

May 1993

FINANCIAL AUDIT

House Office of the Sergeant at Arms— Periods Ended 12-31-91, 6-30-91, and 12-31-90



**Comptroller General
of the United States**

B-114854

May 26, 1993

**To the Speaker and the Sergeant at Arms
of the House of Representatives**

In accordance with the act of July 26, 1949 (2 U.S.C. 81a), we audited the balance sheets of the three appropriated funds and the Deposit Fund ("House bank") administered by the Office of the Sergeant at Arms, House of Representatives, as of December 31, 1991, June 30, 1991, and December 31, 1990, and the related statements of operations and cash flows for each of the 6-month periods then ended. We found the financial statements were reliable in all material respects.

Further, our audit included limited tests of internal controls and compliance with laws and regulations that disclosed

- no material weaknesses in the internal control structure and its operation and
- no material noncompliance with laws and regulations we tested.

In our prior report (GAO/AFMD-91-11, September 18, 1991) on these funds as of June 30, 1990, and December 31, 1989, we reported that the House bank had continued to honor significant numbers of insufficient funds checks, primarily for Members of Congress. Subsequently, in October 1991 the House resolved that the Sergeant at Arms cease all banking and check cashing operations by December 31, 1991, effectively closing the bank on that date. Also, pursuant to a vote of the House, the House Committee on Standards of Official Conduct undertook an investigation of Members' use of the bank.

In the following sections, we outline each conclusion in more detail and discuss the scope of our audits.

**Opinion on Financial
Statements**

The financial statements and accompanying notes for the three appropriated funds and the Deposit Fund administered by the House Sergeant at Arms present fairly, in conformity with generally accepted accounting principles, the funds'

- assets, liabilities, and government equity or Members' balances;
- funding sources, receipts, expenditures and disbursements; and
- cash flows.

As discussed in note 1, the financial statements present only the four funds administered by the House Office of the Sergeant at Arms. They do not present the financial position and results of operations of the House Office of the Sergeant at Arms as a whole.

As also discussed in note 1, the House bank was closed during December 1991. As a result, the banking activities reported in the Deposit Fund financial statements are not expected to be a part of the Sergeant at Arms' operations in future periods.

Consideration of Internal Control Structure

The internal controls we considered were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with management authority and with laws and regulations we tested; and
- properly record, process, and summarize transactions to (1) permit the preparation of financial statements in accordance with generally accepted accounting principles and (2) maintain accountability for assets.

Our consideration of the internal control structure would not necessarily disclose all material weaknesses. Material weaknesses are conditions in which controls do not reduce the risk of errors or irregularities in the financial statements to a relatively low level. We are not expressing an opinion on internal controls because of the limited scope of our work. However, we found no material weaknesses in the internal control structure and its operation.

Compliance With Laws and Regulations

Our overall work and specific tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance. We did find, however, that after the Speaker of the House announced that the bank would no longer hold checks on overdrawn accounts, the bank continued to receive checks for which there were insufficient funds on deposit.

On September 25, 1991, the Speaker announced on the House floor that "... checks with insufficient funds to cover them will be returned, at the close of business on the day they are received." The Speaker also said that "... under the new procedures it will be clear that there are no special privileges to any Member of Congress under any circumstances other than

those which would be accorded to any citizen under similar circumstances." The Speaker emphasized that the new procedures were "... in accordance with the practice of any federal depository institution with respect to its customers—no more and no less." On October 3, 1991, the House of Representatives passed Resolution 236 ordering all banking and check cashing operations of the House bank to cease by December 31, 1991.

We found that from September 26, 1991, until the bank closed on December 31, 1991, Members presented 97 insufficient funds checks for payment. One was returned. Of the remaining checks, 27 were dated September 25 or earlier and are presumed to have been in the banking system prior to the Speaker's announcement, leaving 69 of the insufficient funds checks totaling \$36,313 as having been drawn after the Speaker's announcement.

All 96 insufficient funds checks were made good by the close of the business day following initial presentment—generally, according to bank staff, after Members were notified by telephone that their accounts were overdrawn. A bank employee told us that the bank could not have returned the checks until the next business day because of the time required to process the checks and determine whether any accounts did not have sufficient funds.

In our initial draft of this report, we noted that the practice of holding Members' checks over to the next business day did not appear to be consistent with the Speaker's floor statement of September 25, notwithstanding that Members covered their deficiencies by close of the next business day. We interpreted the Speaker to have intended that further accommodations to Members would not be made—that it was his intention to have any checks which could not be honored returned at the close of business on the day of presentment.

In a memorandum to the Chairman and Ranking Minority Member of the House Committee on Standards of Official Conduct, committee staff, in commenting on a draft of this report, stated that actions taken by the bank staff after September 25 with regard to insufficient funds checks were "... reasonable, and well within both the spirit of the directive and the parameters of standard commercial banking practice." (The memorandum is included as appendix I.) We found that while commercial banking practices are not uniform, it is not uncommon for banks to alert preferred

customers of their overdrafts and to wait until the next business day for receipt of funds before returning overdrafts.

Objectives, Scope, and Methodology

Management is responsible for

- preparing the annual financial statements in conformity with generally accepted accounting principles,
- establishing and maintaining an internal control structure to provide reasonable assurance that the internal control objectives previously mentioned are met, and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are reliable (free of material misstatement and presented fairly in conformity with generally accepted accounting principles). We are also responsible for considering the internal control structure in order to determine our auditing procedures for expressing an opinion on the financial statements, not to provide assurance on the internal control structure. In addition, we are responsible for testing compliance with selected provisions of laws and regulations.

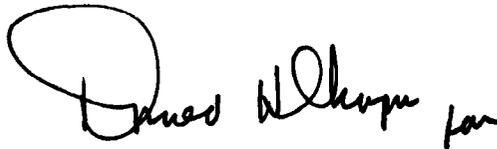
In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the design of relevant internal control structure policies and procedures, determined whether they had been placed in operation, assessed the associated control risk, and conducted limited tests of relevant internal controls including those over payroll, cash receipts, cash payments, and financial reporting; and
- tested compliance with selected provisions of
 - 2 U.S.C. 31, 38a, 40, 43, and 43b-1 through 3, which relate to the amount and disposition of House Members' salaries and travel reimbursement;
 - 2 U.S.C. 78, 80, 80a, 81b, and 81c, which relate to disbursing appropriated or trust funds;
 - 31 U.S.C. 5311, 5312, 5313, 5325, and 31 CFR 103, which relate to the recording and reporting of cash transactions to the Department of the Treasury;

-
- Office of Personnel Management regulations on employee benefits and employer costs; and
 - Internal Revenue Service regulations on income tax withholdings.

It is important to note that because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements may nevertheless occur and not be detected. Also, projecting any evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We performed our audits in accordance with generally accepted government auditing standards. We completed our audit work on February 18, 1993.

A handwritten signature in black ink, appearing to read "Charles A. Bowsher for". The signature is written in a cursive style with a large initial "C".

Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Balance Sheets—Appropriated Funds

	December 31, <u>1991</u>	June 30, <u>1991</u>	December 31, <u>1990</u>
Assets			
Funds with U.S. Treasury	\$59,123,961	\$24,565,310	\$57,487,225
Accounts receivables	<u>37,769</u>	<u>6,979</u>	<u>7,871</u>
Total Assets	<u>\$59,161,730</u>	<u>\$24,572,289</u>	<u>\$57,495,096</u>
Liabilities and Government Equity			
Liabilities			
Salaries payable	\$ 5,751,829	\$ 5,445,047	\$ 4,415,963
Other	<u>3,913</u>	<u>7,857</u>	<u>919</u>
Total liabilities	5,755,742	5,452,904	4,416,882
Government Equity			
Unexpended appropriations	<u>53,405,988</u>	<u>19,119,385</u>	<u>53,078,214</u>
Total Liabilities and Government Equity	<u>\$59,161,730</u>	<u>\$24,572,289</u>	<u>\$57,495,096</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

Statements of Operations—Appropriated Funds

	6-month period ended		
	December 31, <u>1991</u>	June 30, <u>1991</u>	December 31, <u>1990</u>
Funding Sources			
Appropriations expended	\$33,066,280	\$34,083,929	\$25,207,595
Miscellaneous receipts recognized (note 2)	<u>65,969</u>	<u>32,833</u>	<u>14,002</u>
Total Funding Sources	<u>\$33,132,249</u>	<u>\$34,116,762</u>	<u>\$25,221,597</u>
Expenditures			
Members' Salaries	\$27,505,942	\$27,430,883	\$21,196,973
Employee benefits			
Retirement (note 3)	3,775,710	3,736,175	2,754,051
Thrift savings plan	502,662	492,267	404,920
Social Security	693,638	1,655,154	275,800
Health insurance	517,779	522,528	503,201
Life insurance	<u>56,892</u>	<u>57,610</u>	<u>44,104</u>
Total employee benefits	5,546,681	6,463,734	3,982,076
Mileage of Members	13,657	64,212	28,546
Payments to widows, widowers, or heirs of deceased Members	0	125,100	0
Miscellaneous (note 2)	<u>65,969</u>	<u>32,833</u>	<u>14,002</u>
Total Expenditures	<u>\$33,132,249</u>	<u>\$34,116,762</u>	<u>\$25,221,597</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

Statements of Cash Flows—Appropriated Funds

	6-month period ended		
	December 31, 1991	June 30, 1991	December 31, 1990
Cash Flows From Operating Activities			
Appropriations received	\$70,350,000	\$ 125,100	\$62,735,000
Miscellaneous collections	35,179	31,001	13,427
Salaries and benefits paid	(32,746,280)	(32,863,088)	(25,053,252)
Miscellaneous payments	(83,131)	(214,928)	(42,580)
Net cash provided (used) by operating activities	<u>37,555,768</u>	<u>(32,921,915)</u>	<u>37,652,595</u>
Cash Flows From Financing Activities			
Unexpended appropriations returned to Treasury	(2,997,117)	0	(3,631,123)
Net Cash (Used) by Financing Activities	<u>(2,997,117)</u>	<u>0</u>	<u>(3,631,123)</u>
Net Increase (Decrease) in Cash	34,558,651	(32,921,915)	34,021,472
Cash at beginning of period	<u>24,565,310</u>	<u>57,487,225</u>	<u>23,465,753</u>
Cash at End of Period	<u>\$59,123,961</u>	<u>\$24,565,310</u>	<u>\$57,487,225</u>
Reconciliations of Excess of Funding Sources Over Expenditures to Net Cash Provided (Used) by Operating Activities			
Excess of funding sources over expenditures	\$ 0	\$ 0	\$ 0
Adjustments to reconcile excess of funding sources over expenditures to net cash provided (used) by operating activities			
Appropriations received	\$70,350,000	\$ 125,100	\$62,735,000
Expended appropriations	(33,066,280)	(34,083,929)	(25,207,595)
(Increase) decrease in assets:			
Accounts receivable	(30,790)	892	(3,298)
Increase (decrease) in liabilities:			
Salaries payable	306,782	1,029,084	128,626
Other payables	(3,944)	6,938	(138)
Total adjustments	<u>37,555,768</u>	<u>(32,921,915)</u>	<u>37,652,595</u>
Net Cash Provided (Used) by Operating Activities	<u>\$37,555,768</u>	<u>\$(32,921,915)</u>	<u>\$37,652,595</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

Balance Sheets—Deposit Fund

	December 31, <u>1991</u>	June 30, <u>1991</u>	December 31, <u>1990</u>
Assets			
Cash			
Funds with U.S. Treasury (note 4)	\$(55,445)	\$1,351,951	\$1,109,151
Cash on hand	54,746	188,335	168,925
Checks on hand (note 5)	<u>0</u>	<u>139,024</u>	<u>75,160</u>
	<u>(699)</u>	<u>1,679,310</u>	<u>1,353,236</u>
Accounts Receivable			
From Members (note 6)	0	117,698	246,855
Other (note 7)	<u>699</u>	<u>1,498</u>	<u>868</u>
	<u>699</u>	<u>119,196</u>	<u>247,723</u>
Total Assets	\$ <u>0</u>	<u>\$1,798,506</u>	<u>\$1,600,959</u>
Liabilities and Members'			
Balances			
State tax payable	\$ 0	\$ 513,036	\$ 0
Members' balances	<u>0</u>	<u>1,285,470</u>	<u>1,600,959</u>
Total Liabilities and Members' Balances	\$ <u>0</u>	<u>\$1,798,506</u>	<u>\$1,600,959</u>

The accompanying notes are an integral part of these financial statements.

Statements of Receipts and Disbursements—Deposit Fund

	6-month period ended		
	December 31, <u>1991</u>	June 30, <u>1991</u>	December 31, <u>1990</u>
Receipts			
Transfers from appropriated funds	\$12,132,891	\$13,800,764	\$11,831,480
Members' deposits	4,656,207	7,929,887	8,361,864
Sale of financial instruments (note 8)	<u>385,057</u>	<u>842,704</u>	<u>370,881</u>
Total receipts	<u>17,174,155</u>	<u>22,573,355</u>	<u>20,564,225</u>
Disbursements			
Net payments to or for Members	16,906,247	20,943,008	19,435,500
State income tax withheld remitted to states	1,562,860	461,569	753,593
Payment for financial instruments sold (note 8)	<u>385,057</u>	<u>842,704</u>	<u>370,881</u>
Total disbursements	<u>18,854,164</u>	<u>22,247,281</u>	<u>20,559,974</u>
Excess Receipts (Disbursements)	<u>\$(1,680,009)</u>	<u>\$ 326,074</u>	<u>\$ 4,251</u>

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows—Deposit Fund

	6-month period ended		
	December 31, <u>1991</u>	June 30, <u>1991</u>	December 31, <u>1990</u>
Cash Flows From Operating Activities			
(Increase) decrease in assets			
Accounts receivable from Members	\$ 117,698	\$ 129,157	\$ (104,847)
Accounts receivable--other	799	(630)	8,355
Increase (decrease) in liabilities			
Members' balances	(1,285,470)	(315,489)	100,743
State taxes payable	<u>(513,036)</u>	<u>513,036</u>	<u>0</u>
Net cash provided (used) by operating activities	(1,680,009)	326,074	4,251
Cash at beginning of period	<u>1,679,310</u>	<u>1,353,236</u>	<u>1,348,985</u>
Cash at End of Period (Shortage) (note 7)	\$ <u>(699)</u>	<u>\$1,679,310</u>	<u>\$1,353,236</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Significant Accounting Policies

Description of the Entity

The Sergeant at Arms, as a fiscal officer of the House of Representatives, receives and disburses three appropriated funds which are separately used for (1) salaries and benefits of Members, (2) mileage of Members to and from each session of the Congress, and (3) payments to widows, widowers, or heirs of deceased Members. The Sergeant at Arms also administered a deposit fund, commonly referred to as the "House bank," which was used to operate a deposit and check cashing function for House Members.

In September 1991, GAO reported that ineffective procedures continued to result in the House bank cashing significant numbers of insufficient funds checks. In response, the House resolved in October 1991 that the Sergeant at Arms cease all banking and check-cashing operations by December 31, 1991. This action effectively closed the House bank on that date.

Appropriated Funds

Appropriated funds are disbursed on the basis of monthly payroll vouchers covering salaries, benefits, and mileage of Members. Members are paid on the first workday after the month in which the salary is earned. Accordingly, salaries payable represent Members' salaries and benefits for the last month of the financial reporting period.

Deposit Fund

The Deposit Fund consisted, primarily, of individual checking accounts for Members who elected to use the House bank facility. Members withdrew money from their accounts in the deposit fund by presenting House bank checks for payment either directly to the Sergeant at Arms or through regular banking channels. Money on deposit at the House bank was also used to cash checks drawn on other banks for Members, employees of the House, and former Members of the House. Cashed checks drawn on other banks were deposited in the U.S. Treasury through a local bank on the next business day. Losses incurred in conducting check-cashing activities (including cashiers' shortages) that were not the result of lack of due care were authorized for reimbursement by the Committee on House Administration from the fund for contingent expenses of the House, according to 2 U.S.C. 81b.

Other House bank operations included selling traveler's checks and assisting Members in making wire transfers and purchasing foreign currency, Treasury securities, and cashier's checks.

Prior to December 1, 1991, Members who maintained House bank accounts could have their salaries and mileage reimbursements transferred from the appropriated funds to their

Financial Statements

credit in the Deposit Fund. State income taxes withheld from Members' salaries were also transferred from the appropriated funds to the Deposit Fund where they remained until remitted to the states. As of December 1, 1991, the Sergeant at Arms stopped transferring amounts due Members to the Deposit Fund and, on December 31, 1991, ceased all banking and check cashing operations.

Basis of Accounting

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting in accordance with generally accepted accounting principles.

Costs Paid From Other Appropriations

The financial statements do not include related operating costs of the House Office of the Sergeant at Arms. As provided under Public Laws 101-163, 101-520, and 102-90, salaries and expenses of the Office were paid from separate appropriations for salaries and expenses of the House of Representatives and are shown in the following table. The financial statements also do not include costs for space, utilities, and furniture, as those amounts cannot be readily determined.

Identifiable Costs of the House Office of the Sergeant at Arms Paid With Other Appropriations

<u>Costs paid</u>	6-month period ended		
	December 31, 1991	June 30, 1991	December 31, 1990
Personnel compensation	\$362,111	\$352,650	\$319,850
Personnel benefits	53,547	53,177	48,421
Office equipment rental	41,237	43,779	42,804
Other ^a	19,327	32,901	23,640
Total	\$476,222	\$482,507	\$434,715

^aOther includes ADP support, congressional lapel pins, office supplies, House bank checks, and bonding insurance.

Note 2. Miscellaneous Receipts and Expenditures

Miscellaneous receipts and expenditures of the appropriated funds consist of two categories. The first category consists of receipts from Members for their contributions to

the retirement fund for military service after 1956 and the subsequent disbursement of those funds.

The second category consists of expenditures for the replacement of checks reported lost or stolen and subsequent receipts for amounts credited by the U.S. Treasury when it has been determined that only one check will be cashed in each instance where a replacement check has been issued.

Note 3. Members' Retirement Benefits

The House Office of Sergeant at Arms contributes to the cost of Members' retirement plans. Members' retirement is covered by either the Civil Service Retirement System or the Federal Employees' Retirement System, both of which are defined benefit plans, and the Thrift Savings Plan, a defined contribution plan. While the Sergeant at Arms has no liability for future payments to Members under these programs, the Federal Government is liable for future payments to them through the Office of Personnel Management.

Note 4. Funds with U.S. Treasury

The negative balance of Funds with U.S. Treasury in the Deposit Fund as of December 31, 1991, occurred because the House bank maintained cash on hand to meet expected demands and to facilitate Members closing their individual accounts. However, more Members requested payments by Treasury check rather than cash than had been anticipated. Cash on hand of \$54,746 was deposited with Treasury on January 2, 1992, which covered the negative balance of funds with U.S. Treasury, except for the \$699 discussed in note 7.

Note 5. Checks on Hand

Checks on hand represent checks drawn on other banks and cashed for Members and employees of the House on the last business day of the 6-month period, but not yet deposited with the U.S. Treasury. There were no checks on hand at December 31, 1991. Checks on hand amounted to \$139,024, and \$75,160 as of June 30, 1991, and December 31, 1990, respectively. The check-cashing transactions for the 6-month periods ending December 31, 1991, June 30, 1991, and December 31, 1990, are summarized in the following table.

Check-Cashing Transactions

	6-month period ended		
	December 31, <u>1991</u>	June 30, <u>1991</u>	December 31, <u>1990</u>
Checks on hand at beginning of period	\$ 139,024	\$ 75,160	\$ 258,128
Checks cashed	<u>6,275,046</u>	<u>9,911,991</u>	<u>10,743,252</u>
Subtotal	6,414,070	9,987,151	11,001,380
Checks deposited with U.S. Treasury	<u>6,414,070</u>	<u>9,848,127</u>	<u>10,926,220</u>
Checks on hand at end of period	\$ <u>0</u>	\$ <u>139,024</u>	\$ <u>75,160</u>

Note 6. Accounts Receivable from Members

Amounts due from Members represent checks drawn on and cashed or paid by the Sergeant at Arms but not charged to the Members' accounts. Checks were held for reasons such as insufficient funds, missing signature, incorrect date, or a stop-payment order. The Sergeant at Arms monitored all such items daily, and no financial losses were recorded under these procedures.

Note 7. Accounts Receivable--Other

The other accounts receivable for the Deposit Fund consisted primarily of the cashiers' net shortages at the end of each 6-month period. The net amount receivable at the end of each calendar year was reimbursed to the Sergeant at Arms from the fund for contingent expenses of the House. Subsequent to calendar year-end, the Sergeant at Arms reported receipts of \$699 and \$868 for the net amounts receivable as of December 31, 1991 and 1990, respectively.

Note 8. Sale of Financial Instruments

The sale of financial instruments is comprised of payments to the Sergeant at Arms for (1) ordering cashier's checks, wire transfers, and Treasury securities from other institutions on behalf of Members and others, (2) selling traveler's checks, and (3) issuing Treasury checks. The Sergeant at Arms sold travelers checks and issued Treasury checks to pay for the above services in exchange for cash, checks written on House bank accounts, and checks written on outside accounts. The Sergeant at Arms stopped

providing these services when the House bank ceased operations on December 31, 1991. The results of these sales are summarized in the following table.

Sales of Financial Instruments

	6-month period ended		
	December 31, <u>1991</u>	June 30, <u>1991</u>	December 31, <u>1990</u>
Cashier's checks	\$ 95,146	\$ 94,812	\$ 34,495
Wire transfers	12,660	17,686	51,906
Treasury securities	40,000	500,000	70,000
Treasury checks to individuals and others	141,351	177,556	125,327
Traveler's checks	<u>95,900</u>	<u>52,650</u>	<u>89,153</u>
Total	<u>\$385,057</u>	<u>\$842,704</u>	<u>\$370,881</u>

Memorandum to Mr. McDermott and Mr. Grandy

ONE HUNDRED THIRD CONGRESS
JIM McDERMOTT, WASHINGTON, CHAIRMAN
GEORGE (BUDDY) DARDEN, GEORGIA
BENJAMIN L. CARDIN, MARYLAND
NANCY PELOSI, CALIFORNIA
KWESHI INFANTE, MARYLAND
ROBERT A. BORKER, PENNSYLVANIA
THOMAS C. SAWYER, OHIO

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON STANDARDS OF OFFICIAL CONDUCT

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BERNARD RAIMO, CHIEF COUNSEL

April 21, 1993

MEMORANDUM FOR MR. McDERMOTT AND MR. GRANDY

FROM: Bernard Raimo *BR*
Edward W. Hosken, Jr. *EWH*

SUBJECT: GAO Draft Report of the Financial Audit of the House Bank

You have asked us to review the General Accounting Office's April 1993 draft report of its financial audit of the Office of the Sergeant-at-Arms, and to determine the factual basis for the report's conclusion that the House Bank's staff did not fully comply with guidance provided by the Speaker concerning the processing of insufficient funds checks. We have done so and render the following report. It is based on conversations with officials of the GAO, the Office of the Sergeant-at-Arms, and three diverse commercial banking facilities.

BACKGROUND

As fully detailed in the March 1992 Committee report on the House Bank (H. Rept. 102-452), it was the standard policy of the House Bank for several decades to honor all account checks written by House Members and to hold those not covered by sufficient funds until additional funds were deposited.¹ In practice, the bank operated as follows.

On each business day, usually around 10:00 A.M., a messenger from the Baltimore branch of the Richmond Federal Reserve Bank delivered to the House Bank checks written on House Bank accounts and processed through the Federal Reserve system. The messenger would then proceed on other rounds and return to the House Bank in approximately one hour to collect the Sergeant-at-Arms check written in payment of the delivered checks. The hour was used by House Bank bookkeepers to compare the face amount of a check with the amount listed by the Federal Reserve. If a check was to be returned the face amount of that check was deducted from the check written to the Federal Reserve, as the House Bank and the Federal Reserve

¹ As stated in the Committee report, all checks were covered, no money was ever lost, and the funds used to honor the held checks consisted solely of the deposits of other Members of the House.

**Appendix I
Memorandum to Mr. McDermott and
Mr. Grandy**

always operated on a cash basis.² The House Bank exchanged checks or other documents with the Federal Reserve Bank only by way of the Federal Reserve messenger.

After the messenger's second and last appearance of the day the bank staff would begin alphabetizing that day's checks and posting them to each Member's account, a process usually completed between 3:00 and 4:00 in the afternoon. At that time, those checks not covered by sufficient funds were collected and held separately in the vault area. The name of the writer of each such check and the face amount thereof were recorded on the back of the Bank's daily settlement sheet. The check would be so held until the Member's account had sufficient funds to cover it. Such checks were often held for several days, or, not infrequently, until the end of the month.

The practice of holding checks ended on September 25, 1991, when Speaker Foley, in an address to the House, informed Members that he had ordered the staff of the House Bank to return at the close of business on the day received all checks with insufficient funds to cover them.

GAO DRAFT REPORT

The draft report, most of which concerns matters unrelated to the Speaker's directive, notes that the GAO audited the balance sheets of the House Bank and the three appropriated funds administered by the Sergeant-at-Arms, and concludes that the financial statements were reliable, that there were no material weaknesses in the internal control structure and its operation, and that no material non-compliance with laws and regulations was found.

However, in the puzzling aside which generates this memorandum, the draft report points out that from September 26, 1991, until the closing of the House Bank on December 31, 1991, 97 insufficient funds checks — 69 of them dated after September 25 — were presented to the House Bank, and that only one was returned. The draft report then states:

While we found that all insufficient checks honored were made good by the end of the next business day — generally after the bank staff called Member's offices — this practice did not appear to be consistent with the guidance provided by the Speaker on September 25. An official in the Office of the Sergeant-at-Arms told us that the House bank could not have returned the checks until the next business day because of the time required to process the checks and determine whether any accounts did not have sufficient funds.

² While the determination as to whether an account possessed sufficient funds to cover checks presented each day was made during the afternoon posting process, occasionally those totalling the face amounts of the checks during the hour interval between appearances of the Federal Reserve messenger would recognize a particular check, because, for example, it was written for an unusually large amount or on a continually overdrawn account. That check would be pulled and the writer notified that he or she had one hour to make a deposit or the check would be returned.

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However, bank staff informed us that they scanned the checks each day before processing them and if they noticed one that was likely to have insufficient funds, they would call the Member immediately. According to bank staff, such a call resulted in the one returned check, which was returned to the payee at the Member's request. The House Bank and all Members' bank accounts were closed on December 31, 1991, and no checks were cashed by the House Sergeant-at-Arms after that date.³ We did not identify any financial losses related to the bank's closing.

In summary, what the GAO auditors actually found was that, in contrast to the practice which had existed for many years, after September 25, 1991, all insufficient funds checks presented to the House Bank were either returned (one check) or made good within 24 hours, prior to the Bank's first opportunity to return them. Nonetheless, the auditors felt compelled to note and to emphasize non-compliance with the Speaker's directive, a matter with no bearing on the GAO's charge to conduct a financial audit.

IMPLEMENTATION OF SPEAKER'S DIRECTIVE

On September 24, 1991, the former Sergeant-at-Arms and the former Bank Director were personally informed of the Speaker's new policy. They also were present on the House floor the next day when it was announced to the Membership. [Neither of them have been contacted in connection with this inquiry.]⁴

The current Chief of Staff of the Office of the Sergeant-at-Arms, who was also a supervisor at the time of the events in question, indicates that the staff was informed of the directive by the Bank Director and otherwise became aware of it through viewing the floor proceedings on television. In response, the Bank ceased the routine practice of holding checks indefinitely.

As noted above, the Federal Reserve delivered checks to the House Bank at approximately 10:00 A.M. each business day. The Bank staff then used the ensuing hour to add up the face amount of each check to determine the amount of the Sergeant-at-Arms check to be provided the messenger upon his return.

After the checks were totalled, the process of posting began. During the period under review, 97 insufficient funds checks were presented. The writer of each of these checks, or a designated staff person, was contacted by the bank staff and told the check would be returned unless a covering deposit was made before the next morning. All but one check was covered

³ Curiously, here and elsewhere in the draft report reference is made to checks being "cashed". The problem at the House Bank was not the cashing of checks at the window, but the honoring of all checks written on the House Bank account. A reference to cashing is particularly inappropriate here, where the context is a discussion of the 97 insufficient funds checks, and may lead to confusion as well as a lack of confidence in the substance of the other comments.

⁴ The current Sergeant-at-Arms, Werner W. Brandt, did not assume office until March 12, 1992.

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— some on the day of presentment, all by the next morning when the Federal Reserve messenger arrived at the House Bank. The remaining check was returned at the direction of the writer.

Apparently, it never occurred to the Bank staff that the stringent new practice they immediately initiated in response to the Speaker's directive — requiring a deposit by the morning of the day after presentment — was, technically, not in compliance with that directive. Nor did any Bank official or staff member inform the Speaker or his staff that checks were not being returned on the day presented. Rather, operating as they did within the schedule constraints imposed by the daily rounds of the Federal Reserve messenger, the Bank staff assumed that requiring a deposit to be made prior to the earliest time that the checks could actually be returned would comply with the Speaker's guidance.

COMMERCIAL BANK PRACTICE

In order to determine commercial banking practices regarding return of overdrafts and notification thereof, we contacted officials of the Wright Patman Federal Credit Union, the Riggs National Bank, and the National Capitol Bank of Washington, and learned the following.

Each morning the Credit Union receives from the Federal Reserve Bank messenger checks drawn on its accounts. Upon delivery, the total amount of these checks is automatically debited from the Credit Union's account at the Federal Reserve. [The House Bank had no such account.] No effort is made to post the checks until the end of the business day and posting is usually not completed until the evening of the day the checks are presented.

If an insufficient funds check appears during the posting process, an attempt is made to cover the amount through deductions from an overdraft line of credit, another checking account, or a savings account — in that order. No attempt is made to contact the customer if these other accounts do not contain enough funds to cover the check.⁵ If a check is to be returned, the return is made on the evening of the next business day after presentment.

Similarly, at the Riggs National Bank, posting does not occur until the evening of the day the checks are presented and checks are never returned the same day. A senior vice-president at the bank, who possessed detailed knowledge of both House Bank operations and commercial banking practices, stated that "it would be physically impossible" for his bank to return checks the same day. Because of the volume, writers of insufficient funds checks are seldom contacted by phone. However, on occasion, when a customer is well known to a branch manager, a call is made and the customer provided the opportunity to make a covering deposit. Furthermore, the morning after presentment, a decision is made on a check by check basis whether to pay or return an insufficient funds check. Finally, whether or not a call has been made, if a covering deposit is made by mid-morning — and the customer alerts the bank — the check is not returned.

At the National Capitol Bank, a smaller, neighborhood type institution, all posting is done at night and a decision is made at 10:00 o'clock the next morning on whether to return a check

⁵ Most commercial banks do not have access to checking or savings account to cover overdrafts.

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on the daily overdraft list. The bank makes a concerted attempt to "know its customers" and frequently notifies them of overdrafts in order to give them an opportunity to make a deposit. In no case is a check returned the day it is presented.

DEPARTMENT OF JUSTICE REVIEW

Information regarding the Bank staff's treatment of insufficient funds checks received after the Speaker's floor statement was made available to and reviewed by Judge Wilkey's staff in the course of the Justice Department's inquiry into the operation of the House Bank. Judge Wilkey's report to the Attorney General did not raise any particular concern regarding the handling of these checks during the period in which the Bank's operations were being closed down.

CONCLUSIONS

House Bank Staff

There is no evidence to indicate or suggest that House Bank officials or staff set upon a deliberate course to violate the letter or spirit of the Speaker's directive, or to permit or cover up continuing overdrafts. To the contrary, they believed that they were in compliance, reasoning that the Speaker intended that insufficient funds checks be covered or returned immediately, which, to the bank staff, meant as soon as possible. As soon as possible, in turn, meant the next morning to the Bank staff, because the Federal Reserve messenger only appeared in the morning, and the posting process was not concluded until mid to late afternoon.⁶

Neither did it occur to Bank officials to explore the possibility of returning checks to Baltimore in the late afternoon or evening by way of commercial messenger or a House Bank courier. In any event, while it would have been helpful for a House Bank official to have informed the Speaker of the steps the Bank was taking to implement his directive, we view the actual practice as reasonable, and well within both the spirit of the directive and the parameters of standard commercial banking practice.

Draft Report

We are concerned with the substance and the tone of the draft report. Whether intended or not, a reading of the report leaves one with the impression that willful contravention of the Speaker's directive occurred, when it has not.

We are particularly struck by the implication that it was inappropriate for House Bank Staff to afford Members the opportunity to make an immediate deposit to cover an overdraft. In our view, in light of the decision to return checks the morning of the day after presentment — which is earlier than both the Credit Union and the Riggs Bank — it would have been

⁶ Commercial banks, it will be recalled, do not even begin the posting process until the evening.

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inappropriate not to notify Members.⁷ We note that the neighborhood commercial bank referred to above regularly provided such notice to its customers. Whether or not notice was given, the checks would not have been returned until the next morning.

We also believe that the draft report may create the false impression that there exists a conflict between "an official of the office of the Sergeant-at-Arms" and "bank staff" as to whether insufficient funds checks could be identified quickly (see page 5 of the report). There is no such conflict.

As noted earlier, each check was "scanned" in the morning to obtain the amount for which it was written. The "scanning" was a visual examination of each check to verify the amount, not a computer exercise, and it was not intended to turn up overdrafts. It was only on those infrequent occasions when the face amount of a check was strikingly large, or otherwise caught the bookkeeper's eye, that it was processed immediately. The bulk of the insufficient funds checks were not, and could not have been, identified until completion of the full posting process, which did not occur until mid to late afternoon.

The record of the House Bank is replete with error, not a little comedy, and much misinformation. It has been 20 months since the practice of holding checks ended, 16 months since the bank was closed, 12 months since this Committee's report was issued, and 5 months since the election in which many Members of both parties suffered ill consequences because of their overdrafts. It is difficult to discern what purpose is now served by the unnecessary resurrection of old, resolved issues; nor can we perceive the relevance of 97 overdrafts in a 13 week period — which were processed more quickly than they would have been in a commercial bank — to any accounting or auditing interest. Whether or not the Speaker is satisfied with the precise manner in which House Bank staff implemented his directive should be of no practical or professional concern to GAO auditors.

In summary, a radical change in operation occurred at the House Bank with the Speaker's directive. All overdrafts, except one which was returned at the direction of the writer, were covered within twenty-four hours of presentment, prior to the first available opportunity to return them. Reality suggests that if the House Bank had conducted its business in this fashion prior to September 25, 1991, the "House Bank scandal" would not have occurred.

⁷ Perhaps indicative of, at worst, a possible bias or, at best, ignorance of banking practices, is a GAO official's statement to Committee staff that the phone calls were "bank staff, as usual, trying to protect Members." As noted, we view the notifications at issue as normal banking practice.

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