

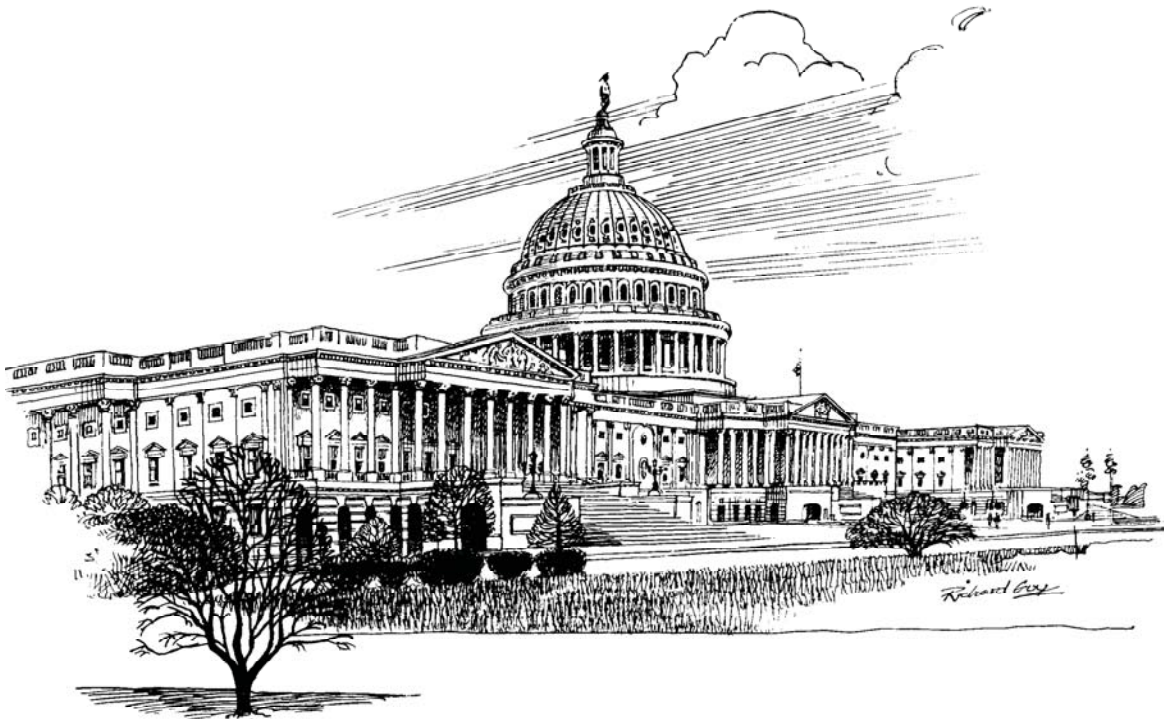


# UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

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**Audit of the Financial Statements  
For the Fiscal Year Ended September 30, 2009  
Report No. 11-HSW-03  
May 26, 2011**





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**Office of Inspector General  
Audit Report Summary**



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## **ANNUAL FINANCIAL STATEMENTS** **FISCAL YEAR 2009**

### ***SUMMARY***

This audit report provides the audited Annual Financial Statements of the U.S. House of Representatives for the fiscal year (FY) ended September 30, 2009. An independent certified public accounting firm, Cotton and Company LLP, was engaged to audit the:

- Financial Statements of the House as of September 30, 2009, and for the year then ended,
- Internal control over financial reporting, and
- Compliance with laws and regulations.

The audit was performed in accordance with U.S. generally accepted government auditing standards.

For the twelfth consecutive year, the independent auditors expressed an unqualified opinion on the House's financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles (GAAP).

For fiscal year 2009, the House made a significant accomplishment in preparing the financial statements in accordance with GAAP issued by the Federal Accounting Standards Advisory Board and form and content requirements of the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*. Prior to FY 2009, the House prepared financial statements using GAAP similar to commercial entity presentation. The House presented its FY 2009 financial statements in a single year presentation to reflect its initial year of transition to this basis of reporting.

The audit found the House did not have effective internal control over financial reporting. The auditor's identified four significant deficiencies, of which two are considered material weaknesses. The two material weaknesses relate to the lack of a management control program and ineffective controls over information security. The significant deficiencies relate to weaknesses in the controls over financial reporting and payroll processes. Management concurred with the auditor's report and has contracted with a professional services firm to

assist in addressing the internal control deficiencies with planned date for taking corrective actions by September 30, 2011.

The auditors identified no instances of non-compliance with applicable laws and regulations.

Cotton and Company LLP is responsible for the attached auditor's report dated March 4, 2011 and the conclusions expressed in the report. The Office of Inspector General does not express an opinion on the House's financial statements or internal control over financial reporting or conclusions on compliance with laws and regulations.

We would like to thank House management and staff for their assistance and cooperation during the course of this audit.



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# **Management's Discussion & Analysis**



## **Management's Discussion and Analysis FY 2009**

### **Introduction**

Management's Discussion and Analysis (MDA) is designed to provide a high level overview of the House of Representatives: who we are, what we do, and how we accomplished our mission in fiscal year 2009.

### **Origin, History, and Mission**

The United States House of Representatives (House) is one of two legislative chambers that comprise the Congress of the United States, the other being the United States Senate. Congress was created by Article I, Section I, of the Constitution, adopted by the Constitutional Convention on September 17, 1787. This article states that all legislative or lawmaking powers of the federal government are given to Congress.

Congress consists of two chambers for two main reasons. First, the Constitution was framed after the British Parliament, which was also bicameral. Second, the two chambers allow for equal representation of the states: two representatives in the Senate from each state and a number of representatives, or Members, based on population, in the House.

In addition to their constitutional duty to make laws, the House and the Senate are responsible for submitting a jointly agreed-upon budget for the Legislative Branch to the President of the United States. The House also has a special role in tax legislation; it has the authority to initiate all revenue bills, as well as spending bills, which sets the framework for questions of collecting taxes and raising money for the U.S. Treasury. Subsequently, the House and Senate are responsible for distributing these monies through legislative appropriations.

### **Location, Size, and Organization**

The official House of Representatives, where lawmaking takes place, is located in the Capitol Building in Washington, DC. Other administrative buildings in Washington, DC include the Cannon, Longworth, Rayburn and Ford House Office Buildings.

The House consists of 435 Members, five delegates (one each from the District of Columbia, Guam, Virgin Islands, American Samoa, and the Northern Mariana Islands), one Resident Commissioner (Puerto Rico) and approximately 10,250 employees. House Members and delegates serve two-year terms of office. The Resident Commissioner serves a 4-year term.

## **HOUSE LEADERSHIP**

### **Office of the Speaker of the House of Representatives**

The Speaker of the House of Representatives is elected by his or her fellow Members to preside over the House. The Speaker typically maintains three roles: as the Representative for his or her district, as a leader of his or her party and as the leader of the House as a whole. The party that holds a majority of the seats in the House will generally elect a Representative of their own party to serve as Speaker.

As specified in the rules and customs of the House, responsibilities of the Speaker include:

- Calling the House to order;
- Administering the oath of office to House Members;

- Presiding over debate, recognizing Members to speak on the floor, and preserving order; or delegating that power to another Member of Congress;
- Setting the legislative agenda;
- Leading the appointment process for the chairs of the various committees and subcommittees in the House, including conference committees which negotiate final versions of legislation.

The Speaker is also second in the line of succession to the presidency after the Vice President under the Presidential Succession Act of 1947.

### **Office of the Majority Leader**

The Majority Leader is the second-ranking official in the House of Representatives. The Majority Leader is chosen by the majority party's membership prior to the launch of a new Congress. While the responsibilities of the Majority Leader are largely defined by little more than history and tradition, there are certain duties that now customarily fall under the Leader's purview. These responsibilities include the scheduling of legislation for Floor consideration and the planning of daily, weekly and annual legislative agendas.

In addition to more formal obligations, the Majority Leader is also expected to consult with Members to gauge attitudes and prevailing sentiment on the issues of the day, urge party colleagues to support or defeat a particular piece of legislation and communicate the party's overarching policy messages to the media and the public at large.

### **Office of the Minority Leader**

The Minority Leader is one of the party leaders of the House of Representatives. The Minority Leader of the House serves as Floor leader of the opposition party and is the minority counterpart to the Majority Leader. Generally, the Minority Leader is on the ballot for Speaker of the House during the convening of the Congress. The Minority Leader is usually the party's top choice for Speaker if party control flips after an election. The Minority Leader usually meets with the Majority Leader and the Speaker to discuss agreements on controversial issues.

## **HOUSE COMMITTEES**

The Members also elect other officers to administer both legislative and non-legislative functions that support the institution and the Members in carrying out their legislative duties.

To help carry out its constitutional duties, the House creates Member committees that are responsible for gathering information, identifying policy problems, proposing solutions and reporting bills to the full chamber for consideration. While the House can create select and special committees, the following are standing House committees:

Committee on Agriculture	Committee on Natural Resources
Committee on Appropriations	Committee on Oversight and Government Reform
Committee on Armed Services	Committee on Rules
Committee on the Budget	Committee on Science and Technology
Committee on Education and Labor	Committee on Small Business
Committee on Energy and Commerce	Committee on Standards of Official Conduct
Committee on Financial Services	Committee on Transportation and Infrastructure
Committee on Foreign Affairs	Committee on Veterans' Affairs
Committee on Homeland Security	Committee on Ways and Means

Committee on House Administration  
Committee on the Judiciary  
Select Committee on Voting Irregularities

Permanent Select Committee on Intelligence  
Select Committee on Energy Independence and Global Warming

The Committee on House Administration (CHA) is the committee charged with the oversight of federal elections and the day-to-day functions of the House. CHA manages the daily operations that keep the House of Representatives running smoothly. The budget authorizations for expenses of House committees and those for expenses of Members of Congress are set by CHA. Additionally, CHA is responsible for oversight of the House officers, including the administrative and technical functions of the House.

## **HOUSE OFFICERS**

The House Members elect three House Officers and appoint other administrative officers to provide various services and oversight functions to the operations of the House. These officers include the Chief Administrative Officer, the Clerk of the House of Representatives, the Sergeant at Arms, the Chaplain, the Parliamentarian and the Inspector General.

### **Chief Administrative Officer**

The Chief Administrative Officer (CAO) provides operations support services and business solutions to the community of House Members, Officers and staff. The CAO organization comprises technical and administrative staff working in a variety of areas, including information technology, finance, budget management, human resources, payroll, childcare, food and vending, procurement, logistics and administrative counsel.

The Office of the CAO was first created in the 104th Congress in 1995. The Chief Administrative Officer is elected every two years when the House organizes for a new Congress.

### **Clerk of the House**

The Clerk manages the legislative operations of the House and oversees nine departments. The Clerk is required to:

- Prepare the roll of Members-elect; call the Members-elect to order at the commencement of each Congress; call the roll of Members-elect and, pending the election of the Speaker, to preserve order and decorum and to decide all questions of order;
- Prepare and print the House Journal after each session of Congress, and to distribute the Journal to Members and to the executive and the legislature of each State;
- Attest and affix the seal of the House to all writs, warrants, subpoenas and formal documents issued by the House;
- Certify the passage by the House of all bills and joint resolutions;
- Receive messages from the President and the Senate when the House is not in session;
- Prepare and deliver messages to the Senate and otherwise as requested by the House;
- Retain, in the official library, a permanent set of the books and documents generated by the House;
- Manage the office and supervise the staff of any deceased, resigned or expelled Member until a successor is elected;
- Act as custodian of all noncurrent records of the House, pursuant to Rule VII.

### **Sergeant at Arms**

An officer of the House whose history extends back to the First Congress, the Sergeant at Arms is the House's principal law enforcement official, charged with maintaining security on the floor and for the

House side of the Capitol complex. The modern Sergeant at Arms serves on the Capitol Police Board and the Capitol Guide Board along with the Senate Sergeant at Arms and the Architect of the Capitol. A total of 35 individuals have served as the House Sergeant at Arms since 1789.

Mandated under the current House Rule II, the Sergeant at Arms also enforces protocol and ensures decorum during floor proceedings. The Mace, which symbolizes the authority of the House, is maintained by the Office of the Sergeant at Arms. On occasion, the Sergeant at Arms has presented the Mace to restore order on the floor. The Sergeant at Arms also is empowered to compel absent Members onto the House floor to conduct business. Over time, the office's duties have encompassed administrative functions: arranging Capitol funerals, managing parking facilities and issuing identification to Members and staff.

### **Office of the Chaplain**

In 1774, the Continental Congress chose Episcopal Rector Jacob Duché to open its legislative sessions with prayer. In 1789, the First Congress chose Reverend William Lynn, a Presbyterian from Philadelphia, as the official chaplain of the House of Representatives. Each succeeding Congress has named a Chaplain, except between the years 1855–1861, when local clergy served as volunteer chaplains. In the 20th century, the average tenure of House Chaplains was 21 years. In recent Supreme Court decisions, the constitutionality of the Chaplain's role has been upheld based on precedent and tradition.

### **Parliamentarian**

The Parliamentarian of the House is the authoritative source on legislative proceedings in the House. Often referred to by the press as Congress' "coach," the Parliamentarian is an appointed officer who serves as a nonpartisan adviser to Members. Positioned next to the Speaker's rostrum on the floor, the Parliamentarian's chief duty is to rule on procedure and to advise the presiding officer.

Persons who have performed various aspects of the Parliamentarian's duties held a series of titles throughout congressional history, including "Messenger to the Speaker," "Clerk to the Speaker," and "Clerk at the Speaker's Table." Beginning in the 70th Congress (1927-1929) the title became "Parliamentarian."

### **Office of Inspector General**

The U.S. House of Representatives established the Office of Inspector General (OIG) during the 103rd Congress to conduct periodic audits of the financial and administrative functions of the House and of joint entities. Over the past 16 years, the OIG has added value by working closely with the CHA and the House Officers to improve the operations of the House, to reduce inefficiencies and to minimize costs. In addition to providing traditional audit services, the OIG also provides proactive analysis and guidance in the improvement of House operations through its management advisory services. These advisory services to the House have included work in the areas of emerging technology, systems development, business process improvement and risk management.

Additionally, over the years, CHA has asked the OIG to perform various investigative inquiries in response to events of concern to the House. Recognizing this broader mission, changes to the Standing Rules of the House were approved at the beginning of the 111th Congress. Changes to Rule II now formally recognize the OIG's advisory and investigative services, grant the OIG appropriate authority to carry out its mission and allow the OIG to better implement guidance and standards in accordance with the Government Accountability Office's Government Auditing Standards.

## **FINANCIAL STATEMENT HIGHLIGHTS**

### **Basis of Accounting and Presentation**

The consolidated financial statements for fiscal year (FY) 2009 present the financial position, net cost of operations, changes in net position and budgetary resources of the House. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, "Financial Reporting Requirements."

The House has presented its FY 2009 financial statements and accompanying notes in a single year presentation, in its initial year of transitioning into reporting in accordance with GAAP for Federal entities and the formats prescribed by OMB. Prior to FY 2009, the House prepared financial statements on an annual basis in accordance with GAAP similar to those used by commercial entities. The House will begin reporting FY comparative financial statements in FY 2010 in accordance with GAAP for Federal entities and the formats prescribed by OMB.

### **Budgetary Resources**

The House receives most of its funding from appropriations received from Congress and administered by the U.S. Department of the Treasury. Other sources of revenue include sales of goods to the public, sales of services and other revenue earned through the Page School room and board and vendor commissions. The House reported total budgetary resources for FY 2009 of \$1.5 billion. The House reported \$112 million of total unpaid obligated balances as of fiscal year end (FYE) 2009.

### **Balance Sheet**

**Total Assets** – The House reported total assets of \$284 million as of FYE 2009. The Fund Balance with Treasury of \$213 million represents the primary asset on the Balance Sheet of the House, followed by Property and Equipment with a net balance of \$63 million.

**Total Liabilities** – The House reported total liabilities of \$88 million as of FYE 2009. The primary categories include Accounts Payable of \$44 million and Actuarial Federal Employees' Compensation Act Liabilities of \$21 million.

**Total Net Position** – The Net Position as of FYE 2009 was \$195 million. The balance was primarily comprised of Unexpended Appropriations of \$155 million.

### **Statement of Net Cost**

**Net Cost of Operations** – The Net Cost of Operations for FY 2009 was \$1.6 billion, primarily comprised of Legislative Activities.

### **Limitations of the Financial Statements**

The principal financial statements have been prepared to report the financial position and results of operations of the entity.

While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and in the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

### **INTERNAL CONTROLS**

The House considers internal controls to be an integral part of all systems and processes that the organization utilizes in managing its daily operations and achieving its strategic goals and objectives. The House holds its managers accountable for efficiently and effectively performing their duties in compliance with applicable laws and regulations and for maintaining the integrity of their activities through the use of internal controls.

The House fiscal year 2009 financial statement audit reported two material weaknesses and two significant deficiencies. The material weaknesses related to the lack of an internal control over financial reporting program and controls over information technology. The significant deficiencies related to financial reporting and payroll processes.

The Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Controls emphasize management's responsibility for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and complying with applicable laws and regulations. The House is committed to fully implementing a program to assess the effectiveness of the organization's internal controls over financial reporting. However, the House is in the early stages of standing-up an internal controls program that meets the intent of OMB Circular A-123 and, thus, are unable to provide assurance that our internal controls over financial reporting are operating effectively.

The House has initiated actions to implement an internal controls program that will substantially resolve the reported weaknesses. These actions include the creation of a Senior Assessment Team responsible for the oversight and implementation activities of the program. In addition, the House has designated an Internal Control Manager to assist in the design, implementation, monitoring, and modification of a House internal controls program. The internal controls program will be implemented during fiscal year 2011.



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## **Independent Auditors' Report**

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## INDEPENDENT AUDITORS' REPORT

To the Inspector General  
U.S. House of Representatives

In accordance with Generally Accepted Auditing Standards (GAAS) in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States, we are responsible for conducting audits of the U.S. House of Representatives. The following summarize results of our audit of House Fiscal Year (FY) 2009 financial statements:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP),
- The House did not have effective internal control over financial reporting as of September 30, 2009 (including safeguarding assets).
- We identified no reportable noncompliance with laws and regulations we tested.

This is the first year in which the House prepared its financial statements in accordance with GAAP for federal agencies. The House received an unqualified opinion on these financial statements. Although the House was able to produce financial statements that were fairly presented, it lacked a management control program to ensure effective internal control over financial reporting. Specifically, the House did not have a risk assessment program or a monitoring program to ensure effective internal controls. We have identified the lack of a management control program as a material weakness. Additionally, we have identified controls over information technology as a material weakness.

The following sections discuss in more detail these and other conclusions; objectives, scope, and methodology; other matters related to internal control; and House comments and our evaluation.

### OPINION ON THE FINANCIAL STATEMENTS

The financial statements including accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the House's assets, liabilities, and net position as of September 30, 2009; and net costs, changes in net position, and budgetary resources for the fiscal year then ended.

As discussed in financial statement Note 1, Significant Accounting Policies, Section C, Basis of Accounting and Presentation, the House prepared financial statements in accordance with GAAP for federal entities issued by the Federal Accounting Standards Advisory Board (FASAB) and form and content requirements of Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. Before FY 2009, the House prepared financial statements similar to commercial entities following commercial U.S. generally accepted accounting principles. For FY 2009, the House presented its financial statements and accompanying notes in a single-year presentation to reflect its initial year of transition to this basis of reporting.

#### **OPINION ON INTERNAL CONTROL**

Because of the material weaknesses in internal control discussed below, the House did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2009, and thus did not provide reasonable assurance that losses, misstatements, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis.

Our opinion is based on criteria established by U.S. Code, Chapter 35, Section 3512(c), known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for Internal Control. Additionally, guidance provided by OMB Circular A-123, *Management's Responsibility for Internal Control*, is based on criteria established under FMFIA. The COSO framework and OMB Circular A-123 represent industry best practices for establishing a successful management control program. For the remainder of this report we will refer to guidance prescribed by COSO and OMB Circular A-123 as industry best practices.

During our audit of the House's FY 2009 financial statements, we identified four significant deficiencies. The first two below represent material weaknesses in internal control over financial reporting. The third and fourth deficiencies listed below were reported last year and in prior years. The four significant deficiencies identified below are discussed in Appendix A of this report:

1. Lack of a Management Control Program (Material Weakness)
2. Ineffective Controls over Information Technology (Material Weakness)
3. Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations
4. Weaknesses in Processing and Reporting Payroll Data

The two material weaknesses created significant management challenges that:

- Resulted in House management's inability to provide reasonable assurance that its financial statements are complete and accurate and prepared in a timely manner.
- Reduced assurance that data processed by the House's information systems are reliable and appropriately protected.

Despite its material weaknesses in internal control, the House was able to prepare financial statements that were fairly stated in all material respects for FY 2009. Material weaknesses in the House's internal control over financial reporting noted above may, however, adversely affect any decision by House management based in whole or in part on information that is inaccurate as the result of these weaknesses. In addition, unaudited financial information reported by the House may also contain misstatements resulting from these weaknesses. We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the House's FY 2009

financial statements. We caution that misstatements may occur and not be detected by our tests and that such testing may not be sufficient for other purposes.

We also identified other deficiencies in the House's system of internal control that we do not consider material weaknesses or significant deficiencies, but which merit House management attention and correction. We have communicated these matters to House management informally and, as appropriate, will report them in writing to the House.

#### **COMPLIANCE WITH LAWS AND REGULATIONS**

Our tests of the House's compliance with selected provisions of law and regulations for FY 2009 disclosed no instances of noncompliance that would be reportable under U.S. Generally Accepted Government Auditing Standards (GAGAS) or OMB audit guidance. The objective of our audit was not, however, to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

#### **CONSISTENCY OF OTHER INFORMATION**

The House's Management's Discussion and Analysis and required supplementary information (including stewardship information) contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. We did, however, compare this information for consistency with the financial statements and discussed the methods of measurement and presentation with House officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

#### **OBJECTIVES, SCOPE, AND METHODOLOGY**

House management is responsible for:

1. Preparing financial statements in conformity with GAAP.
2. Establishing and maintaining effective internal control over financial reporting and assessing its effectiveness.
3. Complying with applicable laws and regulations.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether House financial statements are presented fairly, in all material respects, in conformity with GAAP, and whether House management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, the objectives of which are as follows:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- **Compliance with laws and regulations:** Transactions are executed in accordance with selected provision of laws and regulations that have a direct and material effect on the financial statements and performing limited procedures with respect to certain other information accompanying the financial statements.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting amounts and disclosures in the financial statements.
- Assessed accounting principles used and significant estimates made by management.
- Evaluated overall presentation of the financial statements.
- Obtained an understanding of the House and its operations, including its internal control over financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority).
- Assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting.
- Evaluated the design and operating effectiveness of internal control over financial reporting based on assessed risk.
- Tested relevant internal controls over financial reporting and compliance and evaluated design and operating effectiveness of internal control.
- Tested compliance with selected provisions of laws and regulations specific to the House, which are contained in the *Members' Congressional Handbook* and *Committees' Congressional Handbook*.

An entity's internal control over financial reporting is a process effected by those charged with governance and management and by other personnel, the objectives of which are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit preparation of financial statements in accordance with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with the laws and regulations that could have a direct and material effect on the financial statements.

We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, loss, or noncompliance may nevertheless occur and not be detected. We caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate as the result of changes in conditions, or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the House. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the House's financial statements for the fiscal year ended September 30, 2009. We caution that

noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with GAGAS and OMB audit guidance. We believe our audit provides a reasonable basis for our opinions and other conclusions.

#### **OTHER MATTERS RELATED TO INTERNAL CONTROL**

In performing an examination of the effectiveness of the House's internal control over financial reporting for the period ended September 30, 2009, in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), GAS, and *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, we identified four deficiencies in internal control that we consider significant deficiencies under standards established by AICPA, two of which are material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

#### **HOUSE COMMENTS AND OUR EVALUATION**

In commenting on the draft of this report, House Management concurred with the facts and conclusions in our report. Management's comments are in Appendix B. We did not audit Management's response, and accordingly, we express no opinion on it.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA  
Partner

March 4, 2011  
Alexandria, Virginia

**APPENDIX A**  
**MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES**  
**NOTED DURING FY 2009 FINANCIAL STATEMENT AUDIT**



**APPENDIX A**  
**MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES**  
**NOTED DURING FY 2009 FINANCIAL STATEMENT AUDIT**

During our audit of the House's FY 2009 financial statements, we identified four significant deficiencies in internal control over financial reporting, two of which we consider material weaknesses. These material weaknesses give rise to significant challenges that have:

- Resulted in House management's inability to provide reasonable assurance that its financial statements are complete and accurate and prepared in a timely manner.
- Reduced assurance that data processed by the House's information systems are reliable and appropriately protected.
- Impaired management's ability to prepare timely and accurate financial statements.

**Weakness 1:**                    **Lack of a Management Control Program**  
**Summary Status:**        **Material Weakness**  
   **New Condition**  
   **Open**

House management lacked a management control program that ensured effective internal control over financial reporting. Specifically, the House did not have a risk assessment program or monitoring program to ensure effective internal controls. Although the House was able to produce financial statements that were fairly presented in all material respects, it lacked a management control program that ensured effective internal control over financial reporting.

OMB CircularA-123, Appendix A, *Internal Control over Financial Reporting*, addresses the assessment, documentation, and reporting on the effectiveness of internal control over financial reporting to assure Congress and the public that the federal government is committed to safeguarding its assets and providing reliable financial information. Internal control is broadly defined as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

The only objectives relevant to internal control over financial reporting are those pertaining to reliability of financial reporting.

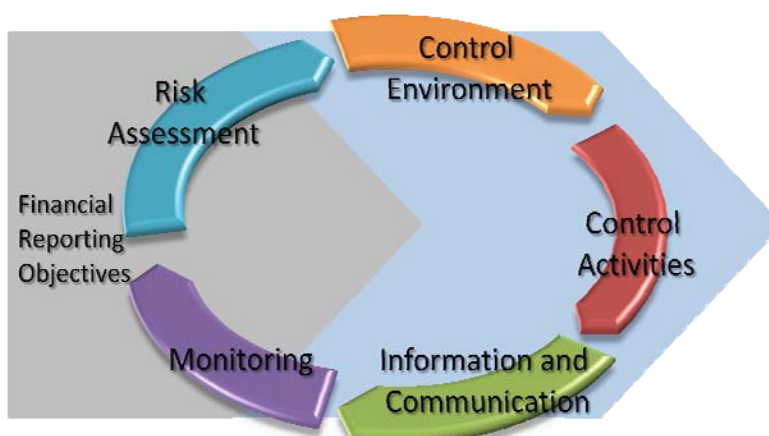
Internal control consists of the following five interrelated components:

1. **Control Environment.** The control environment sets the tone of an organization and is the foundation for all other components of internal control.
2. **Risk Assessment.** For an agency to exercise effective control, it must establish objectives and understand the risks that could undermine achievement of those objectives. Risk assessment is the

identification and analysis of relevant risks to achieving objectives, forming a basis for determining how risks should be managed. For the purposes of assessing internal control over financial reporting, management should identify the risks of a material misstatement in the financial statements.

3. **Control Activities.** Control activities are the policies and procedures that help ensure that management's directives are carried out. Control activities occur throughout the organization, at all levels and in all functions. They include the fundamentals of internal control, such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, and segregation of duties.
4. **Information and Communication.** Pertinent information must be identified, captured, and communicated in an effective manner to enable individuals to carry out their responsibilities. Information systems produce reports containing operational, financial, and compliance-related information that make it possible to run and control the business. These systems not only deal with internally-generated data, but also with information about external events necessary for informed business decision-making and external reporting (e.g., industry, economic, and regulatory information). Effective communication must also occur throughout and among all levels of the organization.
5. **Monitoring.** Monitoring is the continuous process that management uses to assess the quality of internal control over time. Ongoing monitoring occurs in the ordinary course of operations and includes regular management and supervisory activities. Periodic monitoring involves less frequent activities performed by senior management. Monitoring also encompasses a process for reporting deficiencies and undertaking remediation efforts.

The illustration below depicts an effective management control program that includes all five components of an internal control framework as it relates to financial reporting objectives.



While each component is important in establishing an effective internal control program, risk assessment is the first critical step in the process to determine the extent of controls. Monitoring is the strength behind an internal control program because it identifies poorly designed or ineffective controls and measures the effectiveness of all internal control activities.

### **Lack of Risk Assessment and Monitoring**

The House has not identified both internal and external risks that may prevent the agency from meeting its objectives. The process of identifying and analyzing risk is a critical component of an effective internal control system that includes how management identifies risks relevant to preparation of financial statements and information; assesses the likelihood of the manifestation of those risks; and decides upon actions to manage and mitigate those risks. Additionally, these risks have not been analyzed for their potential effect or impact on the agency.

Additionally, House management has not implemented a monitoring program to include periodic reviews, reconciliations, or comparisons of data to determine if existing control activities are designed and operating effectively. Furthermore, House management has not redesigned or improved its controls found to be deficient or communicated internal control objectives to ensure the agency is committed to sustaining an effective control environment. Specifically:

- In the FY 2008 financial statement audit report, we recommended that the Office of the Chief Administrative Officer (CAO) establish a management control program to ensure that internal controls over financial reporting are designed, implemented, and operating effectively. Such a program would include processes for both assessing risk and monitoring controls. Management concurred with this recommendation, but as of September 30, 2009, had not taken sufficient actions to implement such a program.
- The lack of an effective management control program identifying risks and weaknesses contributes to House Management's failure to take corrective actions on outstanding prior-year deficiencies identified as part of past financial statement audits. Some deficiencies have been reported for numerous years.
- The lack of an effective risk assessment precluded the House from identifying the necessary procedures for ensuring the reasonableness of imputed rent costs. Specifically, the House did not consider the risk associated with the accuracy of square-footage amounts or square-footage rates provided by the Architect of the Capital (AOC) necessary to calculate imputed rent costs. As a result, imputed costs and financing sources were not properly reported.

These identified weaknesses give rise to significant management challenges that reduce assurance that losses, misstatements, or noncompliance material in relation to the financial statements would be prevented or detected and corrected in a timely manner. Successfully implementing a management control program is critical to the House for achieving accountability and transparency.

### **Recommendation**

We recommend that CAO:

1. Establish and implement an annual management controls evaluation program to ensure controls are designed, implemented, and operating effectively. We recommend that the House consider implementing a program consistent with that outlined by OMB Circular A-123, Appendix A. We further recommend that the House use the Chief Financial Officer's Council's Implementation Guide for OMB Circular A-123, published July 2005. This guide recommends the following steps for establishing an effective management control program.

- **Planning.** Establish a Senior Assessment Team and determine the overall approach, to include determining the scope (identify significant reports), determining materiality, considering organizational structure, determining key processes, assessing risk, integrating and coordinating review activities, planning monitoring and testing approaches, and developing documentation standards.
- **Evaluating Internal Control at the Entity Level.** Document and assess entity-wide controls.
- **Evaluating Internal Control at the Process Level.** Gain an understanding of key financial reporting processes, including general and application controls, identify key controls, and assess the adequacy of control design.
- **Testing Control Design and Operating Effectiveness at the Transaction Level.** Test and document the operating effectiveness of controls.
- **Concluding, Reporting and Correcting.** Determine if controls are operationally effective based on test results, assessments of compensating controls, and identified material weaknesses in internal control over financial reporting.

**Weakness 2:                    Ineffective Controls over Information Technology**  
**Summary Status:            Material Weakness**  
**Prior-Year Condition**  
**Open**

The House has not adopted an information technology (IT) controls framework or implemented an overarching IT security program that ensures a strong general controls environment for information systems and data processing. Management has not implemented, documented, or tested sufficient internal controls over the general IT environment to ensure that financial data are complete, accurate, and reliable. Specifically, we noted the following 11 conditions related to internal controls over information systems that collectively represent a material weakness in the control environment.

**a. A process or program has not been created to identify, document, and assess IT internal controls to provide reasonable assurance regarding the accuracy and reliability of data processing for financial reporting.**

Management has not assigned responsibility for managing IT internal controls and developing a program to assess IT internal controls over financial reporting. Management has not assessed IT internal controls to provide assurance that IT internal controls are effective and operating as intended. This increases the risk that the financial reporting process could produce incomplete, inaccurate, or even fraudulent data.

**b. A process has not been implemented to ensure that all major systems within the House IT environment have undergone a risk management process, such as the Certification and Accreditation process defined by National Institute of Standards and Technology (NIST).**

House Information Security Policy (HISPOL) for the Information Security Compliance Program 007.0 requires that all major systems, support systems, and applications undergo a Certification and Accreditation (C&A) process prior to implementation and at least every 2 years thereafter. The House did not, however, track progress or implementation status for HISPOL 007.0 and has not developed a formal information systems inventory identifying all systems and applications operating within the House environment. Without identification of all systems and applications, management cannot effectively implement and ensure compliance with HISPOL 007.0.

Only seven systems have previously undergone any significant part of the C&A process, including development of a system security plan, assessment of security controls, and issuance of a security certification. Additionally, as of the end of the audit period, only one system had undergone the C&A process within the past 2 years and was operating with a current security certification that granted the system authority to operate.

Furthermore, the House network general support system, which provides significant security controls for all financial systems, has never been granted an authority to operate as a result of the compliance program. The lack of a C&A and authorization for the House network was first noted in the Calendar Year (CY) 2005 financial statement audit report.

**c. System Security Plans (SSPs) for major financial systems have not been developed and maintained in accordance with House policy and industry best practices.**

SSPs were inadequate for the House network, Paylinks, Procurement Desktop (PD), Member Payroll (MP), and Fixed Asset and Inventory Management System (FAIMS). Management has not enforced policies ensuring that all systems have accurate and complete security control documentation. SSPs did not enumerate and document minimum security controls based on system criticality and data.

Additionally, SSPs were not maintained and updated in accordance with HISPOL 007.0. SSPs for the House Network, PD, MP, and FAIMS have not been updated on an annual basis (no updates during FY 2009). Because management did not enforce policies requiring accurate and complete SSP documentation, the risk increases that all recommended system security controls, based on the criticality of data processed, are not in place. Also, because minimum security controls are not identified and enumerated, testing of individual controls is not possible.

**d. Security control assessments were not conducted to test the design and operating effectiveness of implemented controls for the House network and financial systems. Management relied on system scans to substitute for control assessments.**

Management has not identified and documented specific minimum security controls for the House network and financial systems in respective SSPs and thus cannot conduct security control assessments. Further, management cannot gain assurance that all required controls are in place and operating effectively if it has not conducted security control assessments. This increases the risk that the confidentiality, integrity, and availability of financial data within systems may be compromised. By placing reliance on system scans alone, which test some technical controls, management cannot gain assurance over management or operational controls.

**e. The information systems change control process for financial systems and data did not include adequate documentation to ensure that all changes were adequately managed, tested, and approved.**

Evidence of testing system changes prior to implementation was not retained. Evidence of testing, including test plans, expected results, and actual results, was not developed and maintained for changes made to the major financial system, Paylinks. We obtained change request forms from a sample of ten system changes implemented during the reporting period. Additional supporting documentation, such as detailed change specifications, test plans, and unit and user testing results, was not, however, available.

Additionally, a data clean-up and conversion process was in progress for the major financial system, Federal Financial System (FFS). Documentation was not being developed and maintained to record changes made to production financial data and to assess the impact of those changes. The audit team was unable to obtain a population of changes from this project for testing.

Without a thorough change control process, the risk increases that changes are not being managed effectively and efficiently. Without documentation of testing, the risk increases that changes are being implemented without sufficient testing, thereby introducing possible system errors or even malicious code into the House production environment. Without change specifications, management cannot review or manage the change process to ensure that the impact of changes has been fully addressed.

Furthermore, without a structured and documented change management process, management cannot ensure the ongoing confidentiality, integrity, and availability of its systems and data.

**f. A process has not been developed or implemented for identifying and tracking all known security weaknesses and incidents across the agency and ensuring that appropriate corrective action is taken.**

Records of security incidents identified by Information Security were not maintained, and follow-up investigations were not conducted. A process to document, track, and test corrective actions related to audit recommendations and ensure that identified weaknesses are corrected was not in place. Also, a Plan of Action and Milestones (POA&M) has not been developed or maintained for financial systems and applications.

By not identifying and tracking all security weaknesses, management cannot ensure that appropriate and timely corrective action is taken to address all known issues and weaknesses. This increases the risk that a significant security weakness will remain vulnerable for an extended period of time.

**g. Account management controls were not adequately managed and enforced throughout CAO. Inactive accounts and accounts for terminated individuals at both the network (Active Directory) level and financial application levels were not removed in a timely manner.**

We noted the following exceptions for 1,200 CAO active directory accounts:

- 89 accounts previously logged in and inactive longer than 180 days (7.42% of total accounts). Of these 89, only 3 were disabled.
- 259 accounts had never been logged in (21.58% of total accounts). Of these 259, 115 were disabled.
- 15 user accounts remained in the Active Directory for terminated users. Of these 15, we noted the following:
  - 2 were related to CAO employees and were disabled.
  - 13 were related to CAO contractors; 5 of these 13 were disabled.

Paylinks accounts (both core users and MyPaylinks accounts) for terminated employees could remain active for up to 2 months after termination, because the monthly Paylinks account review for terminated employees only identifies accounts to be removed for employees terminated for more than 30 days. During this period, management places reliance on the timely removal of the employee's Active Directory access as a compensating control for MyPaylinks accounts. As noted above, however, Active Directory controls for removing access in a timely manner are ineffective.

Additionally, the quarterly periodic recertification of all Paylinks accounts did not operate at a sufficient level of precision, because the recertification did not include a review of the access level granted to core users.

**h. Management has not conducted adequate oversight of the outsourced financial system, FFS.**

In accordance with Statement on Auditing Standards (SAS) 70, *Service Organizations*, management should review the *Report on Controls Placed in Operation and Tests of Operating Effectiveness* provided by the service organization. Additionally, Management should complete an assessment of user controls considerations identified by the service provider (National Business Center (NBC)) which are necessary to achieve the service provider's control objectives included in the SAS 70 report. Management did not review this report nor did they assess the user controls considerations for FFS in FY 2009. Furthermore, the House was not in compliance with the Interconnection Security Agreement (ISA), which was signed by both the House and the FFS hosting entity, NBC in May 2008. The ISA requires that the House perform a C&A over the House network in accordance with NIST. As previously mentioned, the House network has not been through the C&A process, and significant weaknesses exist in the current certification process.

Without reviewing and assessing FFS controls, the risk is increased that the confidentiality, integrity, and availability of FFS data may be compromised, thus leading to the possibility of inaccurate or fraudulent financial reporting.

**i. Contingency planning and recovery policies and procedures have not been developed and implemented to ensure a comprehensive approach that includes the House network, FFS, and all critical financial systems.**

Contingency plans to coordinate recovery activities between the House network and all critical financial systems have not been developed. Without developed and tested contingency plans, the risk is increased that House financial operations, data, or systems may become unavailable for an extended period of time without sufficient alternate operating procedures in place to carry out core requirements.

**j. Active Directory domain controllers were not adequately configured and monitored to ensure compliance with House policy and industry best practices.**

We reviewed settings deployed to production domain controllers and identified 49 settings that deviated from the Center for Information Security (CIS) Windows Server 2003 Benchmark, which is considered an industry best practice. Of these 49 deviations:

- 22 were also not in compliance with HISPOL 007.1.11, *Windows 2003 Server Security Checklist*, developed by House Information Security.
- 14 resulted from configuration settings not covered in HISPOL 007.1.11.
- 13 were in compliance with HISPOL 007.1.11, but the HISPOL configurations did not match the CIS benchmark.

**k. Policies and procedures for segregation of duties within financial systems have not been developed.**

Policies and procedures have not been developed and implemented to ensure that principles of proper segregation of incompatible duties are understood by key personnel and enforced by financial applications. Specifically, policies and procedures have not been developed, documented, and implemented to ensure that CAO financial systems identify incompatible duties and enforce



segregation-of-duty controls both at the end-user and administrative levels. Without proper segregation-of-duties controls in place for financial applications, financial data may be manipulated by unauthorized individuals. Subsequently, the risk increases that fraudulent acts may go undetected, and financial data may become inaccurate and unreliable.

## **Recommendations**

We recommend that CAO:

- 2a. Develop and implement a process to identify, document, and assess IT internal controls in accordance with OMB Circular A-123.
- 2b. Implement and enforce a risk management framework to ensure that all systems are identified and undergo a security assessment process in accordance with House policy and industry best practices for federal information systems.
- 2c. Update SSPs for the House network and all financial systems to include enumerating minimum security controls based on the criticality and environment of the system and documenting these controls in accordance with industry best practices.
- 2d. Conduct and document security control assessments for the House network and financial systems to test the design and operating effectiveness of all implemented controls. For each control tested, documentation should include the description of the implemented control, test steps to be conducted, expected test results, and actual test results.
- 2e. Develop and implement a change control process for all financial systems that ensures all changes are tracked, tested, and approved. This includes developing and maintaining documentation for all changes, including change specifications, approvals, test plans, and results of testing.
- 2f. Develop, document, and implement a process to identify and track all security weaknesses and incidents identified throughout the environment and ensure that appropriate corrective action is taken. This process should include the following:
  - Developing a procedure to test security controls identified as corrected to ensure that actions taken adequately mitigate or correct identified weaknesses.
  - Developing and maintaining a POA&M, or equivalent documentation, for all House systems and applications to track security weaknesses as well as issues noted as a result of audits.
  - Maintaining documentation for all identified security incidents throughout the House and ensuring that appropriate follow-up investigations are performed.
- 2g. Develop and implement an account management process to ensure that inactive accounts and accounts for terminated personnel are disabled and removed in a timely manner. This process should be enforced at network and financial-application levels.
- 2h. Perform C&A testing to ensure that controls protecting FFS data are adequately implemented and operating effectively. This includes performing a review of SAS 70 and ISA related to FFS to ensure that adequate client controls are in place.

- 2i. Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the House network, FFS, PD, and all critical financial systems.
- 2j. Ensure that configuration settings documented in HISPOL 007.1.11 include industry best practices, such as benchmarks approved by NIST, and document any deviations. Additionally, ensure that configuration settings documented in HISPOL 007.1.11 are enforced for all domain controllers.
- 2k. Develop, document, and implement policies and procedures to ensure that:
  - CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end-user and administrative levels.
  - Segregation-of-duty principles are understood by key personnel, such as system and data owners and program managers.

<b>Weakness 3:</b>	<b>Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations</b>
<b>Summary Status:</b>	<b>Significant Deficiency Prior-Year Condition Open</b>

Weaknesses in procedures used to ensure the completeness and accuracy of yearend financial statements and notes disclosures adversely affected the House's ability to initiate, authorize, record, process, or report financial data reliability in accordance with GAAP and guidance contained in OMB Circular A-136.

During FY 2009, CAO management did not assign sufficient resources to compile, analyze, and prepare the House's annual financial statements. The House relied upon one key individual for much of the financial reporting process. As a result, this individual had an excessive workload, and adequate succession planning was not evidenced. In addition, the quality control review processes to ensure accurate and complete financial reporting were inadequate. As stated in our audit report, the House received an unqualified opinion on its FY 2009 financial statements. Financial statements were, however, delivered months late, and went through multiple iterations and revisions.

OMB Circular A-123 states:

*Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:*

- 1. All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);*
- 2. All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);*
- 3. All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);*
- 4. All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);*
- 5. The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);*
- 6. The transactions are in compliance with applicable laws and regulations (compliance);*
- 7. All assets have been safeguarded against fraud and abuse; and*
- 8. Documentation for internal control, all transactions, and other significant events is readily available for examination.*

We identified weaknesses in four of the eight assertions identified above (Nos. 2, 4, 5, and 8). Our findings and associated recommendations for corrective actions are provided below in order of significance.

**a. The House did not comply with OMB A-136 requirements (Assertion No. 5).**

OMB Circular A-136, Section II.4, *Instructions for the Annual Financial Statements*, states that reporting entities should ensure that information in the financial statement is presented in accordance with GAAP for federal entities and requirements from FASAB standards and interpretations.

House presentation and disclosure of federal financial statements and note disclosures were not in full compliance with OMB A-136 requirements. We noted the following presentation and disclosure exceptions:

- **Financial Statement(s) Statement of Net Cost:** The House overstated gross costs and earned revenues by \$18,339,275, because eliminations of interoffice revenue and expense were not properly recorded.
- **Statement of Change in Net Position:** The House improperly reported cancelled funds returned to Treasury (Account 3106, Unexpended Appropriations – Adjustments) as a transfer (Account 3103, Unexpended Appropriations – Transfer Out).
- **Financial Statement Note Disclosure:** The House did not initially present disclosures in accordance with OMB Circular A-136 for the following: Significant Accounting Principles; Fund Balance with Treasury; Cash and Other Monetary Assets; Inventory and Related Property, Net; General PPE; Other Assets; Federal Employee and Veteran's Benefits; Other Liabilities; and Intra-governmental Costs and Exchange Revenue.

**b. House financial statement crosswalks were not in full compliance with the United States Standard General Ledger Crosswalk (Assertion No. 5).**

The House uses Treasury's Financial Management Service's (FMS) crosswalk for preparing its annual financial statements. This crosswalk, however, is based upon a federal entity that maintains its general ledger consistent with the U.S. Standard General Ledger (USSGL). The House's general ledger is not, in all cases, consistent with the USSGL. As a result, the House must map its existing chart of accounts to the USSGL prior to preparing its financial statements consistent with the crosswalk.

This contributed to delays in preparing financial statements and increased the risk of errors in the financial statements when accounts are not properly mapped. For the House to report financial statement line items correctly when preparing financial statements, it must incorporate use of ad-hoc queries, extensive manual analyses, and worksheet adjustments.

**c. Financial transactions were not recorded in FFS (Assertion No. 8).**

Member's Services tracked and recorded financial activity using QuickBooks; transactions were not recorded in the House system of record, FFS. The Member Service's financial activity related to payroll, benefits, and administrative expenses, was reported on the financial statements based on summary-level Hyperion adjustments posted at yearend.

In accordance with GAO's *Standards for Internal Control in the Federal Government*, transactions should be promptly recorded in the system of record to maintain their relevance and value to management in controlling operations and making decisions. Controls over the design and use of records do not provide reasonable assurance that transactions and events are recorded accurately.

**d. Manual worksheet adjustments were not recorded in FFS (Assertion No. 8).**

Balances reported on the FY 2008 final adjusted trial balance did not agree to FY 2009 beginning balances. Differences relating to yearend Hyperion adjustments and manual worksheet adjustments were not recorded in FFS. Based on GAO's *Standards for Internal Control in the Federal Government, Accurate and Timely recording of Transactions and Events*, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

To prepare federal GAAP financial statements, the House prepared post-closing worksheet adjustments to account for prior-year accounting events not recorded in budgetary accounts. These worksheet adjustments were not recorded in FFS. The House must track adjustments manually to report financial statement lines accurately.

**e. A budgetary entry for offsetting collection transactions in FFS did not exist (Assertion No. 2).**

Offsetting collection transactions included cash receipts from receivables, rejected automated clearing house (ACH) disbursements, and stop payments. There is no budgetary entry to recognize and record revenue related to offsetting collection accounting events in FFS. OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, Section 1, states that federal entities should record spending authority from offsetting collections equal to cash collections received during the year and record the cash collection as an offset to the budget authority.

FFS posting logic related to transaction code HV (standard voucher adjustment), and transaction types RR (recognize direct collection) and RV (timing adjustment to recognize drawdown of an advance from prior year) did not record revenue to the budgetary account, Reimbursements and other Income Earned – Collected. As a result, the House must perform ad-hoc queries to account for HV, RR, and RV transactions to identify offsetting collections and prepare a manual adjustment to account for such transactions.

**f. Revenue and expenses were improperly reported (Assertion No. 2).**

Revenue earned and costs associated with concessionaire revenue sources were commingled. According to Statements on Federal Financial Accounting Standards (SFFAS), No. 7, paragraph 18, operations of an entity engaged in exchange transactions produce revenue earned as well as the associated cost incurred. Financial accounting should relate the revenue to the cost for these transactions.

The House did not distinguish revenue earned from services provided by one of its concessionaire contractors or expenses incurred related to expenses deducted (greening and miscellaneous contract deductions). Expenses deducted totaled \$478,381, of which \$394,759 related to the greening initiative and other costs. The House improperly recorded these expenses in FFS, resulting in improper reporting of these expenses on the Statement of Net Cost.

**g. The House overstated imputed costs and financial sources (Assertion No. 4).**

House of Representatives overstated imputed costs. Estimates used in the calculation were not verified independently and, consequently, imputed costs were not reasonable and contained errors in the data provided by AOC.

The House did not have an adequate process in place to ensure imputed costs and financing sources were properly reported. The Federal Accounting Standards Advisory Board's *Statement of Federal Financial Accounting Standards 30, Inter-Entity Cost Implementation Amending SFFAS No. 4*, requires that:

*Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods and services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.*

In accordance with GAAP, estimates should be reasonable and based on the best information available. This requires accumulating sufficient relevant and reliable data on which to base reasonable assumptions and resulting estimates.

**Recommendations**

We recommend that CAO:

- 3a. Develop and implement financial reporting procedures to ensure that information in the financial statements is presented in accordance with OMB Circular A-136, Section II.4.
- 3b. Implement the USSGL to ensure the financial statements are presented in accordance with OMB financial reporting requirements.
- 3c. Ensure Members' Services payroll and benefits financial activity is recorded in the system of record (FFS) as transactions occur (monthly).
- 3d. Ensure all budgetary yearend accounting transaction and events are accurately recorded in FFS to establish proper post-closing balances.
- 3e. Update the posting logic in FFS to properly record revenue resulting from offsetting collections. Ensure that proper posting logic is built in the new financial system, PeopleSoft (PS), to ensure that proper revenue recognition exists for both proprietary and budgetary accounting events.
- 3f. Properly record sales from cafeteria and catering services that reflect both revenue earned and cost incurred as they relate to the House's "Greening the Capitol" initiative.
- 3g. Require management to develop a methodology for estimating imputed costs, to include:
  - Obtaining and independently verifying formal documentation from AOC that supports amounts and/or value of occupied space.

- Obtaining and documenting relevant information and assumptions used to determine estimated square-foot rental rates.
- Reviewing assumptions, estimates, and calculations for reasonableness and accuracy.
- Periodically reviewing the methodology to determine if changes are required.

**Weakness 4: Inaccurate Processing and Reporting of Payroll Data**  
**Summary Status: Significant Deficiency**  
**Prior-Year Condition**  
**Open**

We identified several instances in which the House's internal control over payroll processing did not ensure accurate reporting of transactions and balances. Controls were inadequate in some cases, and, although they existed in other cases, were not always adhered to due to the overall prevailing weaknesses discussed in Weakness 1, above.

We made inquiries and observed controls in place to determine if policies and procedures were adequately documented and implemented. We tested controls over the processing and reporting of payroll data, which included processing Payroll Authorization Forms (PAFs). We performed substantive tests of details to validate changes made in the payroll system through precertification and final certification processes, and we performed tests of details related to the disbursement and reporting of payroll and the reconciliation of payroll data.

During FY 2009, CAO authority and responsibility were not sufficient to ensure that all House offices complied with documented controls related to payroll processing. As a result, key controls were not operating effectively. CAO, which is responsible for ensuring compliance with these controls, did not have the authority to enforce such controls. Therefore, controls were not always adhered to by all offices, and payroll compliance processing errors continued to occur.

Internal control procedures to ensure completeness and accuracy of payroll transactions included in the financial statements were not effective or did not exist in all cases. We identified three instances, discussed below, in which payroll controls did not operate in an effective manner.

**a. Payroll certifications were not performed before disbursements.**

Employing offices were not required to perform payroll certifications to validate accuracy before payroll disbursement. GAO's *Standards Internal Control in the Federal Government* states that transactions and other significant events, including payroll, should be authorized and executed only by an authorizing official prior to the event.

Because payroll was not certified before disbursement, employing officials were unable to ensure that separated employees were properly removed from their respective payroll registers. As a result, employees may receive payments following termination. Also, additional errors may remain undetected, such as under- and overpayments to employees who received changes in their employment status.

**b. PAFs were late or missing.**

Timely submission of PAFs was complicated by an inconsistent due date policy within the House. In accordance with CAO policy, PAFs are due on the 15<sup>th</sup> of the month. This date was selected to ensure adequate time between PAF submission and preparation of the monthly payroll. The *Members' Congressional Handbook*, however, requires PAF submission by the 18<sup>th</sup> of the month.

Timely submission of PAFs is further complicated by employing offices not adhering to either policy. Of the 45 samples tested, 7 PAFs were submitted after the 18<sup>th</sup> day of the terminated month. The *Members' Congressional Handbook*, Pay Section: Appointment, states that subsequent adjustments to a



payroll appointment (pay adjustments, title changes, furlough status, terminations, etc.) must be made on the appropriate form (PAF) and are due to the Human Resources office by the 18<sup>th</sup> day of each month in which the adjustment is effective. Late submission of documentation creates the potential for inaccurate payroll disbursement to terminated, temporary, and permanent employees.

### **Recommendations**

We recommend that CAO:

- 4a. Require all employing offices to perform pre-certifications and work with Payroll Operations and Office of Payroll and Benefits, to ensure that payroll is certified by employing offices before disbursements.
- 4b. Take actions to ensure consistent policy regarding the PAF due date, including timely PAF submission, between CAO and the *Members' Congressional Handbook*.

**APPENDIX B**  
**MANAGEMENT'S RESPONSE TO**  
**FY 2009 FINANCIAL STATEMENT AUDIT REPORT**

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# **Chief Administrative Officer's Audit Report Response**




Daniel J. Strodel  
Chief Administrative Officer

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

MEMORANDUM

**To:** Theresa Grafenstine  
Inspector General

**From:** Daniel J. Strodel   
Chief Administrative Officer

**Subject:** Chief Administrative Officer responses to the *Fiscal Year 2009 Financial Statement Audit Report*

**Date:** January 5, 2011

Thank you for the opportunity to comment on the U.S. House of Representatives Financial Statement Audit for fiscal year 2009. We have reviewed and concur with the two material weaknesses and two significant deficiencies and the corresponding recommendations contained in the report. The Chief Administrative Office (CAO) provided responses during the audit process for each of the specific findings. Brief summaries of our actions related to these issues are outlined below.

Weakness 1 - The CAO has contracted with a professional services firm to establish and implement an internal controls program over financial reporting to ensure that controls are documented, designed, implemented, and operating effectively. The initial program implementation is scheduled to be completed by March 31, 2011. On-going sustainability and testing efforts will be performed for the remainder of the fiscal year to ensure that as of September 30, 2011, controls are documented, designed, implemented, and operating effectively. These actions will establish an internal controls framework relevant to the U.S. House of Representatives based on industry best practices that will be periodically assessed and tested.

Weakness 2 - As noted above, the CAO is in the process of implementing an internal controls program over financial reporting. The program will include relevant information technology controls that impact financial reporting processes. Specific actions completed include updates to the system security plan templates in accordance with industry best practices. The templates will be the basis for updated system security plans and assessment of those security plans and related controls. House Information Resources (HIR) has also completed development of an IT contingency framework policy and processes that generally complies with industry best practices. Additional actions are in process to address the remaining actions necessary to ensure that contingency plans are developed and tested for critical House systems. Actions are scheduled to be completed by September 30, 2011.

Weakness 3 – The CAO has completed actions to remediate and/or mitigate the noted issues. Additional actions are in process to further strengthen the processes over Members' Services payroll and benefits financial activity and reporting of concessionaire revenue. These additional actions are scheduled to be completed by March 31, 2011.

Weakness 4 – The process issues will be addressed during the internal controls review that is currently in process. These actions will address the current process and identify mitigating controls over payroll certifications and late payroll actions.

We recognize that the achievement of an unqualified financial statement opinion was accomplished through the joint efforts of your staff, contract auditors, and the House staff. I would like to express my appreciation for the cooperation and professionalism displayed by your staff and contract auditors during the course of the engagement.

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# **Fiscal Year 2009 Financial Statements**

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## Financial Statements Included in This Report

The U.S. House of Representatives (House) has prepared financial statements for fiscal year (FY) 2009 in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*. The responsibility for the integrity of the financial information included in these statements rests with management of the House. The audit of the House's financial statements was performed by Cotton & Company LLP. The auditors' report accompanies the financial statements.

The House's financial statements for FY 2009 consisted of the following:

- The **Balance Sheet**, which presents as of September 30, 2009 those resources owned or managed by the House that are available to provide future economic benefits (assets); amounts owed by the House that will require payments from those resources or future resources (liabilities); and residual amounts retained by the House comprising the difference (net position).
- The **Statement of Net Cost**, which presents the net cost of the House's operations for the year ended September 30, 2009. The House's net cost of operations includes the gross costs incurred by the House less any exchange revenue earned from House activities.
- The **Statement of Changes in Net Position**, which presents the change in the House's net position resulting from the net cost of the House's operations, budgetary financing sources other than exchange revenues, and other financing sources for the year ended September 30, 2009.
- The **Statement of Budgetary Resources**, which presents the budgetary resources available to the House during FY 2009, the status of these resources at September 30, 2009, the change in obligated balance during FY 2009, and net outlays of budgetary resources for the year ended September 30, 2009.

**U.S. HOUSE OF REPRESENTATIVES**  
**Consolidated Balance Sheet**  
**As of September 30, 2009**

	<b>2009</b>
<b>ASSETS</b>	
Intergovernmental:	
Fund Balance with U.S. Treasury (Note 2)	\$ 213,204,524
Accounts Receivable, Net (Note 3)	192,014
<b>Total Intragovernmental</b>	<b>213,396,538</b>
Cash and Other Monetary Assets (Note 2)	1,653
Accounts Receivable, Net (Note 3)	197,560
Inventory and Operating Materials and Supplies (Note 4)	1,368,211
Property and Equipment, Net (Note 5)	63,212,805
Advances and Prepayments (Note 7)	5,454,320
<b>Total Assets</b>	<b>\$ 283,631,087</b>
Stewardship Property and Equipment (Note 6)	
<b>LIABILITIES</b>	
Intergovernmental:	
Accounts Payable	\$ 1,308,443
Advances from Others	641,483
Capital Lease Liabilities	877,417
Other Liabilities	2,478,995
<b>Total Intragovernmental</b>	<b>5,306,338</b>
Accounts Payable	43,104,203
Actuarial Federal Employees' Compensation Act Liabilities	21,458,664
Accrued Payroll and Benefits	9,170,015
Accrued Annual Leave	6,628,475
Capital Lease Liabilities	2,520,766
Other Liabilities	155,310
<b>Total Liabilities (Note 8)</b>	<b>\$ 88,343,771</b>
<b>NET POSITION</b>	
Unexpended Appropriations	\$ 155,434,854
Cumulative Results of Operations	39,852,462
<b>Total Net Position (Note 15)</b>	<b>\$ 195,287,316</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 283,631,087</b>

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**U.S. HOUSE OF REPRESENTATIVES**  
**Consolidated Statement of Net Cost**  
**For the Year Ended September 30, 2009**

	<u>2009</u>
<b>NET COST OF OPERATIONS</b> (Note 11)	
<b>Net Costs by Program Area</b>	
<b>Legislative Activities</b>	
Gross Costs	\$ 1,574,306,418
Less: Earned Revenue	(10,419,254)
Net Program Costs	<u>1,563,887,164</u>
<b>Revolving Funds</b>	
Gross Costs	3,300,414
Less: Earned Revenue	(3,762,366)
Net Program Costs	<u>(461,952)</u>
<b>Net Cost of Operations</b>	<u>\$ 1,563,425,212</u>

**U.S. HOUSE OF REPRESENTATIVES**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2009**

	<u>2009</u>
<b>Unexpended Appropriations</b>	
Beginning Balance	\$ 101,638,132
Budgetary Financing Sources	
Appropriations Received	1,420,662,438
Appropriations Used	(1,361,899,910)
Other Adjustments	(4,965,806)
Total Budgetary Financing Sources	<u>53,796,722</u>
<b>Total Unexpended Appropriations</b>	<u><b>\$ 155,434,854</b></u>
<b>Cumulative Results of Operations</b>	
Beginning Balance	\$ 43,096,510
Budgetary Financing Sources	
Appropriations Used	1,361,899,910
Other Adjustments	(16,634,657)
Other Financing Sources	
Imputed Financing from Costs Absorbed by Others (Note 16)	<u>214,915,911</u>
Total Financing Sources	1,560,181,164
Net Cost of Operations	<u>(1,563,425,212)</u>
Net Change	<u>(3,244,048)</u>
<b>Total Cumulative Results of Operations</b>	<u><b>\$ 39,852,462</b></u>
<b>Net Position</b>	<u><b>\$ 195,287,316</b></u>

**U.S. HOUSE OF REPRESENTATIVES**  
**Statement of Budgetary Resources**  
**For the Year Ended September 30, 2009**

	2009
<b>Budgetary Resources</b>	
Unobligated Balance, Brought Forward, October 1	\$ 58,406,661
Recoveries of Prior Year Unpaid Obligations	5,478,689
Budget Authority:	
Appropriations Received	1,420,662,438
Borrowing Authority	-
Contract Authority	-
Spending Authority from Offsetting Collections:	
Earned:	
Collected	33,931,073
Change in Receivable from Federal Sources	-
Change in Unfilled Customer Orders:	
Advances Received	(3,990,085)
Without Advance from Federal Sources	-
Anticipated for Rest of Year, Without Advances	-
Previously Unavailable	-
Expenditure Transfers from Trust Funds	-
Subtotal Budget Authority	\$ 1,450,603,426
Nonexpenditure Transfers, Net, Anticipated and Actual	-
Temporarily Not Available Pursuant to Public Law	-
Permanently Not Available (Cancelled)	(13,349,739)
<b>Total Budgetary Resources</b>	<b>\$ 1,501,139,037</b>
<b>Status of Budgetary Resources</b>	
Obligations Incurred:	
Direct	\$ 1,374,707,884
Reimbursable	25,427,863
Total Obligations Incurred	1,400,135,747
Unobligated Balances - Available:	
Apportioned	-
Exempt from Apportionment	41,529,592
Total Unobligated Balance - Available	41,529,592
Unobligated Balance - Not Available	59,473,698
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,501,139,037</b>
<b>Change in Obligated Balance</b>	
Obligated Balance, Brought Forward, October 1	
Unpaid Obligations	\$ 110,088,474
Less: Uncollected Customer Payments from Federal Sources	-
Total Unpaid Obligated Balance, Brought Forward, October 1	110,088,474
Obligations Incurred, Net	1,400,135,747
Less: Gross Outlays	(1,392,923,720)
Obligated Balance Transferred, Net:	
Actual Transfers, Unpaid Obligations	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-
Total Unpaid Obligated Balance Transferred, Net	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(5,478,689)
Change in Uncollected Customer Payments from Federal Sources	-
Obligated Balance, Net, End of Period:	
Unpaid Obligations	111,821,812
Less: Uncollected Payments from Federal Sources	-
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 111,821,812</b>
<b>Net Outlays</b>	
Gross Outlays	\$ 1,392,923,720
Less: Offsetting Collections	(29,940,988)
<b>Total Net Outlays</b>	<b>\$ 1,362,982,732</b>

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## **Notes to the Financial Statements**

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

### A. 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.

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 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 111<sup>th</sup> Congress. The fiscal year 2009 financial statements are comprised of two programs: Legislative Activities and Revolving Funds.

### Legislative Activities

Legislative Activities consist of all financial activity related to the operations of all Member Offices, both in Washington, D.C. and Congressional districts; all Committees both Standing and Special and Select; Leadership Offices; House Officers and Offices and Joint Functions that the House shares with the U.S. Senate including the Attending Physician and Joint Committee on Taxation.

House **Members** are elected from congressional districts of approximately equal population. The financial information aggregates transactions of the Member districts and Washington, D.C. offices, and includes 435 Representatives; five Delegates, one each, from the District of Columbia, Guam, Virgin Islands, American Samoa and Northern Mariana Islands; and one Resident Commissioner from Puerto Rico.

The **Committees** financial information aggregates transactions of the Standing and Special and Select Committees of the 111<sup>th</sup> Congress. Committees are organized at the beginning of each Congress according to their jurisdictional boundaries incorporated in the Rules of the House. The Committees of the House under the 111<sup>th</sup> Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and Labor
- Committee on Energy and Commerce
- Committee on Financial Services
- Committee on Foreign Affairs
- Committee on Homeland Security
- Committee on House Administration
- Committee on the Judiciary
- Committee on Natural Resources
- Committee on Oversight and Government Reform
- Committee on Rules
- Committee on Science and Technology
- 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  
Select Committee on Energy Independence and Global Warming  
Select Committee on Voting Irregularities

The House **Leadership Offices** financial information aggregates transactions of:

Speaker of the House  
Majority and Minority Leaders  
Majority and Minority Whips  
Party Steering Committees, Caucus or Conference, which consist of Representatives of the same political party

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

Chaplain  
Chief Administrative Officer  
Clerk of the House  
Office of Congressional Ethics  
Office of Emergency Planning, Preparedness and Operations  
Office of the General Counsel  
Office of the Historian  
Office of Inspector General  
Office of the Law Revision Counsel  
Office of the Legislative Counsel  
Parliamentarian  
Sergeant at Arms

The **Joint Functions** financial information aggregates transactions of the 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

**Revolving Funds**

Revolving Fund Activities consist of all financial activity related to the operations of all House revolving fund accounts.

The **Revolving Funds** financial information aggregates transactions of:

House Recording Studio  
House Services  
Net Expenses of Equipment  
Net Expenses of Telecommunications  
Page School  
Stationery

**B. Basis of Consolidation**

The consolidated financial statements include the accounts and significant activities of the House. All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information, except for the Statement of Budgetary Resources which is presented on a combined basis in accordance with the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*.

The financial statements do not include legislative agencies that support the House and that receive separate appropriations. These agencies are:

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

Functions jointly shared between the House and the Senate are included in the 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

**C. Basis of Accounting and Presentation**

The financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the House. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the OMB Circular No. A-136, *Financial Reporting Requirements*.

Prior to fiscal year (FY) 2009, the House prepared financial statements on an annual basis in accordance with GAAP similar to those used within commercial entities. This information was reported through the Balance Sheet, Income Statement and Cash Flow Statement in a comparative year financial statement format.

The House has presented its financial statements and accompanying notes in a single year presentation for FY 2009 in its initial year of transitioning into a new financial reporting format.

While the House is a Legislative Branch entity, it has elected to incorporate many of the Federal government Executive Branch agency financial management and reporting standards that management deems necessary for the fair presentation of financial statement information.

The House's accounting structure, in accordance with GAAP, utilizes both accrual and budgetary accounting. Under accrual accounting, events are recognized 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 budgetary accounting, on the other hand, facilitates compliance with legal constraints on, and controls over, the use of Federal funds.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other Federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other Federal entities, and intragovernmental costs are payments or accruals to other Federal entities.

While these statements have been prepared from the records of the House in accordance with GAAP and formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records. These statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

#### **D. Fund Balance with the U.S. Treasury and Cash**

The U.S. Treasury processes cash receipts and disbursements for the House through its cash management services. Fund Balance with Treasury represents the aggregate amount of House fund accounts with the U.S. Treasury available to pay current liabilities and finance authorized purchases. Fund Balance with Treasury consists of balances for general fund expenditure accounts, revolving funds, and other fund types as of the end of the fiscal year. Fund Balance with Treasury also includes 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. The House also maintains an account related to Special Fund Receipts. Cash and other monetary assets include cash on hand that represents deposits in transit and amounts held in a commercial bank account. (See Note 2)

The following describes the type of funds maintained by the House:

**General Fund Expenditure Accounts** are fund accounts used to record amounts appropriated by Congress for the general support of the Federal government.

**Revolving Funds** are fund accounts used to record funds authorized by specific provisions of law to finance a continuing cycle of business-type operations. Receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress.

**Special Fund Receipt Accounts** are fund accounts used to record receipts from specific sources earmarked by law for specific purposes.

**Other Fund Types** include General Fund Receipt and Deposit Fund accounts. General Fund Receipt accounts are used to record all receipts not earmarked by law for a specific purpose. These receipts may include miscellaneous recoveries and refunds and fines and penalties. The U.S. Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year. Deposit Fund accounts are used to record monies withheld from Federal government payments for goods and services received pending payment; and receipts and disbursements awaiting determination of the proper accounting classification.

#### **E. Accounts Receivable, Net**

Accounts Receivable represents amounts due to the House from Federal entities, Members, employees and/or vendors for money, goods, and services less an Allowance for Doubtful Accounts. Accounts Receivable primarily arises from provision of goods and services, commissions, and overpayments. Allowance for Doubtful Accounts is based on an analysis of outstanding accounts, aging methodologies and historical collection experience. Intragovernmental accounts receivable are generally considered to be fully collectible. (See Note 3)

#### **F. Inventory and Related Property, Net**

Inventory is tangible personal property that is held for sale. The Chief Administrative Office (CAO), Assets, Furnishings and Logistics Office maintains an inventory of supplies and merchandise purchased by the Office Supply Service and Gift Shop for resale to the public. Inventories for sale are valued at the moving weighted average method.

Operating Material and Supplies are tangible personal property to be consumed during normal operations. The CAO Assets, Furnishings and Logistics Office maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials purchased by the House for use in its operations. The CAO House Information Resources Office maintains inventories of such items as fiber jumpers to support network connectivity and patch cords to support desktop computers. 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. (See Note 4)

#### **G. General Property and Equipment, Net**

General Property and Equipment consists of office and computer equipment, furniture, vehicles, software, assets acquired under capital leases, leasehold improvements and work in process. The House capitalizes property and equipment when the acquisition cost equals or exceeds an established threshold and has a useful life of greater than one year. The costs of such items are recognized as assets when acquired.

Property and equipment 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 with the exception of software. 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. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the end of the fiscal year. The change in work in process is due to several projects not placed in service during the fiscal year.

An appropriate portion of an asset's value is reduced and an expense for depreciation or amortization is recognized over the accounting periods benefited by the asset's use. 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 equipment, furniture, 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.

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. (See Note 5)

House office buildings and land occupied by Members and employees in Washington, D.C. are under the custody of the Architect of the Capitol (AOC) and are excluded from the House's property and equipment accounts. The House recognizes an imputed cost and related imputed financing source in its financial statements for the costs associated with House office buildings. (See Notes 1K and 16)

#### **H. Stewardship Property and Equipment**

Stewardship Property, Plant and Equipment (PP&E) includes heritage assets and stewardship land. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets consist of collection-type heritage assets, such as objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections; and non-collection-type heritage assets, such as parks, memorials, monuments, and buildings. These assets are expected to be preserved indefinitely. The House's heritage assets are considered collection-type heritage assets and consist primarily of historical artwork and artifacts.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is included in general PP&E on the Balance Sheet. The House office buildings and land occupied and used by Members and employees in Washington, D.C. meet the criteria of multi-use heritage assets. Stewardship responsibility for these multi-use heritage assets is maintained by the AOC and disclosed on its financial statements. The House does not possess multi-use heritage assets or stewardship land.

Heritage assets are disclosed on the Balance Sheet as a note reference with no asset amount shown, and are generally not included in the general PP&E. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, matching costs with specific periods would not be meaningful. (See Note 6 and Required Supplementary Information)

#### **I. 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 and consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. As the goods and/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are payments made in advance of the receipt of goods and services. Prepayments include payments for subscriptions and software licenses and are recorded as expenses. At year-end, all such payments made for the current year are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. (See Note 7)

## J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are amounts due to others as a result of items received, services rendered, expenses incurred, assets acquired and construction or work in process regardless of whether invoices have been received. Liabilities also represent amounts received that have not yet been earned. Liabilities covered by budgetary resources are liabilities incurred that will be covered by available budgetary resources encompassing not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Liabilities not covered by budgetary resources include unfunded liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of the reporting entity. (See Note 8)

The House's liabilities include:

**Accounts Payable** that represent amounts owed for the cost of goods and services received but not yet paid. The House estimates certain accounts payable balances based on financial activity determined on a three-year averaging methodology.

**Advances from Others** that represent advance payments received from other Federal government entities for shared services, in advance of the delivery of these services. As the services are rendered the Advances from Others account is drawn down and the appropriate revenue is recognized. The House received payments in advance of receipt of shared services from the Library of Congress.

**Capital Lease Liability** that represents the portion recorded at the net present value of the minimum lease payments at lease inception.

**Unfunded Workers' Compensation Actuarial Liability** that represents 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. The House calculated the actuarial liability based on a model developed by the U.S. Department of Labor (DOL). 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.

**Accrued Payroll and Benefits and Annual Leave** that represent both a funded and unfunded liability. A funded liability has a corresponding appropriation to liquidate it. An unfunded liability is a liability that is incurred during the current or prior year but is not payable until a future fiscal year for which an appropriation has not yet been received.

Accrued payroll and benefits include salaries and associated benefits earned in the current fiscal year and paid in the subsequent fiscal year.

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 balances are calculated according to Public Law 104-53, November 19, 1995, Sec. 109 Stat. 522 (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. 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. In 2009, the estimate was based on a three-year average of actual annual leave paid.

**Other Intragovernmental Liabilities** that represent the Accrued workers' compensation amount billed by DOL that will be paid in subsequent fiscal years and Unemployment compensation amounts owed to DOL.

**Other Public Liabilities** that represent amounts primarily related to Page School Security Deposits, amounts held pending proper accounting disposition or amounts withheld from payments for goods and services received pending payment.

## **K. Revenue and Other Financing Sources**

### **Appropriations**

The House finances most of its operations through congressional appropriations of budget authority. To the extent that revenue generated by some House entities does not cover expenses, appropriations are required. The House receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation. The House usually receives the full amount of its appropriation at the beginning of each fiscal year. (See Note 15)

### **Exchange and Non-Exchange Revenue**

The House classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the government and the other party receive value; and is recognized when goods have been delivered or services rendered. The House's exchange revenue consists of (1) sales of goods to the public for Office Supply Service and Gift Shop sales; (2) sales of services to the public for child care fees, photography sales, postal fees and Attending Physician fees; (3) interoffice sales between House entities for graphic services, telecommunications, office supplies, framing, recording, office equipment, photography, and tape duplication; and (4) other revenue for Page School room and board and vendor commissions. Non-exchange revenue is derived from the government's sovereign right to demand payment. The House did not have non-exchange revenue during the fiscal year.

### **Imputed Financing from Cost Absorbed by Others (and Related Imputed Costs)**

The House must recognize the amount of cost incurred by a Federal entity for goods or services provided and paid for in total, or in part, by other Federal entities. Since the cost is not actually reimbursed to these Federal entities, an imputed financing source is also recognized to offset the costs financed by the entities. The imputed cost and imputed financing source for costs are associated with the occupancy of the U.S. Capitol and House office buildings under the custody of the AOC and the Federal Employee and Veterans' Benefits. The imputed cost is recognized in the Statement of Net Cost and the imputed financing source is recognized in the Statement of Changes in Net Position.

#### *Occupancy Cost:*

The House must recognize an occupancy cost for the U.S. Capitol and House office buildings under the custody of the AOC that are occupied by Members and staff in Washington, D.C. The House office buildings are comprised of the Cannon, Ford, Longworth, Rayburn, and other buildings and facilities. The AOC receives an appropriation for the maintenance, care and operations of the House office buildings, facilities and grounds; and costs associated with the acquisition and maintenance of the land and buildings is accounted for by the AOC.

The imputed occupancy cost for the U.S. Capitol and House office buildings is calculated by multiplying the gross square footage of the buildings by the estimated per square foot value.

#### *Federal Employee and Veterans' Benefits Cost:*

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. The pension expense recognized in the Statement of Net Cost 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 cost. Therefore, this portion of the pension cost is considered an imputed financing source to the House, and is included in the Imputed Financing from Costs Absorbed by Others on the Statement of Changes in Net Position.

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 the Statement of Net Cost. 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 from Costs Absorbed by Others on the Statement of Changes in Net Position. (See Note 16)

**L. Leases**

The House enters into operating leases for temporary usage of office space, vehicles, software, computers and other equipment. 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 the U.S. General Services Administration or may directly lease space from the private sector. Members and Officers also enter into leases to rent vehicles for official business purposes.

The House also enters into capital leases for building structures and hardware. Assets under capital leases 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 9)

**M. Personnel and Benefits Compensation**

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) up to 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. (See Note 12)

**N. 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.



**NOTE 2 - FUND BALANCE WITH THE U.S. TREASURY AND CASH**

Fund Balance with Treasury as of September 30, 2009 was:

<b>Fund Balance with Treasury</b>	<b>2009</b>
General and Other Funds	
House maintained	\$ 158,804,843
Congressional Use of Foreign Currency	33,706,776
Total General and Other Funds	\$ 192,511,619
Revolving Funds	20,692,905
<b>Total</b>	<b>\$ 213,204,524</b>

Status of Fund Balance with Treasury as of September 30, 2009 was:

<b>Status of Fund Balance with Treasury</b>	<b>2009</b>
Unobligated Balance	
Available	\$ 41,909,014
Unavailable	59,473,698
Obligated Balance not yet Disbursed	111,821,812
<b>Total</b>	<b>\$ 213,204,524</b>

Unobligated balances reported for the status of Fund Balance with Treasury may not agree with unobligated balances reported in the Statement of Budgetary Resources because the budgetary balances included adjustments to status of funds.

Cash and Other Monetary Assets as of September 30, 2009 were:

<b>Cash and Other Monetary Assets</b>	<b>2009</b>
Cash on Hand	\$ 1,653
<b>Total</b>	<b>\$ 1,653</b>

**NOTE 3 - ACCOUNTS RECEIVABLE, NET**

Accounts Receivable, Net as of September 30, 2009 was:

<b>Accounts Receivable, Net</b>	<b>2009</b>
Accounts Receivable, Gross	\$ 1,289,880
Less: Allowance for Doubtful Accounts	(900,306)
<b>Total</b>	<b>\$ 389,574</b>

**NOTE 4 - INVENTORY AND RELATED PROPERTY, NET**

Inventory and Related Property, Net as of September 30, 2009 were:

<b>Inventory and Related Property, Net</b>	<b>2009</b>
Operating Materials and Supplies Held for Use	\$ 427,955
Inventory Purchased for Resale	940,256
<b>Total</b>	<b>\$ 1,368,211</b>



**NOTE 5 - GENERAL PROPERTY AND EQUIPMENT, NET**

General Property and Equipment, Net as of September 30, 2009 and the related depreciation and amortization expense were:

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	\$ 24,763,874	\$ -	\$ 24,763,874	\$ -
Computer Software and Hardware	3	87,676,143	74,847,751	12,828,392	5,397,421
Assets Under Capital Lease	3	4,000,184	111,116	3,889,068	2,124,728
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	54,241,493	38,343,134	15,898,359	5,526,155
Motor Vehicles	5	10,686,103	8,820,869	1,865,234	1,508,871
Furnishings and Other Equipment	10	1,519,035	1,389,234	129,801	18,289
Assets Under Capital Lease	10	1,354,473	778,822	575,651	135,447
Leasehold Improvements	10	9,085,375	5,822,949	3,262,426	908,538
<b>Total</b>		<b>\$ 193,841,048</b>	<b>\$ 130,628,243</b>	<b>\$ 63,212,805</b>	<b>\$ 15,619,449</b>

**NOTE 6 - STEWARDSHIP PROPERTY AND EQUIPMENT**

Collection-type heritage assets as of September 30, 2009 were:

Heritage Assets	2009
Artwork	305
Artifacts	3,124
<b>Total</b>	<b>3,429</b>

The House's heritage assets are directly related to its mission to document and preserve the legislative integrity and traditions of the institution. Permanent authority for the Clerk of the House originated in the opening days of the First Congress, when John Beckley was elected Clerk on April 1, 1789, pursuant to Article I of the Constitution: "*The House of Representatives shall chuse their Speaker and other Officers....*" The Clerk's responsibilities to document and preserve the activities of Congress have grown over the centuries, and are found in Rules VII and XI of the House, and by the Rules of the House of Representatives Fine Arts Board, established via 40 USC Sec. 188c (Public Law 100-696 [Title X]).

The House's stewardship responsibility for its heritage assets includes those in or associated with the House, its legislative history, Members and institutional heritage. Under the provisions of the House of Representatives Fine Arts Board, the Clerk is responsible for the administration, maintenance, and display of the works of fine art and other similar property of the Congress for display or for other use in the House wing of the Capitol, the House Office Buildings, or any other location under the control of the House in accordance with Public Law 100-696. The House's heritage assets are curated by the House Curator in the Clerk's Office of History and Preservation. The House Curator maintains records, both paper and electronic, for works of art and artifacts. Staff and resources are devoted to the conservation and preservation of heritage assets, using professional standards established by the American Institute for Conservation and the National Archives and Records Administration. These standards provide for cleaning, storing, displaying, handling and protecting the House's heritage assets.

The House acquires heritage assets by purchase, transfer from Federal entities, gift, or by provision of federal law. Prior to acquiring these assets, the House Curator, on behalf of the Clerk and the House of Representatives Fine Art Board, conducts a formal process to ensure they meet minimum standards as required by the American Association of Museum's

ethics guidelines and standards and best practices for accessioning of objects into museum collections. The House's collections continue to increase as it acquires additional assets and few items have been retired or disposed of to date.

Deaccessioning of objects and related withdrawals or disposals will only occur if the House Curator, in accordance with the American Association of Museum's guidelines and best practices, determines the asset is in irretrievable condition; does not meet the needs of the collection; or withdraws due to exchange or gift of unwanted or duplicate copies. Staff ensure that heritage assets remain in good condition, carefully preserving and saving these treasures for present and future generations.

The Required Supplementary Information section of this report provides additional information on the condition of stewardship heritage assets.

Descriptions of the types of heritage assets are:

**Artwork**

The House's artwork encompasses oil and acrylic paintings, works on paper, and sculpture in bronze, marble and other media.

**Artifacts**

The House's historical artifacts include objects in all media, including but not limited to paper, metal, plaster, wood, textile and stone.

**NOTE 7 - ADVANCES AND PREPAYMENTS**

Advances and Prepayments as of September 30, 2009 were:

<b>Advances and Prepayments</b>	<b>2009</b>
Advances	\$ 18,641
Prepayments	5,435,679
<b>Total</b>	<b><u><u>\$ 5,454,320</u></u></b>

**NOTE 8 - LIABILITIES**

Liabilities covered and not covered by budgetary resources as of September 30, 2009 were:

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2009
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	\$ 1,308,443	\$ -	\$ -	\$ -	\$ 1,308,443
Advances from Others	641,483	-	-	-	641,483
Capital Lease Liabilities	-	-	148,755	728,662	877,417
Other Liabilities					
Accrued Workers' Compensation	-	-	-	2,248,334	2,248,334
Unemployment Compensation	230,661	-	-	-	230,661
Total Other Liabilities	230,661	-	-	2,248,334	2,478,995
Total Intragovernmental Liabilities	2,180,587	-	148,755	2,976,996	5,306,338
Public Liabilities					
Accounts Payable	43,104,203	-	-	-	43,104,203
Actuarial FECA Liability	-	-	-	21,458,664	21,458,664
Accrued Payroll and Benefits	9,170,015	-	-	-	9,170,015
Unfunded Accrued Annual Leave	-	-	-	6,628,475	6,628,475
Capital Lease Liabilities	2,520,766	-	-	-	2,520,766
Other Liabilities	155,310	-	-	-	155,310
Total Public Liabilities	54,950,294	-	-	28,087,139	83,037,433
<b>Total</b>	<b>\$ 57,130,881</b>	<b>\$ -</b>	<b>\$ 148,755</b>	<b>\$ 31,064,135</b>	<b>\$ 88,343,771</b>

**NOTE 9 - LEASE COMMITMENTS****Capital Leases**

Assets Under Capital Lease as of September 30, 2009 were:

Summary of Assets Under Capital Lease	2009
Buildings Structures	\$ 1,354,473
Hardware	4,000,184
Accumulated Amortization	(889,938)
<b>Total</b>	<b>\$ 4,464,719</b>

Future Capital Lease Payments Due as of September 30, 2009 were:

Year	Building		Total
	Structures	Hardware	
2010	\$ 423,000	\$ 712,538	\$ 1,135,538
2011	423,000	712,538	1,135,538
2012	423,000	712,538	1,135,538
2013	423,000	712,538	1,135,538
2014	105,750	-	105,750
Thereafter	-	-	-
<b>Total Future Capital Lease Payments</b>	<b>1,797,750</b>	<b>2,850,152</b>	<b>4,647,902</b>
Less: Imputed Interest	(403,651)	(329,386)	(733,037)
Less: Executory Costs	(516,682)	-	(516,682)
<b>Net Capital Lease Liability</b>	<b>\$ 877,417</b>	<b>\$ 2,520,766</b>	<b>\$ 3,398,183</b>

The House maintains capital leases for building structures and hardware. The occupancy agreement for the building structures lease includes multi-year funding obligations of the tenant that state the agreement is cancelable upon 30 days written notice. Space relinquishment rights and obligations state the agreement is cancelable by providing 30 days written notice to the U.S General Services Administration. The terms and conditions for the hardware lease indicate the House's agreement to pay for products for the full multi-year lease term with the option to renew for fiscal years beyond the initial fiscal year. The House also agrees that its right to not renew the lease for a fiscal year is limited solely to the House not obtaining an appropriation for the year in an amount equal to or in excess of lease payments for the year. The House may terminate the agreement in whole or in part as prescribed in the agreed upon settlement methodology.

#### Operating Leases

Future Operating Lease Payments Due as of September 30, 2009 were:

Year	Vehicles	Office Space	Parking	Total
2010	\$ 846,925	\$ 22,466,519	\$ 216,979	\$ 23,530,423
2011	296,402	5,383,344	40,572	5,720,318
<b>Total</b>	<b>\$ 1,143,327</b>	<b>\$ 27,849,863</b>	<b>\$ 257,551</b>	<b>\$ 29,250,741</b>

The House maintains operating leases for vehicles and district office space and parking. The lease agreements are in accordance with House rules and regulations and agreed upon vendor terms and conditions. The House requires that leases entered into by Members for space be no longer than the elected term of the Member. 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.

#### NOTE 10 - COMMITMENTS AND CONTINGENCIES

The House is not currently involved in any lawsuit where the outcome is probable and the amount can be estimated.

**NOTE 11 - INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE**

Intragovernmental Costs and Exchange Revenue as of September 30, 2009 are:

<b>Intragovernmental Costs and Exchange Revenue</b>	<b>2009</b>
<b>Legislative Activities</b>	
Intragovernmental Costs	\$ 249,792,974
Public Costs	1,324,513,444
Total Costs	<u>1,574,306,418</u>
Intragovernmental Earned Revenue	(3,905,893)
Public Earned Revenue	(6,513,361)
Total Earned Revenue	<u>(10,419,254)</u>
Net Program Costs	<u>1,563,887,164</u>
<b>Revolving Funds</b>	
Intragovernmental Costs	170,482
Public Costs	3,129,932
Total Costs	<u>3,300,414</u>
Intragovernmental Earned Revenue	(2,037,361)
Public Earned Revenue	(1,725,005)
Total Earned Revenue	<u>(3,762,366)</u>
Net Program Costs	<u>(461,952)</u>
<b>Total</b>	
Intragovernmental Costs	249,963,456
Public Costs	1,327,643,376
Total Costs	<u>1,577,606,832</u>
Intragovernmental Earned Revenue	(5,943,254)
Public Earned Revenue	(8,238,366)
Total Earned Revenue	<u>(14,181,620)</u>
<b>Net Cost of Operations</b>	<b><u>\$ 1,563,425,212</u></b>

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal government and are disclosed separately from costs and exchange revenue with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. The net cost of the House's operations includes gross costs incurred by the House less any exchange revenue earned from House activities.

**NOTE 12 - PERSONNEL AND BENEFITS COMPENSATION**

<b>Member and Employee Personnel and Benefits Compensation</b>	<b>2009</b>
Personnel Compensation	\$ 785,018,829
Retirement Plan Contributions	144,764,684
Social Security	52,846,066
Health Insurance	46,594,336
Student Loan/Fitness Center Programs	12,613,054
Unemployment and Workers' Compensation	3,473,080
Transit Benefits	2,406,554
Life Insurance	1,218,081
Death Benefits	1,032,411
Annual Leave	496,691
Workers' Compensation Actuarial Adjustment	<u>(933,772)</u>
<b>Total</b>	<b><u>\$ 1,049,530,014</u></b>

**NOTE 13 - EMERGENCY PREPAREDNESS**

The House continues to develop contingency plans to ensure the continuation of all House Operations in the event of an emergency evacuation. Approximately \$20 million was expended in 2009.

**NOTE 14 - EXCHANGE REVENUES**

Reporting entities that provide goods and services to the public or another Government entity should disclose specific information related to their pricing policies. In certain cases, the prices charged by the House for the sale of goods and services are set by House rules and regulations, which for program and other reasons may not represent full cost. In other cases, prices set for goods and services are intended to recover the full costs incurred by these activities (e.g., child care fees, postal fees, and Gift Shop sales to the public).

**NOTE 15 - 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. The House has single and multi-year appropriations. For multi-year appropriations the House alternates each fiscal year between 15-month and 27-month multi-year funding. Funds cancel two years after expiration and are no longer available for obligation or expenditure for any purpose and are returned to the U.S. Treasury.
- 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.

Funds that were canceled and returned to the U.S. Treasury as of September 30, 2009 were:

<b>Appropriations</b>	<b>Total</b>
2007 (single)	\$ 12,641,660
2006 (multi)	382,270
2005 (multi)	325,809
<b>Total</b>	<b>\$ 13,349,739</b>

**Net Position** as of September 30, 2009 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Net Expenses of Equipment, Page School, House Services, Net Expenses of Telecommunications, and Stationery revolving funds are shown in the following table:

**Net Position**

Unexpended Appropriations		\$ 155,434,854
Cumulative Results of Operations:		
Cumulative Results of Operations	\$ 6,756,768	
Invested Capital	61,182,833	
Future Funding Requirements	<u>(28,087,139)</u>	
Total Cumulative Results of Operations		<u>39,852,462</u>
<b>Total Net Position</b>		<b><u>\$ 195,287,316</u></b>

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 result when amounts invested in capital assets and inventory exceed (or are less than) the amounts of liabilities to be funded by future appropriations.

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 16 - IMPUTED FINANCING FROM COST ABSORBED BY OTHERS**

The House must recognize an imputed cost and imputed financing source for costs associated with the occupancy of the U.S. Capitol and House office buildings and Federal Employee and Veterans' Benefits. The imputed cost is recognized in the Statement of Net Cost and the imputed financing source is recognized in the Statement of Changes in Net Position.

<b>Imputed Cost and Financing Source</b>	<b>2009</b>
Federal Employee and Veteran's Benefits	
Current Service Cost - Federal Employees Health Benefits	\$ 50,740,579
Current Service Cost - Federal Pensions	13,439,610
Current Service Cost - Federal Employees Group Life Insurance	118,949
Total Federal Employee and Veteran's Benefits	<u>64,299,138</u>
Occupancy Costs	<u>150,616,773</u>
<b>Total</b>	<b><u>\$ 214,915,911</u></b>

**NOTE 17 - PERMANENT INDEFINITE APPROPRIATIONS**

A permanent and indefinite appropriation is a standing appropriation which, once made, is always available for specified purposes and does not require repeated action by Congress to authorize its use. Legislation authorizing an agency to retain and use offsetting receipts tends to be permanent; if so, it is a form of permanent appropriation. This appropriation is for an unspecified amount of money; and may appropriate all or part of the receipts from certain sources, the specific amount of which is determinable only at some future date, or it may appropriate "such sums as may be necessary" for a given purpose.

The House has two permanent and indefinite appropriations. These appropriations include the Compensation of Members and Related Administrative Expenses and Congressional Use of Foreign Currency.

- Compensation of Members and Related Administrative Expenses is maintained and administered by the House. Public Law 97-51, Sec. 130(c), Oct. 1, 1981, 95 Stat. 966, "Appropriation of funds for Compensation of Members of Congress and for Administrative Expenses at Levels Authorized by Law and Recommended by the President for Federal Employees". The appropriation funds the payroll and benefits compensation for Members of Congress and related administrative expenses in support of administering the fund.
- Congressional Use of Foreign Currency is maintained and administered by the Department of State on behalf of the House. 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. 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.



### NOTE 18 - EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government as of September 30, 2009 were:

<b>Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government</b>	<b>Budgetary Resources</b>	<b>Net Outlays</b>
Statement of Budgetary Resources	\$ 1,420,662,438	\$ 1,362,982,732
Difference	(1,662,438)	1,017,268
Budget of the U.S. Government	<u>\$ 1,419,000,000</u>	<u>\$ 1,364,000,000</u>

The House deems the variances between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for budgetary resources and net outlays to be immaterial and/or insignificant. As such, reconciliation of this item is not necessary and therefore not included.

### NOTE 19 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders as of September 30, 2009 were:

<b>Undelivered Orders at the End of the Period</b>	<b>2009</b>
Undelivered Orders, Unpaid	\$ 58,008,337
Undelivered Orders, Paid	5,454,320
<b>Total</b>	<u><u>\$ 63,462,657</u></u>

Undelivered Orders represent the amount of paid and unpaid orders for goods and/or services ordered which have not been received.

**NOTE 20 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS**

	<u>2009</u>
<b>Resources Used to Finance Activities:</b>	
<b>Budgetary Resources Obligated</b>	
Obligations incurred	\$ 1,400,135,747
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(35,419,677)</u>
Obligations Net of Offsetting Collections and Recoveries	1,364,716,070
Less: Offsetting Receipts	-
Net Obligations	<u>1,364,716,070</u>
<b>Other Resources</b>	
Donations/Forfeited Property	-
Transfers in/out Without Reimbursement	-
Imputed Financing from Costs Absorbed by Others	<u>214,915,911</u>
Net Other Resources Used to Finance Activities	<u>214,915,911</u>
<b>Total Resources Used to Finance Activities</b>	1,579,631,981
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>	
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	8,087,112
Resources that Fund Expenses Recognized in Prior Periods	2,567,117
Budgetary Receipts and Offsetting Collections that do not affect Statement of Net Cost	
Resources that Finance the Acquisition of Assets	29,616,181
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost	
Total Resources Used to Finance Items not Part of the Net Cost of Ops	<u>40,270,410</u>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<u>\$ 1,539,361,571</u>
<b>Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period:</b>	
<b>Components Requiring or Generating Resources in Future Periods:</b>	
Increase in Annual Leave Liability	\$ 496,691
(Increase)/Decrease in exchange revenue receivable	254,374
Other	<u>1,352,957</u>
<b>Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods</b>	<u>2,104,022</u>
<b>Components not Requiring or Generating Resources:</b>	
Depreciation and Amortization	15,619,449
Revaluation of Assets or Liabilities	1,757,092
Other	<u>4,583,078</u>
<b>Total Components of Net Cost of Operations not Requiring or Generating Resources</b>	<u>21,959,619</u>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<u>24,063,641</u>
<b>Net Cost of Operations</b>	<u><u>\$ 1,563,425,212</u></u>

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## **Required Supplementary Information**

## Required Supplementary Information

### Stewardship Property and Equipment

The U.S. House of Representatives (House) collection of heritage assets includes historical artwork and artifacts that reflect the rich heritage and evolving nature of the House. The institution mirrors the changing face and history of the nation. These ideals and trials of our history are also expressed in the heritage assets whose subject matter includes prominent Americans and other distinguished individuals, significant moments in history, and symbolic representations of the nation's rich and diverse history.

The House's Curator manages and cares for the House's collection of works of art and artifacts under its jurisdiction which are located throughout the U.S. Capitol complex including House office buildings and other locations under the control of the House. Since these locations are not in a museum setting, works of art and artifacts may be subject to damage from contact and surface deposits. However, it is the House's goal to preserve its heritage assets and manage the condition in accordance with the intended usage of the collection. The House conducts periodic assessments to monitor, inspect and evaluate the condition of the heritage assets to determine the current condition for preservation or restoration efforts. These assessments are performed in accordance with House established procedures and professional standards. General conditions are categorized as excellent, good, fair and poor. The House has determined its heritage assets to be in good to excellent condition.

The following tables present the general condition of the House's heritage assets and indicate an aggregate condition of the collection as of September 30, 2009:

Heritage Asset Collection	Description	2009	General Condition
<b>Artwork</b>	The works of art include oil and acrylic paintings, works on paper, and sculpture in bronze, marble and other media. These items range from portraits and historical documents to statues and other works of art.	305	Good to Excellent

Examples of the House's collection of works of art include:

#### Oil Paintings

The House's collection of oil paintings primarily consists of the portraits of House of Representatives' Speakers and Committee Chairmen. Examples of the oils on canvas include that of Henry Clay by Guiseppe Fagnani in 1852. Henry Clay was one of the most prominent Speakers to serve in the Old Hall of the House. His portrait was the first of what was to become the series of Speaker's portraits in the House Collection. This portrait series became official with House Resolution 164 in 1910, which decreed that the service of every speaker be commemorated with an oil portrait. All Speaker portraits hang in the Speaker's Lobby and in the East and West Chamber stairways that adjoin. Other oil paintings cared for by the House include a portrait of George Washington, painted by American artist George Vanderlyn; and an oil on canvas of Sam Rayburn of Texas, the longest serving Speaker of the House, painted by Douglas Chandor in 1941. George Washington's painting hung in the Old Hall of the House and was moved with the Congress to the new Chamber in 1858, where it remains today.

#### Acrylic Paintings

The House's collection of acrylic paintings includes items such as Committee portraits painted in acrylic on canvas. One such example is the portrait of former Chairman of the Committee on Appropriations, George Mahon.

*Works on Paper*

The House’s collection of works on paper includes items such as an early 19<sup>th</sup> century sketch of Speaker Jonathan Dayton.

*Sculptures*

The House’s collection of sculptures includes items such as several marble busts of former Speakers of the House, including Speakers Thomas B. Reed, Joseph G. Cannon, James Beauchamp Clark, and Nicholas Longworth.

Heritage Asset Collection	Description	2009	General Condition
<b>Artifacts</b>	The artifacts include items in various types of media, including but not limited to paper, metal, plaster, wood, textile and stone. These items range from photographs and other historical images, literature (e.g., newspapers, magazines, and handbills), and political campaign buttons to engravings, furniture, and other types of historical artifacts.	3,124	Good to Excellent

Examples of the House’s collection of artifacts include:

*Paper*

The House’s collection of paper artifacts include items such as photographs of the House of Representatives Chamber in 1937; Visitor’s Gallery passes from various Representatives from the early 1900’s; detail of a tally sheet of the February 9, 1825 Electoral College vote from the records of the U.S. House of Representatives with the names of Andrew Jackson of Tennessee, John Quincy Adams of Massachusetts, William H. Crawford of Georgia, and Henry Clay of Kentucky appearing written in longhand; and Campaign Cards and other memorabilia of various Representatives dating back to the early 1900s. Also included in the collection are a New York Times photo spread of the Congressional Baseball Game in 1912 and an artifact of the House Chamber of the Congressional Pugilists etching on woven paper in 1798. The etching comically illustrated the event of the first known instance of the presentation of a mace that took place in Congress Hall in Philadelphia, on January 30, 1798.

*Metal*

The House’s collection of metal artifacts includes items such as an artifact of the House Chamber, the Mace of the U.S. House of Representatives. The Mace is among the oldest and most important symbols of our nation’s government. It is composed of thirteen ebony rods, representing the original states in the union, bound together with silver bands, symbolizing authority and the strength of unity. The shaft is topped by a silver globe with the continents etched into the globe and North America facing front; and surmounted by an intricately cast solid silver eagle, the national bird, with its wings spread. It is used to indicate the House is in session; the House is meeting as the Committee of the Whole House on the State of the Union; or to maintain order on the House floor. Also included in the collection is the “The Ascent to the Capitol”, a steel engraving by William Henry Bartlett in 1839; and the historic inkwell that sits on the Speakers desk when the House is in session, which dates back to the 19<sup>th</sup> century. The inkwell is known to have been used as long ago as 1821 in the Old Hall of the House before the Members moved to the present chamber.

*Plaster*

The House’s collection of plaster artifacts include items such as several small 1932 busts of George Washington, presented to Members of Congress on the bicentennial of the first president’s birth.

*Wood*

The House's collection of wood artifacts includes items such as the gavel used by Speaker Nancy Pelosi to open the 110th Congress as the first woman to serve as the House's presiding officer; a Thomas Constantine Cabinet Shop, 1819 mahogany House Chamber Desk; and a Thomas Constantine Cabinet Shop, 1819 mahogany House Chamber Chair.

*Textile*

The House's collection of textile artifacts includes items such as a recent vintage of a House Page uniform, donated to the collection by a former Page.

*Stone*

The House's collection of stone artifacts includes items such as a small piece of the U.S. Capitol East front stairs.

