Steven A. McNamara
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515–9990

MEMORANDUM

TO: The Honorable Bob Ney, Chairman
Committee on House Administration

The Honorable John B. Larson, Ranking Minority Member
Committee on House Administration

FROM: Steven A. McNamara
Steven A. McNamara
Inspector General

DATE: November 3, 2003

SUBJECT: Final Report - Audit Of The Financial Statements For The Year Ended December 31, 2002 (Report No. 03-HOC-05)

The attached report presents the results of the audit of the U.S. House of Representatives' (House) annual financial statements for the year ended December 31, 2002. The Office of Inspector General contracted with Cotton & Company LLP, Certified Public Accountants, to perform the audit.

The report includes the *Independent Auditor's Report,* which encompasses Cotton & Company LLP's opinion on the *Financial Statements;* the *Independent Auditor's Report on Compliance with Laws and Regulations;* and the *Independent Auditor's Report on Internal Control*. Also included are the House's *Financial Statements*, *Notes to the Financial Statements*, *Supplemental Financial Schedules, Management Report on Internal Control,* and the Chief Administrative Officer's (CAO) Response to the 2002 Financial Statement Audit Report. We have highlighted the results of the audit in an executive summary included on page i.

The results of the audit were discussed with the Chief Administrative Officer throughout the audit, and the CAO fully concurred with the reported internal control weaknesses and recommendations for corrective action. The CAO response is included in the Management Comments section of the report, page 65.

Attachment

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Members, Committee on House Administration

EXECUTIVE SUMMARY

Results Of Audit

The House continued to make progress during the past year in improving its financial management and operations. For the fifth year, the independent auditors expressed an "unqualified opinion" on the House's financial statements, reporting that the financial statements fairly present, in all material respects, the financial position of the House and the results of its operations and cash flows in conformity with generally accepted accounting principles. In addition, the *Independent Auditor's Report on Compliance with Laws and Regulations* identified no instances of noncompliance.

The *Independent Auditor's Report on Internal Control* identified three internal control weaknesses--all of which are reportable conditions. Two of the internal control weaknesses were previously reported for the year ended December 31, 2001. The new weakness Cotton & Company LLP identified in this report addressed issues with yearend review procedures.

During calendar year 2002, the House implemented or initiated corrective actions to address the 18 prior audit recommendations contained in last year's report. Due to the House's progress towards improving financial-related activities, we were able to close 15 of the 18 prior recommendations that were fully implemented or otherwise resolved. The three remaining recommendations are associated with payroll and House Information Resources continuity of operations.

Recommendations

The *Independent Auditor's Report on Internal Control* contains the two remaining internal control weaknesses and one new internal control weakness. This report contains 11 recommendations consisting of 3 prior recommendations, for which corrective actions are in varying stages of implementation, and 8 new recommendations.

Management Response

The CAO responded to the draft *Independent Auditor's Report on Internal Control* on September 14, 2003. In his response, which is included in its entirety as an appendix to this report, the CAO fully concurred with the reported internal control weaknesses and recommendations for corrective action.

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Independent Auditor's Report

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COTTON & COMPANY LLP
auditors • advisors
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INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the accompanying Consolidated Statements of Financial Position of the U.S. House of Representatives as of December 31, 2002, and 2001, and the related Consolidated Statements of Operations and Cash Flows for the years then ended. These financial statements are the responsibility of the Members and administrative management of the House. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the House as of December 31, 2002, and 2001, and results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Supplemental schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of individual entities within the House. Supplemental schedules have been subjected to auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated June 3, 2003, on our consideration of the House's internal control and its compliance with applicable laws, rules,

C&C
established 1981

and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the audit results, those reports should be read together with this report.

COTTON & COMPANY LLP

Matthew H. Johnson, CPA

June 3, 2003
Alexandria, Virginia

Financial Statements

U.S. House of Representatives
Consolidated Statement of Financial Position
as of December 31, 2002 and December 31, 2001

	2002 Consolidated	2001 Consolidated
ASSETS		
Fund Balance with the U.S. Treasury (Note 4)	$ 321,774,954	$ 888,664,536
Cash (Note 4)	1,829	0
Fund Balance with U.S. Treasury and Cash	321,776,783	888,664,536
Accounts Receivable, Net (Note 5)	2,283,423	383,583
Interoffice Receivable	0	0
Advances and Prepayments (Note 6)	3,763,900	3,906,398
Inventory	1,629,146	1,099,905
Property and Equipment, Net (Note 7)	41,562,239	20,802,937
Total Assets	$ 371,015,491	$ 914,857,359
LIABILITIES AND NET POSITION		
Accounts Payable (Note 9)	$ 18,548,407	$ 22,770,532
Interoffice Payable	0	0
Capital Lease Liabilities (Note 8)	1,886,419	0
Accrued Funded Payroll and Benefits (Note 10)	7,118,755	6,882,011
Accrued Unfunded Annual Leave and Workers' Compensation (Note 10)	7,206,356	4,460,233
Unfunded Workers' Compensation Actuarial Liability (Note 11)	17,468,342	11,458,591
Other Liabilities	57,349	12,430
Total Liabilities	52,285,628	45,583,797
Unexpended Appropriations	296,177,991	855,036,339
Total Cumulative Results of Operations	22,551,872	14,237,223
Total Net Position (Note 12)	318,729,863	869,273,562
Total Liabilities and Net Position	$ 371,015,491	$ 914,857,359

The accompanying notes are an integral part of these financial statements.

U.S. House of Representatives
Consolidated Statement of Operations
for the Years Ended December 31, 2002 and December 31, 2001

	2002 Consolidated	2001 Consolidated
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	$ 3,431,487	$ 3,123,996
Sales of Services to Federal Agencies	11,295,503	363,396
Sales of Services to the Public	643,487	625,812
Interoffice Sales (Note 13)	0	0
Other Revenue	569,681	532,066
Total Revenue from Operations	15,940,158	4,645,270
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received (Note 14)	975,087,190	906,053,388
Appropriations Yet To Be Received (Note 14)	10,047,044	2,528,148
Imputed Financing Source (Note 15)	40,195,515	35,669,323
Total Revenue and Financing Sources	1,041,269,907	$ 948,896,129
EXPENSES		
Personnel Compensation	$ 588,096,442	$ 550,912,773
Benefits (Note 15)	222,392,510	194,759,540
Postage and Delivery	22,015,800	21,508,763
Repairs and Maintenance	50,946,000	48,745,379
Depreciation and Amortization (Note 7)	11,425,138	8,566,957
Rent, Utilities, and Communications	21,327,424	20,717,452
Telecommunications	18,535,692	17,116,072
Supplies and Materials	13,776,378	8,588,125
Travel and Transportation	24,773,408	21,919,364
Contract, Consulting, and Other Services	30,349,546	26,292,287
Printing and Reproduction	15,133,548	12,737,475
Subscriptions and Publications	7,444,215	11,262,859
Cost of Goods Sold	14,086,317	2,541,522
(Gain)/Loss on Disposal of Assets	369,604	(32,159)
Bad Debts	48,260	0
Interest on Capital Leases	112,851	2,306
Total Expenses	$ 1,040,833,133	$ 945,638,715
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	$ 436,774	$ 3,257,414
CHANGE IN NET POSITION		
Net Position, Beginning Balance	$ 869,273,562	$ 722,780,895
Adjustments	0	0
Net Position, Beginning Balance	869,273,562	722,780,895
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	436,774	3,257,414
Plus (Minus) Non-Operating Changes (Note 12)	(550,980,473)	143,235,253
Net Position, Ending Balance	$ 318,729,863	$ 869,273,562

The accompanying notes are an integral part of these financial statements.

U.S. House of Representatives
Consolidated Statement of Cash Flows
for the Years Ended December 31, 2002 and December 31, 2001

	2002 Consolidated	2001 Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess/(Deficiency) of Revenue and Financing Sources over Expenses	$ 436,774	$ 3,257,414
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(993,586,796)	(906,255,529)
(Increase)/Decrease in Accounts and Interoffice Receivable	(1,899,840)	75,378
(Increase)/Decrease in Advances and Prepayments	142,498	(734,889)
(Increase)/Decrease in Inventory	(529,241)	(41,244)
Increase/(Decrease) in Accounts and Interoffice Payable	(4,222,125)	9,813,337
Increase/(Decrease) in Other Accrued Liabilities	10,923,956	1,352,415
(Gain)/Loss on Disposal of Assets	369,604	(32,159)
Depreciation and Amortization	11,425,138	8,566,957
Net Cash Provided/(Used) by Operating Activities	(976,940,032)	(883,998,320)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(19,393,123)	(10,390,540)
Net Cash Provided/(Used) by Investing Activities	(19,393,123)	(10,390,540)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	435,963,863	1,064,362,000
Funds Returned to the U.S. Treasury	(6,347,524)	(15,283,061)
Principal Payment on Capital Lease Liabilities	(170,937)	(119,777)
Net Cash Provided/(Used) by Financing Activities	429,445,402	1,048,959,162
Net Cash Provided/(Used) by Operating, Investing, and Financing Activities	(566,887,753)	154,570,302
Fund Balance with U.S. Treasury and Cash, Beginning	888,664,536	734,094,234
Fund Balance with U.S. Treasury and Cash, Ending	$ 321,776,783	$ 888,664,536

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The U.S. House of Representatives (House) is one of two separate legislative chambers that comprise the Congress of the United States. The other is the U.S. Senate (Senate). All lawmaking powers of the Federal government are given to the Congress under Article I of the Constitution of the United States. The House and Senate jointly agree on a budget for the Legislative Branch and submit it to the President of the United States. The Members of the House serve two-year terms of office, which coincide with the sequential numbering of the entire Congress. These financial statements cover the years ended December 31, 2002 and 2001 and reflect the financial activities of the first and second sessions of the 107th Congress.

To help carry out its constitutional duties, the House creates committees of Members and assigns them responsibility for gathering information, identifying policy problems, proposing solutions, and reporting bills to the full chamber for consideration. The House appoints unelected officers to administer both legislative and non-legislative functions, which support the institution and its Members in carrying out its legislative duties. The consolidated comparative financial statements of the House provide financial information on the activities of all entities, which are subject to the authority vested in the House by the U.S. Constitution, public laws, and rules and regulations adopted by the membership of the House.

These financial statements reflect the organizational structure of the House under the 107th Congress. The following is a summary of the entity groupings as they appear in the calendar year 2002 combining financial statements:

> House **Members** are elected from congressional districts of approximately equal population. The financial information in the Members column aggregates the accounts and financial transactions of the Members' district and Washington, D.C. offices, and includes 435 Representatives; four Delegates, one each, from the District of Columbia, Guam, Virgin Islands, and American Samoa; and one Resident Commissioner from Puerto Rico. Member transactions primarily comprise expenses for employee and Member salaries, district office space rental, travel, telecommunications, and postage costs, including Franking costs.

The **Committees** column aggregates accounts and financial transactions of the Standing Committees, Special and Select, of the 107th Congress. Committees are organized at the beginning of each Congress according to their jurisdictional boundaries incorporated in the Rules of the House. The Standing Committees, Special and Select, of the House under the 107th Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce
- Committee on Energy and Commerce
- Committee on Financial Services
- Committee on Government Reform
- Committee on House Administration
- Committee on International Relations
- Committee on the Judiciary
- Committee on Resources
- Committee on Rules
- Committee on Science
- Committee on Small Business
- Committee on Standards of Official Conduct
- Committee on Transportation and Infrastructure
- Committee on Veterans' Affairs
- Committee on Ways and Means
- Permanent Select Committee on Intelligence

The House **Leadership Offices** column includes the financial transactions of :

- Speaker of the House
- Majority and Minority Leaders
- Majority and Minority Whips
- Chief Deputy Majority and Minority Whips
- Speaker's Office for Legislative Floor Activities
- Party Steering Committees, Caucus or Conference, which consist of Representatives of the same political party

The **Officers and Legislative Offices** column aggregates the financial transactions of all legislative support and administrative functions provided to Members, Committees, and Leadership offices, including:

Chaplain
Chief Administrative Officer
Clerk of the House
Corrections Calendar Office
Office of the General Counsel
Office of Inspector General
Office of the Law Revision Counsel
Office of the Legislative Counsel
Parliamentarian
Sergeant at Arms

The **Joint Functions** column includes joint activities of the House and the Senate to the extent that the House funds these functions in whole or in part.

House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these statements include:

Attending Physician
Joint Committee on Taxation, which has members from both the House and the Senate

The **Eliminations** column on the combining financial statements is used to negate the effect of financial transactions between House entities. Consolidated House financial information would be misleading if inter-entity transactions were not eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The financial statements include the accounts and significant activities of the House. The consolidated financial statements do not include legislative agencies that support the House and that receive separate appropriations. These agencies include:

Library of Congress
Congressional Budget Office
General Accounting Office
Government Printing Office
U.S. Botanic Garden
Architect of the Capitol
U.S. Capitol Police

Functions jointly shared between the House and the Senate are included in the combining financial statements to the extent their operations are funded by House appropriations. These consist of :

Attending Physician
Joint Committee on Taxation, which has members from both the House and the Senate

All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information.

B. Basis of Accounting

The House, in accordance with generally accepted accounting principles, utilizes the accrual basis of accounting, which provides for the recognition of events as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The accrual basis of accounting contributes significantly to the development of accurate cost information needed to report the financial position and results of operations.

C. Fund Balance with the U.S. Treasury and Cash

Funds available to the House to pay current liabilities and finance authorized purchases are held with the U.S. Treasury.

?? Fund Balance with the U.S. Treasury includes House accounts, as well as the Congressional Use of Foreign Currency account, which is held at the U.S. Treasury and is maintained and administered by the Department of State on behalf of the House.

?? For purposes of the Consolidated Statement of Cash Flows, funds held with the U.S. Treasury are considered cash.

D. Accounts Receivable

Accounts receivable consists of money owed the House by Federal agencies, Members, employees and/or vendors, less an Allowance for Doubtful Accounts.

E. Advances and Prepayments

Advances consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. Prepayments primarily consist of prepaid subscriptions for publications and data communication services.

F. Inventory

The ***Gift Shop*** and the ***Supply Store*** maintain an inventory of goods for sale. These entities are included in the Officers and Legislative Offices column of the supplemental financial schedules. Inventories for sale are valued at the moving weighted average method.

The ***Furniture Resource Center***, also included in the Officers and Legislative Offices column, maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials. These items are not for sale and are reflected in the financial statements at an estimated value based on the first in/first out inventory valuation method.

G. Property and Equipment

Property and equipment including computer purchases are capitalized if the unit acquisition cost is equal to or greater than $25,000 and the item has a useful life greater than one year. Software is capitalized if the unit acquisition cost is equal to or greater than $10,000 and the item has a useful life greater than one year. The costs of such items are recognized as assets when acquired. An appropriate portion of an asset's value is reduced and an expense recognized over the accounting periods benefited by the asset's use. See Note 7, Property and Equipment, for additional information on property and equipment held by the House.

The House has possession of numerous assets that may be of significant historical and artistic value. The House does not include these assets in the financial statements. The land and buildings occupied and used by Members, officers, and employees in Washington, D.C. are under the custody of the Architect of the Capitol and are not included in the financial statements of the House.

H. Leases

The House leases office space, vehicles, computers and other equipment. These leases are generally classified as operating leases. House regulations require that leases entered into by Members for space and vehicles be no longer than the elected term of the Member. The House also enters into leases, which are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases, if the net present value of the minimum lease payments due at lease inception meets House capitalization criteria. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the minimum lease payments at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. See Note 8, Lease Commitments, for additional lease information.

I. Revenue from Operations

Revenue is recognized when goods have been delivered or services rendered.

?? Sales of goods consist of ***Gift Shop*** and ***Supply Store*** sales.

?? Sales of services to the public are comprised of photography sales, Child Care fees, and Attending Physician fees.

?? Interoffice sales between House entities consist of computer services, telecommunications, office supplies, framing, recording, office equipment, photography, and tape duplication charges and are eliminated on the combining financial statements.

?? Other revenue consists of Page School room and board, and vendor commissions.

J. Appropriations to Cover Expenses, Appropriations Receivable, and Appropriations Payable

Like other Federal government organizations, the House finances most of its operations with appropriations. The expenses of Members, Committees, and Leadership offices are entirely financed with appropriations. Other House entities require appropriations to the extent the revenue generated does not cover expenses. Appropriations are considered a financing source, not a revenue, since appropriations do not result from an earnings process.

K. Postage and Delivery

Postage and delivery consists of franked mail expenses and miscellaneous postage expenses. Members' postage includes the use of the Frank, which is charged to the Members' Representational Allowances. Miscellaneous postage expenses include courier charges, stamps, and rental of post office boxes.

L. Repairs and Maintenance
Repairs and maintenance include all expenses related to the maintenance and upkeep of House equipment in both Washington, D.C. and in Members' district offices, as well as related operating lease payments on various types of equipment. In addition, property and equipment purchases below the capitalization thresholds discussed in Note 2G, Property and Equipment, are classified as repairs and maintenance.

M. Depreciation and Amortization
The cost of capital assets is allocated ratably over an asset's useful life as depreciation or amortization expense. The House calculates depreciation and amortization expense based on the straight-line method over an asset's estimated useful life. Depreciation expense is applicable to tangible assets such as furniture, equipment, and vehicles. Amortization expense is applicable to intangible assets such as software and capital leases. Assets acquired under capital leases are generally amortized over the lease term. However, if a lease agreement contains a bargain purchase option or otherwise transfers title of the asset to the House, the asset is amortized on the same basis as similar categories of owned assets.

N. Rent, Utilities, and Communications
Rent and utilities consist primarily of the rental of district offices by Members and any related utility payments. Communications costs consist of charges for news wire services, satellite fees, and external network access services.

O. Telecommunications
Telecommunications expense includes local and long distance telephone service in Washington, D.C. and in Members' district offices.

P. Supplies and Materials
Supplies and materials are expenses by Members, Committees, and other House offices for paper and other office supplies. Supplies and materials also include medical supplies purchased by the Attending Physician. Supplies and materials do not include inventories held for sale by retail entities such as the ***Gift Shop*** and the ***Supply Store.***

Q. Travel and Transportation
Travel and transportation expenses include official travel by Members, Committees, and Leadership offices; travel by other House officers and employees and congressional delegations; freight and shipping costs; and expenses related to the lease and maintenance of vehicles.

R. Contract, Consulting, and Other Services
Contract, consulting, and other services include the cost of management services in House Postal Operations, annual audit fees, the cost of studies and analyses requested by Committees, as well as computer, recording, janitorial, and catering services.

S. Printing and Reproduction
This category primarily includes printing and reproduction of constituent communications. Also included are photography services, and printing and reproduction of items such as informational publications and reference materials.

T. Subscriptions and Publications
Subscriptions and publications include the cost of periodicals and news services.

U. Cost of Goods Sold
Cost of goods sold includes the cost of products sold in the retail operations of the ***Gift Shop*** and the ***Supply Store,*** and the cost of services provided to federal and non-federal entities, such as the House postal facility.

V. Loss or Gain on Disposal of Assets
A loss is recognized when the net book value of the asset at the time of disposal exceeds any proceeds received. A gain is recognized when the net book value of the asset at the time of disposal is less than any proceeds received.

W. Annual Leave
Annual leave for the House Officers and their employees is accrued as earned, and the liability is reduced as leave is taken. The accrued annual leave balance as of December 31, 2002 is calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 514. See Note 10, Accrued Payroll and Benefits and Leave, for additional information.

X. Federal Employee and Veterans Benefits
This benefit expense includes the current cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. Also included is the current period expense for the future cost of providing retirement benefits and life insurance to House employees. See Note 15, Benefits, for additional information.

Y. Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and

the amount of revenue and expense reported during the period. Actual results could differ from those estimates.

Z. Adjustments

Several minor adjustments have been made to the amounts reported in the House's 2001 financial statements. These adjustments reflect reclassifications of cash flows on the Statement of Cash Flows and more accurate information obtained on the cash disbursements to other agencies reported in Note 3. Although immaterial to the financial statements taken as a whole, these changes were desirable for a more accurate presentation of the 2002 amounts

NOTE 3 - INTRA GOVERNMENTAL FINANCIAL ACTIVITIES

The House has significant intra governmental financial activities with Executive and Legislative Branch entities. These financial activities include transactions and agreements to purchase goods and services.

Transactions with Executive Branch Agencies

The House's most significant interagency transactions are with the:

?? U.S. Postal Service for postage.

?? U.S. Army Corps of Engineers for Services provided for House technical support.

?? U.S. Department of Labor (DOL) for unemployment and workers' compensation.

?? General Services Administration for the use and upkeep of office space in certain Members' district offices, office supplies, and leased vehicles.

?? U.S. Department of the Interior, U.S. Geological Survey, National Business Center for financial system contract and consulting services.

?? U.S. Department of Transportation for transit benefits program.

?? Other Executive Branch agencies for special studies as requested by House Committees.

Significant cash disbursements to Executive Branch agencies during the years ended December 31, 2002 and 2001 were approximately:

Cash Disbursements to Executive Branch Agencies	2002	2001
U.S. Postal Service	$ 25,224,000	$ 16,410,000
U.S. Department of Labor	2,051,000	2,605,000
General Services Administration	5,274,000	5,645,000
U.S. Department of the Interior	49,000	1,147,000
U.S. Army Corps of Engineers	251,000	-
U.S. Department of Transportation	759,000	256,000
Other Executive Branch Agencies	209,000	138,000

The House also reports significant financial transactions with the U.S. Department of State, which maintains and administers the Congressional Use of Foreign Currency account on behalf of Congress. This account, which was established in 1948 and made permanent in 1981, is authorized by legislation codified in Title 22, Sec. 1754 of the United States Code. The funds are available to Congressional Committees and delegations to cover local currency expenses incurred while traveling abroad. The fund balance related to the account is included in the Office of Finance's Fund Balance with U.S. Treasury under Officers and Legislative Offices.

Use of the foreign currency account for Congressional delegations and other official foreign travel of the House is authorized by either the Speaker of the House or the chairman of a Standing, Special and Select, or Joint Committee. Therefore, all foreign currency account financial activity is reported as Committee and Leadership office travel expense.

Foreign Currency Balance with the U.S. Department of State	2002	2001
Beginning Balance	$ 8,023,281	$ 3,482,874
Appropriation Received	4,300,000	8,600,000
Travel Expenses:		
Leadership	(931,305)	(628,184)
Committees	(4,231,917)	(3,431,409)
Ending Balance	$ 7,160,059	$ 8,023,281

Transactions with Legislative Branch Entities

The House pays for support services provided by other Legislative Branch entities. Some of these services are shared with the Senate. These entities receive their own appropriations and operate autonomously from the House's administrative functions. The House also receives support services from the General Accounting Office, Government Printing Office, Library of Congress, Congressional Budget Office, and U.S. Botanic Gardens.

Significant cash disbursements to Legislative Branch entities during the years ended December 31, 2002 and 2001 were approximately:

Cash Disbursements to Legislative Branch Ent	2002	2001
Library of Congress	$ 12,000	$ 5,000
General Accounting Office	277,000	25,000
Architect of the Capitol	297,000	289,000
Government Printing Office	146,000	257,000

The House also receives payments for services provided to the Congressional Budget Office and for the reimbursement of services shared with other Federal government entities. In 2002, the House shared services with the Library of Congress and the United States Senate. Receipts from the Legislative Branch entities were approximately $9,462,000. The following were the most significant:

Cash Receipts from Legislative Branch Entiti	2002	2001
Library of Congress	$ 8,204,000	$ -
United States Senate	1,127,000	-
Congressional Budget Office	105,000	589,000

NOTE 4 - FUND BALANCE WITH THE U.S. TREASURY AND CASH

The House has appropriated and revolving fund balances with the U.S. Treasury. The balances, as of December 31, 2002 and 2001 were:

Fund/Cash Accounts Maintained by the House	2002	2001
Fund Balance with Treasury/Cash	$ 314,616,724	$ 880,641,255
Congressional Use of Foreign Currency	7,160,059	8,023,281
Total	$ 321,776,783	$ 888,664,536

The Fund Balance with Treasury in 2002 was lower than the Fund Balance with Treasury in 2001 because the budget for fiscal year 2003 was on a Continuing Resolution as of December 31, 2002. Therefore, the House operated based on the previous year's budget, on a prorated basis, since October 1, 2002, and did not receive full funding until 2003.

Cash on Hand represents deposits in transit and amounts held in a commercial bank account as of December 31, 2002 with a balance of $1,829.

NOTE 5 - ACCOUNTS RECEIVABLE

Account Receivable balances represent amounts owed the House by Federal agencies, Members, employees, and/or vendors less an allowance for doubtful accounts. The allowance for doubtful accounts was derived from the receivables amount owed to the House for more than one year. The significant increase in Accounts Receivable is due to the amounts owed to the House by the Library of Congress and the United States Senate for the reimbursement of shared services as of December 31, 2002.

Accounts Receivable	2002	2001
Accounts Receivable	$ 2,331,683	$ 383,583
Less: Allowance for Doubtful Accounts	(48,260)	-
Accounts Receivable, Net	$ 2,283,423	$ 383,583

NOTE 6 - ADVANCES AND PREPAYMENTS

Advances and prepayments are transfers of cash to cover future expenses or the acquisition of assets. These goods and/or services are delivered in increments that span several months. Advance payments are recorded as assets. As the goods and/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are made for subscriptions and software licenses and are charged as expenses. At year end, all such payments made for the previous, current, and succeeding years are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. Advances and Prepayments are:

	2002	2001
Advances	$ 484,363	$ 1,005,366
Prepayments	3,279,537	2,901,032
Total	$ 3,763,900	$ 3,906,398

NOTE 7 - PROPERTY AND EQUIPMENT

Software and equipment, including computers, are capitalized if their acquisition cost equals or exceeds $10,000 and $25,000, respectively. Work in process consists of capitalized costs associated with assets received, but not placed in service as of December 31, 2002. Depreciation and amortization expense is based on the straight-line method over an asset's estimated useful life. Property and equipment as of December 31, 2002 and the related depreciation and amortization expense are:

2002 Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/ Depreciation	Estimated Net Book Value	Amortization/ Depreciation Expense
Work in Process	N/A	$ 6,799,719	$ -	$ 6,799,719	$ -
Computer Software, Hardware, and Vehicles	3	58,960,435	43,247,307	15,713,128	7,475,757
Computer Software and Hardware	5	2,172,581	2,172,581	-	-
Equipment and Motor Vehicles	5	29,139,566	18,779,210	10,360,356	3,317,464
Furnishings and Other Equipment	10	2,887,176	2,471,433	415,743	125,249
Assets Under Capital Lease	10	2,170,207	217,020	1,953,187	217,021
Leasehold Improvements	10	6,609,753	289,647	6,320,106	289,647
Total		$ 108,739,437	$ 67,177,198	$ 41,562,239	$ 11,425,138

Property and equipment as of December 31, 2001 and the related depreciation and amortization expense are:

2001 Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/ Depreciation	Estimated Net Book Value	Amortization/ Depreciation Expense
Work in Process	N/A	$ 4,599,105	$ -	$ 4,599,105	$ -
Computer Software, Hardware, and Vehicles	3	55,635,348	47,385,709	8,249,639	4,741,171
Computer Software and Hardware	5	2,172,581	2,172,581	-	-
Equipment and Motor Vehicles	5	31,128,816	23,738,080	7,390,736	3,625,371
Furnishings and Other Equipment	10	2,918,966	2,355,509	563,457	135,184
Assets Under Capital Lease	5	-	-	-	65,231
Leasehold Improvements	10	-	-	-	-
Total		$ 96,454,816	$ 75,651,879	$ 20,802,937	$ 8,566,957

NOTE 8 - LEASE COMMITMENTS

Capital Leases

The House enters into leases, which are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases, if the net present value of the future minimum lease payments due at lease inception meets House capitalization criteria. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the future minimum lease payments due at lease inception. Assets under capital leases consist solely of building structures.

Future Capital Lease Payments Due as of December 31, 2002:

Year	
2003	$ 283,788
2004	283,788
2005	283,788
2006	283,788
2007	283,788
Thereafter	1,135,152
Total Future Capital Lease Payments	$2,554,092
Less: Imputed Interest	(667,673)
Total Capital Lease Liabilities	$1,886,419
Unfunded Liability	$1,886,419

Operating Leases

The House enters into various operating leases for temporary usage of office space, vehicles, hardware, and software. Leases that convey the benefits and risks of ownership, but do not meet House capitalization criteria are also recognized as operating leases. Operating lease payments are recorded as expenses. Future operating lease payments are not accrued as liabilities. Members may lease office space in their districts through GSA or may directly lease space from the private sector. The Members' Congressional Handbook states that a Member cannot enter into a lease for office space beyond his/ her elected term. Members and officers also enter into leases to rent vehicles for official business purposes. A Member may lease a vehicle for a period that exceeds the current congressional term, but the Member remains personally responsible for the lease liability if service to the House concludes prior to lease termination. House administration leases hardware and software.

Future Operating Lease Payments Due as of December 31, 2002:

Year	Software and Hardware	Vehicles	Office Space	Total
2003	$ 29,408	$ 510,940	$ 17,660,420	$ 18,200,768
2004	-	331,769	17,475,712	17,807,481
2005	-	-	-	-
2006				
2007	-	-	-	-
Thereafter	-	-	-	-
Total	$ 29,408	$ 842,709	$ 35,136,132	$ 36,008,249

Lease expense for office space was $18,848,893 and $18,732,818 for the years ended December 31, 2002 and 2001, respectively. Lease expense for vehicles was $1,096,252 and $1,139,665 for the years ended December 31, 2002 and 2001, respectively.

NOTE 9 - ACCOUNTS PAYABLE

Accounts Payable balances represent amounts owed for the cost of goods and services received but not yet paid as of December 31, 2002 and 2001. Accounts Payable also includes amounts owed to DOL for unemployment compensation. Vendor Payables during 2001 was substantially higher due to delayed mail deliveries to House offices.

Accounts Payable	2002	2001
Vendor Payables	$ 18,416,415	$ 22,583,169
Unemployment Compensation	131,992	187,363
Total	$ 18,548,407	$ 22,770,532

NOTE 10 - ACCRUED PAYROLL AND BENEFITS AND LEAVE

The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 514 (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). Sick and other types of paid leave are expensed as they are taken. Accrued payroll and benefits include salaries and associated benefits earned in December 2002 and payable in January 2003.

The Members' and Committees' Congressional Handbooks allow offices to adopt personnel policies that provide for the accrual of annual leave and use of such leave. Leadership offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding the accrual and payment of leave time. Therefore, an accrued leave liability for Members, Committees, and Leadership offices is estimated on the financial statements. Estimates were not calculated in prior years for Members, Committees and Leadership offices. As a result, the 2002 liability is significantly higher than 2001 liability. Accrued annual leave and accrued payroll and benefits as of December 31, 2002 and 2001 were:

Accrued Leave, Payroll and Benefits, and Workers' Compensation	2002	2001
Funded		
Accrued Payroll and Benefits	$ 7,118,755	$ 6,882,011
Unfunded		
Accrued Annual Leave	5,181,695	2,465,032
Accrued Workers' Compensation	2,024,661	1,995,201
Total Unfunded	$ 7,206,356	$ 4,460,233

NOTE 11 - UNFUNDED WORKERS' COMPENSATION ACTUARIAL LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for the benefit of House employees under FECA are administered by DOL, which pays the initial claim and obtains reimbursement from the House. The unfunded workers' compensation actuarial liability is an estimate based on actuarial calculations using historical payment patterns to predict what costs will be incurred in the future. The liability is adjusted annually by applying actuarial procedures. Any upward or downward adjustment to the liability is recorded as an annual increase or decrease to benefits expense. In 2002, the actuarial liability was calculated by DOL using different actuarial assumptions such as life expectancy, age of employee or survivor, and claims incurred but not reported, that caused the significant variance between 2002 and 2001. The projected Unfunded Workers' Compensation Actuarial Liabilities were $17,468,342 and $11,458,591 as of December 31, 2002 and 2001, respectively.

NOTE 12 - NET POSITION

The components of Net Position are:

?? Unexpended Appropriations - Appropriations are not considered expended until goods have been received or services have been rendered.

?? Total Cumulative Results of Operations:

Cumulative Results of Operations - The net difference between expenses and revenue and financing sources including appropriations, revenues from operations and imputed financing sources.

Invested Capital - Funds used to finance capital assets such as computer hardware and software, vehicles, equipment, and inventory.

Future Funding Requirements - Known liabilities to be funded by future appropriations for accrued Annual Leave and Workers' Compensation.

The House operated on a Continuing Resolution in October, November and December 2002, thereby resulting in the significant difference in the Fund Balance between calendar years 2002 and 2001.

Unexpended appropriations cancel at the end of the second fiscal year following the year in which appropriated. As required by law, these funds must be returned to the U.S. Treasury general account. Funds that were canceled and returned to the U.S. Treasury during calendar years 2002 and 2001 are:

Appropriations	2002	2001
2000 House Funds	$ 6,347,524	$ -
1999 House Funds	-	15,283,061
Total	$ 6,347,524	$ 15,283,061

Net Position as of December 31, 2002 and 2001 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Page School, Restaurant, Barber and Beauty Shops, and Office Supply Service revolving funds is shown in the following table:

Net Position	Net Position December 31, 2002 Totals		Net Position December 31, 2001 Totals	
Unexpended Appropriations		$ 296,177,991		$855,036,339
Cumulative Results of Operations:				
Cumulative Results of Operations	5,921,604		8,253,205	
Invested Capital	41,304,966		21,902,842	
Future Funding Requirements	(24,674,698)		(15,918,824)	
Total Cumulative Results of Operations		22,551,872		14,237,223
Total Net Position		$ 318,729,863		$869,273,562

Changes in net position may include prior period adjustments, excesses or shortages of revenue and financing sources over expenses, and non-operating changes, such as investments in capital assets and inventory. Increases (or decreases) in non-operating changes are primarily the result of the decrease in unexpended appropriations which was caused by the continuing resolution. The increase in Total Cumulative Results of Operations is primarily the result of purchases of Property, Plant and Equipment.

The Net Position table above reflects an additional cumulative results of operations line which further disaggregates activity other than invested capital or future funding requirements.

NOTE 13 - REVOLVING FUNDS, INTEROFFICE SALES, AND TRANSFERS

Some House entities transfer costs to Members, Committees, and other House offices for goods and services provided. These entities are primarily:

?? House Support Services, which transfers costs of equipment to the Members and Committees,

?? House Information Resources, which transfers telecommunication charges, and

?? Office Supply Service, which transfers office supply purchases and flag sales.

Many expenses incurred by these House entities are not fully charged to Members or Committees, including certain telecommunication services, Washington D.C. office furnishings, and computer services.

Some House business-like entities operate as revolving funds. A revolving fund is a budgetary structure established by statute that authorizes Federal entities to collect user fees or revenue to finance operating expenses. In 2002, the House operated revolving fund type activities for the House Recording Studio, Page School, Office Supply Service, Restaurant, and Beauty and Barber Shops.

NOTE 14 - APPROPRIATIONS TO COVER EXPENSES

Appropriations Received include current and prior year funds necessary to finance House operating expenses such as personnel and benefits costs, contract services, and travel expenses. The House recognizes appropriations to cover expenses in the same period in which the associated expense is incurred. Appropriations to cover investments in capital assets and inventory are recognized in the same period in which they are received.

Appropriations Yet To Be Received consist of expenses that are incurred in the current period, but will be funded by future appropriations. Such amounts include accrued annual leave and workers' compensation expenses.

NOTE 15 - BENEFITS

House Members and employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both Members and employees are eligible for retirement benefits under CSRS or FERS. A CSRS basic annuity, unreduced for age, debts to the fund, or survivor's benefits, is calculated by multiplying the highest 3 consecutive years' average salary by a percentage factor which is based on the length of Federal service. However, Members' benefits are different from those of employees. For example, a Member covered by CSRS is eligible to receive unreduced retirement benefits at age 60 if he or she has 10 years of Member service. An employee is eligible to receive reduced benefits at age 50 with 20 years of service or at any age with 25 years of service. The FERS basic benefit plan provides the same benefits for either Members or employees.

CSRS employees contribute a portion of their earnings to the Civil Service Retirement Fund. The House also contributes an amount to this fund. FERS employees, in addition to paying Social Security, contribute a portion of their base earnings to the FERS retirement fund. The House also contributes an amount toward the FERS retirement and Social Security funds.

Both FERS and CSRS employees can contribute to the Thrift Savings Plan (TSP). Effective July 2001, both FERS and CSRS employees' TSP contribution limits increase by one percent each year for five years to a maximum of 15% and 10% of the base pay of FERS and CSRS employees respectively, but not to exceed the IRS limit.

FERS employees also receive an automatic one percent House-paid contribution, as well as an additional House matching TSP contribution up to five percent of their basic pay. CSRS employee contributions to TSP do not receive matching House contributions. FERS employees could receive benefits from FERS, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP.

Member and Employee Expenses	2002	2001
Retirement Plan Contributions	$ 102,871,287	$ 93,836,444
Social Security	37,187,573	34,717,139
Health Insurance	29,474,627	25,216,409
Unemployment and Workers' Compensation	1,491,296	2,166,767
Workers' Compensation Actuarial Adjustment	6,009,751	1,078,848
Life Insurance	900,136	900,327
Federal Employee and Veterans' Benefits	40,195,515	35,669,323
Transit Benefits	770,503	255,435
Death Benefits	771,890	759,271
Annual Leave	2,716,663	155,212
Federal Tort Claims	3,269	4,365
Total	$ 222,392,510	$ 194,759,540

Benefits costs for the past 3 years have averaged approximately $203 million per year.

Federal-employing entities recognize their share of the cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. This cost is included in Federal Employee and Veterans' Benefits expense. The pension expense recognized in the Statement of Operations is the current service cost for House employees less the amount contributed by the employee.

The measurement of the service cost requires the use of actuarial cost methods and assumptions, with the factors applied by the House provided by the Office of Personnel Management (OPM), the federal agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the House represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM.

The House does not receive an appropriation to fund this expense. Therefore, this portion of the pension expense is considered an imputed financing source to the House, and is included in the Imputed Financing Sources on the Statement of Operations. This amount was $12,410,254 in 2002 and $12,654,926 in 2001.

Federal-employing entities also recognize a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still employed. This cost is included in Federal Employee and Veterans' Benefits expense in the Statement of Operations. Employees and the House do not currently make contributions to fund these future benefits, and the House does not receive an appropriation to fund this expense. Therefore, this portion of the post-retirement health benefits and life insurance is considered an imputed financing source to the House, and is included in Imputed Financing Sources on the Statement of Operations. This amount was $27,785,261 in 2002 and $23,014,397 in 2001.

Federal Employee and Veterans' Be (Imputed Financing Sou	2002	2001
Current Service Cost - Federal Pensions	$ 12,410,254	$ 12,654,926
Current Service Cost - Federal Employees Health Benefits	27,697,445	22,932,603
Current Service Cost - Federal Employees Group Life Insurance	87,816	81,794
Total	$ 40,195,515	$ 35,669,323

NOTE 16 - EMERGENCY PREPAREDNESS

The House continues to develop contingency plans to ensure the continuation of all House operations in the event of an emergency evacuation.

The House received appropriations of $13.7 million and $65.6 million in 2002 and 2001, respectively, to be used for emergency preparedness and continuity of operations. Approximately $27.1 million and $2.7 million were expended in 2002 and 2001, respectively.

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Supplemental Financial Schedules

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Organization and Composition of Financial Statements

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U.S. House of Representatives Organization and Composition of Consolidating Financial Statements

Members

- Representatives, Delegates and Resident Commissioner
- Members' Allowances and Expenses

Committees

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce
- Committee on Energy and Commerce
- Committee on Financial Services
- Committee on Government Reform
- Committee on House Administration
- Committee on International Relations
- Committee on the Judiciary
- Committee on Resources
- Committee on Rules
- Committee on Science
- Committee on Small Business
- Committee on Standards of Official Conduct
- Committee on Transportation and Infrastructure
- Committee on Veterans' Affairs
- Committee on Ways and Means
- Permanent Select Committee on Intelligence

Leadership Offices

- Office of the Speaker
- Office of the Majority Leader
- Office of the Majority Whip
- Office of the Chief Deputy Majority Whip
- Office of the Minority Leader
- Assistant to the Minority Leader
- Office of the Minority Whip
- Offices of the Chief Deputy Minority Whips
- Republican Conference
- Republican Policy Committee
- Democratic Caucus
- Democratic Steering Committee

Officers and Legislative Offices

Clerk

- Immediate Office
- Office of Official Reporters
- Office of Legislative Operations
- Legislative Resource Center Service Group
- Legislative Computer Systems
- Office of the House Employment Counsel
- Page Program
- Office of Printing Services

Sergeant at Arms

- Immediate Office
- Office of Chamber Security
- Office of House Garages and Parking Security

Chief Administrative Officer (CAO)

- CAO Immediate Office
- Office of Americans with Disabilities Act Services
- House Press Gallery
- Periodical Press Gallery
- Radio/TV Correspondents' Gallery
- Finance - Immediate Office
- Budget and Planning
- Financial Counseling
- Accounting
- Financial Systems
- House Support Services-Immediate Office
- House Beauty Shop & Barber Shop Revolving Fund
- House Restaurant Revolving Fund
- Stationery Revolving Fund
- Office of Photography
- House Recording Studio
- House Recording Studio Revolving Fund
- Operations Support Center
- Textile Services
- Furniture Support Services
- Furniture Services
- Customer Services
- Contractor Management
- House Office Service Center
- Office Services
- Customer Management
- Resource Management
- Acquisition and Account Management

Vendor Management
Central Receiving and Warehousing
Logistics and Distribution
Human Resources-Immediate Office
Office of Member Services
Office of Employee Assistance
Office of Personnel and Benefits
Office of Training
Office of Payroll
Placement Office
Office of Policy and Administration
Office of Fair Employment
Child Care Center
Office of Procurement
Immediate Office of the House
Information Resources
Communications
Client Services
Information Management

Page School Revolving Fund

Office of the Chaplain

Parliamentarian

Office of the Parliamentarian
Compilation of Precedents

Office of the Legislative Counsel

Office of Correction Calendar

Office of the General Counsel

Office of the Law Revision Counsel

Office of Inspector General

Office of Emergency Planning, Preparedness, and Operations

Congressional Executive Commission on China

Commission on Security and Cooperation in Europe

Joint Functions

Office of the Attending Physician
Joint Committee on Taxation

Consolidating Statements

U.S. House of Representatives
Consolidating Statement of Financial Position
as of December 31, 2002

	Members	Committees
ASSETS		
Fund Balance with the U.S. Treasury	$ 135,012,170	$ 16,463,236
Cash	0	0
Fund Balance with U.S. Treasury and Cash	135,012,170	16,463,236
Accounts Receivable, Net	103,422	34,362
Interoffice Receivable	0	0
Advances and Prepayments	2,601,345	524,795
Inventory	0	0
Property and Equipment, Net	1,261,521	3,015,261
Total Assets	$ 138,978,458	$ 20,037,654
LIABILITIES AND NET POSITION		
Accounts Payable	$ 6,441,004	$ 789,343
Interoffice Payable	2,597,454	196,735
Capital Lease Liabilities	0	0
Accrued Funded Payroll and Benefits	7,067,009	0
Accrued Unfunded Annual Leave and Workers' Compensation	4,100,494	1,135,099
Unfunded Workers' Compensation Actuarial Liability	0	0
Other Liabilities	0	0
Total Liabilities	20,205,961	2,121,177
Unexpended Appropriations	123,163,239	16,128,890
Cumulative Results of Operations	(4,390,742)	1,787,587
Total Net Position	118,772,497	17,916,477
Total Liabilities and Net Position	$ 138,978,458	$ 20,037,654

Leadership Offices	Officers and Legislative Offices	Joint Functions	Eliminations	Consolidated
$ 2,299,567	$ 166,057,869	$ 1,942,112	$ 0	$ 321,774,954
0	1,829	0	0	1,829
2,299,567	166,059,698	1,942,112	0	321,776,783
9,962	2,135,677	0	0	2,283,423
0	2,898,126	0	(2,898,126)	0
82,241	513,303	42,216	0	3,763,900
0	1,629,146	0	0	1,629,146
338,205	36,242,860	704,392	0	41,562,239
$ 2,729,975	$ 209,478,810	$ 2,688,720	$ (2,898,126)	$ 371,015,491
$ 83,978	$ 11,202,520	$ 31,562	$ 0	$ 18,548,407
38,440	62,458	3,039	(2,898,126)	0
0	1,886,419	0	0	1,886,419
0	51,746	0	0	7,118,755
93,434	1,841,425	35,904	0	7,206,356
0	17,468,342	0	0	17,468,342
0	57,349	0	0	57,349
215,852	32,570,259	70,505	(2,898,126)	52,285,628
2,269,352	152,725,097	1,891,413	0	296,177,991
244,771	24,183,454	726,802	0	22,551,872
2,514,123	176,908,551	2,618,215	0	318,729,863
$ 2,729,975	$ 209,478,810	$ 2,688,720	$ (2,898,126)	$ 371,015,491

U.S. House of Representatives
Consolidating Statement of Operations
for the Year Ended December 31, 2002

	Members	Committees
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	$ 0	$ 0
Sales of Services to Federal Entities	0	0
Sales of Services to the Public	0	0
Interoffice Sales	0	0
Other Revenue	0	0
Total Revenue from Operations	0	0
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received	648,431,918	157,194,372
Appropriations Yet To Be Received	2,734,208	773,189
Imputed Financing Source	27,124,840	7,184,989
Total Revenue and Financing Sources	$ 678,290,966	$ 165,152,550
EXPENSES		
Personnel Compensation	$ 396,949,532	$ 105,074,037
Benefits	145,047,627	39,026,806
Postage and Delivery	21,485,289	60,797
Repairs and Maintenance	30,036,860	5,455,674
Depreciation and Amortization	1,311,279	974,599
Rent, Utilities, and Communications	20,044,917	31,112
Telecommunications	12,629,150	782,268
Supplies and Materials	9,282,474	1,326,294
Travel and Transportation	17,087,873	5,471,231
Contract, Consulting, and Other Services	3,932,813	5,889,311
Printing and Reproduction	14,755,730	144,907
Subscriptions and Publications	5,678,072	878,367
Cost of Goods Sold	0	0
(Gain)/Loss on Disposal of Assets	49,350	37,147
Bad Debts	0	0
Interest on Capital Leases	0	0
Total Expenses	$ 678,290,966	$ 165,152,550
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	$ 0	$ 0
CHANGE IN NET POSITION		
Net Position, Beginning Balance	$ 413,492,335	$ 117,651,401
Adjustments	0	0
Net Position, Beginning Balance	413,492,335	117,651,401
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	0	0
Plus (Minus) Non-Operating Changes	(294,719,838)	(99,734,924)
Net Position, Ending Balance	$ 118,772,497	$ 17,916,477

Leadership Offices	Officers and Legislative Offices	Joint Functions	Eliminations	Consolidated
$ 0	$ 3,431,487	$ 0	$ 0	$ 3,431,487
0	11,295,503	0	0	11,295,503
0	585,174	58,313	0	643,487
0	35,591,747	0	(35,591,747)	0
0	569,681	0	0	569,681
0	51,473,592	58,313	(35,591,747)	15,940,158
22,552,331	135,944,179	10,964,390	0	975,087,190
44,109	6,481,364	14,174	0	10,047,044
979,248	4,475,027	431,411	0	40,195,515
$ 23,575,688	$ 198,374,162	$ 11,468,288	$ (35,591,747)	$ 1,041,269,907
$ 14,320,628	$ 65,443,260	$ 6,308,985	$ 0	$ 588,096,442
5,301,819	30,603,577	2,412,681	0	222,392,510
18,055	446,497	5,162	0	22,015,800
905,018	14,056,826	491,622	0	50,946,000
159,920	8,794,995	184,345	0	11,425,138
34,428	1,216,967	0	0	21,327,424
466,329	4,620,396	37,549	0	18,535,692
473,517	2,270,701	423,392	0	13,776,378
1,044,195	1,112,881	57,228	0	24,773,408
498,515	18,720,636	1,308,271	0	30,349,546
73,566	148,223	11,122	0	15,133,548
273,306	469,153	145,317	0	7,444,215
0	49,678,064	0	(35,591,747)	14,086,317
6,392	252,414	24,301	0	369,604
0	48,260	0	0	48,260
0	112,851	0	0	112,851
$ 23,575,688	$ 197,995,701	$ 11,409,975	$ (35,591,747)	$ 1,040,833,133
$ 0	$ 378,461	$ 58,313	$ 0	$ 436,774
$ 13,945,271	$ 314,967,996	$ 9,216,559	$ 0	$ 869,273,562
0	0	0	0	0
13,945,271	314,967,996	9,216,559	0	869,273,562
0	378,461	58,313	0	436,774
(11,431,148)	(138,437,906)	(6,656,657)	0	(550,980,473)
$ 2,514,123	$ 176,908,551	$ 2,618,215	$ 0	$ 318,729,863

U.S. House of Representatives
Consolidating Statement of Cash Flows
for the Year Ended December 31, 2002

	Members	Committees
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess/(Deficiency) of Revenue and		
Financing Sources over Expenses	$ 0	$ 0
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(551,581,920)	(122,726,425)
(Increase)/Decrease in Accounts and Interoffice Receivable	39,855	3,695
(Increase)/Decrease in Advances and Prepayments	(194,814)	(187,734)
(Increase)/Decrease in Inventory	0	0
Increase/(Decrease) in Accounts and Interoffice Payable	(10,238,097)	(343,187)
Increase/(Decrease) in Other Accrued Liabilities	2,996,738	784,786
(Gain)/Loss on Disposal of Assets	49,350	37,147
Depreciation and Amortization	1,311,279	974,599
Net Cash Provided/(Used) by Operating Activities	(557,617,609)	(121,457,119)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(715,500)	(1,944,411)
Net Cash Provided/(Used) by Investing Activities	(715,500)	(1,944,411)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	258,434,071	23,015,945
Funds Returned to the U.S. Treasury	(1,456,147)	0
Appropriated Funds Allocated	50,805	55,622
Principal Payment on Capital Lease Liabilities	0	0
Net Cash Provided/(Used) by Financing Activities	257,028,729	23,071,567
Net Cash Provided/(Used) by Operating,		
Investing, and Financing Activities	(301,304,380)	(100,329,963)
Fund Balance with U.S. Treasury and Cash, Beginning	436,316,550	116,793,199
Fund Balance with U.S. Treasury and Cash, Ending	$ 135,012,170	$ 16,463,236

Leadership Offices	Officers and Legislative Offices	Joint Functions	Eliminations	Consolidated
$ 0	$ 378,461	$ 58,313	$ 0	$ 436,774
(17,226,401)	(292,872,422)	(9,179,628)	0	(993,586,796)
17,399	946,643	718	(2,908,150)	(1,899,840)
(31,774)	550,780	6,040	0	142,498
0	(529,241)	0	0	(529,241)
(68,706)	3,533,815	(14,100)	2,908,150	(4,222,125)
45,843	7,082,094	14,495	0	10,923,956
6,392	252,414	24,301	0	369,604
159,920	8,794,995	184,345	0	11,425,138
(17,097,327)	(271,862,461)	(8,905,516)	0	(976,940,032)
(84,622)	(16,094,516)	(554,074)	0	(19,393,123)
(84,622)	(16,094,516)	(554,074)	0	(19,393,123)
4,590,237	147,471,298	2,452,312	0	435,963,863
(690,488)	(4,069,210)	(131,679)	0	(6,347,524)
1,887,416	(2,136,181)	142,338	0	0
0	(170,937)	0	0	(170,937)
5,787,165	141,094,970	2,462,971	0	429,445,402
(11,394,784)	(146,862,007)	(6,996,619)	0	(566,887,753)
13,694,351	312,921,705	8,938,731	0	888,664,536
$ 2,299,567	$ 166,059,698	$ 1,942,112	$ 0	$ 321,776,783

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Independent Auditor's Report on Compliance with Laws and Regulations

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the Consolidated Statements of Financial Position of the U.S. House of Representatives as of December 31, 2002, and 2001, and the related Consolidated Statements of Operations and Cash Flows for the years then ended. We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance with laws, rules, and regulations is the responsibility of the Members and administrative management of the House. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of House compliance with certain provisions of laws and House rules and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance with laws, rules, and regulations for the House is significantly different than for Executive Branch departments and agencies. First, many of the laws that apply to the Executive Branch, such as the Federal Managers' Financial Integrity Act of 1982, the Government Management Reform Act of 1994, and the Chief Financial Officers' Act of 1990, do not apply to the House. Second, Executive Branch departments and agencies are subject to regulations that implement their authorizing statutes and to regulations imposed by other agencies, such as the Office of Management and Budget and Office of Personnel Management; the House is subject to specific laws and its own rules and to regulations contained in its *Members' Congressional Handbook* and *Committees' Congressional Handbook.*

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We limited our tests of compliance to the provisions described in the preceding paragraph and did not test compliance with all applicable laws and regulations. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion.

The sole, official purpose of this report is for informational use by Members of the U.S. House of Representatives, the Office of the Chief Administrative Officer, and the Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an

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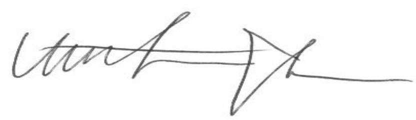
official capacity. This report is, however, available to the public for informational purposes only.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA

June 3, 2003
Alexandria, Virginia

Independent Auditor's Report on Internal Control

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has examined management's assertion included in the accompanying House of Representatives Management Report on Internal Control. In that report, management asserted that the U.S. House of Representatives maintained effective internal control over financial reporting as of December 31, 2002, based on the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, obtained an understanding of internal control over financial reporting; tested and evaluated the design and operating effectiveness of internal control; and performed other procedures considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, management's assertion that the House has maintained effective internal control over financial reporting as of December 31, 2002, is fairly stated, in all material respects, based on *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

We did note certain matters involving internal control and its operations that we consider reportable conditions under standards issued by AICPA. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect an agency's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements. These conditions are:

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?? The staff payroll system is obsolete and needs to be replaced.

?? Yearend review procedures can be strengthened.

?? Weaknesses over financial information systems reduce the integrity of financial data and reporting.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in an amount that would be material in relation to the financial statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider none of these reportable conditions to be a material weakness.

Additional details on each of these reportable conditions are attached to this report.

The sole, official purpose for this report is for informational use by Members of the U.S. House of Representatives, Office of the Chief Administrative Officer, and Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an official capacity. This report is, however, available to the public for informational purposes only.

COTTON & COMPANY LLP

Matthew H. Johnson, CPA

June 3, 2003
Alexandria, Virginia

STATUS OF INTERNAL CONTROL WEAKNESSES
CALENDAR YEAR 2002 FINANCIAL STATEMENT AUDIT

Cotton & Company LLP assessed the current status of weaknesses identified in the 2001 Independent Auditor's Report on Internal Control. The House continues to make progress toward implementing recommendations for each condition. Certain weaknesses still exist; therefore, we recommend that the Chief Administrative Officer (CAO) continue to implement past recommendations. The remainder of this report presents a summary of the status of internal control weaknesses and detailed discussions and recommendations for each.

CRITERIA

In determining the current status of these internal control weaknesses, we applied the following criteria:

Substantial Progress	New financial system and/or new policies and procedures put in place ***substantially*** address the ***more significant*** recommendations made in the prior audit.
Some Progress	New financial system and/or new policies and procedures put in place ***partially*** address the ***more significant*** recommendations made in the prior audit.
Limited Progress	Steps taken to address ***less significant*** recommendations; more significant recommendations addressed only with ***proposals*** or ***remain open***.
New Condition	No action has been taken; newly identified weakness.

We based our assessment of the status of prior recommendations on a review of the House's progress toward implementing the recommendations. The following criteria were used to assess that progress:

Closed	The House fully implemented recommended corrective actions, or changes in House operations remedied or eliminated the need for recommended corrective action.
Substantial Progress	The House has ***substantially*** addressed the ***more significant*** aspects of
Some Progress	The House has ***partially*** addressed the ***more significant*** aspects of the
Limited Progress	The House has made progress on the ***less significant*** aspects of the
Not Started	The House has taken ***no action*** to implement the recommendation.

STATUS OF EXISTING INTERNAL CONTROL WEAKNESSES

The status of the three existing weaknesses is shown on Figure 1; a detailed discussion of each follows. Figure 2 presents the two weakness and corresponding recommendations, reported during previous audits, which have been resolved during 2002.

Figure 1: Status of Internal Control Weaknesses

	Status as of June 3, 2003			
Weakness	**Substantial Progress**	**Some Progress**	**Limited Progress**	**New Condition**
The Staff payroll system is obsolete and needs to be replaced. (***Reportable Condition***)		**X**		
Yearend Review Procedures Can Be Strengthened. (***Reportable Condition***)				**X**
Weaknesses Over Financial Information Systems Reduce The Integrity Of Financial Data And Reporting. (***Reportable Condition***)			**X**	

Figure 2 - Summary of Closed Internal Control Weaknesses
and Associated Recommendations

The House Lacks Sufficient Information With Which To Manage And Maintain Accountability Over Its Property And Equipment

95-HOC-22, 4.1 Ensure that the new financial management system and subsidiary systems are capable of accumulating and providing property and equipment information

??Cost or value.
??Description and acquisition date.
??Useful life and depreciation method and amount.
??Scheduled replacement date.
??Location.
??Disposal date.

01-HOC-06, 2.1 Strengthen and enforce its policies for properly determining, calculating, and recording all costs associated with the purchase trade-in, or disposal of capitalized assets.

01-HOC-06, 2.2 Establish quality control procedures over electronic spreadsheets used for property and equipment that will include reconciliation of all supporting documentation to summary schedules used for financial reporting. Finance should be able to clearly show the components of property and equipment (additions, deletions, and other adjustments) and provide accurate, detailed schedules to support each of the totals and show how they tie to general ledger accounts.

02-HOC-06, 2.1 Divide the reconciliation responsibilities by GL Account, making one individual solely responsible for reconciling the property account from the legacy system, detail/summary schedule to FFS.

02-HOC-06, 2.2 Prepare separate worksheets for each PPE classification that detail all additions, a separate worksheet for all disposals, and a separate worksheet for all other adjustments by PPE classification.

02-HOC-06, 2.3 Perform a quality assurance review of all PE classifications before preparation of the financial statements.

Financial Management Continues To Be Hampered By Inadequate Systems, Resources, And Procedures.

95-HOC-22, 2.2 Ensure that the new financial management system has the capability to:
- Compare orders against available budget by office.
- Prompt offices when orders have not been received or when bills have not been paid after a specified period of time.

01-HOC-06, 3.1 Ensure that the new financial management system has the capability to:
- Generate annual financial statements.

DISCUSSION OF INTERNAL CONTROL WEAKNESSES

Weakness 1: The Staff Payroll System Is Obsolete And Needs To Be Replaced

**Summary Status: Reportable Condition
Prior Condition
Some Progress**

During 1999, the House implemented a new Members' payroll system and accepted proposals to replace its Non-Member payroll system. In Calendar Year (CY) 2002, Phase 1 of implementation of a new Non-Member payroll system was completed, and Phase 2 received Committee on House Administration (CHA) approval on July 26, 2002. Implementation is anticipated for April 2004.

The current Non-Member payroll system remains inefficient and technologically obsolete. This system requires Office of Human Resources staff to regularly make manual calculations and adjustments to process staff payroll. Furthermore, system inadequacies result in numerous supplemental payments and overpayments made throughout the year.

The following inefficiencies in the Non-Member payroll system continue to exist:

?? When an employee changes from non-permanent to permanent status in any given month, the staff payroll system automatically calculates the Federal Employees' Retirement System (FERS) deduction for the entire month, including the portion of the month in which the individual was a non-permanent employee. This necessitates a manual adjustment to the system to reverse the incorrect FERS deduction.

?? The staff payroll system does not perform all necessary payroll calculations; therefore, manual calculations are needed for certain actions, such as earned income credits, garnishments, deductions for retroactive adjustments, multiple annuitants, part-time child care employees, retirement contributions, and the government portion of FERS.

?? After adjustments to the staff payroll system have been made (handwritten checks, voids, adjustments, and suspense items), a second report is run. Payroll counselors manually compare the report to an Excel spreadsheet and make adjustments before the payroll summary is provided to Office of Finance.

?? Legislation requires the House payroll to be paid on the last working day of the month. To pay staff on the last working day of the month, Human Resources personnel must prepare staff payroll check requests before the end of the month for work completed during that month. Salary changes and notices of new employees, however, are often submitted to Human Resources after the published payroll deadline.

In CY 2002, payroll changes resulted in 2,953 supplemental paychecks for $2,532,953 in underpayments to staff. In addition, overpayments made in CY 2002 totaled $61,543, of which $19,793 remained outstanding as of May 27, 2003.

Recommendation

This audit recommendation was made in a past Office of Inspector General (OIG) audit report. Based on test results from our audit, we agree that the weakness underlying this recommendation still exists, and CAO should continue to implement policies and procedures necessary to resolve it.

Recommendation	Status of Recommendation	Management Response
Report No. 99-HOC-07 1.1 Replace the staff payroll and Human Resources systems ensuring that: (1) system inefficiencies are addressed and (2) adequate controls are established to manage and account for annual and sick leave for applicable employees.	Status: Substantial Progress The House is moving forward with implementing the new system for processing staff payroll. During the year the CAO has: hired a systems integrator; finished defining their requirements; almost completed the design phase; and trained key staff. Implementation is scheduled for April 2004.	CONCUR. Implementation of the new House payroll system is currently underway. The planned target to begin parallel processing with the legacy system is April 1, 2004. Initial functionality of the new payroll system will address the present system's inefficiencies and will provide automated support for many processes that are presently being accomplished with little or no automated support. One of the inefficiencies to be eliminated by the new system is the need for a monthly supplemental payroll. Current legislation, business processes, and supporting systems necessitate issuance of a supplemental payroll disbursement after each monthly payroll has been run. The new system will have the flexibility to accommodate an intermediate payroll disbursement should critical events occur that demand such an action. Following April 1, 2004 in the post-implementation period, functionality of the system will continue to be expanded to include annual and sick leave balances for applicable employees. Additionally, to significantly decrease the need for retroactive pay adjustments, the disbursement of each monthly

Recommendation	Status of Recommendation	Management Response
		payroll will continue to occur at month end but the compensation pay cycle will end approximately 10 calendar days prior to the end of the month.

Weakness 2: Yearend Review Procedures Can Be Strengthened

Summary Status: Reportable Condition
New Condition

During the CY 2002 audit, we identified two areas related to yearend review that can be strengthened:

Procedures for determining year-end accounts payables are not sufficient to ensure complete and timely information for accurate financial reporting.

Quality assurance controls can be improved over:

- Preparing and reviewing adjusting entries.
- Reconciliations and adjustments to general ledger balances for property and equipment.
- Review of account line items to identify significant fluctuations (or lack thereof) in account balances.

Accounts Payable Procedures. In prior years, to determine the year-end vendor accounts payable balance, the Office of Finance determined the value of vendor payments made during the first 90 days of the subsequent calendar year that related to goods and services received during the previous year. For 2002 reporting, however, the Office of Finance changed the period of time from 90 days to 45 days as part of an overall effort to minimize the time necessary to prepare financial statements. Due to the shortened time frames, the timely payment of invoices is essential to ensure that the year-end accounts payable balance is reasonable. During our testing we found that a significant number of invoices relating to goods and services received during 2002 had not been entered into the accounting system by February 15, 2003, and as such, were not included in the accounts payable balance. The missing accounts payable amounts could have been identified had the Office of Finance, in coordination with the CAO paying offices, developed and applied procedures to determine whether additional amounts should be included in the year-end accounts payable balance to compensate for the shortened accrual period. These procedures, however, were not in place.

Invoices relating to 2002 goods and services were not always processed through the Houses' accounting system within the first 45 days of 2003 for several reasons. We found that some invoices were not received until February 2003 even though the related services were received during November and December 2002. For example, we identified ten invoices for November and December 2002 communication services valued at about $1.8 million that were not processed within the first 45 days of 2003 even though most of these invoices were processed in a timely manner measured from the date the invoices were received. We were also told that some delays in processing these invoices were caused by the need to reconcile the invoices to the House records prior to payment. In addition, the existence and value of these invoices was not communicated to the Office of Finance for inclusion in the year-end accounts payable balance since reporting procedures had not been established. As a result, accounts payable was understated by $1.8 million.

This understatement could have been larger because three invoices for mail services ($4.8 million) that should have been processed for payment at yearend were not processed within the first 45 days of 2003. These invoices were not processed because the memorandum of understanding for distributing the costs was not finalized with other Legislative Branch agencies. While these invoices were not processed in a timely manner, Finance did become aware of the outstanding amounts, and an accrual was made for the $4.8 million.

Controls. Quality assurance controls should be improved to ensure that errors on adjusting entries would be prevented or detected before submission of the House's financial statements to its auditors.

As part of the House's financial statement preparation, Office of Finance accountants make manual calculations and adjustments that occur outside of the House accounting system. In CY 2002, 54 such adjustments were needed. This number is a reduction from prior years and is not by itself a cause for concern. The concern arises, however, from the manual nature of the adjustments in which errors are possible. Supervisory review becomes critical to detect and correct errors. During our review of the 54 adjustments, we found errors with 4 adjustments that may have been detected had more thorough supervisory reviews been performed:

?? Accrued Unemployment Liability was overstated by $308,900.
?? Data was inadvertently omitted from the Accounts Payable (A/P) calculation and as a result, A/P was understated by $1,308,169.
?? Committees' Property and Equipment, Net, was understated by $68,884.
?? Members' beginning balance for Property and Equipment, Net, was understated by $26,909.

Procedures exist providing instructions to ensure that a detailed reconciliation between property and equipment subsidiary records and the general ledger can be conducted. Supervisory reviews were not, however, sufficient to ensure compliance with those procedures. During CY 2002, adjustments were made to the Members' and Committees' general ledger property accounts to bring them into agreement with subsidiary records; the Office of Finance, which made the adjustment had not, however, conducted the reconciliation between the records as required by the procedures. A more through supervisory review would have identified the lack of a detail-level reconciliation. Had this review occurred, unsupported adjustments of $1.4 million and $497,000 to Members' and Committees' property accounts, respectively, may have been resolved. The net effect on the financial statements of these unsupported adjustments is an overstatement of Property and Equipment by $569,885 and an overstatement of Accumulated Depreciation by $508,326.

Some errors would likely have been identified had Office of Finance personnel performed a manual comparison of balances from CYs 2001 and 2002. For example, the Accounts Payable line item decreased from $22.8 million in CY 2001 to $17.5 million in 2002, a 23-percent decrease. The decrease was the result of the $1,308,169 understatement in A/P identified above, the $1.7 million payable not accrued at yearend, and the change in the accounts payable methodology from 90 days to 45 days.

Recommendations

We recommend that the Chief Administrative Officer:

Recommendation	Status of Recommendation	Management Response
1. Require all CAO paying offices (Office of Finance, House Support Services, and House Information Resources) to develop employee performance measures to: (1) ensure compliance with established procedures that require invoices to be processed in a timely manner, and (2) upon the completion of services and the receipt of goods, pursue the receipt of invoices from vendors if not submitted to the House in a timely manner.	Status: New recommendation	CONCUR. The CAO will continue to adhere to terms and conditions of House contractual agreements with vendors or the spirit of the Prompt Payment Act when payment terms are not defined. When goods and services have been received, the CAO will contact vendors to obtain invoices that have not been received in a timely manner. The CAO now requires that performance measures addressing the above requirements be included in the Individual Performance Plans and Evaluations of employees who are responsible for processing payments. The CAO believes we have taken appropriate steps to close this recommendation.
2. Establish Office of Finance procedures to notify all paying offices at yearend that payable information is required and due for financial statement preparation.	Status: New recommendation	CONCUR. The Office of Finance has established procedures to require that all CAO paying offices provide the dollar amounts of unpaid invoices or the value of goods or services received, as of December 31, for which no invoice has been submitted to the CAO. Finance will accrue these amounts to ensure that accounts payable are stated correctly on the House's financial statements. If exact dollar amounts are not available, paying offices will provide estimates to Finance as the basis for the accrual. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation	Status of Recommendation	Management Response
3. Strengthen yearend quality assurance controls over preparing and recording adjusting entries and property and equipment reconciliations. Establish and implement procedures for reviewing account line item fluctuations.	Status: New recommendation	CONCUR. The Office of Finance has developed and documented yearend quality assurance controls to require that: (1) Accounting staff submit updates to financial statement policies and procedures for supervisory approval by November 1 of each year; (2) the immediate supervisor reviews methodology used to prepare adjusting entries with appropriate staff; and (3) the Accounting Director and Supervisor review and approve property and equipment reconciliations monthly and require staff to resolve reconciling items by calendar year-end. In addition, Finance has established and documented procedures to prepare a variance analysis of current and prior year financial statements to identify potential internal control weaknesses and make adjusting entries as required. The CAO believes we have taken appropriate steps to close this recommendation.

Weakness 3: Weaknesses over Financial Information Systems Reduce the Integrity of Financial Data and Reporting

Summary Status: Reportable Condition
Prior Condition
Limited Progress

As part of the CY 2002 audit, we reviewed controls over information systems that process and report information on the House's annual financial statements. We also reviewed network access controls used to secure and safeguard financial information traveling over the network.

We relied upon Control Objectives for Information and Related Technology (CobiT) for review criteria. CobiT provides a framework to help meet multiple needs of management by bridging gaps between business risks, control needs, and technical issues. It provides a framework of generally accepted information system management and automated control practices and procedures that can be applied across a variety of domains and systems. The CobiT mission is to research, develop, publicize, and promote an authoritative, up-to-date, international set of generally accepted information technology (IT) control objectives for daily use by business managers and auditors. The House's CAO has accepted CobiT as an authoritative source of IT control and guidance.

In conducting our review of internal control over IT, we reviewed controls in the following categories:

?? **Entity-wide security program planning and management** to provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related controls.

?? **Access controls** to limit or detect access to computer resources (data, program, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure.

?? **Application software development and program change controls** to prevent implementation of unauthorized programs or modifications to existing programs.

?? **System software controls** to limit and monitor access to powerful programs and sensitive files that control computer hardware and secure applications supported by the system.

?? **Segregation-of-duty controls** to provide policies, procedures, and an organizational structure to prevent one individual from controlling key aspects of computer-related operations and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. These controls must be applied within an application and at the mainframe and network system level.

?? **Service continuity controls** to ensure that when unexpected events occur, critical operations continue without interruption or are promptly resumed and critical and sensitive data are protected from destruction.

The systems included in our audit are:

- ?? CAO Network Accounts (Network)
- ?? Federal Financial System (FFS)
- ?? Procurement Desktop (PD)
- ?? Fixed Assets Inventory Management System (FAIMS)
- ?? Financial Management System (Staff Payroll Module)

We reviewed management actions to address prior-year recommendations. CAO has made improvements with information system controls, but we note additional improvements needed in the areas of:

- ?? Defining and delegating information system security administration responsibilities for financial systems.
- ?? Monitoring and reporting on the effectiveness of the information system security program within CAO.
- ?? Monitoring the CAO business units for compliance with HISPOL 002.02 and CAO policies and procedures.

We noted weaknesses in four of the six areas reviewed. We did not identify any weakness in the area of Application Software Development and Program Change Controls and System Software Controls. Although, none of the weaknesses discussed in this report by itself represents a reportable condition, they collectively comprise a reportable condition. The following is a discussion of the weaknesses in each of the categories.

Entity-Wide Security Program Planning and Management

CAO's information system security program policies and procedures covering its network and financial applications could be improved. We identified the following weaknesses:

- ?? Security awareness training is not provided to all personnel with access to the CAO network and financial applications.
- ?? CAO policies and procedures do not require monitoring of compliance with established HISPOL and CAO policies and procedures for financial applications.
- ?? FAIMS password configuration is not compliant with HISPOL 002.2, which requires an 8-character password configuration.
- ?? FAIMS lacks an automated feature to disconnect a user's session based on a predefined period of inactivity.

We also identified three additional weaknesses during the audit; before we issued this report, House Support Services (HSS), Procurement, and Finance resolved these weaknesses:

- ?? HSS, Procurement, and Finance had not formally agreed to and implemented security procedures and protocols to review individual user privileges assigned among PD, FFS, and FAIMS to ensure proper segregation of duties.
- ?? Responsibility for FAIMS security administration has not been assigned.
- ?? Shared security administration responsibilities among the CAO business units responsible for granting access to and privileges within the financial applications are not clearly defined and delegated.

During CY 2002, House Information Resources (HIR) documented the Security Awareness Training policy, but implemented it too late in the year to permit us to assess the effectiveness. Based on discussions with HIR, we noted that the policy does not explicitly require contractor personnel to obtain this training, although HIR strongly encourages contractor personnel and other users of CAO systems to do so. HIR states that enforcement of a requirement for contractor personnel to obtain training would be difficult, because HIR may not be made aware of all contractor personnel granted access to CAO financial applications. CAO policies do not require notifying HIR of the employment status of contractor personnel. CobiT suggests that all personnel granted access to systems should be provided security awareness and rules-of-behavior training. As discussed in the following section titled Access Controls, 67 active network accounts were identified as contractor accounts; HIR could not, however, determine if the accounts were still needed and if the contractor was still employed by CAO.

HIR and Human Resources (HR) took actions during 2002 to improve controls over personnel granted access to the CAO information systems. To ensure the timely and effective management of user accounts for CAO-supported information systems, policies for processing employee, contractor, and intern out-processing were developed. Also, procedures requiring personnel to complete network access forms during in-house processing were implemented. However, additional procedures are needed for monitoring and reporting on CAO business units' compliance with established HISPOL and CAO policies and procedures for financial applications.

During CY2002, CAO installed FAIMS. Our review of the FAIMS password configuration rules and security controls disclosed non-conformance with HISPOL 002.02 and CobiT. FAIMS was developed using Oracle software. Although the Oracle software can accommodate HISPOL password requirements of 8 characters, FAIMS was not modified to require users to create passwords consisting of 8 characters. We do note that this exposure is somewhat minimized in that anyone attempting to access FAIMS must first log onto the network using an 8 character network password that complies with HISPOL 002.02.

We also noted that FAIMS is not designed to automatically disconnect a user's FAIMS session for inactivity and to require the user to re-authenticate to FAIMS. This feature is recommended by CobiT and has been installed in other CAO financial systems (PD and FFS). These security features would enhance the overall effectiveness of the FAIMS security by minimizing the potential for unauthorized access and activities in FAIMS. We noted that some of the CAO business units have minimized this exposure by installing screen saver software that deactivates workstations and requires an authentication by the user to reactivate the screen.

To address the prior year recommendation, the CAO approved the Security Awareness Training policy in February 2003. Although developed in CY 2002, it was not implemented until late in CY 2002. We will include tests of the security awareness training in CY 2003 to test the effectiveness of the procedures to ensure all CAO business units' employees and contractor personnel receive the required training.

While CAO has made improvements in this area, based on test results from our audit, we recommend that the Chief Administrative Officer:

Recommendation	Status of Recommendation	Management Response
1. Develop and maintain a current list of contractors granted access to the network.	Status: New recommendation	CONCUR. Currently all CAO users including contractors must have a Resource Identification Code (RIC) to access any CAO network resource. The House Information Resources (HIR) Information Systems Security Office controls these RICs and flags contractors in the Security Tracking System. This process enables HIR to list all contractors granted access to the network. Contractors are currently part of the CAO User Account Management process. Human Resources (HR) notifies the User Account Manager or the House point of contact when a contractor leaves the House. Within two (2) business days of notification by HR, the CAO User Account Manager notifies all CAO system administrators of the individual's departure and the system administrators check for and remove the contractor's user account(s) as required. It is also part of the CAO User Account Management policy that all user accounts are reviewed periodically and accounts that belong to staff that have left the House are removed or disabled. The CAO believes we have taken appropriate steps to close this recommendation.
2. Establish a compliance program that would monitor and report on CAO business units' compliance with	Status: New recommendation	CONCUR. The CAO will establish a comprehensive compliance program

Recommendation	Status of Recommendation	Management Response
HISPOL and CAO policies for implementing computer security controls at the financial application level.		as recommended. To accomplish this, funds have been provided that will enable the HIR Security Office to: (1) assess the current computer security controls environment of the CAO, (2) provide recommendations on an appropriate and sustainable compliance program to implement, and (3) develop policies and procedures that support the recommended compliance program approach. All actions will be completed by June 30, 2004.
3. Require HIR and HSS to enhance FAIMS security by modifying the password configuration to require 8 characters.	Status: New recommendation	CONCUR. HIR and HSS have increased the FAIMS password configuration to require 8 characters. The CAO believes we have taken appropriate steps to close this recommendation.
4. Require all CAO business units to install security software at the work-station-level or server to impose an automatic deactivation of the terminal or the user's session for user inactivity.	Status: New recommendation	CONCUR. The CAO concurs with the concept of this recommendation. However, installing security software at the work-station level to impose an automatic deactivation of the terminal or the user's session for user inactivity is not feasible at this time. Instead, the CAO now requires all CAO users to set screen-saver passwords that lock workstations after a set period of inactivity. The compliance program described under Weakness 3, Recommendation 2 for monitoring computer security controls will be the primary means for ensuring user compliance with this computer security requirement. The CAO believes we have taken appropriate steps to close this recommendation.

Access Controls

During 2002, Finance and Procurement improved PD and FFS user account administration procedures; we found no active accounts assigned to terminated employees. We think, however, that further improvements will strengthen access controls.

Although we noted improvements in CY 2002, recommendations identified in the above Entity-wide section of this report will strengthen access controls to address the following weakness.

We identified 89 PD accounts that had no activity for over 180 days and 30 accounts that had not been used in over 2 years. CobiT recommends removing unnecessary accounts. Procedures, however, do not exist to identify such conditions.

Our tests also disclosed that network account administration procedures are not fully effective in ensuring timely removal of unnecessary accounts and ensuring that network accounts belong to known individuals. Based on our tests, we questioned 97 active network accounts. In response to our tests, HIR disabled 22 accounts, removed 6 generic accounts, and removed 2 accounts with expired passwords. HIR had insufficient information, however, to verify that contractors assigned to the remaining 67 accounts were still actively employed by CAO and still needed the accounts.

CobiT recommends that organizations should have processes for:

?? Requesting, establishing, issuing, and closing user accounts.
?? Tracking users and their respective access authorizations.
?? Managing these functions.

Also, CobiT recommends that management review the access levels of each individual to determine conformity with the concept of least privilege and to determine if all accounts are still active, management authorizations are current, and required training has been completed. Such reviews should be conducted on both an application-by-application basis and a system-wide basis.

Segregation of Duties

HIR established procedures to require server administrators within CAO to review server activity logs for potential unauthorized activities. We commend HIR for these actions taken to address the prior-year recommendation.

We noted, however, that server administrators were not provided adequate technical training to enable them to effectively carry out their assigned duties. We interviewed server administrators and identified varying degrees of knowledge and awareness about apparent or potential activities that constitute unauthorized activities or about distinguishing appropriate behavior from inappropriate behavior. The lack of training reduces the effectiveness of the controls and provides a false sense of assurance, therefore the potential remains for an individual to circumvent or subvert the system to perform unauthorized activities without detection.

CobiT recommends that senior management provide training sufficient to accomplish goals and objectives and to adequately implement the stated control. It also recommends that management establish a division of roles and responsibilities to exclude the possibility of a single individual subverting a critical process and to ensure that personnel are performing only those duties stipulated for their respective jobs and positions. CobiT further suggests that organizations should establish data processing procedures that ensure that separation of duties is maintained, and that work performed is routinely verified.

We recommend that the Chief Administrative Officer:

Recommendation	Status of Recommendation	Management Response
5. Provide server administrators with appropriate technical training to allow them to perform their assigned responsibilities.	Status: New recommendation	CONCUR. HIR Information Systems Security will provide general guidance on intrusions and how to assess logs for potential unauthorized activities and incoming threats to their systems. HIR will develop a presentation to provide systems administrators with the necessary technical training to assess apparent or potential activities that constitute unauthorized activities and to distinguish appropriate behavior from inappropriate behavior. Additional guidance for specific systems can be conducted with system administrators on a case-by-case basis. All actions will be completed by December 31, 2003.

Service Continuity

CAO business units have improved tape backup and off-site storage procedures for financial data to ensure that required financial data are available for recovery purposes. Also, Finance has participated in data processing recovery tests with its service provider (NBC). These tests provide reasonable assurance that Finance would be able to continue to provide the minimum level of service necessary to process vendor payments. We think that further improvements are, however, needed in the area of service continuity should a disaster to the Ford Building occur.

HIR is developing an alternative recovery site and business contingency and recovery plans to address these weaknesses. HIR stated it will conduct recovery tests upon completion of the site and plans.

CobiT recommends that service continuity plans address methods for maintaining operation of an organization's critical functions in the event of disruptions, and that plans be periodically tested and revised based on test results.

This audit recommendation was made in a past OIG audit report. Based on our audit test results, we agree that the weakness underlying this recommendation still exists, and CAO should continue efforts to implement procedures:

Recommendation	Status of Recommendation	Management Response
Report No. 02-HOC-06, 4.5 Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, mainframe computer, FFS, PD, and all critical financial systems.	Status: Limited Progress HIR is developing a new alternative recovery site and new recovery procedures and processes. HIR anticipates new plans to be developed by the end of CY 2003.	CONCUR. The actions required to close this recommendation cannot be taken until the Alternate Computing Facility is fully operational. The expected closure date for this recommendation is March 31, 2004.
Report No. 02-HOC-06, 4.7 Develop and implement policies and procedures to test restore procedures consistently to ensure that data backed up on tape are accurate.	Status: Limited Progress HIR is developing new recovery site procedures and processes to correspond with the new site. This will be addressed as part of the process.	CONCUR. The CAO will, by October 31, 2003, develop and implement necessary policies and procedures to test restore procedures for financial information system data that have been backed up on tape.

The following prior-year recommendations were closed when changes in House operations remedied the associated underlying weaknesses.

01-HOC-06, 4.2 Implement policies and procedures for network and security administrative activities as they relate to user account management to ensure proper, uniform, and consistent application of controls for financial systems and related network components.
01-HOC-06, 4.2 Implement policies and procedures for network and security administrative activities as they relate to user account management to ensure proper, uniform, and consistent application of controls for financial systems and related network components.
01-HOC-06.4.3 Develop and implement change control monitoring procedures appropriate for legacy financial systems to ensure compliance with standards.

02-HOC-06, 4.2 Modify the contract with the National Business Center (NBC) to require it to obtain an annual independent assurance of the effectiveness of internal control to adequately protect and safeguard the House financial data and software and the effectiveness of internal control to provide a complete processing and continuity of service. Additionally, modify the contract to require NBC to provide the Chief Administrative Officer (CAO) with the results of the independent assurance and to provide quarterly briefings on the progress being made to resolve control weaknesses.
02-HOC-06, 4.3 Monitor program changes of program used to extract Federal Financial System (FFS) data for vendor payments and other reports to ensure extracts and reports properly reflect the transactions residing in and maintained by FFS.
02-HOC-06, 4.4 Document existing policies and procedures for segregation of duties among application programmers, system administrators, security administrators and other critical job functions to formalize processes.
02-HOC-06, 4.6 Update Member Services contingency plan to reflect current practices.

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Management Comments

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Management Report on Internal Control

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The U.S. House of Representatives
Management Report on Internal Control

In connection with your examination of our assertion that the U.S. House of Representatives (House) maintained effective internal control over financial reporting as of December 31, 2002, for the purpose of expressing an opinion as to whether the assertion is fairly stated, in all material respects in accordance with standards prescribed by the General Accounting Office in *Standards for Internal Control in the Federal Government*, dated November 1999, we confirm to the best of our knowledge and belief, the following representations made to you during your examination:

- We are responsible for establishing and maintaining effective internal control over financial reporting.

- We have performed an evaluation of the effectiveness of the House's internal control over financial reporting in accordance with standards prescribed by the General Accounting Office in *Standards for Internal Control in the Federal Government*, dated November 1999, the objectives of which include:

  - Effectiveness and efficiency of operations,
  - Reliability of financial reporting, and
  - Compliance with applicable laws and regulations.

- Based on our evaluation, we assert that the House maintained effective internal control over financial reporting as of December 31, 2002, based on the above-specified control criteria.

- We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with our assertions in the financial statements.

- We have identified all deficiencies in internal control we believe to be material weaknesses.

- We have not encountered any instances of fraud by either:
  - Management or employees who have significant roles in internal control, or
  - Other employees that could have a material effect on the financial statements.

- Subsequent to the date of our management report, there have been no significant changes to internal control and no other factors have arisen that might significantly affect internal control, including any corrective action taken by the House with regard to significant deficiencies and material weaknesses.

James M. Eagen III ______ J. M. Eagen
Chief Administrative Officer

Bernice Brosious ______ Bernice Brosious
Associate Administrator, Office of Finance

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CAO Response to the 2002 Financial Statement Audit Report

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James M. Eagen III
Chief Administrative Officer

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515–6860

MEMORANDUM

To: Steve McNamara
Inspector General

From: Jay Eagen
Chief Administrative Officer

Subject: Response to the 2002 Financial Statements Audit Report

Date: SEP 1 4 2003

Thank you for the opportunity to comment on the 2002 Financial Statements Audit Report. We have carefully reviewed the report's findings and recommendations and concur with each of them.

The following is a brief response to each of the audit recommendations made in the audit report:

Weakness 1: **The Staff Payroll System Is Obsolete And Needs To Be Replaced**

Recommendation: *(99-HOC-07,1.1)* Replace the staff payroll and human resources systems ensuring that: (1) system inefficiencies are addressed, and (2) adequate controls are established to manage and account for annual and sick leave for applicable employees.

CONCUR.
Implementation of the new House payroll system is currently underway. The planned target to begin parallel processing with the legacy system is April 1, 2004. Initial functionality of the new payroll system will address the present system's inefficiencies and will provide automated support for many processes that are presently being accomplished with little or no automated support.

One of the inefficiencies to be eliminated by the new system is the need for a monthly supplemental payroll. Current legislation, business processes, and supporting systems necessitate issuance of a supplemental payroll disbursement after each monthly payroll has been run. The new system will have the flexibility to accommodate an intermediate payroll disbursement should critical events occur that demand such an action.

Following April 1, 2004 in the post-implementation period, functionality of the system will continue to be expanded to include annual and sick leave balances for applicable employees. Additionally, to significantly decrease the need for retroactive pay adjustments, the disbursement of each monthly payroll will continue to occur at month end but the compensation pay cycle will end approximately 10 calendar days prior to the end of the month.

Weakness 2: Yearend Review Procedures Can Be Strengthened

Recommendation 1: Require all CAO paying offices (Office of Finance, House Support Services, and House Information Resources) to develop employee performance measures to: (1) ensure compliance with established procedures that require invoices to be processed in a timely manner, and (2) upon the completion of services and the receipt of goods, pursue the receipt of invoices from vendors if not submitted to the House in a timely manner.

CONCUR.
The CAO will continue to adhere to terms and conditions of House contractual agreements with vendors or the spirit of the Prompt Payment Act when payment terms are not defined. When goods and services have been received, the CAO will contact vendors to obtain invoices that have not been received in a timely manner. The CAO now requires that performance measures addressing the above requirements be included in the Individual Performance Plans and Evaluations of employees who are responsible for processing payments. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 2: Establish Office of Finance procedures to notify all paying offices at yearend that payable information is required and due for financial statement preparation.

CONCUR.
The Office of Finance has established procedures to require that all CAO paying offices provide the dollar amounts of unpaid invoices or the value of goods or services received, as of December 31, for which no invoice has been submitted to the CAO. Finance will accrue these amounts to ensure that accounts payable are stated correctly on the House's financial statements. If exact dollar amounts are not available, paying offices will provide estimates to Finance as the basis for the accrual. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 3: Strengthen yearend quality assurance controls over preparing and recording adjusting entries and property and equipment reconciliations. Establish and implement procedures for reviewing account line item fluctuations.

CONCUR.
The Office of Finance has developed and documented yearend quality assurance controls to require that: (1) Accounting staff submit updates to financial statement policies and procedures for supervisory approval by November 1 of each year; (2) the immediate supervisor reviews methodology used to prepare adjusting entries with appropriate staff; and (3) the Accounting Director and Supervisor review and approve property and equipment reconciliations monthly and require staff to resolve reconciling items by calendar year-end. In addition, Finance has established and documented procedures to prepare a variance analysis of current and prior year financial statements to identify potential internal control weaknesses and make adjusting entries as required. The CAO believes we have taken appropriate steps to close this recommendation.

Weakness 3: **Weakness over Financial Information Systems Reduce the Integrity of Financial Data and Reporting**

Recommendation 1: Develop and maintain a current list of contractors granted access to the network.

CONCUR.
Currently all CAO users including contractors must have a Resource Identification Code (RIC) to access any CAO network resource. The House Information Resources (HIR) Information Systems Security Office controls these RICs and flags contractors in the Security Tracking System. This process enables HIR to list all contractors granted access to the network.

Contractors are currently part of the CAO User Account Management process. Human Resources (HR) notifies the User Account Manager or the House point of contact when a contractor leaves the House. Within two (2) business days of notification by HR, the CAO User Account Manager notifies all CAO system administrators of the individual's departure and the system administrators check for and remove the contractor's user account(s) as required. It is also part of the CAO User Account Management policy that all user accounts are reviewed periodically and accounts that belong to staff that have left the House are removed or disabled. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 2: Establish a compliance program that would monitor and report on CAO business units' compliance with HISPOL and CAO policies for implementing computer security controls at the financial application level.

CONCUR.
The CAO will establish a comprehensive compliance program as recommended. To accomplish this, funds have been provided that will enable the HIR Security Office to: (1) assess the current computer security controls environment of the CAO, (2) provide recommendations on an appropriate and sustainable compliance program to implement, and (3) develop policies and procedures that support the recommended compliance program approach. All actions will be completed by June 30, 2004.

Recommendation 3: Require HIR and HSS to enhance FAIMS security by modifying the password configuration to require 8 characters.

CONCUR.
HIR and HSS have increased the FAIMS password configuration to require 8 characters. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 4: Require all CAO business units to install security software at the work-station level or server to impose an automatic deactivation of the terminal or the user's session for user inactivity.

CONCUR.
The CAO concurs with the concept of this recommendation. However, installing security software at the work-station level to impose an automatic deactivation of the terminal or the user's session for user inactivity is not feasible at this time. Instead, the CAO now requires all CAO users to set screen-saver passwords that lock workstations after a set period of inactivity. The compliance program described under Weakness 3, Recommendation 2 for monitoring computer security controls will be the primary means for ensuring user compliance with this computer security requirement. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 5: Provide server administrators with appropriate technical training to allow them to perform their assigned responsibilities.

CONCUR.
HIR Information Systems Security will provide general guidance on intrusions and how to assess logs for potential unauthorized activities and incoming threats to their systems. HIR will develop a presentation to provide systems administrators with the necessary technical training to assess apparent or potential activities that constitute unauthorized activities and to distinguish appropriate behavior from inappropriate behavior. Additional guidance for specific systems can be conducted with system administrators on a case-by-case basis. All actions will be completed by December 31, 2003.

Recommendation: *(02-HOC-06, 4.5)* Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, mainframe computer, FFS, PD, and all critical financial systems.

CONCUR.
The actions required to close this recommendation cannot be taken until the Alternate Computing Facility is fully operational. The expected closure date for this recommendation is March 31, 2004.

Recommendation: *(02-HOC-06, 4.7)* Develop and implement policies and procedures to test restore procedures consistently to ensure that data backed up on tape are accurate.

CONCUR.
The CAO will, by October 31, 2003, develop and implement necessary policies and procedures to test restore procedures for financial information system data that have been backed up on tape.

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