



UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

**Audit of the Financial Statements
For the Fiscal Year Ended September 30, 2013
Report No. 14-HSW-09
May 9, 2014**

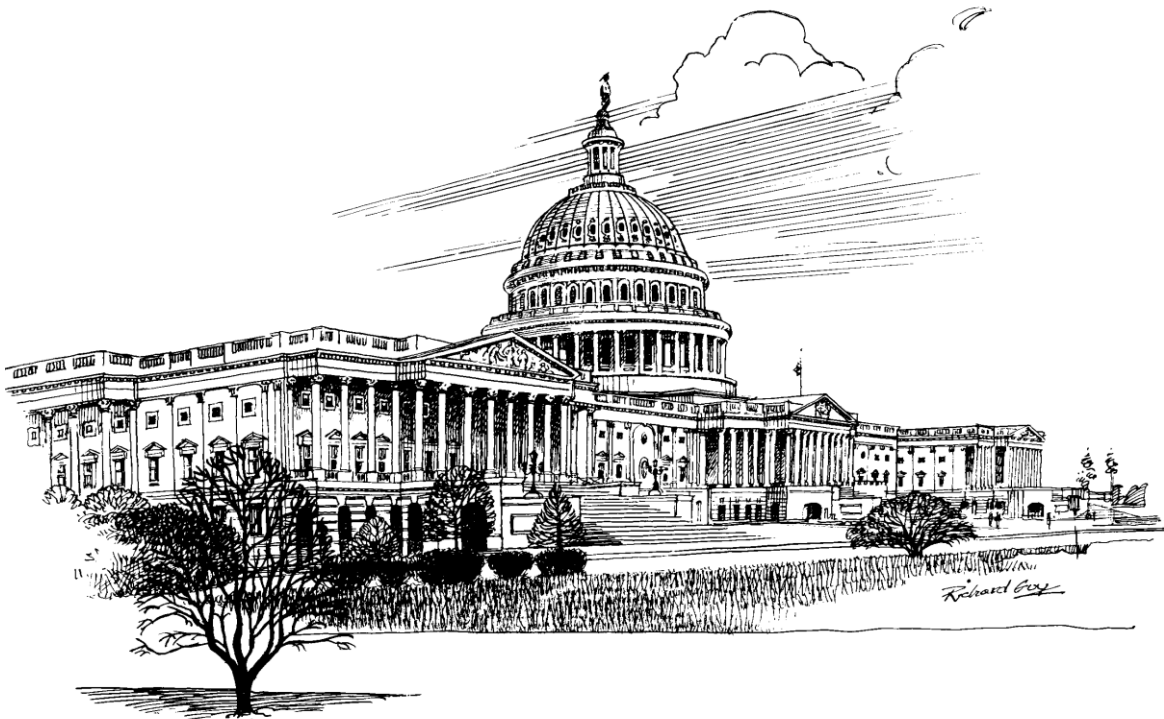




Table of Contents

Office of Inspector General Audit Report Summary	5
Management’s Discussion & Analysis	9
Independent Auditor’s Report	17
Chief Administrative Officer’s Audit Report Response.....	37
Fiscal Year 2013 Financial Statements	41
Consolidated Balance Sheets	44
Consolidated Statements of Net Cost	45
Consolidated Statements of Changes in Net Position	46
Combined Statements of Budgetary Resources	47
Notes to the Financial Statements	49
Required Supplementary Information.....	73
Other Information	79

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**Office of Inspector General
Audit Report Summary**



Theresa M. Grafenstine
Inspector General

386 Ford House Office Building
Washington, DC 20515-9990

Phone: 202-226-1250
Facsimile: 202-225-4240



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

Debbie B. Hunter
Deputy Inspector General
Audit and Investigative Services

Michael T. Ptasienski
Deputy Inspector General
Advisory and Administrative Services

ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2013

SUMMARY

This report presents the audited Annual Financial Statements of the U.S. House of Representatives (House) for the fiscal years ended September 30, 2013 and 2012. We contracted with the independent certified public accounting firm of Cotton and Company LLP to perform an audit of the House's financial statements, and to report on internal control over financial reporting and on any reportable noncompliance with tested laws and regulations. The contract required that the audit be performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin 07-04, as amended, *Audit Requirements for Federal Financial Statements*.

For the sixteenth consecutive year, the independent auditors expressed an unmodified opinion on the House's financial statements, a noteworthy accomplishment for the House. An unmodified 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.

However, the independent auditors reported three significant deficiencies in internal control over financial reporting. The significant deficiencies relate to controls over financial reporting processes, information technology, and property and equipment. Management concurred with the auditor's report and continues to implement corrective actions related to the outstanding issues.

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 April 4, 2014 and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the House's financial statements, the effectiveness of 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 Fiscal Year 2013

Introduction

Management's Discussion and Analysis (MDA) provides a high level overview of the origin and mission of the U.S. House of Representatives. Fiscal Year 2013 (October 1, 2012 – September 30, 2013) coincided with sessions of the 112th and 113th U.S. Congress. The 20th Amendment to the U.S. Constitution establishes that the terms of Representatives end on noon of the 3rd day of January, and "The Congress shall assemble at least once every year, and such meeting shall begin on the 3rd day of January." Accordingly, the 112th Congress ended and the 113th Congress began on January 3, 2013.

Origin, History, and Mission

The U.S. House of Representatives (House) is one of two legislative chambers that comprise the Congress of the United States (the other is the U.S. Senate). Article I, Section 1 of the Constitution, adopted by the Constitutional Convention on September 17, 1787, created and vested all legislative powers to the Congress.

Location, Size, and Organization

The House chamber is located in the U.S. Capitol in Washington, DC. Other House administrative buildings in Washington, DC include the Cannon, Longworth, Rayburn and Ford House Office Buildings.

Law fixes the number of voting representatives in the House at no more than 435, proportionally representing the population of the 50 states. Also referred to as a congressman or congresswoman, each representative is elected to a two-year term serving the people of a specific congressional district. Among other duties, representatives introduce bills and resolutions, offer amendments and serve on committees. To be elected, a representative must be at least 25 years old, a United States citizen for at least seven years and an inhabitant of the state he or she represents.

Article 1, Section 2 of the Constitution provides for both the minimum and maximum sizes for the House of Representatives. Currently, there are five delegates representing the District of Columbia, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands. A resident commissioner represents Puerto Rico. The delegates and resident commissioner possess the same powers as other members of the House, except that they may not vote when the House is meeting as the House of Representatives.

The Rules of the House, adopted at the beginning of each new Congress, allow for the creation of standing and special and select committees. During the 112th and 113th Congress the committees were:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce
- Committee on Energy and Commerce
- Committee on Ethics
- 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, Space, and Technology
- Committee on Small Business

Committee on Transportation and Infrastructure
Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence

The joint committees were: the Joint Economic Committee, the Joint Committee on the Library, the Joint Committee on Printing and the Joint Committee on Taxation.

House Leadership

Article I, Section 2 of the Constitution states, "The House of Representatives shall chuse (sic) their Speaker and other officers." In addition to the Speaker, each political party in the House has a leadership hierarchy, typically including a Majority Leader, Minority Leader, Majority Whip, and Minority Whip.

House Officers and Organizations

Rule II of the Rules of the House for both the 112th and 113th Congress provided for the election of four officers to support House operations: a Clerk, a Sergeant-at-Arms, a Chief Administrative Officer and a Chaplain. The Rules of the House also established the Offices of Inspector General, Historian and General Counsel.

Under House Rule II, the Chief Administrative Officer has "operational and financial responsibility for functions as assigned by the Committee on House Administration and shall be subject to the oversight of the Committee on House Administration." According to Committee on House Administration records, the Chief Administrative Office has been designated as the disbursing officer for the House of Representatives since July 1, 1995. Additionally, House Rule II requires the Chief Administrative Officer to "fully cooperate with the appropriate offices and persons in the performance of reviews and audits of financial records and administrative operations." Accordingly, an audit of the financial statements of the House, as prepared by the Chief Administrative Officer, is performed annually.

FINANCIAL STATEMENT HIGHLIGHTS

Basis of Accounting and Presentation

The consolidated financial statements for fiscal years (FYs) 2012 and 2013 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 applicable form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*.

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.

Budgetary Resources

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. The House reported total budgetary resources for FY 2013 of \$1.4 billion, down 4 percent from FY 2012. The House's budget was reduced by \$62 million in FY 2013 due to sequestration. The House reported \$77 million of total unpaid obligated balances as of September 30, 2013.

Dollars in Millions	2013	2012	% Change
Total Budgetary Resources	\$ 1,425	\$ 1,479	-4%
Obligations Incurred	\$ 1,284	\$ 1,351	-5%
Net Outlays	\$ 1,268	\$ 1,364	-7%

Obligations Incurred decreased by \$67 million in FY 2013. Net Outlays decreased by \$96 million in FY 2013.

Balance Sheet

Condensed Balance Sheet Data

Dollars in Millions	2013	2012	% Change
Fund Balance with Treasury	\$ 217	\$ 215	1%
Property and Equipment, Net	27	41	-34%
Other Assets	8	6	33%
Total Assets	\$ 252	\$ 262	-4%
Accounts Payable	28	34	-18%
Actuarial Federal Employees' Compensation Act Liabilities	39	26	50%
Other Liabilities	18	19	-5%
Total Liabilities	\$ 85	\$ 79	8%
Unexpended Appropriations	159	148	7%
Cumulative Results of Operations	8	35	-77%
Total Net Position	\$ 167	\$ 183	-9%
Total Liabilities and Net Position	\$ 252	\$ 262	-4%

Total Assets – The House reported total assets of \$252 million as of September 30, 2013, a 4 percent decrease from prior year total assets of \$262 million. The Fund Balance with Treasury (FBWT) of \$217 million represents the primary asset on the Balance Sheet of the House (86 percent of total assets). FBWT decreased due to a reduction in the House's appropriation coupled with reduced spending.

Property and Equipment is the second largest asset, with a net balance of \$27 million. The major items in this category include computer software and hardware, equipment and work in process. The majority of the decrease of approximately \$14 million can be attributed to depreciation and amortization.

Other Assets include Cash, Accounts Receivable, Inventory and Operating Materials and Supplies, and Advances and Prepayments. The 33% increase in Other Assets is primarily due to an increase in Prepayments.

Total Liabilities – The House reported total liabilities of \$85 million as of September 30, 2013, an 8 percent increase from the prior year total of \$79 million. The primary categories include Accounts Payable of \$28 million (33 percent of total liabilities) and Actuarial Federal Employees' Compensation Act (FECA) Liabilities of \$39 million (46 percent of total liabilities). Actuarial FECA Liabilities significantly increased due to an increase in Workers' Compensation expenses.

Other Liabilities include categories such Accrued Payroll and Benefits, Accrued Annual Leave, Capital Lease Liabilities, Employer Contributions and Payroll Taxes Payable, and Other Post Employment Benefits Due and Payable.

Total Net Position – The Net Position as of September 30, 2013 was \$167 million, a decrease of \$16 million (9 percent) from the prior fiscal year. The balance was primarily comprised of Unexpended Appropriations of \$159 million. The decrease in net position is due to a significant decrease in Cumulative Results of Operations. Cumulative Results of Operations decreased as a result of the reduction in the book value of fixed assets and

disposal of equipment, and an increase in the FECA Actuarial Liability. Net book value of property and equipment decreased as a result of routine depreciation and amortization.

Statement of Net Cost

Net Cost of Operations – The Net Cost of Operations for FY 2013 was \$1.5 billion, a 6 percent decrease from FY 2012, 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 House of Representatives 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.

Daniel J. Strodel
Chief Administrative Officer

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

MANAGEMENT ASSURANCES



**Fiscal Year 2013 Statement of Assurance
On Internal Control over Financial Reporting**

Under Rule II of the Rules of the U.S. House of Representatives (the House) for the 113th Congress, the Chief Administrative Officer (CAO) has “operational and financial responsibility for functions as assigned by the Committee on House Administration.” The Rule further requires the CAO to “fully cooperate with the appropriate offices and persons in performance of reviews and audits of financial records...”

The CAO management is responsible for establishing and maintaining effective internal control that meet the intent of the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for Internal Control. The CAO is able to provide a qualified statement of assurance that the internal controls meet the objectives of FMFIA, with the exception of one material weakness. The details of the exception are provided in the following Internal Control Assessment.

The CAO conducted its assessment of the CAO's internal control over financial reporting in accordance with the requirements of Appendix A of Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control for FY 2013. Based on the results of the evaluation, the CAO identified a material weakness in its internal control over financial reporting as of June 30, 2013. Other than the exception noted in the following Internal Control Assessment, no other material weaknesses were found in the design or operation of the internal control over financial reporting.

A handwritten signature in blue ink, appearing to read "D. Strodel", written over a horizontal line.

Daniel J. Strodel
Chief Administrative Officer

Internal Control Assessment OMB Circular A-123 Appendix A Review

The Internal Control Assessment is a review of the design and operating effectiveness of key internal control activities for the CAO's business processes, for safeguarding of assets, and for compliance with applicable laws and regulations. The Program follows a risk-based approach in determining the key controls to be assessed during the current year in accordance with Appendix A of OMB Circular A-123, Management's Responsibility for Internal Control over Financial Reporting.

A Senior Assessment Team (SAT) exists to provide senior management oversight for assessment of internal controls over financial reporting as they relate to budgetary and financial policies, standard operating procedures and business systems. The SAT conducts periodic meetings, as needed, to report on the findings and status to date, and discuss remediation efforts. The Internal Controls Program supports the SAT in performing the day-to-day functions of the program.

The SAT assessed and evaluated the CAO's compliance with Appendix A of OMB Circular A-123 requirements as of June 30, 2013, and determined that, of the deficiencies related to property, plant, and equipment, was determined to be a material weakness. The nature of each deficiency, the existence of compensating controls, the dollar value of transactions potentially affected by the deficiency, the level of risk, and the likelihood that an error may not be prevented or detected were included in the assessment of the deficiencies.

Property, Plant, and Equipment

ISSUE: In FY 2011 and FY 2012, the external financial auditor noted in a Notification of Findings and Recommendations that the House Information Resources (HIR) is responsible for the tracking and safeguarding of House property in its custody and that HIR had not completed an inventory of all accountable property since 2008.

Current CAO internal control assessments of the control deficiencies related to HIR and other House inventory processes noted that internal controls were not in place to prevent or detect material errors in the financial statements. The CAO internal controls program also noted similar process issues related to the HIR asset management program. The CAO performed an assessment of assets and identified an overstatement of the acquisition cost and accumulated depreciation of assets by over \$44 million. The overstatement was the result of asset disposals through GSA that were not recorded as such in the financial system. As a result, the CAO is reporting a material weakness related to Property, Plant, and Equipment.

The House is able to provide reasonable assurance that its internal control over financial reporting was operating effectively except for the Material Weakness over Property, Plant, and Equipment.

Office of the Inspector General (OIG) Assessment for Previous Fiscal Year

Under House Rule II of the 112th Congress, the Office of the Inspector General (OIG) provides "audit, investigative, and advisory services to the House and joint entities in a manner consistent with government-wide standards." For FY 2012, the OIG engaged Cotton & Company to perform the external audit of the House's financial statements. The House received an unqualified audit opinion. The audit report noted two significant deficiencies related to ineffective controls over the financial reporting process and ineffective controls over information technology. The FY 13 audit is currently underway.

Independent Auditor's Report

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Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. House of Representatives

In our audits of the 2013 and 2012 financial statements of the U.S. House of Representatives (House), we found:

- The financial statements as of and for the fiscal years ended September 30, 2013 and 2012, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- Three significant deficiencies in internal control (including safeguarding assets) over financial reporting as of September 30, 2013; and
- No reportable noncompliance in fiscal year 2013 with provisions of applicable laws, regulations, and contracts we tested.

The following sections discuss in more detail (1) our report on the House financial statements and on required supplementary information and other information included with the financial statements; (2) our report on the House's internal control over financial reporting; (3) our report on compliance with laws, regulations, and contracts; and (4) the House's comments on a draft of this report.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the House as of September 30, 2013 and 2012, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and as applicable, Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to

obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the House as of September 30, 2013 and 2012, and its consolidated net cost, consolidated changes in net position, and combined budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America, and as applicable, OMB Circular A-136, *Financial Reporting Requirements*, require that the Management's Discussion and Analysis and Other Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedule of Spending for the fiscal year ended September 30, 2013, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to auditing procedures and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Internal Control Over Financial Reporting and Compliance

In planning and performing our audit of the financial statements, we considered the House's internal control over financial reporting and compliance (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the House's internal control. Accordingly, we do not express an opinion on the effectiveness of the House's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Significant Deficiencies

We identified the following deficiencies in the House's internal control that we consider to be significant deficiencies.

1. Ineffective Control Over Property and Equipment
2. Ineffective Control Over the Financial Reporting Process
3. Ineffective Control Over Information Technology

These deficiencies in internal control are described in more detail in Appendix A.

Limitations of Internal Control

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

COMPLIANCE

As part of obtaining reasonable assurance about whether the House's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. Providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We did not test compliance with all laws and regulations applicable to the House. We limited our tests of compliance to those provisions of laws and regulations OMB audit guidance requires that we test that we deemed applicable to the financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB audit guidance.

HOUSE'S RESPONSE TO FINDINGS

The House's response to the findings identified in our audit is included in Appendix B. The House concurred with the findings in our report. The House's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THE OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The purpose of this communication regarding Other Reporting Required by *Government Auditing Standards* is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA
Partner
Alexandria, VA
April 4, 2014

APPENDIX A
SIGNIFICANT DEFICIENCIES NOTED DURING THE
FY 2013 FINANCIAL STATEMENT AUDIT

APPENDIX A
SIGNIFICANT DEFICIENCIES NOTED DURING THE
FY 2013 FINANCIAL STATEMENT AUDIT

During our audit of the U.S. House of Representatives (House)'s FY 2013 financial statements, we identified three significant deficiencies in internal control over financial reporting, described in this appendix. We do not consider these deficiencies to be material weaknesses.

Finding 1: **Ineffective Control Over Property and Equipment**
Summary Status: **Significant Deficiency**
 New

During FY 2013, we found deficiencies in the House's internal control over the accuracy and completeness of property and equipment (property) records. Specifically, we identified the following property areas in which controls are not effective and improvements are needed:

1. Inventory processes are not properly designed and are not operating effectively.
2. Disposals are not always recorded timely and are not properly supported.

The areas identified above collectively represent a significant deficiency. We discuss each of these areas below and provide our recommendations for improvement.

1. Inventory processes are not properly designed and are not operating effectively.

Our FY 2013 testing identified deficiencies in the House's inventory processes. Specifically, we noted that inventories are not always performed or completed in a timely manner, and that the House has not established policies and procedures for inventorying and disposing of software.

We performed existence testing on a sample of capital property recorded in the House's core financial management system, PeopleSoft. While we were able to verify the existence of all sampled property that had a net book value, we were unable to verify the existence of over 60 percent of the fully depreciated assets sampled. During the audit, we also noted:

- Of our sample of 50 capital and accountable assets observed in our completeness testing, one asset was in use but was recorded as disposed in PeopleSoft.
- House Information Resources (HIR), which is responsible for recording and tracking over half of the House's property items, has not completed full physical inventories of its capital property since 2008.
- Non-HIR inventories are not always completed timely. We reviewed a sample of twelve inventories and noted that it took over 150 days to complete two of the inventories.

Because of these deficiencies, the House did not timely identify over 1,700 fully depreciated property items (with a total acquisition cost of nearly \$44.7 million) that were recorded in PeopleSoft but had been disposed prior to FY 2012. The error was identified and corrected during FY 2013, and while the balance sheet was not affected because the assets were fully depreciated, the error required the House to restate *Note 5 – General Property and Equipment, Net*.

CAO-HIR policy number 003-08, *HIR Asset Management and Inventory Control*, states:

To maintain the integrity of HIR inventory systems, a complete physical inventory of equipment by serial number and/or barcode shall be conducted annually for accountable items...a complete inventory for each employee and custodial area shall be printed and distributed annually during the month of February.

The House's *Guide To Outfitting and Maintaining an Office of the U.S. House of Representatives* states:

Inventory Procedures: HSS shall maintain an inventory of all office equipment and district office furnishing items having an original purchase price of \$500 or more assigned to each office, except as noted below.

HSS shall perform a physical inventory of all office equipment items assigned to each Washington, DC office:

- 1. Whenever a Member or Committee office relocates; or*
- 2. Whenever there is a change in the office holder (Member or Chair); or*
- 3. At least once every six years*

Federal Accounting Standards Advisory Board (FASAB) Statements on Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, states, "In the period of disposal, retirement, or removal from service, general PP&E [property] shall be removed from the asset accounts along with associated accumulated depreciation/amortization."

The U.S. Government Accountability Office (GAO)'s *Standards for Internal Control in the Federal Government* states:

A subset of these objectives is the safeguarding of assets. Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets.

We recommend that the Office of the Chief Administrative Officer (CAO) improve the design and effectiveness of internal control over property to ensure that property records are complete and accurate and that inventories are performed regularly, completely, and timely.

2. Disposals are not always recorded timely and are not properly supported.

The House does not have effective controls in place to ensure that disposals are recorded in PeopleSoft in a timely manner, and that documentation supporting transfers to the General Services Administration (GSA) is accurate. We tested a sample of five disposals and found that one asset disposition was not recorded in PeopleSoft in a timely manner. Additionally, we tested a sample of six GSA transfer documents and found that two assets listed on GSA transfer documentation were later returned to the House inventory. As a result of these control weaknesses, the House's property records may not be complete and accurate, thus increasing the risk of misstatements in the House's financial statements.

GAO's *Standards for Internal Control in the Federal Government* states:

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

We recommend that the CAO improve controls over disposals by:

- Reviewing and updating existing standard operating procedures to ensure property disposals are processed in PeopleSoft timely, completely, and accurately.
- Ensuring that all employees responsible for disposing of property receive training on the CAO's standard operating procedures.

Finding 2: Ineffective Control Over the Financial Reporting Process
Summary Status: Significant Deficiency
Prior-Year Condition
Open

Since FY 2009, we have reported that the House does not have effective controls over financial reporting. During FY 2013, the House made additional progress in addressing previously identified errors; however, controls around budgetary accounting and reporting, as well as around the accuracy of the notes to the financial statements, need improvement. We identified the following areas within financial reporting in which controls are not effective and improvements are needed:

1. Undelivered order processing errors are not detected and corrected timely.
2. Budgetary activity is not always properly classified and reported.
3. Notes to the financial statements are not always accurate.

These weaknesses collectively represent a significant deficiency. We discuss each of these areas below and provide our recommendations for improvement.

1. Undelivered order processing errors are not detected and corrected timely.

PeopleSoft is not properly processing purchase order (PO) activity, and as a result, erroneous activity is being posted to the general ledger. During FY 2013, the House dedicated resources to identifying the root cause of this activity and developing processes to detect and correct this activity. While the House has not been able to identify all root causes of the erroneous activity, it was able to develop system assurance reports to identify potentially erroneous PO activity in the general ledger. However, these reports were not fully implemented by September 30, 2013.

As a result of continuing clean-up efforts and ongoing erroneous PO activity in the general ledger, the House delayed delivering the population of available obligation balances. In addition, the House was required to make adjustments totaling \$21.5 million to ensure that unpaid undelivered order balances were fairly stated.

GAO's *Standards for Internal Control in the Federal Government: Accurate and Timely Recording of Transactions and Events* states:

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

We recommend that the CAO:

- Identify the root cause of known undelivered order processing errors and make the necessary modifications to PeopleSoft.
- Implement a control process to detect and correct erroneous PO activity in the subledger and general ledger as part of the month-end closing process.

2. Budgetary activity is not always properly classified and reported.

The House does not have effective internal controls in place to ensure that budgetary activity is recorded in the proper general ledger accounts and that budgetary amounts are properly reported. During our audit, we found:

- Rescissions totaling \$64.8 million were not properly reported. In the House's interim financial statements as of June 30, 2013, rescissions were reported in the "Spending authority from offsetting collections" line of the statement of budgetary resources (SBR). Since rescissions are a reduction of current-year appropriation authority, however, this amount should have been reported in the "Appropriations" line.
- Recoveries of prior-year obligations were overstated by \$7.6 million. Recoveries of prior-year obligations typically represent deobligated amounts, or downward corrections of prior-year obligations. The House used the downward adjustment general ledger account in two adjusting entries; however, since the total obligated amount did not change, the use of the downward adjustment general ledger account was not appropriate.
- Unobligated balances totaling \$1.0 million were not properly classified. Though the House implemented a process to ensure that unobligated balances were properly classified in the general ledger during FY 2013, the process did not detect all misclassified unobligated balances. Unobligated balances of House appropriations that expired on December 31, 2012, were improperly classified as available for obligation, rather than as unavailable for obligation.

Upon notification and discussion with the auditors, the House made the necessary corrections for the above-noted errors in the final FY 2013 financial statements.

The Office of Accounting's *Financial Statement Preparation Procedures – Preparing the Combining Statement of Budgetary Resources* states that the House will follow the OMB and U.S. Treasury's prescribed formats and guidance when preparing the SBR.

GAO's *Standards for Internal Control in the Federal Government* states:

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

We recommend that the CAO:

- Develop and implement processes and procedures to ensure that budgetary activity is properly recorded in the general ledger and presented in the SBR.
- Continue to perform quarterly reviews of budgetary balances to ensure that unobligated balances are properly classified.

3. Notes to the financial statements are not always accurate.

The House does not have effective controls in place to ensure that the notes to the financial statements are accurate. We found that amounts were not properly classified in two notes, *Note 11 – Intragovernmental Costs and Exchange Review* and *Note 19 – Reconciliation of Budgetary Resources Obligated to Net Cost of Operations*. Specifically:

- The House did not accurately report costs in *Note 11 – Intragovernmental Costs and Exchange Revenue*. Note 11 presents the House's costs and revenues as exchanges either with other federal entities (intragovernmental) or with non-federal entities (the public). A total of \$235.9 million in imputed expenses and certain intragovernmental accrued operating expenses were inaccurately classified as public costs, rather than as intragovernmental costs.
- The House did not accurately report all asset purchases in *Note 19 – Reconciliation of Budgetary Resources Obligated to Net Cost of Operations*, which provides an explanation of the differences between budgetary and proprietary accounting. Asset purchases totaling \$3.5 million were inaccurately reported as other components not requiring or generating resources, rather than as resources that finance the acquisition of assets.

Upon notification and discussion with the auditors, the House made the necessary corrections to the accompanying footnotes. To ensure that *Note 11 – Intragovernmental Costs and Exchange Revenue* is comparable, the House also reclassified FY 2012 expenses totaling \$235.0 million from public costs to intragovernmental.

GAO's *Standards for Internal Control in the Federal Government* states:

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- *Effectiveness and efficiency of operations including the use of the entity's resources.*
- *Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.*
- *Compliance with applicable laws and regulations.*

We recommend that the CAO consider improving quality control procedures that ensure amounts reported in the notes to the financial statements are properly presented and accurately reported.

Finding 3: Ineffective Controls Over Information Technology
Summary Status: Significant Deficiency
Prior-Year Condition
Open

During FY 2013, the House continued to make improvements in its controls over information technology. It successfully remediated prior-year issues concerning separation of duties and account management controls; however, full implementation of a risk management framework, including maintenance of system security plans, performance of security control assessments, and tracking of information security weaknesses, is still in progress. We first identified and reported these issues in FY 2009. In addition, there are still other areas for improvement in strengthening controls surrounding the completeness, accuracy, and reliability of financial data.

We noted the following eight conditions related to internal controls over information systems, which collectively represent a significant deficiency in the control environment. We discuss each of these areas below and provide our recommendations for improvement.

1. The House has not fully implemented procedures to ensure that all major systems within its IT environment have undergone a risk management process.

The House did not complete risk management framework activities in accordance with National Institute of Standards and Technology (NIST) guidance for PeopleSoft, Human Resource Information Systems (HRIS), the House Network, and Active Directory. *The United States House of Representatives Information Security Policy for the Information Security Compliance Program* requires that all major systems, support systems, and applications undergo a certification and accreditation (C&A) process before implementation, and at least every two years thereafter.

The CAO has developed the following risk management framework policies and procedures:

- *House Information Security Policy (HISPOL) 007.0, The United States House of Representatives Risk Management Framework Policy*
- *House Information Security Publication (HISPUB) 007.2, The United States House of Representatives Information Security Publication – Risk Management Framework for CAO Information Systems*

However, both items were still in draft and had not been finalized as of the end of FY 2013.

Without completing C&A activities or finalizing risk management framework policies and procedures, management cannot obtain adequate assurance that the general IT environment and all information systems are operating with an acceptable amount of risk.

NIST Special Publication (SP) 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, requires that organizational officials, in collaboration with the senior information security officer, assess the information provided by the system owner or common control provider regarding the current security state of the system and make recommendations for addressing any residual risks. Risk assessments are employed at the discretion of the organization to provide needed information on threats, vulnerabilities, and potential impacts, as well as the analyses for risk mitigation recommendations.

We recommend that the CAO:

- Implement and enforce a risk management framework, including finalized, approved risk management framework policies and procedures, to ensure that all systems are identified.
- Undergo a security assessment process, to include risk assessments, in accordance with House policy and industry best practices for federal information systems, to ensure that management's authorizing officials are provided with adequate information to make system authorization decisions.

2. The House has not fully developed and maintained system security plans for major financial systems.

We found that the House has not fully developed and maintained system security plans (SSPs) for major financial systems in accordance with House policy and industry best practices. Specifically, the House had inadequate SSPs for the House network, Active Directory, and HRIS. These SSPs did not document all minimum security controls based on system criticality and data. The CAO contracted with an outside vendor to conduct certification and accreditation (C&A), which includes updating the SSPs; however, the C&A packages were not completed as of the end of FY 2013.

CAO management has not adequately developed policies and procedures that provide guidance regarding the implementation of a risk management framework as outlined by NIST SP 800-37, Revision 1, including minimum security control selection, scoping, and tailoring. This increases the risk that potential threats and vulnerabilities will go unmitigated due to a lack of security controls commensurate with the risk of the system security categorization.

In accordance with NIST SP 800-18, Revision 1, *Guide for Developing Security Plans for Federal Information Systems*, agencies must meet the minimum security requirements of Federal Information Processing Standard (FIPS) 200. These requirements represent a broad-based, balanced information security program that addresses the management, operational, and technical aspects of protecting the confidentiality, integrity, and availability of federal information and information systems. Agencies meet the minimum security requirements in FIPS 200 by applying security controls selected in accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, and with the designated impact levels of the information systems.

We recommend that the CAO document and implement policies and procedures that provide guidance regarding the implementation of a risk management framework as outlined by NIST SP 800-37, Revision 1, including system security categorization, minimum security control selection, scoping, and tailoring.

3. The House did not conduct security control assessments of all required controls.

The House did not conduct security control assessments to test the design and operating effectiveness of all required controls for the House network and financial systems. Specifically, in FY 2013 the House did not complete security control assessments for the House Network, Active Directory, PeopleSoft, and HRIS. The CAO contracted with an outside vendor to conduct the C&A of each system, including security control assessments; however, these C&As were not completed as of the end of FY 2013.

CAO management has not adequately developed policies and procedures that provide guidance regarding the implementation of a risk management framework, including establishing minimum security controls in accordance with FIPS 200 and NIST SP 800-53, Revision 3, as well as performing security control assessments commensurate with the risk and criticality of the system. This increases the risk that CAO management does not have a complete understanding of the risk to systems and to the IT environment.

NIST SP 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, requires that organizations assess security controls in accordance with the assessment procedures defined in the security assessment plan. Security control assessments determine the extent to which the controls are implemented correctly, operating as intended, and producing the desired outcome with respect to meeting the security requirements for the information system.

We recommend that the CAO:

- Conduct and document security control assessments for the House network, Active Directory, and financial systems to test the design and operating effectiveness of all required controls.
- Ensure that the documentation for each control tested includes the description of the implemented control, the test steps to be conducted, the expected test results, and the actual test results.
- Obtain and document evidence from testing to allow CAO management to make objective determinations about the effectiveness of security controls and the security of the information system.

4. The House has not developed or implemented a process for identifying, tracking, and remediating all known security weaknesses and incidents.

The House has not developed or implemented a process for identifying and tracking all known security weaknesses and incidents across the agency, or for ensuring that appropriate corrective action is taken. While the agency has developed publications such as HISPUB 007.2, *Information Systems Security Certification Process for Applications*, and HISPUB 004.1, *Computer Incident Response Team Handbook*, to generally guide the plan of action and milestones (POA&M) and computer incident response team (CIRT) processes, respectively, they are not in accordance with industry best practices, and the House

has not developed detailed procedures guiding either process. The House also has not fully developed or maintained a POA&M for all financial systems and applications.

In addition, CAO management has not documented a process to ensure that all IT security weaknesses and security incidents are tracked and managed from an entity-wide perspective. Without such a process in place, CAO management cannot ensure that it takes appropriate and timely corrective action 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.

HISPOL 007.0 requires that vulnerabilities identified during the review process of an application or device be documented and tracked throughout the remediation process. Identified vulnerabilities are prioritized based on the risk each poses. Once a vulnerability is identified, a corrective action should be formulated and a timeframe established for its implementation.

Additionally, in accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should track and document information system security incidents. Documenting information system security incidents includes, for example, maintaining records about each incident, the status of the incident, and other pertinent information necessary for forensics, evaluation of incident details, trends, and handling.

We recommend that the CAO develop, document, and implement a process to identify and track all security weaknesses and incidents identified throughout the IT environment, and to ensure that appropriate corrective action is taken.

- The incident response process should ensure that the House maintains documentation for all identified security incidents, and that appropriate follow-up investigations are performed.
- The POA&M process should ensure that the House develops and maintains POA&Ms or equivalent documentation for all House systems and applications, in accordance with industry best practices. CAO management should also ensure that a process is in place for testing security controls identified as corrected, to ensure that actions taken adequately mitigate or correct identified weaknesses.

5. The House has not adequately developed and implemented contingency planning and recovery policies and procedures.

The House has not adequately developed and implemented contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the House network and Active Directory. Specifically, in FY 2013 we noted that the House had not adequately developed contingency plans to coordinate recovery activities for the House network and Active Directory. Recovery Procedure Annexes (RPAs) for data network systems and Active Directory were still in progress at the time of our testing. The issues noted regarding incomplete contingency plan development were due to the continued implementation of the Business Continuity/Disaster Recovery (BC/DR) framework. We did note that the House completed RPAs for PeopleSoft and HRIS, as well as functional failover exercises for both systems. CAO management indicated that remaining corrective actions were not scheduled for full completion until FY 2014. Incomplete contingency planning and recovery policies and procedures increase the risk that House financial operations, data, or systems may become unavailable for an extended period of time during which sufficient alternate operating procedures are not in place to carry out core requirements.

In accordance with NIST SP 800-34, Revision 1, *Contingency Planning Guide for Federal Information Systems*, information system contingency planning represents a broad scope of activities designed to sustain and recover critical system services following an emergency event. An information system contingency plan (ISCP) provides established procedures for the assessment and recovery of a system following a system disruption. The ISCP provides key information needed for system recovery, including roles and responsibilities, inventory information, assessment procedures, detailed recovery procedures, and instructions for testing a system.

NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, Control CP-2, *Contingency Plan*, requires the development of a contingency plan for all information systems.

We recommend that the CAO coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the House network, Active Directory, and all critical financial systems.

6. The House has not adequately designed and implemented audit logging and monitoring controls for financial applications.

We noted that PeopleSoft had inadequate monitoring of sensitive application transactions/table edits and inappropriate separation of duties for security personnel reviewing system/application logs. We also noted inadequate logging and monitoring of FinMart infrastructure components. Specifically, we noted the following issues:

- At an application level, the only auditable events that management actively monitors for the PeopleSoft program are failed logon attempts and security role changes. While management has established key fields and tables for trigger-based auditing, it does not actively monitor and review these logs.
- The UNIX administrators supporting PeopleSoft, all of whom have SUDO access to root on the production application, web, and database Solaris servers, are responsible for both the administration of the operating system and the monitoring of operating system security logs. This represents a separation-of-duties conflict, as the administrators are potentially reviewing their own actions. We noted that CAO management was testing a solution for capturing and monitoring UNIX substitute user (SU) commands in FY 2013. The UNIX SU command makes it possible to change a login session's owner without the owner logging out of that session first. SU commands can be used to change the ownership from that of an ordinary user to that of an administrative user, thereby providing elevated access to the system. However, the solution that CAO management was testing was not in place by the end of the fiscal year.
- CAO management does not log and monitor the modification or deletion of content in SQL Server Agent jobs on the FinMart production SQL server. SQL Server Agent jobs manage the daily data transfer with PeopleSoft, as well as the system assurance job that ensures data integrity. CAO management indicated that corrective actions for this issue were not planned for completion until FY 2014.

CAO management has not developed policies and procedures documenting all aspects of audit logging and monitoring for financial applications. This increases the risk that suspicious activity affecting key

financial data, whether intentional or unintentional, will not be detected in a timely manner, and that a single individual could engage in malicious activity that could remain undetected.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should determine, based on a risk assessment and mission/business needs, that the information system must be capable of auditing organizationally-defined auditable events. The organization should review and analyze information system audit records for indications of inappropriate or unusual activity, and report findings to designated organizational officials. Additionally, NIST SP 800-53, Revision 3 states that organizations should separate duties of individuals as necessary, to prevent malevolent activity without collusion. For example, security personnel who administer access control functions should not administer audit functions.

We recommend that the CAO develop and implement audit logging and monitoring policies and procedures for PeopleSoft and FinMart to ensure that audit logs for sensitive financial records and tables, as well as for key security activities, are actively monitored, and that all reviews and any follow-up actions taken are documented.

7. The House has not adequately configured and monitored security configuration baselines.

The House did not update security configuration baselines in FY 2013 to correct deficiencies noted in prior years, including issues with the Microsoft Windows Server 2008 and Oracle for UNIX configuration checklists. Specifically, CAO baselines deviate significantly from industry best practices, such as Center for Internet Security (CIS) configuration benchmarks. HISPOL 007.0, which documents the process for baseline compliance reviews, has not been updated, and the process still indicates that compliance reviews are only required once every three years. We also reviewed a selection of Active Directory and Oracle 11g configuration settings and noted that they had not been configured with industry best practices.

CAO management has not implemented a process to ensure that security configuration baselines are configured and monitored in accordance with industry best practices. As a result, settings deployed to House operating systems and database management systems may not provide adequate security and protection. This increases the risk that the integrity, confidentiality, and availability of House data could be compromised.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should establish configuration settings for information technology products employed within the information system that reflect the most restrictive mode consistent with operational requirements, and monitor changes to the configuration settings in accordance with organizational policies and procedures.

We recommend that the CAO implement a process to ensure that security configuration baselines are appropriately configured and monitored for all platforms, in accordance with industry best practices.

8. The House does not actively monitor and review access to PeopleSoft shared group accounts.

The House does not adequately monitor and review shared group accounts, including privileged administrator accounts. We noted three group accounts, two with administrative access and one used by the accounting department for accounts payable processing, that did not have proper oversight and

accountability. While we noted that CAO management implemented a process in FY 2012 to periodically monitor the IP addresses used to access these accounts, the design of the process does not include reviewing or providing accountability for actions performed with the shared accounts. In FY 2013, CAO management indicated that it had an initiative in place to gather requirements across multiple enterprise resource planning systems managed by Enterprise Applications in order to identify a solution for monitoring shared and system accounts. Corrective actions are not planned for completion until FY 2014.

These issues are a result of CAO management not having adequately established policies and procedures guiding the usage and monitoring of shared group accounts, including privileged administrator accounts, for PeopleSoft. This increases the risk that inappropriate actions may be performed with a privileged account within the financial system and go undetected; even if inappropriate actions are detected, accountability for those actions cannot be determined.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, the information system should uniquely identify and authenticate organizational users or processes acting on behalf of organizational users. Unique identification of individuals in group accounts (e.g., shared privilege accounts) may need to be considered for detailed accountability of activity.

We recommend that the CAO uniquely identify and authenticate users to the highest degree possible by establishing and implementing policies and procedures concerning audit logging and monitoring, including privileged administrator accounts.

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Chief Administrative Officer's Audit Report Response



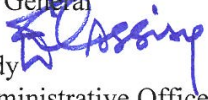
Ed Cassidy
Chief Administrative Officer

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

HB-26, The Capitol

MEMORANDUM

To: The Honorable Theresa M. Grafenstine
Inspector General

From: Ed Cassidy 
Chief Administrative Officer

Subject: Chief Administrative Officer Response to the *Fiscal Year 2013 Financial Statement Audit Report*

Date: March 27, 2014

Thank you for the opportunity to comment on the U.S. House of Representatives Financial Statement Audit for fiscal year 2013. We are pleased to have received another clean audit opinion.

We have reviewed and concur with the three significant deficiencies and the corresponding recommendations contained in the FY13 Financial Statement Audit Report. Outlined below are summaries of current status and planned actions related to these issues.

Finding 1: Ineffective Control Over Property and Equipment

The Chief Administrative Officer (CAO) is currently developing and implementing an action plan to address the weaknesses, taking into account the full life cycle of assets from purchase to disposal. The CAO will contract for a comprehensive inventory of all CAO accountable and capitalized property to be complete by September 30, 2014. In addition, standardized policies and procedures governing the asset management process will be developed by December 31, 2014 with CAO-wide implementation by June 30, 2015.

Finding 2: Ineffective Control Over the Financial Reporting Process

The CAO has identified issues within its financial reporting software's entry event processor which sometimes result in occasional undelivered order processing errors. These issues have also been encountered by other government organizations using this same software. The software vendor acknowledges these issues, which are the result of unspecified problems with the underlying software code, and has implemented software fixes to decrease the recurrence of errors. These fixes have reduced the number of errors experienced; however errors still occur. The CAO is currently implementing compensating controls to timely detect and correct these errors. The CAO anticipates full implementation of compensating controls, which should mitigate concerns about undelivered order processing errors, by September 30, 2014.

The CAO will strengthen processes and procedures already in place to ensure that budgetary activity is properly recorded in both the general ledger and the Statement of Budgetary

Resources; strengthen the review of any multi-year funds that expire prior to the year-end closing process; and strengthen the quality control procedures currently in place relating to the review of amounts reported in both the interim financial and the year-end financial statements. In addition, checklists will be revised to verify that financial statements crosswalk to notes, and automated general ledger mapping will be implemented to reduce the amount of manual processes. The CAO will take these corrective actions by August 31, 2014.

Finding 3: Ineffective Controls Over Information Technology

The CAO has finalized a NIST-based risk management framework (RMF) and submitted a notification to the Committee on House Administration (CHA) regarding its implementation. The RMF and related publication containing implementation guidance are effective April 30, 2014.

In addition, the CAO also contracted with an external firm which completed updates to the financial applications and related general support systems security plans. The firm also performed security control assessments of the controls documented in these plans and provided suggested plans of action and milestones (POA&Ms) based on testing results. These POA&Ms are now tracked internally and documentation is being developed which outlines the process for POA&M maintenance. The House has also implemented an application to track security incidents documented within the POA&Ms and has prepared process documentation for remediation of these weaknesses.

The CAO has developed an Information Technology Contingency Planning Policy, which supplements the CAO Continuity Policy. This document provides guidance and structure to Information Technology Contingency Plan and Recovery Procedure Annexes (RPAs) for the financial applications and general support systems. This will ensure consistent and reliable planning and recovery operations across HIR. The CAO will have RPAs for the data network and active directory in place and tested by September 30, 2014.

The CAO has also been evaluating an application monitoring program to address audit logging and monitoring controls over PeopleSoft. The implementation of such a program will ensure a complete audit trail is maintained for database activity, establish a data intrusion prevention capability, and enable more routine security evaluations of the database instances. The procurement and implementation of this program will be completed in 2014 for Human Resource Information System (HRIS), and in 2015 for PeopleSoft and Finmart. Additional application monitoring programs are currently being evaluated that will also help address control issues around shared accounts. The final evaluation of the application will be completed by September 30, 2014.

The House has recently updated security baseline configurations in accordance with industry best practices. The baseline configurations will be monitored for compliance using a commercial software package with an estimated completion date of June 30, 2014.

We recognize that the achievement of an unqualified financial statement opinion was accomplished through the joint efforts of your staff, contract auditors, CAO and other 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.

Fiscal Year 2013 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) 2013 in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the applicable 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 auditor's report accompanies the financial statements.

The House's financial statements for FY 2013 consisted of the following:

- The **Balance Sheet**, which presents as of September 30, 2013 and 2012 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 years ended September 30, 2013 and 2012. 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 years ended September 30, 2013 and 2012.
- The **Statement of Budgetary Resources**, which presents the budgetary resources available to the House during FY 2013 and FY 2012, the status of these resources at September 30, 2013 and 2012, the change in obligated balance during FY 2013 and 2012, and net outlays of budgetary resources for the years ended September 30, 2013 and 2012.

U.S. HOUSE OF REPRESENTATIVES
Consolidated Balance Sheets
As of September 30, 2013 and 2012

	2013	2012
ASSETS		
Intergovernmental:		
Fund Balance with U.S. Treasury (Note 2)	\$ 217,273,660	\$ 215,313,390
Accounts Receivable, Net (Note 3)	63,034	66,867
Advances and Prepayments (Note 7)	10,733	10,756
Total Intragovernmental	217,347,427	215,391,013
Cash and Other Monetary Assets (Note 2)	3,782	2,948
Accounts Receivable, Net (Note 3)	493,500	447,332
Inventory and Operating Materials and Supplies (Note 4)	1,323,008	1,366,626
Property and Equipment, Net (Note 5)	26,796,857	40,462,006
Advances and Prepayments (Note 7)	5,839,165	4,170,614
Total Assets	\$ 251,803,739	\$ 261,840,539
Stewardship Property and Equipment (Note 6)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	\$ 4,476,022	\$ 5,580,540
Advances from Others	197,209	113,286
Capital Lease Liabilities (Note 9)	72,862	352,875
Other Liabilities	2,165,654	3,989,542
Total Intragovernmental	6,911,747	10,036,243
Accounts Payable	23,997,401	28,888,518
Actuarial Federal Employees' Compensation Act Liabilities	38,506,935	25,969,234
Accrued Payroll and Benefits	6,989,142	6,664,806
Accrued Annual Leave	7,919,488	7,391,503
Other Liabilities	261,983	159,493
Total Liabilities (Note 8)	\$ 84,586,696	\$ 79,109,797
NET POSITION		
Unexpended Appropriations	\$ 159,014,711	\$ 148,024,167
Cumulative Results of Operations	8,202,332	34,706,575
Total Net Position	\$ 167,217,043	\$ 182,730,742
Total Liabilities and Net Position	\$ 251,803,739	\$ 261,840,539

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statements of Net Cost
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
NET COST OF OPERATIONS (Note 11)		
Net Costs by Program Area		
Legislative Activities		
Gross Costs	\$ 1,520,266,570	\$ 1,617,106,848
Less: Earned Revenue	<u>(3,557,267)</u>	<u>(4,122,231)</u>
Net Program Costs	<u>1,516,709,303</u>	<u>1,612,984,617</u>
Revolving Funds		
Gross Costs	5,582,938	1,538,943
Less: Earned Revenue	<u>(5,266,751)</u>	<u>(5,430,138)</u>
Net Program Costs	<u>316,187</u>	<u>(3,891,195)</u>
Net Cost of Operations	<u>\$ 1,517,025,490</u>	<u>\$ 1,609,093,422</u>

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2013 and 2012

	2013	2012
Cumulative Results of Operations		
Beginning Balance	\$ 34,706,575	\$ 48,549,755
Budgetary Financing Sources		
Appropriations Used	1,259,270,279	1,370,491,022
Nonexchange Revenue	36,450	26,600
Donations	150	43,051
Other Adjustments	159,789	(4,382,615)
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 15)	231,388,782	229,446,950
Other Adjustments	(334,203)	(374,766)
Total Financing Sources	1,490,521,247	1,595,250,242
Net Cost of Operations	(1,517,025,490)	(1,609,093,422)
Net Change	(26,504,243)	(13,843,180)
Total Cumulative Results of Operations	\$ 8,202,332	\$ 34,706,575
Unexpended Appropriations		
Beginning Balance	\$ 148,024,167	\$ 201,799,706
Budgetary Financing Sources		
Appropriations Received	1,340,438,000	1,346,438,000
Appropriations Transferred-In/Out	(3,037,202)	(8,975,000)
Other Adjustments	(67,139,975)	(20,747,517)
Appropriations Used	(1,259,270,279)	(1,370,491,022)
Total Budgetary Financing Sources	10,990,544	(53,775,539)
Total Unexpended Appropriations	\$ 159,014,711	\$ 148,024,167
Net Position	\$ 167,217,043	\$ 182,730,742

U.S. HOUSE OF REPRESENTATIVES
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2013 and 2012

	2013	2012
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	\$ 127,694,618	\$ 135,565,747
Adjustment to unobligated balance brought forward, Oct 1	-	-
Unobligated balance brought forward, Oct 1, as adjusted	127,694,618	135,565,747
Recoveries of prior year unpaid obligations	2,386,466	2,100,201
Other changes in unobligated balance	(5,205,855)	(32,211,858)
Unobligated balance from prior year budget authority, net	124,875,229	105,454,090
Appropriations (discretionary and mandatory)	1,275,626,467	1,346,438,000
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending authority from offsetting collections (discretionary and mandatory)	24,658,251	26,765,928
Total budgetary resources	\$ 1,425,159,947	\$ 1,478,658,018
Status of Budgetary Resources:		
Obligations incurred	\$ 1,284,277,661	\$ 1,350,963,400
Unobligated balance, end of year:		
Apportioned	-	-
Exempt from apportionment	138,724,631	121,986,647
Unapportioned	2,157,655	5,707,971
Total unobligated balance, end of year:	140,882,286	127,694,618
Total budgetary resources	\$ 1,425,159,947	\$ 1,478,658,018
Change in Obligated balance:		
Unpaid Obligations:		
Unpaid Obligations, brought forward, Oct 1	\$ 88,480,376	\$ 130,426,238
Adjustment to unpaid obligations, start of year	-	-
Obligations incurred	1,284,277,661	1,350,963,400
Outlays (gross)	(1,293,145,485)	(1,390,809,061)
Actual transfers, unpaid obligations (net)	-	-
Recoveries of prior year unpaid obligations	(2,386,466)	(2,100,201)
Unpaid obligations September 30, 2013	77,226,086	88,480,376
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1	-	(536,418)
Adjustment to uncollected pymts, Fed sources, start of year	-	-
Change in uncollected pymts, Fed sources	-	536,418
Actual transfers, uncollected pymts, Fed sources (net)	-	-
Uncollected pymts, Fed sources, September 30, 2013	-	-
Memorandum (non-add) entries:		
Obligated balance, start of year	\$ 88,480,376	\$ 130,426,238
Obligated balance, September 30, 2013	\$ 77,226,086	\$ 88,480,376
Budget Authority and Outlays, Net		
Budget authority, gross (discretionary and mandatory)	\$ 1,300,284,718	\$ 1,373,203,928
Actual offsetting collections (discretionary and mandatory)	(24,658,251)	(27,302,346)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	-	536,418
Anticipated offsetting collections (discretionary and mandatory)	-	-
Budget authority, net (discretionary and mandatory)	\$ 1,275,626,467	\$ 1,346,438,000
Outlays, gross (discretionary and mandatory)	\$ 1,293,145,485	\$ 1,390,809,061
Actual offsetting collections (discretionary and mandatory)	(24,658,251)	(27,302,346)
Outlays, net (discretionary and mandatory)	1,268,487,234	1,363,506,715
Distributed offsetting receipts	-	-
Agency outlays, net (discretionary and mandatory)	\$ 1,268,487,234	\$ 1,363,506,715

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Notes to the Financial Statements

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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 elects and appoints Officers and officials 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 sessions of the 112th and 113th Congress. The fiscal year 2013 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 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 under the sessions of the 112th and 113th 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 sessions of the 112th and 113th Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce
- Committee on Energy and Commerce
- Committee on Ethics
- 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, Space, and Technology
- Committee on Small Business
- Committee on Transportation and Infrastructure

Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence

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

Attending Physician
Joint Economic Committee
Joint Committee on the Library
Joint Committee on Printing
Joint Committee on Taxation

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 Child Care Center
House Recording Studio
House Services
Net Expenses of Equipment
Net Expenses of Telecommunications
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 Economic Committee
- Joint Committee on the Library
- Joint Committee on Printing
- Joint Committee on Taxation

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 applicable form and content requirements of the OMB Circular No. A-136, *Financial Reporting Requirements*.

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 and Other Fund Types. 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) Office Supply Service and Gift Shop maintain an inventory of supplies and merchandise purchased 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 Logistics and Support 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 two years or more. 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 of two years or more 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 of two years or more. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the end of 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)

The House also entered into capital leases for building structures. 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 lower of net present value or fair market 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 lower of net present value of the minimum lease payments or fair market value at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. (See Note 9)

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 15)

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 integration activities and are initially 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 methodology that encompasses historical data and the first two month's financial activity of the subsequent fiscal year.

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 lower of net present value or fair market 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, the Inspector General 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). The House utilizes actual hours to calculate the liability. 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 and other select House 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, Leadership and select House offices is estimated on the financial statements. In FY 2013, 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 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.

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; and (3) other revenue for vendor commissions. Non-exchange revenue is derived from the government's sovereign right to demand payment from the public (e.g., taxes, duties, fines, and penalties) but also includes donations. The House reports non-exchange revenue collected from donations for the Reduction of Public Debt and Ethics Fines.

Intragovernmental Costs and Earned Revenues

The House earns intragovernmental revenue by providing mail and telecommunication services primarily to other legislative entities. 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.

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

The House recognizes 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 recognizes 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. A common area factor of 11% was applied to the gross square footage. The industry standard rental rate increase of 1.5% over FY 2012 is reflected in the FY 2013 occupancy costs.

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 15)

L. Personnel and Benefits Compensation

House Members and employees are covered by either Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS) or the Federal Employees Retirement System – Revised Annuity Employee (FERS-RAE). Both Members and employees are eligible for retirement benefits under CSRS, FERS or FERS-RAE.

With few exceptions, employees of the House are covered by one of the following retirement programs:

1. Employees hired before January 1, 1984, and who have been employed continuously without a break in service of more than 365 days since December 31, 1983 are covered under CSRS.
2. Employees hired on or after January 1, 1984, and before January 1, 2013, are covered under FERS.
3. Employees hired on or after January 1, 2013, and who would normally be placed under FERS, are covered under FERS-RAE.

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 and FERS-RAE basic benefit plans provide 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 and FERS-RAE employees, in addition to paying Social Security, contribute a portion of their base earnings to the FERS and FERS-RAE retirement funds. The House also contributes an amount toward the FERS and FERS-RAE retirement and Social Security funds.

FERS, FERS-RAE and CSRS employees can contribute to the Thrift Savings Plan (TSP) up to the IRS limit. FERS and FERS-RAE 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 and FERS-RAE employees could receive benefits from the basic FERS annuity, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP. (See Note 12) Post-employment benefits, health, and life insurance are not reported by the House, rather they are reported by OPM.

M. Net Position

The components of Net Position are:

Unexpended Appropriations

Unexpended Appropriations includes the portion of the House's appropriations represented by undelivered orders and unobligated balances. The amount of unexpended appropriations reported on the Balance Sheet should equal the amount of unexpended appropriations reported on the Statement of Changes in Net Position.

Appropriations are not considered expended until goods have been received or services have been rendered. The House has single, multi and no-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.

Cumulative Results of Operations

Cumulative Results of Operations includes the net results of operations since inception plus the cumulative amount of prior period adjustments. The amount of cumulative results of operations reported on the Balance Sheet should equal the amount of cumulative results of operations reported on the Statement of Changes in Net Position.

The net difference between expenses and revenue and financing sources including appropriations, revenues from operations and imputed financing sources.

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 Balances with Treasury (FBWT) as of September 30, 2013 and 2012 were:

Fund Balance with Treasury	2013	2012
General and Other Funds		
House maintained	\$ 158,882,728	\$ 153,191,222
Congressional Use of Foreign Currency	29,761,306	34,831,086
Total General and Other Funds	188,644,034	188,022,308
Revolving Funds	28,629,626	27,291,082
Total	\$ 217,273,660	\$ 215,313,390

Status of Fund Balance with Treasury as of September 30, 2013 and 2012 were:

Status of Fund Balance with Treasury	2013	2012
Unobligated Balance		
Available	\$ 138,724,631	\$ 121,986,647
Unavailable	2,157,655	5,707,971
Obligated Balance not yet Disbursed	77,226,086	88,480,376
Other Funds	(834,712)	(861,604)
Total	\$ 217,273,660	\$ 215,313,390

Other funds represent deposit funds held at the U.S. Treasury.

Cash and Other Monetary Assets as of September 30, 2013 and 2012 were:

Cash and Other Monetary Assets	2013	2012
Cash on Hand	\$ 3,782	\$ 2,948
Total	\$ 3,782	\$ 2,948

Funds that were canceled and returned to the U.S. Treasury as of September 30, 2013 and 2012 were:

Appropriations	2013	2012
2011 (single year)	\$ 2,054,950	\$ -
2010 (single year)	-	23,125,275
2010/2011 (multi-year)	6,266	-
2009/2011 (multi-year)	2,317	-
Total	\$ 2,063,533	\$ 23,125,275

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net as of September 30, 2013 and 2012 were:

Accounts Receivable, Net	2013	2012
Intragovernmental		
Accounts Receivable	\$ 63,034	\$ 66,867
Total Intragovernmental	63,034	66,867
With the Public		
Accounts Receivable	536,280	498,248
Allowance for Doubtful Accounts	(42,780)	(50,916)
Total With the Public	493,500	447,332
Total	\$ 556,534	\$ 514,199

NOTE 4 - INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property, Net as of September 30, 2013 and 2012 were:

Inventory and Related Property, Net	2013	2012
Operating Materials and Supplies Held for Use	\$ 508,252	\$ 494,183
Inventory Purchased for Resale	814,756	872,443
Total	\$ 1,323,008	\$ 1,366,626

NOTE 5 - GENERAL PROPERTY AND EQUIPMENT, NET

General Property and Equipment, Net as of September 30, 2013 and 2012 and the related depreciation and amortization expense were:

2013 Classes of Property and Equipment	Service Life (Years)	Acquisition Cost	Depreciation	Net Book Value	Depreciation Expense
Work in Process	N/A	\$ 1,001,079	\$ -	\$ 1,001,079	\$ -
Computer Software in Development	N/A	3,344,500	-	3,344,500	-
Computer Software and Hardware	3/5	86,972,382	76,558,970	10,413,412	15,418,507
Assets Under Capital Lease	10	1,354,473	1,320,611	33,862	135,447
Equipment	5	63,069,518	52,118,129	10,951,389	6,317,902
Motor Vehicles	5	10,532,139	10,444,415	87,724	91,155
Furnishings and Other Equipment	10	1,148,767	663,081	485,686	73,304
Leasehold Improvements	10	9,085,375	8,606,170	479,205	227,514
Total		\$ 176,508,233	\$ 149,711,376	\$ 26,796,857	\$ 22,263,829

2012 Classes of Property and Equipment	Service Life (Years)	Acquisition Cost (Restated)	Depreciation (Restated)	Net Book Value	Depreciation Expense
Work in Process	N/A	\$ 1,512,496	\$ -	\$ 1,512,496	\$ -
Computer Software in Development	N/A	425,831	-	425,831	-
Computer Software and Hardware	3/5	83,695,798	62,750,332	20,945,466	18,883,665
Assets Under Capital Lease	10	1,354,473	1,185,163	169,310	135,447
Equipment	5	63,333,196	47,368,881	15,964,315	6,692,430
Motor Vehicles	5	10,514,590	10,335,711	178,879	94,979
Furnishings and Other Equipment	10	1,240,518	681,528	558,990	73,304
Leasehold Improvements	10	9,085,375	8,378,656	706,719	738,633
Total		\$ 171,162,277	\$ 130,700,271	\$ 40,462,006	\$ 26,618,458

NOTE 6 – STEWARDSHIP PROPERTY AND EQUIPMENT

Physical counts for collection-type heritage assets as of September 30, 2013 and 2012 were:

Heritage Assets	2012	Additions	Withdrawals	2013
Artwork	320	3	-	323
Artifacts	4,636	579	26	5,189
Total	4,956	582	26	5,512

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 (sic) 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, ensures 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, 2013 and 2012 were:

Advances and Prepayments	2013	2012
Intragovernmental	\$ 10,733	\$ 10,756
Public	5,839,165	4,170,614
Total	\$ 5,849,898	\$ 4,181,370

NOTE 8 - LIABILITIES

Liabilities are classified as either current or non-current. Current liabilities refer to liabilities that are expected to settle within 12 months of the Balance Sheet date. Non-current refers to liabilities that are expected to settle more than 12 months of the Balance Sheet date.

Liabilities covered and not covered by budgetary resources as of September 30, 2013 and 2012 were:

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2013
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	\$ 4,476,022	\$ -	\$ -	\$ -	\$ 4,476,022
Advances from Others	197,209	-	-	-	197,209
Capital Lease Liability	72,862	-	-	-	72,862
Other Liabilities					
Accrued Benefits	1,679,783	-	-	-	1,679,783
Accrued Workers' Compensation	487,583	-	-	-	487,583
Unemployment Compensation	887,040	-	-	-	887,040
Other Deposit Liabilities	(888,752)	-	-	-	(888,752)
Total Other Liabilities	2,165,654	-	-	-	2,165,654
Total Intragovernmental Liabilities	6,911,747	-	-	-	6,911,747
Public Liabilities					
Accounts Payable	23,997,401	-	-	-	23,997,401
Actuarial FECA Liability	-	-	-	38,506,935	38,506,935
Accrued Payroll and Benefits	6,989,142	-	-	-	6,989,142
Unfunded Accrued Annual Leave	-	-	-	7,919,488	7,919,488
Capital Lease Liability	-	-	-	-	-
Other Liabilities	261,983	-	-	-	261,983
Total Public Liabilities	31,248,526	-	-	46,426,423	77,674,949
Total	\$ 38,160,273	\$ -	\$ -	\$ 46,426,423	\$ 84,586,696

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2012
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	\$ 5,580,540	\$ -	\$ -	\$ -	\$ 5,580,540
Advances from Others	113,286	-	-	-	113,286
Capital Lease Liability	19,586	-	260,427	72,862	352,875
Other Liabilities					
Accrued Benefits	2,025,772	-	-	-	2,025,772
Accrued Workers' Compensation	2,258,804	-	-	-	2,258,804
Unemployment Compensation	562,991	-	-	-	562,991
Other Deposit Liabilities	(858,025)	-	-	-	(858,025)
Total Other Liabilities	3,989,542	-	-	-	3,989,542
Total Intragovernmental Liabilities	9,702,954	-	260,427	72,862	10,036,243
Public Liabilities					
Accounts Payable	28,888,518	-	-	-	28,888,518
Actuarial FECA Liability	-	-	-	25,969,234	25,969,234
Accrued Payroll and Benefits	6,664,806	-	-	-	6,664,806
Unfunded Accrued Annual Leave	-	-	-	7,391,503	7,391,503
Capital Lease Liability	-	-	-	-	-
Other Liabilities	159,493	-	-	-	159,493
Total Public Liabilities	35,712,817	-	-	33,360,737	69,073,554
Total	\$ 45,415,771	\$ -	\$ 260,427	\$ 33,433,599	\$ 79,109,797

NOTE 9 - LEASE COMMITMENTS**Capital Leases**

Assets Under Capital Lease as of September 30, 2013 and 2012 were:

Summary of Assets Under Capital Lease	2013	2012
Buildings Structures	\$ 1,354,473	\$ 1,354,473
Accumulated Depreciation	(1,320,611)	(1,185,163)
Total	\$ 33,862	\$ 169,310

Future Capital Lease Payments Due as of September 30, 2013 were:

Year	Building Structures
2014	\$ 75,154
2015	-
2016	-
2017	-
Thereafter	-
Total Future Capital Lease Payments	75,154
Less: Imputed Interest	(2,292)
Less: Executory Costs	-
Net Capital Lease Liability	\$ 72,862

The House maintained capital leases for building structures. 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 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, 2013 were:

Year	Vehicles	Office Space	Parking	Total
2014	\$ 500,467	\$ 21,507,323	\$ 154,120	\$ 22,161,910
2015	110,789	5,829,720	72,072	6,012,581
Total	\$ 611,256	\$ 27,337,043	\$ 226,192	\$ 28,174,491

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. In accordance with the Members' Congressional Handbook, the House requires that leases entered into by Members for space be no longer than the elected term of the Member. 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.

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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable. The House does not have any contingencies where the sacrifice of resources is probable. The House is currently involved in two lawsuits where the sacrifice of federal resources is reasonably possible. However, the House cannot predict at this time with any degree of accuracy the range of potential loss in the event of an unfavorable outcome.

NOTE 11 - INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental Costs and Exchange Revenue as of September 30, 2013 and 2012 were:

Intragovernmental Costs and Exchange Revenue	2013	2012 (Restated)
Legislative Activities		
Intragovernmental Costs	\$ 525,236,959	\$ 546,801,656
Public Costs	995,029,611	1,070,305,192
Total Costs	<u>1,520,266,570</u>	<u>1,617,106,848</u>
Intragovernmental Earned Revenue	(3,142,500)	(3,622,335)
Public Earned Revenue	(414,767)	(499,896)
Total Earned Revenue	<u>(3,557,267)</u>	<u>(4,122,231)</u>
Net Program Costs	<u>1,516,709,303</u>	<u>1,612,984,617</u>
Revolving Funds		
Intragovernmental Costs	159,284	213,094
Public Costs	5,423,654	1,325,849
Total Costs	<u>5,582,938</u>	<u>1,538,943</u>
Intragovernmental Earned Revenue	(2,005,370)	(2,051,851)
Public Earned Revenue	(3,261,381)	(3,378,287)
Total Earned Revenue	<u>(5,266,751)</u>	<u>(5,430,138)</u>
Net Program Costs	<u>316,187</u>	<u>(3,891,195)</u>
Total		
Intragovernmental Costs	525,396,243	547,014,750
Public Costs	1,000,453,265	1,071,631,041
Total Costs	<u>1,525,849,508</u>	<u>1,618,645,791</u>
Intragovernmental Earned Revenue	(5,147,870)	(5,674,186)
Public Earned Revenue	(3,676,148)	(3,878,183)
Total Earned Revenue	<u>(8,824,018)</u>	<u>(9,552,369)</u>
Net Cost of Operations	<u>\$ 1,517,025,490</u>	<u>\$ 1,609,093,422</u>

NOTE 12 - PERSONNEL AND BENEFITS COMPENSATION

Personnel and Benefits Compensation as of September 30, 2013 and 2012 were:

Member and Employee Personnel and Benefits Compensation	2013	2012
Personnel Compensation	\$ 752,241,955	\$ 770,981,237
Retirement Plan Contributions	147,373,582	155,132,137
Social Security	51,614,809	52,455,732
Health Insurance	53,400,316	54,496,708
Student Loan/Fitness Center Programs	14,168,844	15,270,909
Unemployment and Workers' Compensation	6,449,496	5,005,870
Transit Benefits	2,392,215	2,619,738
Life Insurance	1,131,527	1,170,593
Death Benefits	1,495,249	731,845
Annual Leave	527,985	(432,208)
Allowances	25,000	25,000
Workers' Compensation Actuarial Adjustment	12,537,701	4,679,150
Total	\$ 1,043,358,679	\$ 1,062,136,711

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 \$15 million and \$21 million were expended in 2013 and 2012, respectively.

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 - 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.

Imputed Financing from Cost absorbed by Others as of September 30, 2013 and 2012 were:

Imputed Cost and Financing Source	2013	2012
Occupancy Costs	\$ 164,853,737	\$ 162,390,135
Federal Employee and Veteran's Benefits		
Current Service Cost - Federal Employees Health Benefits	40,474,215	48,611,215
Current Service Cost - Federal Pensions	25,950,416	18,198,342
Current Service Cost - Federal Employees Group Life Insurance	110,414	114,593
Total Federal Employee and Veteran's Benefits	66,535,045	66,924,150
Claims Paid by the U.S. Treasury's Judgment Fund on behalf of the House	-	132,665
Total	\$ 231,388,782	\$ 229,446,950

NOTE 16 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

Undelivered Orders as of September 30, 2013 and 2012 were:

Undelivered Orders at the End of the Period	2013	2012
Undelivered Orders, Unpaid	\$ 38,709,374	\$ 42,444,374
Undelivered Orders, Paid	5,849,898	4,181,370
Total	\$ 44,559,272	\$ 46,625,744

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

The Budget of the U.S. Government with actual amounts for the year ended September 30, 2013 has not been published as of the issue date of these financial statements. This document will be available in February 2014.

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government as of September 30, 2012 were:

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government	Budgetary Resources	Net Outlays
Statement of Budgetary Resources	\$ 1,346,438,000	\$ 1,363,506,715
Difference	(438,000)	493,285
Budget of the U.S. Government	\$ 1,346,000,000	\$ 1,364,000,000

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 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 1,284,277,661	\$ 1,350,963,400
Spending Authority from Offsetting Collections and Recoveries	(27,044,717)	(28,866,129)
Obligations Net of Offsetting Collections and Recoveries	1,257,232,944	1,322,097,271
Offsetting Receipts	-	-
Net Obligations	1,257,232,944	1,322,097,271
Other Resources		
Imputed Financing from Costs Absorbed by Others	231,388,782	229,446,950
Net Other Resources Used to Finance Activities	231,388,782	229,446,950
Total Resources Used to Finance Activities	1,488,621,726	1,551,544,221
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	2,150,395	43,872,073
Resources that Finance the Acquisition of Assets	(11,887,622)	(20,645,707)
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost	297,604	391,217
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(9,439,623)	23,617,583
Total Resources Used to Finance the Net Cost of Operations	\$ 1,479,182,103	\$ 1,575,161,804
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase/(Decrease) in Actuarial Liability	\$ 12,537,701	\$ 4,679,150
Increase/(Decrease) in Annual Leave Liability	527,985	(432,208)
Other	(34,335)	819,679
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	13,031,351	5,066,621
Depreciation and Amortization	22,263,829	26,618,458
Revaluation of Assets or Liabilities	(46,722)	81,299
Other	2,594,929	2,165,240
Total Components of Net Cost of Operations not Requiring or Generating Resources	24,812,036	28,864,997
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	37,843,387	33,931,618
Net Cost of Operations	\$ 1,517,025,490	\$ 1,609,093,422

The presentation of Note 19 – Reconciliation of Budgetary Resources Obligated to Net Cost of Operations was revised during FY 2013. Certain FY 2012 activity and balances presented in Note 19 were reclassified to conform to the current year presentation of Note 19.

NOTE 20 - RESTATEMENTS

Note 5 – General Property and Equipment, Net

During FY 2013, it was identified that the House’s system of record contained property that was no longer owned by the House. The House performed an analysis of its property records and identified equipment, software, and hardware with acquisition cost and accumulated depreciation totaling \$44.7 million that was physically disposed prior to FY 2012. Since the property was fully depreciated, and therefore did not have a net book value, there was no effect on the FY 2012 Balance Sheet and only Note 5 General Property and Equipment required restatement.

Note 11 – Intragovernmental Costs and Exchange Revenue

The House reclassified FY 2012 imputed and other intragovernmental expenses totaling \$235.0 million from public costs to intragovernmental costs to ensure amounts presented Note 11 - Intragovernmental Costs and Exchange are comparable.

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Required Supplementary Information

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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 practice 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 June 30, 2013:

Heritage Asset Collection	Description	2012	Increase	Decrease	2013	General Condition
Artwork	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.	320	3	-	323	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. An example includes that of Speaker Henry Clay by Guiseppe Fagnani in 1852. His portrait was the first of what became Speaker’s portraits series 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 it.

Acrylic Paintings

The House’s collection of acrylic paintings includes 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 19th 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	2012	Increase	Decrease	2013	General Condition
Artifacts	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.	4,636	579	26	5,189	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 1900’s.

Metal

The House’s collection of metal artifacts includes items such as an artifact of the House Chamber, the historic inkwell that sits on the Speakers desk when the House is in session, which dates back to the 19th 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; and an 1819 desk and chair from the House Chamber.

Textile

The House's collection of textile artifacts includes items such as a recent 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.

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Other Information

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U.S. HOUSE OF REPRESENTATIVES
Schedule of Spending
For the Year Ended September 30, 2013

	2013
What Money is Available to Spend?	
Total Resources	\$ 1,425,159,947
Less Amount Available but Not Agreed to be Spent	(138,724,631)
Less Amount Not Available to be Spent	(2,157,655)
Total Amounts Agreed to be Spent	\$ 1,284,277,661
 How was the Money Spent/Issued?	
Personnel Compensation & Benefits	\$ 1,027,179,631
Contracts	148,274,006
Other	108,824,024
Total Amounts Agreed to be Spent	\$ 1,284,277,661
 Who did the Money go to?	
Federal	\$ 348,082,247
Non-Federal	936,195,414
Total Amounts Agreed to be Spent	\$ 1,284,277,661

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