

GAO

Report to the Clerk of the House of
Representatives

May 1994

FINANCIAL AUDIT

House Recording
Studio Revolving Fund
for the Periods Ended
9/30/92 and 12/31/91



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

Comptroller General
of the United States

B-114842

May 19, 1994

The Honorable Donald K. Anderson
Clerk of the House of Representatives

Dear Mr. Anderson:

As you requested, we audited the accompanying statements of financial position of the House of Representatives Recording Studio Revolving Fund as of September 30, 1992 and December 31, 1991, 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, 1992, 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 for 1992.

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.

The financial statements present the activities of the House of Representatives Recording Studio Revolving Fund and are not intended to present the financial position and results of operations of the House Recording Studio as a whole. Other costs, primarily salaries and benefits, that are not financed directly by the Revolving Fund, but which are readily identifiable, are presented in note 3.

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, 1992, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected.¹

Compliance With Laws and Regulations

Our current year audit 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

Studio 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.

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;

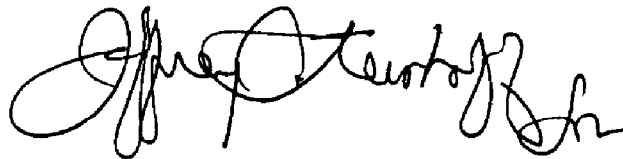
¹Our reports on the Fund's internal control structure and compliance with laws and regulations for 1991 are presented in GAO/AIMD-93-13, dated August 10, 1993.

- evaluated and tested relevant internal controls which encompassed the following areas: (1) treasury, (2) revenues, (3) expenditures, (4) property (equipment), (5) inventory, and (6) financial reporting; and
- tested compliance with selected provisions of section 105 of the Legislative Branch Appropriations Act, 1957, as amended (2 U.S.C. 123b), and of the rules and regulations of the Special Committee on the House Recording Studio and of the Committee on House Administration.

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 December 15, 1993.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowsher". The signature is stylized with large, flowing loops and a long horizontal stroke at the end.

Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Statements of Financial Position

	<u>September 30, 1992</u>	<u>December 31, 1991</u>
Assets		
Current Assets		
Fund balance with Treasury	\$ 723,155	\$ 750,382
Petty cash	200	200
Accounts receivable	32,509	16,607
Inventory of repair materials supplies, at cost	<u>17,359</u>	<u>16,354</u>
Total current assets	<u>773,223</u>	<u>783,543</u>
Fixed Assets		
Equipment (note 4)	\$2,581,130	\$2,610,115
Less accumulated depreciation	<u>1,536,722</u>	<u>1,554,049</u>
Total fixed assets	<u>1,044,408</u>	<u>1,056,066</u>
Total Assets	<u>\$1,817,631</u>	<u>\$1,839,609</u>
Liabilities and Government Equity		
Liabilities		
Accounts payable	\$ 35,782	\$ 40,973
Advance from House Finance Office	<u>200</u>	<u>200</u>
Total liabilities	<u>35,982</u>	<u>41,173</u>
Government Equity		
Appropriated capital	183,410	183,410
Cumulative results of operations	<u>1,598,239</u>	<u>1,615,026</u>
Total government equity	<u>1,781,649</u>	<u>1,798,436</u>
Total Liabilities and Government Equity	<u>\$1,817,631</u>	<u>\$1,839,609</u>

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Operations

	9 months ended September 30, 1992	Year ended December 31, 1991
Revenues		
Sales (note 5)	<u>\$345,386</u>	<u>\$512,821</u>
Expenses		
Depreciation of equipment	158,606	214,687
Outside processing	57,114	94,846
Supplies	89,179	59,741
Maintenance and repairs	42,835	30,896
Small equipment	10,881	26,448
Office supplies and expenses	5,433	8,012
Miscellaneous	<u>2,512</u>	<u>3,788</u>
Total expenses (note 3)	<u>366,560</u>	<u>438,418</u>
Income (Loss) From Operations	<u>(21,174)</u>	<u>74,403</u>
Other income		
Gain on disposal of equipment	4,386	0
Results of Operations	<u>\$(16,788)</u>	<u>\$ 74,403</u>

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Cash Flows

	9 months ended September 30, 1992	Year ended December 31, 1991
Cash Flows From Operating Activities		
Cash received from customers	\$ 329,932	\$ 505,343
Cash paid to suppliers	(241,470)	(488,220)
Net cash provided by operating activities	<u>88,462</u>	<u>17,123</u>
Cash Flows From Investing Activities		
Capital expenditures	(115,689)	(120,043)
Net cash used in investing activities	<u>(115,689)</u>	<u>(120,043)</u>
Net Decrease in Cash	(27,227)	(102,920)
Cash at beginning of year	<u>750,582</u>	<u>853,502</u>
Cash at End of Year	<u>\$ 723,355</u>	<u>\$ 750,582</u>
Reconciliations of Results of Operations to Net Cash Provided by Operating Activities		
Results of operations	\$ (16,788)	\$ 74,403
Adjustments to reconcile results of operations to net cash provided by operating activities		
(Gain) on disposal	(4,386)	0
Depreciation	158,606	214,687
Decrease (increase) in assets		
Accounts receivable	(15,902)	(7,384)
Inventory of repair materials and supplies	(1,005)	(243)
Increase (decrease) in liabilities		
Accounts payable (note 6)	(32,063)	(264,340)
Total adjustments	<u>105,250</u>	<u>(57,280)</u>
Net Cash Provided by Operating Activities	<u>\$ 88,462</u>	<u>\$ 17,123</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Description of the Entity

The House Recording Studio was established pursuant to section 105 of the Legislative Branch Appropriations Act, 1957, as amended (2 U.S.C. 123b). The Studio is managed by a director under the jurisdiction of the Clerk of the House of Representatives and is subject to the direction and control of the Special Committee on the House Recording Studio. The Studio makes photographic prints, as well as radio and television tape recordings, for Members and committees of the House for official business purposes. The prices charged for services are set by the Clerk of the House, subject to the approval of the Special Committee on the House Recording Studio.

All moneys received from the Revolving Fund's operations are deposited into the Revolving Fund and are available for the Studio's operations. Each Member is authorized an allowance for the conduct of the official and representational duties of his or her office. Charges for Studio services provided to Members may be paid (1) by the House Finance Office from a Member's allowance account, (2) directly by a Member, or (3) on a reimbursement basis from a media organization to a Member. Charges for Studio services provided to committees may be paid by the House Finance Office from committee funds or on a reimbursement basis from a media organization to a committee.

Note 2. Significant Accounting Policies

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

All inventory items are valued on a weighted-average cost basis. Various supply items, such as audio and video tape, photo paper, and light bulbs are charged directly to an expense account when purchased.

Equipment is stated at historical cost. Depreciation is computed under the straight-line method using a 10-year or a 5-year life. The equipment capitalization minimum is \$1,000.

During calendar year 1992, the House Recording Studio changed from a calendar year ending December 31 to a fiscal year ending September 30.

Note 3. Other Costs

Certain costs of operating the House Recording Studio are financed through funds appropriated to the Architect of the Capitol or 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. Some of those costs cannot be readily determined, such as Studio space occupancy, building maintenance, office furnishings,

Financial Statements

and utilities. Identifiable costs paid from appropriated funds of the Clerk of the House or the Architect of the Capitol on behalf of the Studio for the 9 months ended September 30, 1992 and year ended December 31, 1991, are shown in the following table.

Identifiable Studio Operating Costs Paid From Appropriated Funds

<u>Costs Paid</u>	<u>9 months ended September 30, 1992</u>	<u>Year ended December 31, 1991</u>
Salaries and benefits	\$803,325	\$1,298,331
Reimbursement to House Information Systems	25,366	111,922
Equipment expenses paid to House		
Office Equipment Service	22,662	70,508
Telephone	12,122	23,203
Office supplies and expenses	1,551	48
Studio renovations	0	568
Total	<u>\$865,026</u>	<u>\$1,504,580</u>

Most House Recording Studio Revolving Fund employees also work on televising House Floor proceedings, thus salaries and benefits are allocated based on management's estimate of time worked on each activity.

Note 4. Equipment

The following table summarizes the changes in the equipment account for each component for the 9 months ended September 30, 1992 and year ended December 31, 1991.

Financial Statements

Changes in Equipment by Component

	<u>Radio</u>	<u>Television</u>	<u>Photographic laboratory</u>	<u>Office</u>	<u>Total</u>
Balance--					
December 31, 1990	\$297,971	\$1,943,620	\$248,130	\$351	\$2,490,072
Additions	6,259	112,434	1,350	0	120,043
(Reductions)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance--					
December 31, 1991	\$304,230	\$2,056,054	\$249,480	\$351	\$2,610,115
Additions	8,253	106,882	33,521	0	148,456
(Reductions)	<u>(8,233)</u>	<u>(129,331)</u>	<u>(39,877)</u>	<u>0</u>	<u>(177,441)</u>
Balance--					
September 30, 1992	<u>\$304,250</u>	<u>\$2,033,405</u>	<u>\$243,124</u>	<u>\$351</u>	<u>\$2,581,130</u>

Note 5. Sales and Operating Income (Loss) by Component

The following table presents sales and operating income (loss) by component.

Financial Statements

Sales and Operating Income (Loss) by Component

	Total		Radio		Television		Photographic laboratory	
	1992	1991	1992	1991	1992	1991	1992	1991
Revenues								
Sales	\$345,386	\$512,821	\$ 54,444	\$73,620	\$241,783	\$366,282	\$49,159	\$72,918
Expenses								
Depreciation of equipment	158,606	214,687	12,403	16,258	128,865	175,630	17,338	22,799
Outside processing	57,114	94,846	0	0	57,107	94,650	7	196
Supplies	89,179	59,741	38,260	14,556	25,027	22,714	25,892	22,471
Maintenance and repairs	42,835	30,896	7,918	3,575	27,979	23,171	6,938	4,150
Small equipment	10,881	26,448	3,070	3,594	6,450	21,676	1,361	1,178
Office supplies and expenses	5,433	8,012	1,811	2,671	1,811	2,671	1,811	2,670
Miscellaneous	2,512	3,788	837	1,263	837	1,263	838	1,262
Total expenses	366,560	438,418	64,299	41,917	248,076	341,775	54,185	54,726
Other income								
Gain (loss) on disposal	4,366	0	(827)	0	1,213	0	4,000	0
Results of Operations	<u>\$(16,788)</u>	<u>\$74,403</u>	<u>\$(10,682)</u>	<u>\$31,703</u>	<u>\$(5,080)</u>	<u>\$ 24,507</u>	<u>\$(1,026)</u>	<u>\$18,193</u>

Note 6. Operating Decrease of Accounts Payable

The House Recording Studio accounts payable balance at September 30, 1992, included \$26,872 for equipment purchased during fiscal year 1992. Therefore, to reconcile the Studio's Results of Operations to Net Cash Provided by Operating Activities, the operating decrease in accounts payable is calculated as follows:

Accounts payable at December 31, 1991	\$(40,973)
Accounts payable at September 30, 1992	35,782
Subtotal	(5,191)
Accounts payable pertaining to equipment purchase	(26,872)
Operating Decrease of Accounts Payable	<u>\$(32,063)</u>

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