United States General Accounting Office

GAO

Report to the Doorkeeper of the House of Representatives

September 1993

FINANCIAL AUDIT

House Beauty Shop Revolving Fund for Periods Ended 9/30/92, 12/31/91, 12/31/90

GAO/AIMD-93-42

GAO

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

Comptroller General
of the United States

B-202896

September 13, 1993

The Honorable James T. Molloy
Doorkeeper
House of Representatives

Dear Mr. Molloy:

As required by the Legislative Branch Appropriation Act, 1970, Public Law 91-145, 83 Stat. 347, and as you requested in your July 24, 1992, letter, we audited the statements of financial position of the House of Representatives Beauty Shop Revolving Fund (Shop) and the related statements of operations and cash flows as of and for the periods shown on the accompanying statements. We found

- the financial statements were reliable in all material respects;
- internal controls need improvement; however, those controls in effect on September 30, 1992, provided reasonable assurance that losses, noncompliance with laws and regulations, or misstatements material to the financial statements would be prevented or detected; and
- no material noncompliance with laws and regulations we tested for the periods ended September 30, 1992, and December 31, 1991.

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 Shop's

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

However, misstatements may nevertheless occur in other financial information reported by the Shop as a result of the internal control weaknesses described later. As discussed in note 1, the financial statements present only the House Beauty Shop Revolving Fund and do not present the financial position and results of operations of the House Beauty Shop operations as a whole.

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.

Our work identified the need to improve certain internal controls. We found it difficult to substantiate the summary retail sales revenue balances because the Shop did not maintain supporting documentation for individual retail sales transactions. Retail sales revenue could only be substantiated through a manual, resource-intensive process using inventory and purchasing records, and factoring in standard markups. We believe retail sales should be individually documented to ensure management that all retail sales are accounted for and reported accurately throughout the year. House Beauty Shop management acknowledged the need to strengthen documentation requirements for retail sales and said it would pursue this with the Director, Nonlegislative and Financial Services, who has current management responsibility. (See note 1.)

We also identified other weaknesses and discussed methods to improve accounting controls with the Shop manager and the Director, Nonlegislative and Financial Services. For example, there was no reconciliation between the Shop and the House Finance Office records, which are the official receipt and disbursement records for the U.S. House of Representatives. The House Finance Office makes disbursements for payments authorized by House activities such as the Beauty Shop. In order to substantiate financial statement balances, we were able to trace supporting documents back to the House Finance Office's records. However, periodic reconciliations, such as monthly, are needed to provide management with assurance that transactions are properly and accurately reflected in the financial statements. Management acknowledged the lack of reconciliation and expressed its intent to allocate more time to reconcile financial data.

These weaknesses, although not considered material, represent deficiencies in the design or operations of internal controls which could adversely affect the entity's ability to meet the internal control objectives just listed. These weaknesses could also result in misstatements in other financial information reported by the Shop. However, controls in effect on

September 30, 1992, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected. Our report on internal control structure for 1990 is presented in GAO/AFMD-92-3, dated December 27, 1991.

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance for the periods ended September 30, 1992, and December 31, 1991. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred. Our report on compliance with laws and regulations for 1990 is also presented in GAO/AFMD-92-3, dated December 27, 1991.

Objectives, Scope, and Methodology

Management is responsible for

- preparing 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.

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 areas of treasury, inventory, revenues, expenditures, payroll, and financial reporting; and

- tested compliance with selected provisions of the following laws and regulations:
  - the Legislative Branch Appropriations Act, 1970, Public Law 91-145, 83 Stat. 347, which prescribes the operating, accounting, and auditing requirements of the Fund, and
  - the U.S. House of Representatives Congressional Handbook, which provides the regulations and accounting procedures for members, committees, and employees of the U.S. House of Representatives.

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 audit in accordance with generally accepted government auditing standards. We completed our audit work on February 5, 1993.

Sincerely yours,

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Financial Statements

Statements of Financial Position

	September 30, 1992	December 31, 1991	December 31, 1990
Assets			
Current Assets			
Funds in U.S. Treasury	$53,366	$46,726	$ 27,548
Petty cash and change funds	800	800	800
Accounts receivable	67	11	155
Inventory of merchandise and supplies	9,037	8,505	11,416
Total current assets	63,270	56,042	39,919
Fixed Assets			
Equipment	17,031	17,031	17,031
Less accumulated depreciation	16,459	16,296	16,134
Net fixed assets	572	735	897
Total Assets	**$63,842**	**$56,777**	**$ 40,816**
Liabilities and Government Equity			
Liabilities			
Accounts payable	$ 3,534	$ 2,045	$ 1,913
Employees' commissions payable	901	1,371	0
Taxes payable	367	583	0
Advance from House Finance Office	800	800	800
Employees' accrued leave	7,236	9,294	9,853
Due to Treasury (note 2)	16,531	11,603	0
Total liabilities	29,369	25,696	12,566
Government Equity			
Invested capital	27,000	27,000	27,000
Cumulative results of operations (note 3)	7,473	4,081	1,250
Total government equity	34,473	31,081	28,250
Total Liabilities and Government Equity	**$63,842**	**$56,777**	**$ 40,816**

The accompanying notes are an integral part of these statements.

Statements of Operations

	9 months ended September 30,	Year ended December 31,	
	1992	1991	1990
Revenues			
Beauty services	$196,079	$260,570	$244,487
Retail sales	45,983	58,118	61,643
Miscellaneous	138	261	135
Total revenues	**242,200**	**318,949**	**306,265**
Expenses			
Salaries			
Beauticians	70,127	89,790	104,161
Administrative	46,978	51,129	30,586
Manicurists	22,468	29,078	28,025
Maid	0	0	10,629
Total salaries	139,573	169,997	173,401
Commissions	20,162	26,878	30,137
Employee benefits--employer contributions	38,938	47,495	44,869
Retail merchandise	26,291	41,338	36,378
Supplies	7,986	15,709	11,823
Office	177	2,068	798
Depreciation	162	162	331
Bad debts	198	707	60
Repairs	0	0	68
Miscellaneous	393	161	0
Total expenses	**233,880**	**304,515**	**297,865**
Results of Operations (notes 2 and 3)	**$ 8,320**	**$ 14,434**	**$ 8,400**

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	9 months ended September 30, 1992	Year ended December 31, 1991	1990
Cash Flows From Operating Activities			
Cash received from customers	$243,075	$321,844	$306,127
Cash paid to suppliers and employees	236,435	302,666	302,300
Net cash provided by operating activities	**6,640**	**19,178**	**3,827**
Cash at beginning of period	47,526	28,348	24,521
Cash Balance at End of Period	**$ 54,166**	**$ 47,526**	**$ 28,348**

Reconciliations of Results of Operations to Net Cash Provided by Operating Activities			
Results of Operations	$ 8,320	$ 14,434	$ 8,400
Adjustments to reconcile results of operations to net cash provided by operating activities			
Depreciation	162	162	331
Decrease (increase) in assets			
Accounts receivable	(56)	144	(138)
Inventory of merchandise and supplies	(532)	2,911	249
Increase (decrease) in liabilities			
Accounts payable	1,490	132	452
Commissions payable	(470)	1,371	(1,776)
Taxes payable	(216)	583	(759)
Employees' accrued leave	(2,058)	(559)	(2,932)
Total adjustments	(1,680)	4,744	(4,573)
Net Cash Provided by Operating Activities	**$ 6,640**	**$ 19,178**	**$ 3,827**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Significant Accounting Policies

Description of Entity

The House of Representatives Beauty Shop Revolving Fund was authorized by the Legislative Branch Appropriation Act, 1970, Public Law 91-145, 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 delegated the immediate management and operation of the House Beauty Shop to the Office of the Doorkeeper. Effective May 1, 1993, the functions of the House Beauty Shop were transferred from the Doorkeeper to the Director, Nonlegislative and Financial Services.

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. Bad debt expense is recognized at the time receivables are deemed uncollectible and written off.

During 1992, the Beauty Shop changed its fiscal year end from December 31 to September 30 to facilitate the consolidated presentation of financial statements of several House operations. As a result, these financial statements include a transition period of 9 months from January 1, 1992, to September 30, 1992.

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 Federal Employees Retirement System (FERS), to which employees and the Fund contribute. 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 the 9 months ended September 30, 1992, and during 1991 and 1990.

Pension-related Contributions

Contribution	9 months ended September 30, 1992	Year ended December 31, 1991	Year ended December 31, 1990
CSRS	$ 4,475	$ 5,726	$ 7,794
FERS	15,410	17,780	13,132
TSP	3,420	1,396	1,716
Total	$23,305	$24,902	$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

Certain costs of operating the House Beauty Shop are financed through other House of Representatives' appropriations, rather than through the Fund and, accordingly, where these costs are not readily identifiable, they are not included in the Fund's financial statements or notes. Types of costs that cannot be readily determined are space occupancy, utilities, and ordinary building repairs and maintenance. The identifiable costs, which are paid from appropriated funds of the Architect of the Capitol and the Clerk of the House on behalf of the Fund, for the 9 months ended September 30, 1992, and years ended December 31, 1991, and 1990, are shown in the following table:

Identifiable Costs Paid With Appropriated Funds

Costs	9 months ended September 30, 1992	Year 1991	Year 1990[a]
Office expense	$ 619	$ 10,185	--
Capital expenditures			
Renovations	2,590	370,830	--
Equipment	0	21,562	--
Total	$3,209	$402,577	--

[a]These costs were primarily related to major renovations which began in 1991. There were no such identifiable costs in 1990.

Note 2. Future Transfer to U.S. Treasury

The Legislative Branch Appropriation Act, 1970, requires that any net profit of the House Beauty Shop Revolving Fund, after meeting authorized capital requirements (invested capital) plus restoring any impairment of capital and providing for the replacement of equipment, be transferred to the general fund of the U.S. Treasury. The following table shows the computation of the amount due to Treasury.

Due to Treasury

	9 months ended September 30, 1992	Year 1991	Year 1990
Government equity of the House of Representatives, end of period (before transfer to Treasury)	$ 39,401	$ 42,684	$ 28,250
Less: Authorized capital requirements	(27,000)	(27,000)	(27,000)
Less: Projected capital replacement (based on projected cost adjusted for inflation over the life of the equipment for 1992 and 1991, and accumulated depreciation for 1990)	(7,473)	(4,081)	(16,134)
Total requirements	(34,473)	(31,081)	(43,134)
Subtotal	4,928	11,603	(14,884)
Funds Subject to Transfer to the U.S. Treasury	$ 4,928	$ 11,603	$ 0

Note 3. Effect on Cumulative Results of Operations

The following table summarizes the effect of revenues over expenses on cumulative results of operations:

Effect on Cumulative Results of Operations

	9 months ended September 30, 1992	Year 1991	Year 1990
Cumulative results of operations, beginning of period	$ 4,081	$ 1,250	$(7,150)
Results of operations	8,320	14,434	8,400
Subtotal	12,401	15,684	1,250
Due to Treasury from current operations (note 2)	4,928	11,603	0
Cumulative Results of Operations, End of Period	**$ 7,473**	**$ 4,081**	**$ 1,250**

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