applicable laws, rules, and regulations. Our audits found control weaknesses in each of these areas.

Financial Reporting

The House's financial reporting system was, in concept, a large checkbook, limited to keeping a running balance of cash received and cash disbursed. The system did not track the debts the House owed or the assets it owned. The system also allocated costs inconsistently and incompletely, obscuring the true cost of supporting Members, committees, and House offices. As a result, the House was limited in its ability to

¹ The Internet is a large international network that connects many computer systems, providing network services including, e-mail, remote terminal sessions, and multi-media services such as the world-wide web.

make informed decisions on the cost effective use of resources and to provide financial accountability to the public.

Safeguarding Assets

Weak controls and enforcement of rules surrounding travel expenses resulted in charge card vendors and some Members and staff being paid twice for the same travel costs. The financial system could not detect a duplicate travel voucher if it was submitted more than two months after the original. Also, for all of the duplicate travel payments we found, the Committee on House Administration waived compliance with House rules on timely submission, inclusion of original receipts, or both.

Budgeting

The House's weak controls over spending and poor financial information about budget execution resulted in Members expending \$14.2 million more than had been appropriated for their allowances. At the end of the fiscal year the House reprogrammed \$11.6 million from other FY 1994 appropriations and \$2.6 million from unused appropriations from prior years.

Compliance

The Committee on House Administration routinely granted exceptions to House rules undermining the effectiveness of those rules as control mechanisms. For example, the Committee denied only three percent of more than 1,000 requests to buy equipment not on the House Approved List. This greatly diminished the effectiveness of a qualified vendors list. Also, about seven percent of travel costs, or \$900,000, were paid on vouchers for which the Committee granted exceptions to House rules. Lenient enforcement of rules on travel expenses may have caused Members and staff to be less diligent about keeping proper records of their travel costs, submitting travel vouchers on time, and paying their government furnished charge card bills on time.

III. Objectives, Scope, and Methodology

We conducted performance audits of the administrative services and information systems operations of the U.S. House of Representatives.

The objectives of our performance audits of House support services were to:

- Examine areas to improve economy, efficiency, and effectiveness of program operations.
- Identify ways to eliminate waste, inefficiencies, fraud, abuse, and mismanagement.
- Highlight areas for contracting out, privatizing, streamlining, downsizing, and elimination.

The objectives of our audit of HIS were to:

- Test security of dial-in and Internet access to House systems including Member offices' electronic mail and correspondence management systems.
- Determine if the proposed new FMS would meet the House's needs.
- Determine the efficiency and effectiveness of HIS's plans and budgets, standards, policies and procedures, organizational structure, personnel management and training practices, and systems development practices.
- Assess the effectiveness of data security within the House to ensure integrity, confidentiality, and availability of information resources.

The scope of the performance audits reviewed the administrative and computer system operations of the House and HIS. Administrative functions included the Office of the Clerk, the Office of the Doorkeeper, the Office of the Sergeant at Arms, and the Director of Non-legislative and Financial Services during the audit period. Since the administrative structure of the House has changed in the 104th Congress, we also reviewed various aspects of the newly created Office of the Chief Administrative Officer. For the HIS audit, we reviewed HIS and related offices using HIS systems including administrative and Members' offices.

These performance audits resulted in 18 separate audit reports, which have been compiled in this report. The specific objectives, scope, and methodology for each audit are presented together with our detailed findings and recommendations. To complete our review, we:

- Interviewed over 150 House employees including current and former House Officers, office managers, and support staff. The HIS audit included interviews of staff in Members' offices.
- Compared services provided by the House to its Members to similar services provided by comparable government and private sector organizations.
- Assessed staffing levels in offices against seasonal fluctuations in workload.
- Assessed the effectiveness of services provided by conducting a customer satisfaction survey.
- Documented and assessed key processes to identify duplicate or non-value added activities.
- Reviewed Internet security and control weaknesses for HIS.

- Tested for weaknesses in Members' computer systems security and control.
- Evaluated the ability of the proposed new FMS to satisfy the House's needs and evaluated the adequacy and effectiveness of the management practices followed to develop this FMS.

We performed our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audits covered the period from October 1, 1993, through December 31, 1994. We performed our work from February through May 1995.