

GAO

Report to the Chairman, Committee on
House Administration, House of
Representatives

December 1991

FINANCIAL AUDIT

House Beauty Shop
Revolving Fund
Financial Statements
for 1990 and 1989



100-100000-100000

Comptroller General
of the United States

B-202896

December 27, 1991

The Honorable Charlie Rose
Chairman, Committee on House Administration
House of Representatives

Dear Mr. Chairman:

As required by the Legislative Branch Appropriation Act, 1970 (83 Stat. 347), and in response to your January 8, 1991, request, we have audited the accompanying balance sheets of the House of Representatives Beauty Shop Revolving Fund as of December 31, 1990 and 1989, and the related statements of operations and cash flows for the years then ended. We completed our audit work on May 30, 1991. These financial statements are the responsibility of the House of Representatives Beauty Shop Revolving Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the House of Representatives Beauty Shop Revolving Fund and are not intended to present the financial position and results of operations of the House Beauty Shop as a whole.

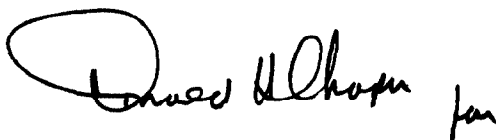
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the House of Representatives Beauty Shop Revolving Fund as of December 31, 1990 and 1989, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our report on the internal control structure and compliance with laws and regulations, together with the Fund's financial statements and

accompanying notes for the years ended December 31, 1990 and 1989, is included in this report.

As required by the Legislative Branch Appropriation Act, 1970, we are sending copies of this report to the Speaker and the Clerk of the House of Representatives. We are also sending copies to the Chairman, Subcommittee on Personnel and Police, Committee on House Administration, and to the Doorkeeper of the House of Representatives. Copies will be sent to others upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowsher", followed by a small, stylized flourish or mark.

Charles A. Bowsher
Comptroller General
of the United States

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Abbreviations

CSRS	Civil Service Retirement System
FERS	Federal Employees Retirement System
GAO	General Accounting Office
OPM	Office of Personnel Management
TSP	Thrift Savings Plan

Report on Internal Control Structure and Compliance With Laws and Regulations

We have audited the financial statements of the House of Representatives Beauty Shop Revolving Fund for the years ended December 31, 1990 and 1989, and have issued our opinion thereon. This report pertains only to our consideration of the Fund's internal control structure and our review of compliance with laws and regulations for the year ended December 31, 1990. Our report on internal accounting controls and compliance with laws and regulations for the year ended December 31, 1989, is presented in GAO/AFMD-90-99, dated September 6, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit of the financial statements of the House Beauty Shop Revolving Fund for the year ended December 31, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Fund's management is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, management must make estimates and judgments that assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly so that financial statements can be prepared in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Projection of any evaluation of the current structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the Fund's significant internal control structure policies and procedures into the following transaction categories:

- treasury—cash and equity of the House of Representatives;
- revenue—sales of services and retail products;
- inventory—inventories of retail products and supplies used in providing services;
- expenditure—expenditures incurred to procure shop goods and services, including payroll, retail products, supplies, equipment, and other expenses and accounts payable; and
- financial reporting—reconciliation of the House Beauty Shop's and House Finance Office's reporting processes and the preparation of the financial statements and notes.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they had been placed in operation, and assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all of its material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We found no material weaknesses in the Fund's internal control structure and its operation.

The management of the House Beauty Shop Revolving Fund is also responsible for compliance with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we selected and tested transactions and records to determine the Fund's compliance with certain provisions of the following laws and regulations which, if not complied with, could have a material effect on the Fund's financial statements:

- the Legislative Branch Appropriation Act, 1970 (83 Stat. 347) and
- regulations in the House of Representatives edition of the Congressional Handbook relating to leave policies for employees.

It should be noted that our objective was not to provide an opinion on the overall compliance with such provisions. Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Fund has to comply.

The results of our tests for calendar year 1990 indicate that, with respect to the items tested, the Fund complied in all material respects with those provisions of laws and regulations referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that the Fund had not complied, in all material respects, with those provisions.

Balance Sheets

	December 31,	
	1990	1989
Assets		
Current Assets		
Cash in U.S. Treasury	\$27,548	\$23,721
Petty cash and change funds	800	800
Accounts receivable	155	17
Inventory of merchandise and supplies	11,416	11,665
Total current assets	39,919	36,203
Fixed Assets		
Equipment	17,031	17,031
Less accumulated depreciation	16,134	15,803
Total fixed assets	897	1,228
Total Assets	\$40,816	\$37,431
Liabilities and Equity		
Liabilities		
Accounts payable	\$1,913	\$1,461
Operator's commissions payable	0	1,776
Taxes payable	0	759
Advance from House Finance Office	800	800
Employees' accrued leave	9,853	12,785
Total liabilities	12,566	17,581
Equity of the House of Representatives (notes 2 and 3)	28,250	19,850
Total Liabilities and Equity	\$40,816	\$37,431

The accompanying notes are an integral part of these statements.

Statements of Operations

	Years ended December 31,	
	1990	1989
Revenues		
Beauty services	\$244,487	\$231,907
Retail sales	61,643	58,766
Miscellaneous	135	220
Total operating revenues	306,265	290,893
Operating Expenses		
Salaries		
Beauticians	104,161	93,780
Administrative	30,586	29,239
Manicurists	28,025	25,611
Maid	10,629	10,162
Total salaries	173,401	158,792
Commissions	30,137	46,794
Employee benefits—employer contributions	44,869	45,161
Retail merchandise	36,378	37,571
Supplies	11,823	13,440
Office	798	273
Depreciation	331	824
Bad debts	60	93
Repairs	68	0
Miscellaneous	0	322
Total operating expenses	297,865	303,270
Net Income (Loss) (note 2)	\$8,400	\$(12,377)

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	Years ended December 31,	
	1990	1989
Cash Flows From Operating Activities		
Cash received from customers	\$306,127	\$290,900
Cash paid to suppliers and employees	302,300	298,481
Net Cash Provided by (Used in) Operating Activities	3,827	(7,581)
Cash at beginning of year	24,521	32,102
Cash Balance at End of Year	\$28,348	\$24,521
Reconciliations of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Net income (loss)	\$8,400	\$(12,377)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation	331	824
Decrease (increase) in assets		
Accounts receivable	(138)	6
Inventory of merchandise and supplies	249	(512)
Increase (decrease) in liabilities		
Accounts payable	452	(506)
Commissions payable	(1,776)	1,776
Taxes payable	(759)	759
Employees' accrued leave	(2,932)	2,449
Total adjustments	(4,573)	4,796
Net Cash Provided by (Used in) Operating Activities	\$3,827	\$(7,581)

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Significant Accounting Policies

Description of the Entity

The House of Representatives Beauty Shop Revolving Fund was authorized by the Legislative Branch Appropriation Act, 1970 (83 Stat. 347). The management and operation of the House Beauty Shop is under the jurisdiction of the Committee on House Administration. On November 14, 1990, the Committee on House Administration, based on a recommendation from the Subcommittee on Personnel and Police, which previously had direct oversight, delegated the immediate management and operation of the House Beauty Shop to the Office of the Doorkeeper.

Basis of Accounting

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles. Inventories are stated at cost and are charged to operations using the first-in, first-out method. Equipment is depreciated over a 10-year life using the straight-line method.

Employee Benefits

Employee benefits include the employer's share of health insurance, life insurance, and pension-related contributions. House Beauty Shop Revolving Fund employees are covered by the Civil Service Retirement System (CSRS) or the newer Federal Employees Retirement System (FERS), to which employees contribute and to which the Fund makes matching contributions. For employees covered by FERS, the Fund also contributes 1 percent of pay to the Thrift Savings Plan (TSP) and then matches employee contributions up to an additional 4 percent of pay. The House Beauty Shop Revolving Fund does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. These data are reported only in total by the Office of Personnel Management (OPM). OPM is also responsible for paying the costs of benefits for retirees, and the House Beauty Shop Revolving Fund is not liable for those costs.

The following pension-related contributions were made by the House Beauty Shop Revolving Fund during 1990.

Table 1: Pension-Related Contributions

Contribution	1990
CSRS	\$7,794
FERS	13,132
TSP	1,716
Total	\$22,642

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At year-end, the balance in the accrued leave account is adjusted to reflect current pay rates of cumulative annual leave earned, but not taken. Sick leave is expensed as it is taken.

Other Operating Costs

The Fund's statements do not include certain normal operating costs such as space, utilities, and ordinary building repairs and maintenance. These amounts are paid from funds appropriated to the Architect of the Capitol without charge to the Fund and cannot be readily determined. The statements also do not include the costs of major renovations the Architect of the Capitol made to the Shop beginning in late 1990, using the \$375,000 appropriated in the 1991 Legislative Branch Appropriation Act for these renovations. The renovations were completed during calendar year 1991 and included new furniture and fixtures.

Note 2. Equity of the House of Representatives

A summary of the changes in the equity of the House of Representatives for calendar years 1990 and 1989 follows.

Table 2: Changes in Equity of the House of Representatives

	1990	1989
Balance at beginning of year	\$19,850	\$32,227
Net income (loss) (note 3)	8,400	(12,377)
Balance at end of year	\$28,250	\$19,850

Note 3. Income Transfer to U.S. Treasury

The Legislative Branch Appropriation Act, 1970, requires that any net profit of the House Beauty Shop Revolving Fund established by GAO's audit, after meeting authorized capital requirements plus providing for the replacement of equipment, be transferred to the general fund of the U.S. Treasury. As shown in table 3, as of December 31, 1990, the Fund was not sufficient to meet authorized capital requirements plus provide for the replacement of equipment. As a result, the Fund did not transfer any net profit for 1990 to the U.S. Treasury. Since 1969, the House Beauty Shop has transferred a total of \$122,085 in net income to the U.S. Treasury.

Table 3: Calculation of Net Income to Be Transferred to the U.S. Treasury

	Amount
Equity of the House of Representatives as of December 31, 1990	\$28,250
Less: Authorized capital requirements	27,000
Provision for replacement of equipment (based on accumulated depreciation on equipment)	16,134
Total requirements	43,134
Funds subject to transfer to the U.S. Treasury (capital impairment)	\$(14,884)

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