

GAO

Report to the Clerk of the House of
Representatives

January 1994

FINANCIAL AUDIT

House Office Systems
Management—Three
Months Ended 9/30/92
and Fiscal Years Ended
6/30/92 and 6/30/91





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

Comptroller General
of the United States

B-114865

January 14, 1994

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

Dear Mr. Anderson:

As you requested, we have audited the House Office Systems Management's Statements of Equipment and related Statements of Receipts and Costs as of the dates and for the periods shown on the accompanying statements. We found

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

Our audits also identified a matter that we believe should be brought to your attention, although it is not material to the financial statements. Specifically, House Office Systems Management lacked certain control procedures to prevent or detect all unauthorized changes to its automated financial data.

The following sections outline each of our conclusions in more detail and discuss the scope of our audits.

Opinion on Financial Statements

The House Office Systems Management's financial statements were prepared on a modified cash basis of accounting and are not intended to be a presentation in conformity with generally accepted accounting principles. The statements referred to above present fairly, in conformity with the basis of accounting described in note 2, the House Office Systems Management's

- equipment and
- receipts and costs.

However, misstatements may nevertheless occur in other financial information reported by the House Office Systems Management as a result of the internal control weakness described later. As discussed in note 2, the statements of receipts and costs present only the results of activities financed from funds allocated or reimbursed to the House Office Systems Management. They do not include costs of space, building repairs, utilities, and office furniture financed from other legislative appropriations.

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 in accordance with the basis of accounting described in note 2 and maintain accountability for assets.

Internal controls in effect on September 30, 1992 and June 30, 1992, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected. Our report on the internal control structure for fiscal year 1991 is presented in GAO/AIMD-93-12, dated August 6, 1993.

However, our work identified the need to improve certain internal controls over automated financial data. Specifically, House Office Systems Management did not have control procedures to prevent or detect all unauthorized changes to its equipment usage fees and depreciation data files. Computer programmers who provide support to the Office had uncontrolled access to the data files. As a result, they could make unauthorized changes to the data. While we found no instances of unauthorized changes, they could occur and not be detected. We believe that the House Office Systems Management should develop and implement procedures to ensure that all changes made to its automated equipment data files are authorized.

In a letter dated December 6, 1993, the Clerk stated that the Chief of House Office Systems Management has arranged to receive copies of the daily reports which list changes made by the computer programmer for her review. (See appendix I.) We believe, if properly implemented, this review process will strengthen the internal controls over the Office's automated

equipment data files. We plan to assess the effectiveness of these new procedures while performing our fiscal year 1993 audit of House Office Systems Management.

This weakness in internal controls, although not considered material, represents a deficiency in the design or operations of internal controls which could adversely affect House Office Systems Management's ability to meet the internal control objectives listed above. The weakness could also result in misstatements in other financial information reported by House Office Systems Management.

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 June 30, 1992. 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 fiscal year 1991 is also presented in GAO/AIMD-93-12, dated August 6, 1993.

Objectives, Scope, and Methodology

The Office's management is responsible for

- preparing the financial statements in conformity with the basis of accounting described in note 2,
- 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 the basis of accounting described in note 2) 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

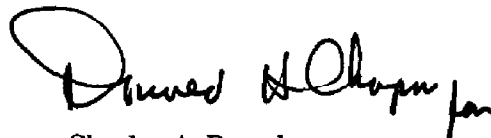
- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- 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 equipment inventory, receipts, disbursements, and financial reporting; and
- tested compliance with selected provisions of 2 U.S.C. 112e and 117e, 48 U.S.C. 1715 and 1735, and regulations on the Office's operations contained in the House of Representatives edition of the Congressional Handbook.

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 June 30, 1993.

Sincerely yours,



Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Statements of Equipment

	September 30,	June 30,	
	1992	1992	1991
Washington offices' equipment at cost	\$73,898,315	\$73,488,571	\$65,586,372
Less accumulated depreciation	<u>50,569,901</u>	<u>49,036,808</u>	<u>46,550,233</u>
Net Washington offices' equipment	23,328,414	24,451,763	19,036,139
District offices' equipment at cost	27,663,566	27,732,654	22,973,218
Less accumulated depreciation	<u>21,079,777</u>	<u>21,045,780</u>	<u>17,753,145</u>
Net district offices' equipment	<u>6,583,789</u>	<u>6,686,874</u>	<u>5,220,073</u>
Net Equipment (note 3)	<u>\$29,912,203</u>	<u>\$31,138,637</u>	<u>\$24,256,212</u>

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Receipts and Costs

	Three months ended	Fiscal year ended June 30,	
	September 30, 1992	1992	1991
Receipts			
Equipment usage fees	\$ 4,289,335	\$29,552,703	\$27,387,248
Miscellaneous	<u>93,301</u>	<u>420,291</u>	<u>236,757</u>
Total Receipts	<u>4,382,636</u>	<u>29,972,994</u>	<u>27,624,005</u>
Disbursements and Other Costs (note 2)			
Disbursements			
Vendor services (note 4)	4,900,492	11,267,311	12,701,685
Salaries and benefits	551,850	2,091,689	1,807,897
Data processing services	388,190	1,420,206	1,256,547
Equipment leasing (note 5)	166,558	1,028,318	1,219,582
Equipment usage	22,229	257,700	64,200
Quarterly payments to the General Services Administration	0	250,487	289,614
Equipment repair parts (note 4)	4,799	136,686	144,763
Office supplies	8,353	27,885	10,874
Telephone services	4,298	16,288	15,382
Property supplies	6,869	5,778	12,820
Miscellaneous	<u>8,840</u>	<u>55,434</u>	<u>39,656</u>
Total disbursements	<u>6,062,478</u>	<u>16,557,782</u>	<u>17,563,020</u>
Other costs			
Depreciation (note 2)	3,934,971	14,643,348	13,419,647
Book value of disposed equipment	<u>131,944</u>	<u>1,895,489</u>	<u>502,413</u>
Total other operating costs	<u>4,066,915</u>	<u>16,538,837</u>	<u>13,922,060</u>
Total Disbursements and Other Costs (note 2)	<u>10,129,393</u>	<u>33,096,619</u>	<u>31,485,080</u>
Excess of (Costs Over Receipts)	<u>\$(5,746,757)</u>	<u>\$(3,123,625)</u>	<u>\$(3,861,075)</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Description of the Office

Until April 1, 1993, the House of Representatives Office Systems Management operated under the jurisdiction of the Clerk of the House of Representatives in accordance with Committee on House Administration regulations. Effective April 1, the operational and financial responsibility for the House Office Systems Management was transferred from the Clerk of the House of Representatives to the Director, Non-Legislative and Financial Services. The Director is subject to policy, direction, and oversight by the Committee on House Administration.

Under 2 U.S.C. 112e and 117e and 48 U.S.C. 1715 and 1735, Members (including the resident commissioner from Puerto Rico, and delegates from the District of Columbia, Guam, the Virgin Islands, and American Samoa), officers, or committees of the House of Representatives may be furnished with office equipment by the Clerk, subject to legislative limits and regulations prescribed by the Committee on House Administration. Other qualified individuals and organizations may also be provided office equipment either directly by the Clerk or through their sponsoring Members. The Committee on House Administration approves the list of equipment, services, and usage fees compiled by the Clerk. The House edition of the Congressional Handbook describes the Office's activities which, in general, include purchasing, leasing, servicing, and disposing of House office equipment.

Note 2. Significant Accounting Policies

The Office's activities are financed through various appropriations available to the House of Representatives, and operating costs are reported under those appropriations in the quarterly reports of the Clerk. The Office's receipts and disbursements are accounted for through the appropriation account for Contingent Expenses of the House (Allowances and Expenses).

The statements of receipts and costs are presented on a modified cash basis. Under this basis of accounting, receipts are recognized when received rather than when earned, and costs are recognized when paid rather than when incurred. Depreciation and the book value of disposed equipment are also included as costs. Total costs do not include certain expenses paid from appropriated funds of the Clerk or the Architect of the Capitol. These expenses include costs for space, building repairs, utilities, office furniture, and equipment installation and freight which cannot be readily determined.

Equipment is depreciated using a straight-line method with no salvage value. Computer items are depreciated over a 3-year life, and other equipment, furniture, carpets, drapes, and blinds are depreciated over a 5-year life.

In fiscal year 1992, the Office discontinued separately identifying operating and administrative costs and now classifies all costs under one category. For comparability, the statement of receipts and costs for fiscal year 1991 has been restated to reflect the new classification.

Note 3. Equipment

The following table shows the changes in equipment at acquisition cost.

Financial Statements

Equipment Changes at Acquisition Cost

	<u>Washington offices</u>	<u>District offices</u>	<u>Total</u>
<u>Balances, June 30, 1991</u>			
Computer equipment	\$45,237,547	\$ 8,651,805	\$ 53,889,352
Copiers	8,271,854	2,286,864	10,558,718
Original General Services			
Administration items	0	7,068,202	7,068,202
Other office equipment	5,467,432	2,067,374	7,534,806
Television and video equipment	2,951,658	72,998	3,024,656
Furnishings	0	2,617,373	2,617,373
Miscellaneous	<u>3,657,881</u>	<u>208,602</u>	<u>3,866,483</u>
Balances, June 30, 1991	<u>\$65,586,372</u>	<u>\$22,973,218</u>	<u>\$ 88,559,590</u>
Acquisitions	19,600,555	4,584,702	24,185,257
Disposals	(10,353,481)	(1,170,141)	(11,523,622)
Transfers	<u>(1,344,875)</u>	<u>1,344,875</u>	<u>0</u>
Subtotal	<u>7,902,199</u>	<u>4,759,436</u>	<u>12,661,635</u>
<u>Balances, June 30, 1992</u>			
Computer equipment	50,887,882	11,785,024	62,672,906
Copiers	9,282,540	3,024,130	12,306,670
Original General Services			
Administration items	0	6,738,608	6,738,608
Other office equipment	5,596,850	2,502,733	8,099,583
Television and video equipment	3,028,101	105,223	3,133,324
Furnishings	0	3,332,742	3,332,742
Miscellaneous	<u>4,693,198</u>	<u>244,194</u>	<u>4,937,392</u>
Balances, June 30, 1992	<u>\$73,488,571</u>	<u>\$27,732,654</u>	<u>\$101,221,225</u>
Acquisitions	2,295,822	786,086	3,081,908
Disposals	(1,625,154)	(1,116,098)	(2,741,252)
Transfers	<u>(260,924)</u>	<u>260,924</u>	<u>0</u>
Subtotal	<u>409,744</u>	<u>(69,088)</u>	<u>340,656</u>
<u>Balances, September 30, 1992</u>			
Computer equipment	51,361,244	11,826,533	63,187,777
Copiers	9,393,784	3,099,261	12,493,045
Original General Services			
Administration items	0	6,458,220	6,458,220
Other office equipment	5,547,575	2,508,310	8,055,885
Television and video equipment	2,951,141	107,212	3,058,353
Furnishings	0	3,412,474	3,412,474
Miscellaneous	<u>4,644,571</u>	<u>251,556</u>	<u>4,896,127</u>
Balances, September 30, 1992	<u>\$73,898,315</u>	<u>\$27,663,566</u>	<u>\$101,561,881</u>

Note 4. Vendor Services and Equipment Repair Parts

Vendor services are payments (usually service contract payments) made for servicing and repairing equipment. Parts used by the in-house repair shop are charged to the equipment repair parts account when purchased.

Note 5. Equipment Leasing

Members, committees, officers, and qualified individuals and organizations have the option of leasing equipment items listed in an authorized users' guide. At September 30, 1992 and June 30, 1992 and 1991, 481, 477, and 631 items, respectively, were being leased.

Comments From the Clerk of the House

Donald K. Anderson
Clerk

M. Raymond Colley
Deputy Clerk

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

December 6, 1993

Mr. Charles A. Bowsler
Comptroller General
of the United States
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsler:


Our review of the draft Financial Audit for Office Systems Management (OSM) for the three months ended 9/30/92 and Fiscal Years Ended 6/30/92 and 6/30/91 is complete. Although OSM is now under the authority of the Director of Non-Legislative and Financial Services, it was under the authority of the Clerk of the House during these audit years.

This is to make a statement for the record with regard to the audit comment that "controls over automated financial data need improvement", even though, as the report indicates, this "lack of controls" is not material to the financial statements themselves.

Since the beginning of automation within the House of Representatives, computer programming essentially has been under the auspices of House Information Systems (HIS). With very few exceptions, the departments under my jurisdiction have operated with programmers employed by HIS. In several cases, these long-term relationships have evolved into professional relationships of great trust and mutual benefit. In the specific case of OSM, Mr. Jim Buchanan, the HIS employee who is their programmer, is viewed with the same trust as any OSM employee. OSM management is certain he would never make unauthorized changes to the database, and I join them in their confidence.

It is my understanding that Ms. Mary Ann Wise, Chief of OSM, has now made arrangements to receive copies of the daily audit trail for review. I trust this action meets GAO expectations with regard to this matter.

Sincerely yours,


DONNARD K. ANDERSON, Clerk
U.S. House of Representatives

cc: Mary Ann Wise, Chief
Office Systems Management

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