United States General Accounting Office

GAO

Report to the Clerk of the House of Representatives

November 1994

FINANCIAL AUDIT

House Recording Studio Revolving Fund for the Periods Ended 9/30/93 and 9/30/92

GAO/AIMD-95-11

GAO

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

Comptroller General
of the United States

B-114842

November 8, 1994

The Honorable Donnald 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 (the Fund) as of September 30, 1993, and September 30, 1992, and the related statements of revenues and expenses 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 for 1993.

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 4, the financial statements present the results of activities financed through the House 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 significant identifiable costs, such as salaries and benefits, which are financed by other appropriated funds are not included on the financial statements, but are disclosed in note 4. Also, the statements do not include such costs as space 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 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;

[1]Our reports on the Fund's internal control structure and compliance with laws and regulations for 1992 are presented in GAO/AIMD-94-82, dated May 19, 1994.

- 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: (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 August 12, 1994. The Clerk of the House of Representatives provided written comments on a draft of this report. These comments have been incorporated into the report where appropriate and are included in appendix I.

Sincerely yours,

for

Charles A. Bowsher
Comptroller General
of the United States

Contents

Financial Statements

Statements of Financial Position

FINANCIAL STATEMENTS

Statements of Financial Position

	September 30, 1993	September 30, 1992
Asset		
Current Assets		
Fund balance with Treasury	$1,042,378	$ 723,155
Petty cash	200	200
Accounts receivable	50,849	32,509
Inventory of repair materials and supplies, at cost (note 3)	0	17,359
Total current assets	$1,093,427	$ 773,223
Fixed Assets		
Equipment (note 5)	$2,377,754	$2,581,130
Less accumulated depreciation	1,548,038	1,536,722
Total fixed assets	829,716	1,044,408
Total Assets	**$1,923,143**	**$1,817,631**
Liabilities and Government Equity		
Liabilities		
Accounts payable	$ 40,224	$ 35,782
Advance from House Finance Office	200	200
Total liabilities	40,424	35,982
Government Equity		
Appropriated capital	183,410	183,410
Cumulative results of operations	1,699,309	1,598,239
Total government equity	1,882,719	1,781,649
Total Liabilities and Government Equity	**$1,923,143**	**$1,817,631**

The accompanying notes are an integral part of these statements.

Statements of Revenues and Expenses

Statements of Revenues and Expenses

	Year Ended September 30, 1993	9 Months Ended September 30, 1992
Revenues		
Sales (note 6)	$511,619	$345,386
Expenses		
Depreciation of equipment	197,401	158,606
Supplies	37,026	57,114
Outside processing	95,498	89,179
Maintenance and repairs	22,082	42,835
Small equipment	37,532	10,881
Office supplies and expenses	3,673	5,433
Miscellaneous	1,228	2,512
Total expenses (note 4)	394,440	366,560
Income (Loss) From Operations	**117,179**	**(21,174)**
Other Income		
Gain on disposal of equipment	0	4,386
Miscellaneous income	1,250	0
Excess of Revenues over Expenses before cumulative effect of change in accounting principle	**118,429**	**(16,788)**
Cumulative effect of change in accounting principle (note 3)	(17,359)	0
Excess of Revenues Over Expenses	**$101,070**	**$(16,788)**

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Statements of Cash Flows

	Year Ended September 30, 1993	9 Months Ended September 30, 1992
Cash Flows From Operating Activities		
Cash received from customers	$ 494,475	$ 329,932
Cash paid to suppliers	(148,441)	(241,470)
Net cash provided by operating activities	**346,034**	**88,462**
Cash Flows From Investing Activities		
Capital expenditures	(26,811)	(115,689)
Net cash used in investing activities	**(26,811)**	**(115,689)**
Net Increase in Cash	**319,223**	**(27,227)**
Cash at beginning of year	723,355	750,582
Cash at End of Year	**$1,042,578**	**$723,355**
Reconciliations of Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities		
Excess of revenues over expenses	$ 101,070	$ (16,788)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Gain (Loss) on disposal	0	(4,386)
Depreciation	197,401	158,606
Reclassification to small equipment expense (note 7)	34,062	0
Decrease (increase) in assets		
Accounts receivable	(18,340)	(15,902)
Inventory of repair materials and supplies	17,359	(1,005)
Increase (decrease) in liabilities		
Accounts payable (note 7)	14,482	(32,063)
Total adjustments	244,964	105,250
Net Cash Provided by Operating Activities	**$ 346,034**	**$ 88,462**

The accompanying notes are an integral part of these statements.

Notes to Financial 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.

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. Change in Accounting Principle

During fiscal year 1993, the House Recording Studio changed its method of accounting for materials and supplies used to repair equipment in order to disclose these items in a manner comparable to similar entities. Prior to September 30, 1992, these materials and supplies were capitalized as inventory regardless of cost and were valued on a weighted-average cost basis. Currently, all such items are expensed when purchased. The effect of this change in accounting principle was to decrease fiscal year 1993 excess of revenues over expenses by $6,619. The cumulative effect of this change in principle for prior periods reduced fiscal year 1993 excess of revenues over expenses by an additional $17,359. If the studio had applied this change retroactively, the excess of expenses over revenues for the 9 months ended September 30, 1992, would have increased by $1,005.

Note 4. 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. Identifiable costs paid from appropriated funds of the Clerk of the House or the Architect of the Capitol on behalf of the Studio are shown in the following table.

Identifiable Studio Operating Costs Paid From Appropriated Funds

Costs Paid	Year Ended September 30, 1993	9 Months Ended September 30, 1992
Gross salaries	$1,149,678	$ 803,325
Employee benefits	275,922	188,355
Reimbursement to House Information Systems	36,052	25,366
Equipment expenses paid to House Office Equipment Service	87,411	22,662
Telephone service	13,256	12,122
Office supplies and expenses	4,533	1,551
Travel expenses	984	0
Total	**$1,567,836**	**$1,053,381**

Because most House Recording Studio Revolving Fund employees also work on televising House Floor proceedings, salaries and benefits are allocated based on management's estimate of time worked on each activity. Other costs cannot be readily determined, such as Studio space occupancy, building maintenance, office furnishings, and utilities.

Note 5. Equipment

The following table summarizes the changes in the equipment account for each component for the year ended September 30, 1993, and the 9 months ended September 30, 1992.

Changes in Equipment by Component

	Radio	Television	Photographic laboratory	Office	Total
Balance-- December 31, 1991	$304,230	$2,056,054	$249,480	$351	$2,610,115
Additions	8,253	106,682	33,521	0	148,456
(Reductions)	(8,233)	(129,331)	(39,877)	0	(177,441)
Balance-- September 30, 1992	$304,250	$2,033,405	$243,124	$351	$2,581,130
Additions	16,771	0	0	0	16,771
Reclassifications	4,043	1,451	(5,494)	0	0
(Reductions)	(728)	(219,419)	0	0	(220,147)
Balance-- September 30, 1993	**$324,336**	**$1,815,437**	**$237,630**	**$351**	**$2,377,754**

Note 6. Sales and Operating Income (Loss) by Component

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

Sales and Operating Income (Loss) by Component

	Total		Radio		Television		Photographic laboratory	
	1993	1992	1993	1992	1993	1992	1993	1992
Revenues								
Sales	$511,619	$345,386	$65,970	$54,444	$386,766	$241,783	$58,883	$49,159
Expenses								
Depreciation of equipment	197,401	158,606	14,093	12,403	162,358	128,865	20,950	17,338
Outside processing	95,498	57,114	420	0	95,078	57,107	0	7
Supplies	37,026	89,179	6,741	38,260	13,359	25,027	16,926	25,892
Maintenance and repairs	22,082	42,835	3,111	7,918	14,931	27,979	4,040	6,938
Small equipment	37,532	10,881	1,237	3,070	35,369	6,450	926	1,361
Office supplies and expenses	3,673	5,433	1,224	1,811	1,224	1,811	1,225	1,811
Miscellaneous	1,228	2,512	410	837	409	837	409	838
Total expenses	**394,440**	**366,560**	**27,236**	**64,299**	**322,728**	**248,076**	**44,476**	**54,185**
Other Income								
Gain (Loss) on disposal	0	4,386	0	(827)	0	1,213	0	4,000
Miscellaneous income	1,250						1,250	
Excess of Revenues Over Expenses	**$118,429**	**$(16,788)**	**$38,734**	**$(10,682)**	**$ 64,038**	**$ (5,080)**	**$15,657**	**$(1,026)**

Note 7. Reconciliation of Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities

Small Equipment Expense

During 1993, the House Recording Studio reclassified equipment under its capitalization threshold of $1,000 to small equipment expense. This resulted in a reduction of equipment and an increase to small equipment expense of $34,062.

Accounts Payable

The House Recording Studio accounts payable balance at September 30, 1993, included $16,832 for equipment purchased during fiscal year 1993. At September 30, 1992, the accounts payable balance included $26,872 for equipment purchased during the 9-month period ended September 30, 1992. Therefore, to reconcile the Studio's Excess of

Revenues over Expenses to Net Cash Provided by Operating Activities, the operating increase in Accounts Payable is calculated as follows:

Accounts Payable at September 30, 1993 (including fixed assets accounts payable)	$40,224	
Less Accounts Payable for equipment purchased in fiscal year 1993	16,832	$23,392
Accounts Payable at September 30, 1992 (including fixed assets accounts payable)	$35,782	
Less Accounts Payable for equipment purchased in fiscal year 1992	26,872	8,910
Increase in Accounts Payable Related to Operations		**$14,482**

Comments From the Office of the Clerk of the House of Representatives

Donnald K. Anderson
Clerk

Dallas L. Dendy, Jr.
Assistant to the Clerk

Office of the Clerk
U.S. House of Representatives
Washington, DC 20515-6601

October 6, 1994

Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
441 "G" Street, N.W.
Room 7000
Washington, D.C. 20748

Dear Mr. Bowsher:

I have reviewed the proposed report on the Audit of the House of Representatives Recording Studio Revolving Fund for the calendar year ended October 30, 1993. I appreciate the opportunity to review this draft and wish to make the following narrative corrections:

See comment 1.

1. Page 2, 1st paragraph, 2nd line following... "Other" ... delete the word "significant".

See comment 2.

2. Page 10, Under Note 4. Other Costs, last sentence following ... "and utilities," ... delete the words "which are furnished without charge to the Fund."

I express my satisfaction with the audit of the Revolving Fund itself and herewith return it to you for final form.

Thank you and with best wishes, I am

Sincerely yours,

Donnald K. Anderson

Donnald K. Anderson, Clerk
U.S. House of Representatives

The following are GAO's comments on the Office of the Clerk of the House of Representatives, letter dated October 6, 1994.

GAO Comments

1. We believe that costs financed by other appropriated funds are "significant" and, therefore, did not delete the word.

2. House Recording Studio management is responsible for preparing the financial statements and accompanying notes. Accordingly, we deleted the words, "which are furnished without charge to the Fund," from the notes. The change did not affect our opinion on the financial statements.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested