

Travel Office - Statement of Facts

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By *dkp* Date *3/9/00*

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I. STATEMENT OF FACTS

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First Set of Activities -- January to March

The White House Travel Office has two principal functions -- arranging and advancing press charters for the White House press corps, and arranging commercial travel for staff of the Executive Office of the President. It handles several million dollars a year. The White House is the only federal agency, other than the FBI and the Defense Department, that does not use an outside travel agency to make its commercial travel arrangements.

Catherine Cornelius coordinated commercial travel for the Clinton-Gore campaign and the transition. She sought to serve this function in the new Administration. World Wide Travel of Little Rock, the agency used by the Clinton-Gore campaign, was also interested in continuing in the same capacity and was prepared to make a competitive bid for the White House business.

Cornelius and World Wide met with David Watkins in Little Rock early in the transition to discuss future possibilities. Watkins had been Deputy Campaign Manager and Chief Financial Officer in the campaign and would become Assistant to the President for Management and Administration. Cornelius prepared memos for Watkins dated December 31 and January 26, both discussing how travel might be handled in the new Administration. Watkins gave no indication that he intended to review or modify the current White House travel operation in the near term. (See Cornelius 12-31-92 Memo, Exhibit D; and Cornelius 1-26-93 Memo, Exhibit E.)

In January, Watkins hired Cornelius and Clarissa Cerda as general assistants, with the understanding that they would be transferred to more suitable positions after the initial organizing period.

In February, Watkins asked a third assistant to prepare a memo on the organization of the Travel Office. At that time, Watkins sought to determine whether any personnel slots could be cut as part of the promised 25% White House staff reduction.

Cornelius and Cerda also prepared a Travel Office memo. (See Cornelius/Cerda Memo, Exhibit F.) The memo outlined a new structure for the Travel Office in which Cornelius and Cerda would serve as co-directors of the office and World Wide would provide commercial service.

Thereafter, Cornelius periodically asked about the possibility of moving to the Travel Office, but no action was taken during the next seven weeks.

I. STATEMENT OF FACTS

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Second Set of Activities -- January to March

Darnell Martens is President of Thomason, Richland & Martens (TRM), a small, aviation consulting firm based in Cincinnati, Ohio. TRM is one-third owned by Martens, one-third by Harry Thomason, and one-third by Dan Richland, an associate of Thomason.

Martens had done billing and consulting during the Clinton-Gore campaign for Air Advantage, the campaign's charter broker. After the election, Martens was interested in helping Air Advantage and certain campaign charter carriers learn how to bid on the White House press charter business.

In early February, Martens sought Thomason's help in contacting the White House. Thomason called Press Secretary Dee Dee Myers and asked whether the White House charter business was subject to competitive bidding. Myers assumed that it was, and Thomason told Martens to contact Myers. Subsequently, Martens called Myers and Myers forwarded his call to Billy Dale, the long-time Director of the Travel Office.

Martens asked Dale about the possibility of bidding competitively on the White House press charter business. According to a memo that Martens wrote to the file following the phone call, Dale told Martens that he had served in the Travel Office for 31 years, that no one had seen fit to replace him with a commercial operation and that no combination of price or service could win White House business for Martens. (See Martens Memo, Exhibit G.)

Martens mentioned the call to Thomason. He also called Air Advantage owner Penny Sample to tell her about his conversation with Dale. In that call, he discovered that the White House Travel Office had, for a long time, basically used only one charter carrier for domestic travel. The traditional White House carrier had been Pan Am. Several months after Pan Am went out of business, the Travel Office began using a new carrier, Airline of the Americas (which now does business under the name UltrAir), started by former Pan Am employees.

In early March, Martens, on a trip to Los Angeles, told Thomason about the Dale call in greater detail. He also told Thomason that he had heard a rumor suggesting that there was corruption in the Travel Office.

Thomason was concerned that the White House charter business was not competitively bid and that the Travel Office might also be engaged in wrongdoing. In passing, he mentioned to the President in late March that he thought there was trouble in a White House department having to do with travel, but did not give the President any details.

Events During April to May

In the first days of April, Watkins informed Cornelius that he was sending her to the Travel Office to make commercial travel arrangements for White House staff. He also asked her to observe the operation of the office and to prepare a report by May 15, which he could use in deciding whether to reorganize the Office. He continued to be interested in reorganization as a means to help reach the 25% staff cut. She began work there on April 12.

Also in early April -- Watkins believes shortly after Cornelius had started work in the Travel Office -- Thomason phoned Watkins and told him that he had heard allegations about corruption in the Travel Office.

About a week after Cornelius started at the Travel Office, Watkins told her that he had heard rumors about improper activities in the Office. He asked her to keep her eyes and ears open.

During April, Cornelius tried to collect information. She copied a small number of documents, including several checks made out to cash. She aroused the suspicion of the other employees when a duplicate of a check she tried to copy jammed in the copy machine and was subsequently discovered by the employees. The Assistant Director in the Office reacted by placing the financial files in a locked cabinet. This made it impossible for Cornelius to return a file of documents she had previously taken home.

Cornelius also listened to conversations around the office and heard what she took to be evidence that the employees were living in a manner beyond the means of government employees.

At the end of April, Thomason returned to Washington. He had been asked to consult on the staging of presidential events and was provided with an access pass of the kind issued to staff, allowing him open passage throughout the White House complex. He was permitted temporary use of an office in the East Wing.

On May 1, at the White House Correspondents Association Dinner, Thomason heard George Condon, President of the Correspondents Association, address the growing expense to the press of travelling on Presidential trips, a particular problem for smaller news agencies. Thomason viewed the no-bid practices of the Travel Office as part of the problem.

On May 10, Thomason asked Watkins about the status of the Travel Office. Watkins said that he had placed Cornelius in the Travel Office and, following his meeting with Thomason, called Cornelius to ask her to meet with Thomason. Thomason asked Martens to fax his February memo to the White House.

On May 11, on the Presidential trip to Chicago, Cornelius was paged by the Travel Office and given a message to call a reporter at Time magazine. The reporter asked if Cornelius is the President's cousin. She told the reporter she would have to call back, but was concerned about the call and mentioned it to Deputy Communications Director, Jeff Eller, with whom she had a personal relationship. Cornelius believed that employees in the Travel Office had leaked this information to the press.

On May 12, having returned from Chicago, Cornelius met with Thomason. They discussed their respective concerns about the Travel Office and concluded that persons there might be engaged in wrongdoing.

Following their meeting, Thomason and Cornelius met with Watkins to report their suspicions. Martens, who was in Washington at the time, joined the meeting and recounted his conversation with Dale.

In the early afternoon of May 12, Watkins set up a meeting with Deputy White House Counsel Vincent Foster. Watkins was accompanied by Cornelius and Thomason. They informed Foster of their concerns about the Travel Office. Foster had another appointment, so the meeting adjourned for a short time, reconvening later that afternoon, after Cornelius had retrieved the documents she had taken home.

Associate White House Counsel William Kennedy joined this second meeting. Foster and Kennedy recommended that the Travel Office be audited, but Watkins stated that the White House had no audit capability. In light of this, the participants were unsure how to proceed in pursuing the allegations of financial mismanagement. Kennedy, the White House Security Officer, was designated to identify a course of action.

Initial FBI Contacts. Kennedy handles internal security matters, including clearances for White House staff. In the course of his work on clearances, he is in contact with the Special Inquiry Unit of the FBI on a regular basis. Kennedy, late in the afternoon of May 12, called Jim Bourke, Chief of the Special Inquiry Unit. Kennedy told Bourke that there was a problem in a White House office, that he was unsure how to proceed and that he sought guidance on handling the matter. Bourke indicated that he would determine appropriate agents with whom Kennedy could talk.

After the White House Counsel's daily morning staff meeting on Thursday May 13, Foster asked Kennedy if he had come up with a plan to look into the situation in the Travel Office. Foster was concerned that evidence of possible wrongdoing might be tampered with or destroyed. Kennedy said he had called Bourke at the FBI for advice and was awaiting further word from Bourke.

After Kennedy returned to his office, Bourke called seeking further detail to aid in determining which FBI unit might have jurisdiction. Kennedy indicated that he needed Bourke to promptly provide him with a contact who could give him guidance on how the matter should be handled. According to Bourke, Kennedy said that he needed to hear from Bourke within the next fifteen minutes and that, if the FBI were unable to provide guidance, Kennedy might have to seek guidance from another agency, such as the IRS.

Following internal discussions at FBI Headquarters to determine which unit might have jurisdiction, agents Howard Apple, Chief of the Interstate Theft/Government Reservation Crimes Unit, and Pat Foran, Acting Chief of the Violent Crimes and Major Offenders Section, made a preliminary visit to the White House. According to Apple, Kennedy indicated that he was unsure whether the matter should be handled by the FBI or the IRS. Apple also recalls Kennedy indicating that the matter was being directed or followed at the highest levels of the White House. Kennedy does not recall making this statement, but does recall indicating that his superiors -- Foster and Watkins -- were looking over his shoulder.

After talking to Kennedy briefly, Apple and Foran determined that, to the extent the Travel Office matter involved possible criminal activity, such activity was probably within the jurisdiction of a unit in the White Collar Crime Section. They returned to headquarters. Shortly thereafter, a second team of agents, Richard Wade, Chief of the Governmental Fraud Unit, and Tom Carl, supervisor in that Unit, visited Kennedy.

According to Wade and Carl, Kennedy indicated that the Travel Office was a matter of some urgency and that it was being followed at high or the highest levels at the White House. Wade and Carl talked with Kennedy alone for a short time, then with Kennedy and Foster. Finally, they talked with Cornelius and, following this conversation, determined that there were grounds for further investigation.

In addition to Apple, Foran, Wade and Carl, several other FBI officials were aware of the White House request for assistance, including Thomas Kubic, Chief of the Bureau's White Collar Crime section, Danny Coulson and Fred Verinder, Deputy Assistant Directors, Larry Potts, Assistant Director of the Criminal Investigative Division and Douglas Gow, Associate Deputy Director. None questioned the propriety of the White House call.

On May 14, the FBI briefed Justice Department lawyers, Joe Gangloff, Acting Chief of the Office of Public Integrity and Jerry McDowell, Chief of the Fraud Section, who in turn briefed Jack Keeny, Deputy Assistant Attorney General. None raised an objection. Gangloff confirmed that there was a basis for further investigation.

Peat Marwick Review. On Thursday afternoon, May 13, Watkins decided that he could use a non-government auditor to review the Travel Office, and called the accounting firm of KPMG Peat Marwick. Peat Marwick was recommended by an Office of Administration assistant who had attended a seminar given by one of the firm's partners under the auspices of Vice President Gore's National Performance Review. Watkins asked them to begin a financial review of the Travel Office the next morning.

Foster agreed to the Peat Marwick review, believing it to be a more cautious and low-key approach than having the FBI immediately commence its investigation. Foster asked the FBI to wait for the results of the Peat Marwick financial review before proceeding with its investigation. After initially expressing a preference for agents to accompany the Peat Marwick team, FBI agent Wade agreed with Foster and Kennedy to wait for the completion of Peat Marwick's review. Foster, Watkins and Watkins aide Patsy Thomasson¹ met with Chief of Staff Thomas F. "Mack" McLarty late in the afternoon and McLarty approved proceeding with the Peat Marwick review.

That afternoon, before Foster talked to Watkins about Peat Marwick, Foster went to see the First Lady on a matter unrelated to the Travel Office. The First Lady told Foster that she had heard about problems in the Travel Office. Foster replied that Kennedy was looking into it. Late that afternoon, she saw McLarty and inquired about the situation in the Travel Office. Foster subsequently informed her that Peat Marwick was going to conduct a review of the Office.

On May 13 and 14, Thomason, Cornelius and Eller urged that the Travel Office matter be dealt with promptly. At a meeting of Thomason and Cornelius on the morning of May 13, Eller had been called to give guidance on handling the press. At a brief meeting Friday morning in McLarty's office, Eller argued vigorously that the employees should be dismissed by 5:00 pm that day. Foster counseled against any action pending the results of the accountants' review. Watkins was not at this meeting, having left Washington the night before to attend his daughter's graduation in Memphis, but he too favored the more deliberate approach. McLarty decided that no action would be taken until the completion of the Peat Marwick review.

The Peat Marwick team began their review Friday morning. They were accompanied by a team from Watkins' office, who had been routinely reviewing the management practices of various White House offices as part of an effort that would later be incorporated into the Vice President's National Performance Review. The Travel Office employees were informed that the Peat Marwick team was participating in the review because the Office handled significant amounts of money.

¹ Patsy Thomasson is no relation to Harry Thomason.

During the next three days, Peat Marwick reviewed the financial records and conduct of the Office. Peat Marwick was unable to conduct a formal audit because the financial records were too disorganized and irregular to be auditable. Peat Marwick found "significant weaknesses in the existing internal control systems in the...travel office", including a "lack of financial control consciousness," "no formal financial reporting process," "no documented system of checks and balances on transactions and accounting decisions" and "no apparent oversight."

For the seventeen-month period for which records were available -- December 1991 to April 1993 -- Peat Marwick identified \$18,000 worth of checks made out to cash for which there was no record in the petty cash book. Peat Marwick also found a \$5,000 check made out to cash in October 1992 of which only \$2,000 was entered in the petty cash book. The next day Dale produced \$2,800 from an envelope in his credenza, which he claimed to be part of the missing \$3,000.

Beginning Friday and over the weekend, Watkins received telephone updates on the progress of the Peat Marwick review. Late Friday afternoon, he received an update from Patsy Thomasson on the progress of the Peat Marwick review. He then talked to Foster about the review. Foster, in light of the First Lady's inquiry the previous day, suggested Watkins update her. Watkins then called the First Lady and updated her about the situation in the Travel Office.

On Monday, May 17, with Peat Marwick's field work and a rough draft report completed, Watkins decided to dismiss the seven employees. McLarty approved. Watkins wrote a memo to McLarty, in which he stated that a review of the Travel Office, which would have occurred anyway under the auspices of the Vice President's National Performance Review, was accelerated in response to the urgings of Harry Thomason and Catherine Cornelius. Watkins cc'd Mrs. Clinton. (See Watkins Memo, Exhibit H.)

The memo discussed how the office had been audited, the "abysmal management" found by Peat Marwick, Watkins' intention to dismiss the seven employees the next day, his interim plan to manage the Office and his hope of potentially saving four personnel slots. The memo noted that, while the Travel Office staff acted as "adjunct press advance staff" on Presidential trips, Cornelius advised that these functions were duplicative of functions carried out by White House Scheduling and Advance.

Dale, who had talked intermittently of retirement in the past, came to see Watkins on May 17 to announce that he wanted to retire. Watkins told Dale that he did not want to discuss Dale's retirement at that time. Watkins scheduled a meeting with the employees for 10 am Wednesday, May 19. He met with them at that time, informed them that they were being dismissed and requested that they leave the Office that day.²

² Watkins delayed the dismissals from May 18 to May 19 because several members of the Office were in California on the 18th, with the Presidential trip, as were Myers and Eller.

The Dismissals

At approximately 8:30 am on May 19, Watkins delivered talking points to Myers. Those talking points described the dismissals as the result of a routine review conducted as part of the Vice President's National Performance Review. The talking points also noted that the White House had asked the FBI to investigate.

At around 9 am, upon seeing the talking points, Foster and Kennedy spoke to Watkins. They instructed him to delete any reference to any FBI investigation and counseled that there should be no discussion of that fact. Watkins unsuccessfully sought out Myers, who had accompanied the President to Capitol Hill, and passed on Counsel's instruction to Eller shortly before 10 am. Eller said that he would pass this instruction on to Myers. Watkins still planned to inform Myers himself. Neither reached Myers in time. When Watkins returned to her office before her press briefing, he learned that Myers, shortly after noon, had taken a press call and disclosed the FBI inquiry in response to a reporter's question.

Early in the afternoon of May 19, Watkins' deputy Brian Foucart accompanied Dale to the bank where the Travel Office kept an account. Dale informed Foucart that he had the Cornelius and Cerda memo in his possession and briefly showed Foucart another memo which mentions TRM and Thomason and which appears to have been the memo Martens wrote following his phone conversation with Dale in February.

Upon his return to the White House, Foucart told Watkins that Dale was in possession of the two memos. Watkins did not mention this fact to other senior White House staff.

Also on May 19, travel agents from World Wide Travel moved into the White House Travel Office to handle commercial travel on an interim basis. Cornelius had called World Wide on May 12 to ask that they be prepared to come to Washington in the event changes were made in the Travel Office. World Wide had sent one agent to Washington May 13. Other agents arrived May 19.

On May 19, Martens called Penny Sample of Air Advantage and asked her to work at the Travel Office on a volunteer basis to help arrange press charters for upcoming Presidential trips. The first trip was scheduled for Saturday, May 22, in New Hampshire. Sample arrived at the Travel Office May 20.

The initial announcement of the dismissals provoked a great deal of criticism. The criticism increased in the days following the dismissals. This resulted in part from the disclosure of the Cornelius/Cerda memo and the Martens memo, both of which were leaked to the press. Consequently, the dismissals were the subject of several fractious press briefing sessions. Several reporters questioned the bona fides of the FBI investigation.

FBI Press Statements

On May 19 and 20, the FBI prepared three different statements. On May 19, the Bureau, following Myers' disclosure of a likely FBI investigation, had issued a one-sentence release noting that "the results of the audit of the White House Travel Office will be referred to the FBI for our review." On May 20, the Bureau issued two different versions of a press guidance (called a "response").³ The earlier version noted that "we anticipate receiving the final report of the auditors soon and will analyze their findings and conduct appropriate investigation." The later version noted that the Bureau would "analyze their findings to determine the next steps in the investigation."

Consistent with FBI practice, the Bureau faxed each of these statements to the Justice Department and to the White House.⁴

On the morning of May 21, the FBI press office started orally providing more information than had appeared in the written responses of May 20. In answer to questions about whether the FBI was being inappropriately used by the White House, Bureau spokespersons were answering that the Department of Justice has guidelines which dictate when the Bureau can initiate an investigation and that those guidelines had been met.⁵

In the early afternoon of May 21, in preparation for the mid-day press briefing, White House Communications staff called John Collingwood to the White House to clarify the facts and indicate what could properly be said about the investigation. Collingwood is head of Public and Congressional Relations for the FBI. White House Counsel Bernard Nussbaum, Foster and Kennedy were in the room when Collingwood arrived because they were previously asked by Communications Director George Stephanopoulos to come and clarify the sequence and purpose of contacts between the White House and FBI.

The White House communications staff wanted to know from Collingwood whether it would be accurate to state that the FBI had determined there to be sufficient evidence to warrant further criminal investigation. Collingwood confirmed that this would be an accurate statement. After Collingwood returned to the FBI, he updated his written press response to reflect his earlier oral press responses and the conversation in Stephanopoulos's office. (See Exhibit I.) He faxed the new press response to the White House, per standard procedure.

³ The FBI distinguishes between a "press response" -- intended to be read or faxed to a reporter who calls with a question -- and a "press release", intended for general distribution.

⁴ It is standard practice for the FBI to fax press responses and press releases to the Department of Justice and to any involved agency.

⁵ The guidelines are The Attorney General's Guidelines on General Crimes, Racketeering Enterprise and Domestic Security/Terrorism Investigations.

The White House press office, not recognizing the FBI's distinction between a response and a release, distributed the response before the May 21 press briefing.

Collingwood indicated subsequently that he did not realize the White House was going to release the statement.

Interim Arrangements in the Travel Office

Late in the afternoon of May 21, the White House and World Wide Travel agreed that it would be desirable for World Wide to leave. On the weekend of May 22-23, a competitive bid process was carried out according to procurement procedures established by the General Services Administration. An interim, 120-day contract to handle commercial travel arrangements in the Travel Office was awarded to American Express. On May 24, American Express began work.

Penny Sample left the Travel Office on June 1. She was replaced by a detailee from the General Services Administration, who is currently making all press charter arrangements.

On May 25, the White House announced that the five Travel Office employees with no financial control over the Office would be placed on paid administrative leave. They continue on that basis to this date. The other two employees have filed for retirement.