

GAO

Report to the Chief Administrative
Officer of the House of Representatives

March 1995

FINANCIAL AUDIT

House Stationery
Revolving Fund for
Year Ended 9/30/93 and
3 Months Ended
9/30/92





United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-259567

March 30, 1995

Mr. Scot M. Faulkner
Chief Administrative Officer
House of Representatives

Dear Mr. Faulkner:

As requested by the Acting Director of the former Office of Non-Legislative and Financial Services, we audited the House of Representatives Stationery Revolving Fund statements of financial position for the year ended September 30, 1993, and for the 3 months ended September 30, 1992, and the related statements of operations and cash flows for the periods then ended.

We found

- the financial statements were reliable in all material respects;
- internal controls in effect on September 30, 1993, provided reasonable assurance that losses, noncompliance with laws and regulations, and misstatements material to the financial statements would be prevented or detected; and
- no material noncompliance with laws and regulations we tested.

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

Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, the Fund's

- assets, liabilities, and government equity;
- revenues and expenses; and
- cash flows.

As discussed in note 3, the financial statements present the results of activities financed through the Stationery Revolving Fund and are not intended to present the financial position and results of operations of the entire Office Supply Service, which administers the Revolving Fund. Certain significant identifiable costs, which are financed by funds appropriated to the Clerk of the House and the Architect of the Capitol, primarily salaries and employee benefits, are not included in the financial

statements, but are disclosed in note 3. Also, the statements do not include such costs as space occupancy and utilities, which are not readily identifiable.

Opinion on Internal Controls

The internal controls we evaluated were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with laws and regulations; and
- properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets.

Those controls in effect on September 30, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected.¹

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred.

Objectives, Scope, and Methodology

Management is responsible for

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

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly in conformity with generally accepted accounting principles) and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with selected provisions of laws and regulations.

¹Our reports on the Fund's internal control structure and compliance with laws and regulations for 1992 are presented in GAO/AIMD-94-20, dated November 26, 1993.

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;
- evaluated and tested relevant internal controls which encompassed the following areas: treasury, revenues, expenditures, property (equipment), inventory, and financial reporting; and
- tested compliance with selected provisions of 2 U.S.C. 46b-1, 106-110 and with regulations contained in the House of Representatives edition of the Congressional Handbook, which required that (1) service charges be properly levied and recorded on sales identified by Members as being for personal use and (2) all official purchases be accompanied by certification.

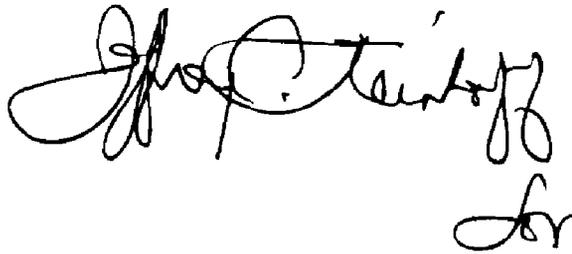
We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our 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 work in accordance with generally accepted government auditing standards. We completed our audit work on January 4, 1995.

As adopted in the Rules of the House of Representatives for the 104th Congress, the Office of Inspector General was directed to coordinate and contract with an independent accounting firm, or firms, for a series of audits that will result in a consolidated report of the financial operations of the House, including the House Office Supply Service.

Such a consolidated report should provide valuable information on the overall results of operations and current financial position of the U.S. House of Representatives. We continue to strongly encourage all federal entities to prepare and have audited comprehensive financial statements as an integral facet of their financial management program.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowsher". The signature is fluid and cursive, with a large initial "C" and "B". Below the main signature, there is a smaller, more stylized signature that appears to be "CB".

Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Statements of Financial Position

| | <u>September 30, 1993</u> | <u>September 30, 1992</u> |
|--|---------------------------|---------------------------|
| Assets | | |
| Current Assets | | |
| Funds with U.S. Treasury | \$3,241,375 | \$2,714,702 |
| Petty cash | 2,500 | 2,500 |
| Accounts receivable (note 2) | 34,392 | 40,598 |
| Merchandise inventory (note 2) | <u>1,386,358</u> | <u>1,815,098</u> |
| Total current assets | <u>\$4,664,625</u> | <u>\$4,572,898</u> |
| Fixed Assets | | |
| Equipment (note 2) | 252,688 | 252,688 |
| Less accumulated depreciation | <u>241,641</u> | <u>233,654</u> |
| Total fixed assets | <u>11,047</u> | <u>19,034</u> |
| Total Assets | <u>\$4,675,672</u> | <u>\$4,591,932</u> |
| Liabilities and Government Equity | | |
| Liabilities | | |
| Accounts payable | \$ 140,788 | \$ 181,296 |
| Unearned revenues (note 2) | <u>66,418</u> | <u>66,207</u> |
| Total liabilities | <u>207,206</u> | <u>247,503</u> |
| Government Equity (note 4) | | |
| Appropriated capital | 1,600,000 | 1,600,000 |
| Donated capital (note 5) | 5,000 | 5,000 |
| Cumulative results of operations | <u>2,863,466</u> | <u>2,739,429</u> |
| Total government equity | <u>4,468,466</u> | <u>4,344,429</u> |
| Total Liabilities and Government Equity | <u>\$4,675,672</u> | <u>\$4,591,932</u> |

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Operations

| | Year ended <u>September 30, 1993</u> | Three months ended <u>September 30, 1992</u> |
|------------------------------|---|---|
| Revenues | | |
| Net sales | \$8,117,856 | \$1,609,545 |
| Service charges (note 2) | 90,396 | 18,918 |
| Miscellaneous | <u>45</u> | <u>5</u> |
| Total revenues | <u>\$8,208,297</u> | <u>\$1,628,468</u> |
| Expenses | | |
| Cost of sales | 8,076,211 | 1,574,582 |
| Depreciation expense | 7,987 | 2,200 |
| Bad debt expense | <u>62</u> | <u>0</u> |
| Total expenses | <u>8,084,260</u> | <u>1,576,782</u> |
| Results of Operations | <u>\$ 124,037</u> | <u>\$ 51,686</u> |

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Cash Flows

| | Year ended <u>September 30, 1993</u> | Three months ended <u>September 30, 1992</u> |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Cash received from customers | \$ 8,214,503 | \$ 1,627,014 |
| Cash paid to suppliers | <u>(7,687,830)</u> | <u>(2,097,049)</u> |
| Net cash provided (used) by operating activities | <u>526,673</u> | <u>(470,035)</u> |
| Net Increase (Decrease) In Cash | <u>526,673</u> | <u>(470,035)</u> |
| Cash at beginning of period | <u>2,717,202</u> | <u>3,187,237</u> |
| Cash at End of Period | <u>\$ 3,243,875</u> | <u>\$ 2,717,202</u> |
| <hr/> | | |
| Reconciliations of Results of Operations to Net Cash Provided (Used) by Operating Activities | | |
| Results of operations | \$ <u>124,037</u> | \$ <u>51,686</u> |
| Adjustments to reconcile results of operations to net cash provided by operating activities | | |
| Depreciation | 7,987 | 2,200 |
| Decrease (increase) in assets | | |
| Accounts receivable | 6,206 | (1,454) |
| Merchandise inventory | 428,740 | (445,273) |
| Increase (decrease) in liabilities | | |
| Accounts payable | (40,508) | (56,151) |
| Unearned revenues | <u>211</u> | <u>(21,043)</u> |
| Total adjustments | <u>402,636</u> | <u>(521,721)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 526,673</u> | <u>\$ (470,035)</u> |

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Description of Entity

The House of Representatives Stationery Revolving Fund was authorized by section 101 of the Legislative Branch Appropriation Act, 1948 (2 U.S.C. 46b-1). Until April 1, 1993, the Office Supply Service operated under the jurisdiction of the Clerk of the House of Representatives in accordance with Committee on House Administration regulations. Effective April 1, 1993, the operational and financial responsibility for the Office Supply Service was transferred from the Clerk of the House of Representatives to the Director, Non-Legislative and Financial Services. Subsequently, on January 4, 1995, the Director's responsibilities were transferred to the Chief Administrative Officer of the House of Representatives.

The Office Supply Service furnishes House Members, committees, departments, and officers with stationery and supplies. These operations are financed from the House of Representatives Stationery Revolving Fund and appropriations to the Clerk of the House and the Architect of the Capitol. All receipts from operations are deposited into the Revolving Fund and are available for operations.

Note 2. Significant Accounting Policies

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

Inventories are stated at cost using the moving-average method of valuation.

Equipment is stated at cost. Depreciation is computed using the straight-line method over a 5-year life with no salvage value.

A 10-percent service charge is added to all nonofficial sales, which consist primarily of sales to congressional staff.

Accounts receivable include amounts owed to the Fund at year-end by committees and officers of the House, and by vendors for the value of merchandise returned.

Unearned revenues represent prepaid amounts received on special order merchandise to be recognized as revenue in subsequent periods when merchandise is delivered.

Cost of sales includes the value of obsolete and damaged merchandise written off and merchandise marked down and sold below cost.

In 1992, the Revolving Fund fiscal year changed from June 30 to September 30.

Note 3. Other Operating Costs

Certain costs of operating the Office Supply Service are financed through funds appropriated to the Architect of the Capitol and the Clerk of the House of Representatives rather than through the Revolving Fund and, accordingly, are not included in the Revolving Fund's financial statements. Identifiable costs paid from appropriated funds of the Clerk of the House and the Architect of the Capitol on behalf of the Office Supply Service are shown in the following table.

Identifiable Operating Costs Paid From Appropriated Funds

| <u>Costs Paid</u> | <u>Year ended September 30, 1993</u> | <u>Three months ended September 30, 1992</u> |
|-----------------------|--|--|
| Gross salaries | \$1,097,638 | \$264,890 |
| Employee benefits | 257,385 | 63,489 |
| Office supplies | 25,038 | 1,293 |
| Equipment maintenance | 13,039 | 3,221 |
| Property supply | 7,334 | 209 |
| Telephone service | 3,521 | 774 |
| Computer service | 2,183 | 190 |
| Travel expense | <u>38</u> | <u>0</u> |
| Total | <u>\$1,406,176</u> | <u>\$334,066</u> |

Other appropriated costs cannot be readily determined, such as space occupancy and utilities.

Note 4. Purchase Order Commitments

Obligations for undelivered orders amounted to \$359,222 as of September 30, 1993, and \$331,665 as of September 30, 1992.

Note 5. Donated Capital

Computer equipment was donated by the United States Senate Stationery Room on May 23, 1988. The fair market value of this equipment was estimated to be \$5,000. Depreciation expense on this equipment was \$1,000 and \$250 for the year ended September 30, 1993, and for the 3 months ended September 30, 1992, respectively.

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