

GAO

Report to the Chairwoman,
Ninety-eighth Democratic New Members
Caucus, House of Representatives

May 1993

FINANCIAL AUDIT

Ninety-eighth Democratic New Members Caucus Financial Statements— March '85 - April '92



Comptroller General
of the United States

B-253030

May 5, 1993

The Honorable Marcy Kaptur
Chairwoman, Ninety-eighth Democratic
New Members Caucus
House of Representatives

Dear Madam Chairwoman:

Pursuant to an April 21, 1992, request from Representative Sander Levin, we audited the Ninety-eighth Democratic New Members Caucus's balance sheets and related statements of operations and cash flows as of the dates and for the periods shown on the accompanying statements. Mr. Levin served as Chairman or Acting Chairman of the Caucus during these periods—from March 6, 1985, to April 30, 1992. We found

- the financial statements were reliable in all material respects;
- internal controls need to be improved, although they generally were effective in protecting assets, assuring material compliance with laws and regulations we tested, and assuring that there were no material misstatements in the financial statements; and
- no material noncompliance with laws and regulations we tested.

Our audit identified two significant matters that we believe should be brought to your attention, although they are not material to the financial statements. They are the (1) lack of procedures or guidelines to govern the processing of financial transactions and (2) acceptance of a \$500 donation in violation of Committee on House Administration regulations.

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

Opinion on the Financial Statements

The accompanying financial statements and notes of the Ninety-eighth Democratic New Members Caucus for the period from March 6 to December 31, 1985, the 6 years 1986 through 1991, and the partial year ended April 30, 1992, present fairly, in conformity with generally accepted accounting principles, the Caucus's

- assets, liabilities, and fund balance;
- revenues and expenses; and
- cash flows.

As discussed in note 4, the financial statements present only the activities financed by Members of the Ninety-eighth Democratic New Members Caucus. These financial statements do not include items financed by appropriations to the U.S. House of Representatives or the Architect of the Capitol.

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 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 work identified the need to improve certain internal controls. The Caucus did not have written procedures or guidelines to govern the processing of financial transactions, and as a result, receipts and disbursements of Caucus funds were not properly controlled. For example, there were no written procedures or guidelines to ensure prompt deposit of receipts or proper payment of vendors' invoices. Caucus records showed that checks for Members' dues were sometimes deposited several weeks after they were received. Also, one payment to a vendor differed by \$100 with the unpaid balance of the invoice, and, for two other vendor payments totaling \$153, Caucus personnel could not provide vendor invoices to support the payments.

We believe that the Caucus could strengthen its internal controls by developing and adhering to written procedures and guidelines requiring (1) deposits of receipts at least weekly, (2) issuance of checks to vendors only after check amounts have been matched to appropriate billing documents, and (3) retention of source documents that support financial transactions.

These weaknesses in internal controls, although not considered material, represent significant deficiencies in the design or operations of internal controls which could adversely affect the Caucus's ability to meet the internal control objectives listed above. The weaknesses could also result in misstatements in other financial information reported by the Caucus (for example, quarterly receipt and disbursement reports submitted to the

Clerk of the House). However, controls in effect on April 30, 1992, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected.

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. However, our work identified one immaterial instance of noncompliance.

The Caucus accepted a \$500 donation in October 1984, in violation of regulations adopted by the Committee on House Administration in October 1981. The regulations state that a legislative service organization "receives no income or contributions, either in cash or in-kind, from any source other than the Congress or its Members." Although this donation occurred and was recorded prior to the periods we audited, the check was deposited in the Caucus's bank account in December 1984 and, as of April 30, 1992, had not been returned to the donor. We brought this matter to the attention of the Caucus staff, who returned the donation after the audited periods. As a result, the Caucus is reporting a liability of \$500 on each affected balance sheet.

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 previously mentioned 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.

In order to fulfill these responsibilities, we

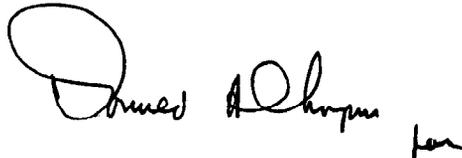
- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- 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, including those over receipts, disbursements, and financial reporting; and
- tested compliance with selected provisions of regulations established by the Committee on House Administration on October 21, 1981.

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 did our work in accordance with generally accepted government auditing standards. We completed our audit work on September 15, 1992.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Charles A. Bowsher".

Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Balance Sheets

	December 31,							April 30,
	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Assets								
Cash in bank	\$18,171	\$18,032	\$13,934	\$13,934	\$13,934	\$13,934	\$13,934	\$13,779
Total Assets	\$18,171	\$18,032	\$13,934	\$13,934	\$13,934	\$13,934	\$13,934	\$13,779
Liabilities and Fund Balance								
Liabilities								
Accrued liabilities	\$ 139	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Refund payable (note 5)	<u>500</u>							
Total liabilities	639	500	500	500	500	500	500	500
Fund balance	<u>17,532</u>	<u>17,532</u>	<u>13,434</u>	<u>13,434</u>	<u>13,434</u>	<u>13,434</u>	<u>13,434</u>	<u>13,279</u>
Total Liabilities and Fund Balance	\$18,171	\$18,032	\$13,934	\$13,934	\$13,934	\$13,934	\$13,934	\$13,779

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

Financial Statements

Statements of Revenues and Expenses

	March 6, 1985 to December 31, 1985	Year ended December 31,						January 1, 1992 to April 30, 1992
		1986	1987	1988	1989	1990	1991	
Revenues								
Members' dues	\$16,027	\$0	\$ 0	\$0	\$0	\$0	\$0	\$ 0
Total revenues	16,027	0	0	0	0	0	0	0
Expenses (note 4)								
Food and beverages	190	0	3,898	0	0	0	0	155
Guest speaker	130	0	0	0	0	0	0	0
Miscellaneous	0	0	200	0	0	0	0	0
Total expenses	320	0	4,098	0	0	0	0	155
Excess of Revenues over Expenses (Expenses over Revenues)								
	\$15,707	\$0	\$(4,098)	\$0	\$0	\$0	\$0	\$(155)

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

Financial Statements

Statements of Cash Flows

	March 6, 1985 to December 31, 1985	Year ended December 31,						January 1, 1992 to April 30, 1992
		1986	1987	1988	1989	1990	1991	
Cash Flows From Operating Activities								
Cash received from Members	\$ 4,250	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Cash paid to service providers	(1,448)	(139)	(4,098)	0	0	0	0	(155)
Net cash provided (used) by operating activities	2,802	(139)	(4,098)	0	0	0	0	(155)
Cash at beginning of period	15,369	18,171	18,032	13,934	13,934	13,934	13,934	13,934
Cash Balance at End of Period	\$18,171	\$18,032	\$13,934	\$13,934	\$13,934	\$13,934	\$13,934	\$13,779
Reconciliations of Excess of Revenues Over Expenses (Expenses Over Revenues) to Net Cash Provided (Used) by Operating Activities								
Excess of revenues over expenses (expenses over revenues)	\$15,707	\$ 0	\$(4,098)	\$ 0	\$ 0	\$ 0	\$ 0	\$ (155)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided (used) by operating activities								
Increase (decrease) in liabilities								
Accounts payable	(1,128)	0	0	0	0	0	0	0
Prepaid Members' dues	(11,777)	0	0	0	0	0	0	0
Accrued liabilities	0	(139)	0	0	0	0	0	0
Total adjustments	(12,905)	(139)	0	0	0	0	0	0
Net Cash Provided (Used) by Operating Activities	\$ 2,802	\$ (139)	\$(4,098)	\$ 0	\$ 0	\$ 0	\$ 0	\$ (155)

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

Notes to Financial Statements

Note 1. Description of the Caucus

The Ninety-eighth Democratic New Members Caucus is a legislative service organization sponsored by Democratic representatives elected to the 98th Congress. Legislative service organizations are unincorporated associations of Members that assist participating Members in carrying out activities of mutual interest and coordinate their efforts for reasons of efficiency and effectiveness. The Caucus provides its Members with a forum to promote cooperation and improve understanding of issues and legislation. It offers its Members (1) meetings to discuss legislative priorities, (2) guest speaker programs, and (3) legislative research and analysis on national issues.

Members of the House of Representatives receive an official expense allowance to pay ordinary and necessary business expenses incurred in support of their official duties. They are permitted to use their official expense allowance to pay dues or special assessments to legislative service organizations.

Note 2. Regulations and Rules Pertaining to the Caucus

On October 21, 1981, the Committee on House Administration established regulations and rules pertaining to legislative service organizations. Effective January 1, 1983, these regulations require the following:

- A legislative service organization may not use dues or assessments to generate additional income, including income from interest-bearing accounts or time deposits.
- A legislative service organization may not receive income or contributions from any source other than the Congress or its Members.
- Each legislative service organization shall submit to the Clerk of the House a quarterly report of its receipts and disbursements not later than 30 days after the end of the reporting period.
- At establishment and by May 1 of each even-numbered year thereafter, 30 Members of each legislative service organization, or two-thirds of the total membership, whichever is less, shall attest, in a statement filed with the Committee on House Administration, that the organization provides bona fide legislative services or assistance which supports them in the performance of their official duties.

Committee on House Administration regulations do not prohibit legislative service organizations, such as the Caucus, from carrying over excess funds into the following year. The Caucus's fund balance represents amounts received in earlier years as Members' dues which have not yet been expended, and which will remain available to cover operating costs of future periods.

Also, certain House regulations applicable to Members have not been applied to legislative service organizations. For example, rules prohibiting purchases of food and beverages, unless they are part of an event to discuss matters related to the Members' official and representational duties with persons, other than Members or staff, who have a legitimate interest therein, do not apply to legislative service organizations. The Caucus spent about \$279 for food and beverages at events that were attended only by Members.

Note 3. Accounting Policies

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

Note 4. Appropriated Funds Support

These statements include only the costs paid by Members of the Caucus. However, certain other costs of the Caucus, such as staff salaries, office space, and utilities, are paid from legislative branch appropriations and cannot be readily determined.

Note 5. Refund Payable

The Caucus recognizes a liability for a \$500 donation that was accepted in October 1984 in violation of applicable Committee on House Administration regulations.

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