

March 2004

FINANCIAL AUDIT

Senate Health
Promotion Revolving
Fund's Fiscal Year
2002 Financial
Statements



G A O

Accountability * Integrity * Reliability

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

March 31, 2004

The Honorable William H. Pickle
Senate Sergeant at Arms

Dear Mr. Pickle:

This report presents the results of our audit of the financial statements of the Senate Health Promotion Revolving Fund (the Fund) as of and for the fiscal year ending September 30, 2002. This report also contains our opinion on the effectiveness of the Fund's related internal control as of September 30, 2002, and our evaluation of its compliance with selected provisions of laws and regulations we tested. We performed this audit at the request of the former Senate Sergeant at Arms.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Rules and Administration; the Senate Committee on Appropriations; and the Senate Subcommittee on Legislative Branch, Committee on Appropriations. The report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9471 or Keith Thompson, Assistant Director, at (202) 512-6328. You can also reach us by e-mail at franzelj@gao.gov or thompsonk@gao.gov. Key contributors to this report were Patricia Blumenthal, John Saylor, Katherine Schirano, and Daniel Gaisin.

Sincerely yours,

Jeanette M. Franzel
Director
Financial Management and Assurance



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

To the Senate Sergeant at Arms

We have audited the accompanying statement of financial position of the Senate Health Promotion Revolving Fund (the Fund) as of September 30, 2002, and the related statement of revenue and expenses and changes in fund balance and statement of cash flows for the fiscal year then ended. In our audit, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain internal controls should be improved, the Fund had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- no reportable noncompliance with selected provisions of laws and regulations we tested.

The following sections provide additional detail about our conclusions and the scope of our audit.

Opinion on the Financial Statements

The accompanying financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Fund's financial position as of September 30, 2002, and the results of operations and cash flow for the fiscal year then ended.

Opinion on Internal Control

Although certain internal controls should be improved, the Fund maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2002, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established in the Comptroller General's *Standards for Internal Control in the Federal Government*.¹ Our work did identify the need to improve

¹U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

certain internal controls as described below. These weaknesses in internal control, although not considered material weaknesses, represent significant deficiencies in the design or operations of internal control, which could adversely affect the entity's ability to meet the internal control objectives.

- Significant adjustments were made during the audit process to correct errors that had been made in posting transactions in order to properly present the financial statement balances for accounts payable and cash.

The posting errors resulted in the improper elimination of accounts payable, and were not detected during the preparation of the year-end financial statements. Essentially, the Fund is following a modified cash basis of accounting during the year, and then a conversion to the accrual basis of accounting for financial reporting purposes at the end of the year. Although the Fund is not required to use the accrual basis of accounting to present its year-end financial statements, the Fund's management elected to present the financial statements on that basis. However, as described above, the Fund does not have proper review procedures for effectively converting to the accrual basis of accounting.

- Existing policies and procedures do not provide for a level of management review of journal entries sufficient to prevent or detect errors that could result in misstatements to the financial statements. Staff accountants can post journal entries that have not been reviewed or approved by Fund management into the Fund's financial records. Because the Fund does not have a policy that requires staff accountants to obtain management approval of journal entries before recording them into the financial records, there is an increased risk that errors leading to misstatements will result from incorrect entries or posting errors and that these misstatements might not be detected or corrected on a timely basis. Additionally, while existing procedures require that staff accountants provide a schedule of adjusting journal entries to management for review prior to issuance of the financial statements, the procedures do not contain sufficient detail regarding the steps to be conducted as part of the financial statement review.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the

objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

The Fund's management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of internal control are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) management maintained effective internal control, the objectives of which are as follows:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- **Compliance with laws and regulations:** Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the Fund's financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Fund's financial statements for the fiscal year ended September 30, 2002.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations, (5) tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control, and (6) tested compliance with selected provisions of the following laws and regulations:

-
- 2 U.S.C. §121c (c), relating to the transfer of funds in excess of \$5,000 to the U.S. Treasury at the end of each fiscal year and
 - 2 U.S.C. §121c (d), relating to approval of disbursements.

We did not evaluate all internal controls relevant to the effectiveness and efficiency of the Fund's operations. We limited our internal control testing to controls over financial reporting (including safeguarding of assets) and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance 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 not test compliance with all laws and regulations applicable to the Fund. We limited our tests of compliance to those laws and regulations that we deemed to have a direct and material effect on the financial statements for the fiscal year ended September 30, 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards. We requested comments on our draft report from your financial management staff.

Recommendations for Executive Action

In light of the internal control weaknesses identified during our audit, we are making two recommendations to the Sergeant at Arms to strengthen controls over financial reporting and recording of transactions for the Senate Health Promotion Revolving Fund. Specifically, we recommend that the Sergeant at Arms direct Fund management to

- evaluate whether the accrual basis is the basis of accounting most useful to the Fund's management or whether the modified cash basis, which is essentially what is in place during the year, is most effective and adopt the most appropriate basis for presentation of the financial statements; and
- improve policies and procedures for reviewing journal entries, in particular key entries such as year-end accruals and adjustments, so that

such entries are properly calculated and recorded in accordance with the basis of accounting selected.

Management's Comments and Our Evaluation

We provided copies of our draft report to the Chief Financial Officer of your office for review and comment. He generally agreed with the contents of this report and stated that he will initiate actions to address the recommendations contained herein.



Jeanette M. Franzel
Director
Financial Management and Assurance

February 25, 2004

Financial Statements

Statement of Financial Position

**Senate Health Promotion Revolving Fund
Statement of Financial Position
September 30, 2002**

Assets	
Cash	<u>\$10,884</u>
Total Assets	<u><u>\$10,884</u></u>
Liabilities & Equity	
Liabilities:	
Accounts Payable	\$1,955
Deferred Income	<u>2,903</u>
Total Liabilities	\$4,858
Equity:	
Fund Balance	<u>\$6,026</u>
Total Liabilities & Equity	<u><u>\$10,884</u></u>

See accompanying notes.

Statement of Revenue and Expenses and Changes in Fund Balance

Senate Health Promotion Revolving Fund
Statement of Revenue and Expenses
and Changes in Fund Balance
For the Year Ended September 30, 2002

Revenue:	
Participants' fees	<u>\$13,996</u>
Total Revenue	<u>\$13,996</u>
Expenses:	
Instructional expenses	<u>\$14,251</u>
Total Expenses	<u>\$14,251</u>
Revenues Over Expenses (deficit)	<u>(\$255)</u>
Beginning Fund Balance	<u>\$6,281</u>
Ending Fund Balance	<u>\$6,026</u>

See accompanying notes.

Statement of Cash Flows

Senate Health Promotion Revolving Fund
Statement of Cash Flows
For Year Ending September 30, 2002

Operating Activities	
Revenues over Expenses (deficit)	(255)
Decrease in:	
Accounts Payable	(1,293)
Deferred Income	(1,289)
Net cash used by operations	<u>(2,837)</u>
Net cash decrease for period	(2,837)
Cash at beginning of period	<u>13,721</u>
Cash at end of period	<u><u>10,884</u></u>

See accompanying notes.

Notes to the Financial Statements

Office of the Sergeant at Arms – U.S. Senate
Notes to Financial Statements
Senate Health Promotion Revolving Fund

Note 1 - Organization

The Senate Health Promotion Revolving Fund (the Revolving Fund) was established within the contingent fund of the Senate on November 21, 1989, by the Legislative Branch Appropriations Act, 1990. The Office of Education and Training administers the Revolving Fund under the jurisdiction of the Senate Sergeant at Arms, whose rules and regulations are subject to approval of the Senate Committee on Rules and Administration. The Revolving Fund began operation in 1990.

The Revolving Fund provides health promotion education, services, classes, and activities for Members, officers, and employees of the Senate. The Revolving Fund sponsors lifestyle change activities that include various regularly held programs, such as weight loss and yoga classes, on a fee basis. These fees are deposited in the Revolving Fund and are available without fiscal year limitation to defray the cost of these activities. By design, the Revolving Fund operates at essentially a break-even point.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are presented in conformity with U.S. generally accepted accounting principles. Accordingly, assets, liabilities, revenues and expenses are recognized on the accrual basis.

Deferred Income

Deferred income represents fees collected by the Revolving Fund from participants registered for classes not yet delivered as of year-end.

Accounts Payable

Accounts payable consists of instructor fees owed to private vendors for services rendered.

Note 3 – Costs Paid Directly From Other Appropriated Funds

Certain costs of Revolving Fund activities are financed with funds appropriated to the Senate or the Architect of the Capitol and, accordingly, are not included in the Revolving Fund's financial statements. Identifiable costs of Revolving Fund activities for the period ended September 30, 2002, financed with other appropriated funds are shown in the following table. Many of these costs are the result of an allocation of costs between Revolving Fund activities and other

activities of the Office of Education and Training based upon management's estimate of time spent on each activity. Additional costs paid with other appropriated funds of the Senate or the Architect of the Capitol such as office space, office furnishings, and room space provided for Revolving Fund-sponsored programs cannot be readily determined.

**Identifiable Costs of Revolving Fund Activities Financed
with Other Appropriated Funds**

Year Ended September 30, 2002

Employee Salaries	\$16,162
Employee Benefits	3,233
Telephone	<u>168</u>
Total	<u>\$19,563</u>

Note 4 – Cumulative Results of Operations

The Secretary of the Senate is required by 2 U.S.C. §121c (c) to withdraw from the Revolving Fund and deposit in the U.S. Treasury as miscellaneous receipts, on or before December 31 of each year, all funds exceeding \$5,000 as of the preceding September 30. Management calculates the excess receipts by reducing the Fund's cash balance on hand with the U.S. Treasury by current liabilities, including accounts payable and deferred income, and comparing the resulting amount to the \$5,000 limit. Based on this calculation, no remittance was made to the Treasury for 2002.

The \$255 loss for fiscal year 2002 is the result of the partial refund of class fees to participants who could no longer attend classes for medical reasons or because they were no longer Senate employees. Vendors are paid based on the number of participants registered for a class session regardless of whether the participants remain enrolled for the entire session.

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