



UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

**Audit of the Financial Statements
For the Fiscal Year Ended September 30, 2008
Report No. 10-HOC-02
March 30, 2010**

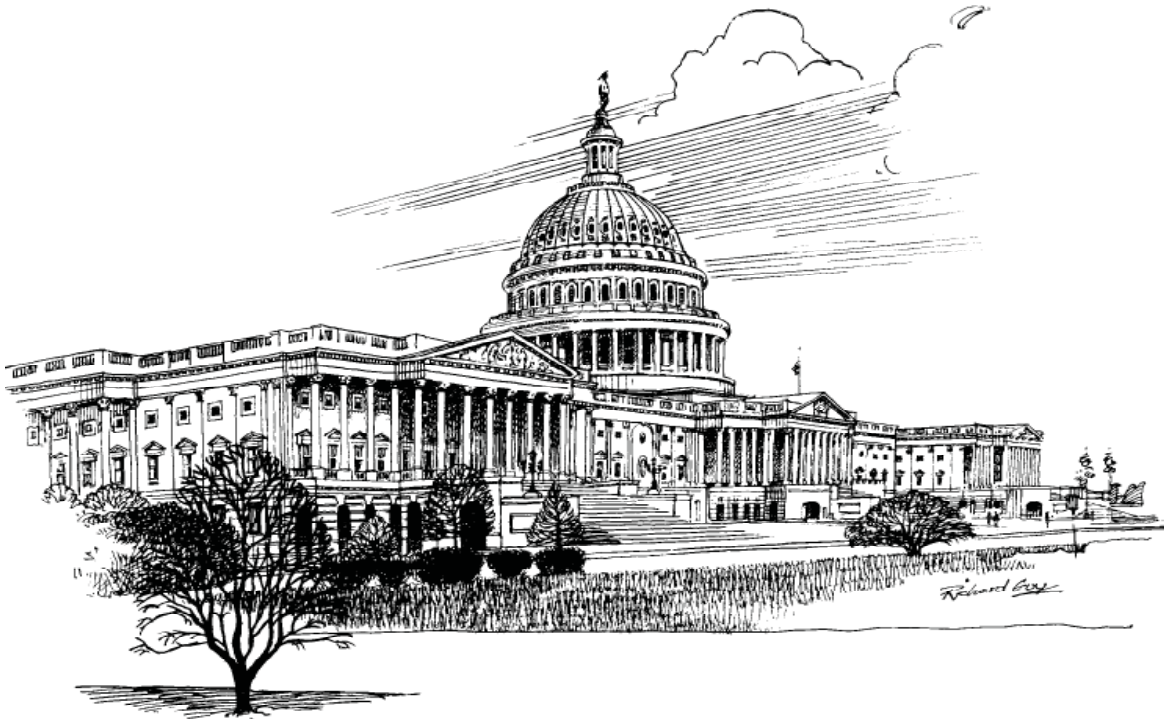




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Executive Summary



EXECUTIVE SUMMARY

Results of Audit

During the past year, the House continued to make progress in improving its financial management and operations. For the eleventh year, the independent auditors expressed an unqualified opinion on the House's financial statements and reported that the financial statements fairly present, in all material respects, the financial position of the House and the results of its operations and cash flows in conformity with generally accepted accounting principles. In addition, the *Independent Auditors' Report* identified no instances of noncompliance with laws and regulations.

In their report, the independent auditor's identified three internal control weaknesses, all of which are reportable conditions. The reportable conditions are associated with the internal control framework for the payroll cycle, financial reporting process and financial information system.

During fiscal year 2008, the House implemented or initiated corrective actions to address the 45 prior audit recommendations contained in last year's report. Due to the House's progress towards improving financial related activities, we were able to close (i.e., fully implemented or otherwise resolved) 32 of the 45 prior recommendations.

Recommendations

This report contains 21 recommendations consisting of 13 prior recommendations, for which corrective actions are in varying stages of implementation, and 8 new recommendations.

Management Response

The CAO responded to the *Independent Auditor's Report* on March 10, 2010. In the response, which is included in its' entirety within the Management Comments section of this report, the CAO concurred with the reported internal control weaknesses and recommendations for corrective action.

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Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Inspector General
U.S. House of Representatives

In accordance with auditing standards generally accepted (GAAS) in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States, we have conducted audits of Fiscal Years (FYs) 2008 and 2007 financial statements of the U.S. House of Representatives (House) and an examination of the effectiveness of the House's internal control over financial reporting for the period ended September 30, 2008, in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), GAS, and *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. As a result of our audits and examinations, we determined that:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- The House had effective internal control over financial reporting (including safeguarding assets).
- There were no instances of reportable noncompliance with laws and regulations that we tested.

The following sections discuss these conclusions in more detail; our audit objectives, scope, and methodology; other matters related to internal control; and management comments and our evaluation. Details of significant deficiencies noted during the FY 2008 audit are discussed in Appendix A.

CONCLUSIONS

Opinion on the Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Consolidated Statement of Financial Position as of September 30, 2008, and 2007, and the related Consolidated Statements of Operations and Cash Flows for the years then ended.

Opinion on Internal Control

The House maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) as of September 30, 2008, that provided reasonable assurance that misstatements or losses material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based upon criteria contained in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

Compliance with Laws and Regulations

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

OBJECTIVES, SCOPE, AND METHODOLOGY

Management is responsible for:

1. Preparing the financial statements in conformity with U.S. generally accepted accounting principles.
2. Establishing, maintaining, and assessing internal control to provide reasonable assurance that the House maintained effective internal control over financial reporting based upon *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.
3. Complying with applicable laws and regulations.

We are responsible for expressing an opinion on these financial statements based on our audits. We are required by GAAS and GAS to plan and perform our audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We believe that our audits provide a reasonable basis for our opinion.

Further, we are responsible for expressing an opinion on the effectiveness of internal control and are required by AICPA attestation standards and GAS to conduct an examination, to include obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As part of obtaining reasonable assurance about whether the financial statements were free of material misstatements, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Finally, we performed limited procedures with respect to certain other information appearing in the September 30, 2008, and 2007, consolidated financial statements.

To fulfill these responsibilities, we:

- Examined evidence supporting amounts and disclosures in the financial statements on a test basis.
- Assessed accounting principles used and significant estimates made by management.
- Evaluated overall financial statement presentation.
- Obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority).
- Tested relevant internal controls over financial reporting and compliance and evaluated design and operating effectiveness of internal control.

- Tested compliance with selected provisions of laws and regulations specific to the House, which are contained in the *Members' Congressional Handbook and Committees' Congressional Handbook*.

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

We did not test compliance with all laws and regulations applicable to the House. We limited our tests of compliance to those laws and regulations required by Office of Management and Budget (OMB) audit guidance we deemed applicable to the financial statements for the fiscal years ended September 30, 2008, and 2007. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

For the information technology (IT) portion of the audit, we reviewed physical, logical, and management controls over the Chief Administrative Office (CAO) information systems that process and report information on the annual financial statements. We reviewed controls used to secure and safeguard financial information traveling over the CAO network and residing on House financial systems. Our audit was limited to the CAO portion of the House network (general support system) and related financial information systems.

We relied upon government best practices developed by the National Institute of Standards and Technology (NIST) for review criteria. NIST was mandated by OMB to develop IT audit tests, standards, and procedures to protect sensitive information from unauthorized access or modification for the federal government.

NIST guidance is accepted as industry best practice for establishing standards and procedures for securing information technology systems and protecting the integrity, confidentiality, reliability, and availability of information. NIST security guidance focus areas include cryptographic technology and applications, advanced authentication, public key infrastructure, internet-working security, criteria and assurance, and security management and support.

Our review included an examination of internal controls over IT for the general support system and individual financial applications using the *Federal Information System Controls Audit Manual (FISCAM)*, an accepted IT audit methodology developed by GAO. We examined controls in the following six areas:

- **Entity-wide security program planning and management controls** to provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related controls.
- **Access controls** to limit or detect access to computer resources (data, program, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure.
- **System software controls** to limit and monitor access to powerful programs and sensitive files that control computer hardware and secure applications supported by the system.

- **Service continuity controls** to ensure that when unexpected events occur, critical operations continue without interruption or are promptly resumed and critical and sensitive data are protected from destruction.
- **Application software development and program change controls** to prevent implementation of unauthorized programs or modifications to existing programs.
- **Segregation-of-duty controls** to provide policies, procedures, and organizational structure to prevent one individual from controlling key aspects of computer-related operations and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. These controls must be applied within an application and at the mainframe and network system level.

System audits are conducted on a multi-year rotational basis. Each year, we conduct a full review of one or more systems to ensure that all system controls are adequately assessed during the audit cycle. The FY 2008 audit included a systems internal control review of the Member Payroll Application, FFS user control considerations, and review of prior-year findings and recommendations to determine if management had taken action to correct identified weaknesses.

OTHER MATTERS RELATED TO INTERNAL CONTROL

In performing our examination of the effectiveness of internal control over financial reporting of the House as of September 30, 2008, we identified certain deficiencies in internal control that we consider significant deficiencies under standards established by AICPA.

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

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

We identified no deficiencies in internal control that we consider to be material weaknesses, as defined above. We did, however, identify deficiencies in internal control that we consider to be significant deficiencies in internal control. We describe these deficiencies in detail in Appendix A to this report.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, the House concurred with the facts and conclusions in our report. Management comments are in Appendix B.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Matthew H. Johnson".

Matthew H. Johnson, CPA, CISA
Partner

January 8, 2010
Alexandria, Virginia

APPENDIX A
COMMUNICATION OF SIGNIFICANT DEFICIENCIES NOTED DURING
FY 2008 FINANCIAL STATEMENT AUDIT

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES NOTED DURING
FY 2008 FINANCIAL STATEMENT AUDIT

In performing our examination of the effectiveness of internal control over financial reporting of the House as of September 30, 2008, we identified certain deficiencies in internal control that we consider significant deficiencies under standards established by AICPA, as follows:

1. Weaknesses in the processing and reporting of payroll data are exacerbated by deficiencies within the House's control environment.
2. Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.
3. Weaknesses in the financial information system reduced the integrity of financial data and reporting.

Our criteria for assessing control weaknesses are provided below along with a summary status of control weaknesses and detailed descriptions of these weaknesses.

CRITERIA

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

New Condition	Newly identified weakness.
Open (Prior Year)	The House did not fully implement recommended corrective actions, or changes in House operations have not remedied or eliminated the need for recommended corrective action.
Closed (Prior Year)	The House fully implemented recommended corrective actions, or changes in House operations remedied or eliminated the need for recommended corrective action.

SUMMARY STATUS OF INTERNAL CONTROL WEAKNESSES

None of the internal control weaknesses we identified is a new condition. All were reported in prior audit reports and remain open. The following matrix provides a summary of existing internal control weaknesses:

Weakness		Status as of March 13, 2009		
		New Condition	Open	Closed
1.	Weaknesses in the processing and reporting of payroll data are exacerbated by deficiencies within the House's control environment. (<i>Significant Deficiency</i>)		✓	
2.	Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements. (<i>Significant Deficiency</i>)		✓	
3.	Weaknesses in the financial information system reduced the integrity of financial data and reporting. (<i>Significant Deficiency</i>)		✓	

DISCUSSION OF INTERNAL CONTROL WEAKNESSES

Weakness 1: Weaknesses in the processing and reporting of payroll data are exacerbated by deficiencies within the House's control environment.

Summary Status: Significant Deficiency
Prior Condition
Open

We identified several instances in which the House's system of internal control over payroll processing did not ensure accurate reporting of transactions and balances. Controls were inadequate in some cases and, although they existed in other cases, they were not always adhered to because of weaknesses within the control environment.

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

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

OMB Circular A-123, *Management's Responsibility for Internal Control*, states:

Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.

a. Existing controls did not prevent payroll disbursement exceeding the House Speakers Pay Order Limit.

One employee was overpaid by \$14,016 as the result of a data entry error that established the employee's hourly pay rate as \$500. This amount exceeded the House Speakers Pay Order limit. A key control designed to detect this type of error is the monthly payroll validation process. This process requires the employing office to validate the pay amount before a disbursement is made, and, as discussed below, employing offices did not always adhere to this control.

A second key control that should detect this type of error is the Over Speakers Pay Edit Report, which identifies an amount exceeding the Speakers Pay Order limit prior to payment. Although detection controls exist, CAO personnel must review disbursement amounts that exceed the Speakers Pay Order limit and take corrective actions to avoid these types of erroneous payments.

b. The House did not properly implement procedures for ensuring completeness and accuracy of financial transactions.

Amounts disbursed to Office of Personnel Management (OPM) by the House for personnel benefits on behalf of employees did not agree to total payroll deductions. The Office of Payroll and Benefits did not perform a Gross to Net Payroll Reconciliation to ensure that receipt and disbursement transactions were

properly recorded in the correct accounts. Based on our FY 2008 testing of financial transactions and the related effectiveness of yearend reporting controls, we identified \$106,562 in net payroll receipt and disbursement amounts not recorded in the Federal Financial System (FFS).

c. The House did not maintain sufficient documentation to support payroll transactions.

All PAFs were not scanned into the ImageNow system upon receipt of a change request to support bonus payments, terminations, and personnel elections. We could not obtain support for the following:

- Salary adjustments for two employees
- Leave without pay status for one employee
- Termination for one employee
- Thrift Savings Plan election for two employees
- Federal Employees' Group Life Insurance election for one employee

Without such documentation, the House cannot ensure that employee salaries and deductions are correct.

d. The control environment weaknesses did not ensure adherence to procedures.

In addition to the specific weaknesses discussed above, the control environment has contributed to errors in the processing of transactions for payroll and related benefits, thus impeding the House's ability to ensure that all employing offices adhered to controls designed to ensure accurate transactions. During the FY 2008 audit, we performed sample control tests on files of terminated employees, interns and temporary employees, and individuals who received lump-sum bonus payments.

We identified exceptions related to late or missing PAF documentation in each control sample test population. We identified two instances in which a total of \$13,068 was paid to terminated employees. Out of a sample of 47 intern and temporary employees, 42 individuals had exceeded the specified allowable time limit for employment. Finally, one individual received a bonus payment two months after it should have been paid.

Employing offices did not always adhere to two key controls that affected payroll and related benefit processing.

- Employing offices did not always submit and/or process PAFs in a timely manner. If a PAF is submitted late or never submitted, the House payroll office will continue to process an individual's payroll until an employing office submits a PAF advising the CAO's office that the employee is no longer employed by the House.
- Employing offices did not always perform payroll validations to ensure accuracy and completeness for payroll and related benefit payments. The validation process requires each employing office to validate payroll payments that CAO will make on its behalf prior to payment processing. Because this validation process does not always occur, payment errors are not identified. In the example cited above, payroll validation would have provided a mechanism for the employing office to identify and prevent payment to a terminated employee.

In addition, because an established management control plan is not in place, the weaknesses discussed above may be undetected and uncorrected. A management control plan, such as those directed by OMB Circular A-123, provides a mechanism for management to identify, report, and correct control deficiencies in a timely manner.

Recommendations

We recommend that CAO:

- 1.a. Ensure existing controls for the payroll validation and the amounts exceeding the Speaker Pay Order limit check are sufficient to prevent data entry errors. We also recommend that CAO consider implementing edit checks within the payroll system or implement other compensating controls to ensure that hourly rates do not result in an annual salary exceeding the Speaker Pay Order limit.
- 1.b. Develop procedures to reconcile payroll deduction receipt and disbursement amounts on a monthly basis as part of payroll processing. Additionally, we recommend that CAO properly recognize and record payroll transactions in FFS.
- 1.c. Strengthen controls of the Image Now system to support payroll transactions recorded in Lawson.
- 1.d. In coordination with the OIG and Committee on House Administration (CHA), identify offices that do not comply with requirements for timely Payroll Authorization Form (PAF) submission or submission of payroll certification reports, provide assistance, and reinforce the need for compliance with these controls.
- 1.e. Establish a management control program to ensure that internal controls over financial reporting for the House of Representatives are designed, implemented, and operating effectively using guidance contained in OMB Circular A-123, Appendix A.

Weakness 2: **Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.**

Summary Status: **Significant Deficiency**
 Prior Condition
 Open

Weaknesses in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements adversely affected the House's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

OMB Circular A-123 states:

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

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

We identified weaknesses in two of the eight assertions identified above (Nos. 1 and 5). Our findings and associated recommendation for corrective action are below.

We identified two specific areas that did not meet criteria in Assertion No. 1:

a. The methodology used to identify duplicate payments was ineffective.

The Office of Financial Solutions, Financial Counseling (FC), methodology for identifying duplicate payments did not allow for recognition of potential duplicate payments due to insufficient search criteria. The methodology used to identify duplicate payments included established criteria (e.g. same organization, vendor code, amount, and beginning date of service),

but combined these criteria into one search. By not dividing the criteria among multiple smaller searches, FC was unable to identify potential duplicate payments that met some but not all of the criteria, such as payments with the same amount and vendor code but different invoice dates.

b. The House did not maintain adequate inventory records of property.

Inventory records of property items were not accurately tracked in FAIMS. We initially sampled 45 items; of these, 18 were within the Office of the Clerk. Office of the Clerk personnel were unable to locate 7 of the items in a timely manner. As a result, we expanded testing and identified one item that the Office of the Clerk could not verify. Also, House Information Resources (HIR) personnel stated that an asset within FAIMS had been retired, but HIR could not provide the proper disposal paperwork.

House personnel did not always follow annual physical inventory policies and procedures and did not ensure accurate recording and updating of records in FAIMS. Inaccurate property records increases the risk of misappropriation of property items. Assets that have been retired but have not been removed from FAIMS result in an overstatement of the financial statements and notes in reporting the estimated acquisition value and accumulated amortization/depreciation of assets.

We identified one instance that did not meet criteria in Assertion No. 5:

c. Inaccuracies in the Statement of Cash Flows

Controls and procedures to ensure the accuracy of capital lease transactions recorded in the Statement of Cash Flows by the Office of Financial Solutions (OFS) were insufficient. The principal payment on capital lease liabilities for Asset No.284207 was misstated as \$523,701, rather than the correct \$539,701. This resulted in a \$16,000 understated principal Payment on Capital Lease Liabilities reported on the Statement of Cash Flows. While this is an immaterial amount, the lack of adequate controls over the recording of lease payments could potentially result in a material misstatement on the Statement of Cash Flows.

Recommendations

We recommend that CAO:

- 2.a. Revise the methodology for identifying duplicate payments to include using multiple selection criteria to identify potential duplicates. If the current duplicate payment software is not adequate, we recommend that CAO consider alternative commercial programs or develop an in-house program to perform the duplicate payment function. Additionally, we recommend that CAO develop and implement systematic preventive controls within Atlas to identify and prevent duplicate payments.
- 2.b. Ensure that the House complies with its annual inventory procedures. We also recommend the CAO request Accountable Equipment and Assets (AEA), HIR, and Office of the Clerk receiving departments to review and strengthen policies for ensuring accurate record updates to FAIMS.
- 2.c. Require the Office of Financial Solutions to review the process of recording cash flows and develop appropriate policies and procedures to ensure accurate recording.

Weakness 3: Weaknesses in the financial information system reduced the integrity of financial data and reporting.

**Summary Status: Significant Deficiency
Prior Condition
Open**

Although CAO made progress in addressing prior-year weaknesses, we noted that nine of 31 prior-year recommendations remained open. The remaining 22 prior-year weaknesses were closed when changes in House operations remedied the associated underlying weaknesses. The status of new and open recommendations is detailed in Summary of Recommendations, Weakness 4. Closed recommendations follow that section.

Our audit identified four new weaknesses in two FISCAM control areas:

- Entity-Wide Security Program Planning and Management
- Access Controls

Although none of the new or existing weaknesses discussed in this report by itself represents a reportable condition, they collectively comprise a reportable condition.

Entity-Wide Security Program Planning and Management

We identified weaknesses related to entity-wide security program planning and management in the following two areas:

- Federal Financial System (FFS) Statement on Auditing Standard (SAS) 70 and Interconnection Security Agreement with Department of the Interior's National Business Center (NBC)
 - Certification and Accreditation (C&A) of General Support Systems
- a. Federal Financial System SAS 70 and Interconnection Security Agreement with NBC**

Controls are not adequate to ensure that CAO obtained assurance of the effectiveness of user controls protecting FFS data by conducting annual reviews of user controls documented within the SAS 70 report for FFS and the Interconnection Security Agreement with NBC.

Operation and Testing of Operating Effectiveness (SAS 70) for the period July 1, 2007, through June 30, 2008, states:

User Control Considerations section

The Federal Financial System (FFS) mainframe general information technology and account operation controls at NBC were designed with the assumption that certain controls would be implemented by user organizations. The application of such controls by user organizations is necessary to achieve certain control objectives. In order for the user organization to rely on internal controls reported herein (within the SAS 70 report), the user organizations must evaluate their own system of internal controls to determine if the following items, at a minimum are in place...:

Controls to provide reasonable assurance that logical access to NBC's mainframe at client locations is restricted to authorized individuals.

Interconnection Security Agreement (ISA) and Memorandum of Understanding (MOU) between the House and NBC, April 2008, Section 2.11, Audit Trail Responsibilities states:

Both Agencies are responsible for auditing activities involving the interconnection. Activities that will be recorded include event type, date and time of event, user identification, workstation, success or failure of access attempts, and security actions taken by system administrators or security officers. Audit trails will be retained for one year. USHR [House] will conduct annual reviews in conjunction with the NBC security staff.

Further, Section 6, *Software*, of the above document states:

The CISCO IOS levels will be maintained and kept current (current maintained production release identified by the hardware vendor). Patches will be applied for the IOS for the hardware, as vulnerabilities and fixes are made available and commensurate with the risk associated with the vulnerability.

Finally, Section 8, *Security*, states:

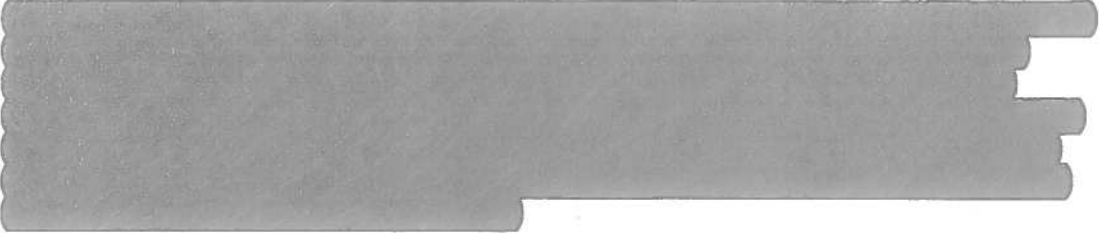
Interconnecting systems shall have undergone a C&A process with associated memorandums that designate the systems are fully accredited.

We identified weaknesses in the following CAO user-control considerations:

- Controls were not adequate to ensure that logical access to the NBC Mainframe was restricted to authorized individuals. During a review of FFS Security Application Forms for a selection of 45 FFS users, we identified the following:
 - 7 accounts did not have approval forms.
 - 3 accounts were approved for a profile not consistent with the current assigned profile.
 - 3 accounts did not include a specific profile name on the approval form, but did include permission descriptions.
 - 3 accounts did not include profile documentation, but included notes to see an attachment, which was not provided.
 - 1 account did not include profile documentation, and no other reference was made.

Subsequent to the end of the audit fieldwork period, management provided additional documentation and explanations related to the noted exceptions. We will conduct follow-up testing in this area during the FY 2010 audit cycle.

- Controls were not adequate to ensure that interconnecting systems have undergone a C&A process with associated memorandums that designate the systems as fully accredited. Specifically, the Procurement Desktop system (PD) has an interconnection with FSS, but it had not completed the C&A process and is not fully accredited.
- Controls are not adequate to ensure that activities involved in the interconnection between the House and NBC were audited and audit logs were maintained and reviewed annually in conjunction with NBC security. We observed audit logs produced for events on the router that controls the connection between the House and NBC. Logs for events, such as configuration changes and failed login attempts, were being recorded. However, no evidence of review by either House or NBC management was available.

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Without adequately implementing and functional FFS user controls, NBC controls over FFS systems processing House payroll may be circumvented, leading to unauthorized access and alteration of House data.

b. Certification and Accreditation of General Support Systems

Controls were not adequate to ensure that general support systems undergo a C&A process at least every two years. CAO has not completed a compliance review of the primary general support system for financial applications, the House Network.

HISPOL 007.0 - The United States House of Representatives Information Security Policy for the Information Security Compliance Program, Version 1.0, Section 2, Policy Guidelines, states:

The following policy guidelines address security requirements for House major and support applications and devices:

- *House major and support applications and devices shall be protected commensurate with the risk and magnitude of harm resulting from the loss, misuse, unauthorized access to, modification or destruction of information processed, stored, or transmitted.*
- *The sensitivity of each major and support application shall be determined based on the value of the information processed, stored, or transmitted, and the potential impact of the loss of confidentiality, integrity, or availability.*
- *Compliance reviews of major and support applications and devices will be conducted at least once every two (2) years, or when a significant change occurs, to ensure an appropriate level of security is maintained. At the discretion of the ISSO, more frequent compliance reviews may be conducted.*
- *Security requirements and controls (in place and planned) for each major and support application shall be identified and documented in a System Security Plan (SSP). SSPs shall be updated annually, and shall include device-related security controls and documents as appropriate.*
- *Security requirements and controls for each device shall be identified and documented in the appropriate security compliance checklist(s).*
- *Without certification and accreditation of House general support systems management cannot ensure that systems are operating within an acceptable level of risk to protect the confidentiality, availability, and integrity of financial data feeding the House financial statements.*

Access Controls

Access controls over CAO major applications and the general support system were inadequate. We identified weaknesses related to access controls in the following two areas:

- Controls over Procurement Desktop Database Configurations
- Segregation of Member Payroll User Roles and Functions

c. Controls over Procurement Desktop Database Configurations

Controls are not adequate to ensure that standard security configuration baselines are implemented for the PD database. Specifically, CAO has not configured and audited the PD database to ensure that HISPUB (security checklist) requirements are met.

HISPOL 007.0 - The United States House of Representatives Information Security Policy for the Information Security Compliance Program, Section 2, Policy Guidelines, states:

Compliance reviews of major and support applications and devices will be conducted at least once every two (2) years, or when a significant change occurs, to ensure an appropriate level of security is maintained.

Security requirements and controls shall be identified and documented in the appropriate security compliance checklist(s).

Further, Section 3.2, *Responsible House Offices and Personnel*, states:

House Offices are responsible for the overall procurement, development, integration, modification, operation, maintenance, and oversight of an information system. The responsible personnel will: Ensure the appropriate security compliance checklists are applied and maintained

Without adequately applied security settings, management cannot ensure that controls are adequately mitigating identified risks to financial transactions and data processed and stored within the Procurement Desktop database.

d. Segregation of Member Payroll User Roles and Functions

CAO did not ensure that incompatible Member payroll job functions were adequately segregated. In addition, CAO did not develop compensating controls, such as logging and monitoring, to ensure that unauthorized and malicious activities performed using incompatible Member payroll functions were identified and investigated.

The House did not adequately identify incompatible Member payroll job functions, and it did not have compensating controls, such as logging and monitoring, to ensure that it could identify and investigate any unauthorized and malicious activities performed in Member Payroll.

During our review of Member Payroll roles we determined that all seven Member Payroll users have access which would allow them the capability to make changes or alter sensitive Member Payroll data. Three of these users are not everyday users of the Members Payroll application.

Due to the sensitive nature of Member Payroll data there is an increased risk that unauthorized activities may occur. The CAO has not developed compensating controls, such as logging and monitoring, to

identify potential unauthorized user activities which could affect the confidentiality, integrity, and availability of sensitive Member Payroll data.

NIST SP 800-53a, *Guide for Assessing Security Controls in Federal Information Systems*, June 2008, Section AC-5, *Separation of Duties*, states:

Control: The information system enforces separation of duties through assigned access authorizations.

Supplemental Guidance: The organization establishes appropriate divisions of responsibility and separates duties as needed to eliminate conflicts of interest in the responsibilities and duties of individuals. There is access control software on the information system that prevents users from having all of the necessary authority or information access to perform fraudulent activity without collusion.

Section AC-6, *Least Privilege*, states:

Control: The information system enforces the most restrictive set of rights/privileges or accesses needed by users (or processes acting on behalf of users) for the performance of specified tasks.

Supplemental Guidance: The organization employs the concept of least privilege for specific duties and information systems in accordance with risk assessments as necessary to adequately mitigate risk to organizational operations, organizational assets, and individuals.

Section AC-13, *Supervision and Review – Access Control*, states:

Control: The organization supervises and reviews the activities of users with respect to the enforcement and usage of information system access controls.

Supplemental Guidance: The organization reviews audit records (e.g., user activity logs) for inappropriate activities in accordance with organizational procedures. The organization investigates any unusual information system-related activities and periodically reviews changes to access authorizations. The organization reviews more frequently the activities of users with significant information system roles and responsibilities.

Section AU-10, *Non-Repudiation*, states:

Control: The information system provides the capability to determine whether a given individual took a particular action.

Supplemental Guidance: Non-repudiation protects against later false claims by an individual of not having taken a specific action. Non-repudiation services can be used to determine if information originated from an individual, or if an individual took specific actions.

Without enforcement of least privilege, or adequate compensating controls, such as logging and monitoring of user activities, management cannot ensure that users are not performing unauthorized or malicious activities that can affect the confidentiality, availability, and integrity of sensitive Member Payroll data.

Recommendations

We recommend that CAO:

- 3.a. Perform certification testing to ensure that NBC FFS user controls are in place and working effectively. This includes any controls documented within the SAS 70 user control considerations and the Interconnection Security Agreement with NBC.
- 3.b. Complete their effort to certify and accredit (Perform HISPOL 007.0 Compliance Review), the primary general support system supporting CAO financial applications.
- 3.c. Ensure the Procurement Desktop Oracle database is configured to meet Oracle database audit checklist (HISPUB) requirements.
- 3.d. Update Member Payroll application user roles to enforce the rule of least privilege; or develop and implement compensating controls, such as logging or monitoring, to ensure users are only performing authorized activities.

SUMMARY OF RECOMMENDATIONS

The tables below show our recommendations and management’s response to those recommendations. Additionally, we have attached to this report management’s response in its entirety. In general, management concurred with our findings and recommendations.

Weakness 1: Weaknesses in the processing and reporting of payroll data are exacerbated by deficiencies within the House’s control environment.

Recommendation	Status	Management Response
<p>1.a. We recommend that CAO ensure existing controls for the payroll validation and the amounts exceeding the Speaker Pay Order limit check are sufficient to prevent data entry errors. We also recommend that CAO consider implementing edit checks within the payroll system or implement other compensating controls to ensure that hourly rates do not result in an annual salary exceeding the Speaker Pay Order limit.</p>	<p>Open</p>	<p>CONCUR.</p> <p>The overpayment referenced by the external auditors was an isolated event and the CAO collected the overpayment. The overpayment was caused by uploading transaction batches into the payroll system which bypasses the warning message to the data entry personnel that the transaction exceeded Speaker’s Pay Order Limits. The CAO has discontinued this practice and has implemented a source document to draft payroll register validation during the pay cycle, in addition to the current Speaker’s Pay Order edit report. Additionally, operating procedures include checking overtime transactions prior to entry to ensure that they do not exceed Speaker’s Pay Order limits. Additional edits cannot be added to the payroll system without customizing the application source code. The cost of such customization would outweigh the benefits achieved as the edit would be used to detect a single error. The CAO has completed corrective action on this recommendation and requests closure.</p>
<p>1.b. We recommend that CAO develop procedures to reconcile payroll deduction receipt and disbursement amounts on a monthly basis as part of payroll processing. Additionally, we recommend that CAO properly recognize and record payroll transactions in FFS.</p>	<p>Open</p>	<p>CONCUR.</p> <p>The Office of Payroll and Benefits (P&B) has developed procedures to reconcile optional life insurance, basic life insurance, health insurance, and flexible spending account deductions and disbursements. P&B also validates Federal and State tax withholding elections and FICA and Medicare taxable gross and deductions on the employee level. Accounting performs validations of Federal, FICA and Medicare taxable wages and withholdings for deposit and 941 reporting, State tax and TSP deductions and disbursements. P&B has also implemented additional cash balancing procedures to ensure the net pay reconciles to the amount disbursed through the Federal Reserve.</p>
<p>1.c. We recommend that CAO strengthen controls of the Image Now system to support payroll transactions recorded in Lawson.</p>	<p>Open</p>	<p>CONCUR.</p> <p>The CAO has implemented additional quality assurance steps to ensure that payroll and benefit transactions are archived in the ImageNow. In July, 2009, the Payroll Operations team began auditing a random sample of 135 transactions each pay period to ensure that the actions are recorded in ImageNow. The CAO recently completed an automated audit between the ImageNow and Lawson systems validating the indexing of approximately 3.5 million documents. The CAO will conduct this audit on a semi-annual basis. The CAO has completed corrective action on this recommendation and request closure.</p>
<p>1.d. We recommend that CAO, in coordination with the OIG and</p>	<p>New</p>	<p>CONCUR.</p>

Recommendation	Status	Management Response
<p>Committee on House Administration (CHA), identify offices that do not comply with requirements for timely Payroll Authorization Form (PAF) submission or submission of payroll certification reports, provide assistance, and reinforce the need for compliance with these controls.</p>		<p>The CAO concurs with this recommendation and will coordinate with the Office of the Inspector General and the committee on House Administration. The CAO does not have the authority to enforce timely submissions of PAF’s or payroll certification reports. The CAO currently communicates monthly submission deadlines in each monthly payroll and benefits newsletter, sends notices to offices that do not return payroll certification reports in a timely manner, and has encourages adherence to deadlines. The CAO will institute a monthly notification to identify employing offices that do not return payroll certifications.</p>
<p>1. e. We recommend that CAO establish a management control program to ensure that internal controls over financial reporting for the House of Representatives are designed, implemented, and operating effectively using guidance contained in OMB Circular A-123, Appendix A.</p>	<p>New</p>	<p>CONCUR.</p> <p>The CAO concurs with this recommendation. The CAO is actively recruiting for an audit and internal controls manager. Upon successfully filling this vacancy, the CAO plans to begin developing a centralized management control program. This management control program will be limited to only those activities which the CAO has policy enforcement authority.</p>

Weakness 2: Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.

Recommendation	Status	Management Response
<p>2.a We recommend that CAO revise the methodology for identifying duplicate payments to include using multiple selection criteria to identify potential duplicates. If the current duplicate payment software is not adequate, we recommend that CAO consider alternative commercial programs or develop an in-house program to perform the duplicate payment function. Additionally, we recommend that CAO develop and implement systematic preventive controls within Atlas to identify and prevent duplicate payments.</p>	<p>Open</p>	<p>CONCUR.</p> <p>The CAO has already revised its methodology for identifying duplicate payments to include four unique selection criteria sets that use multiple attributes to divide the criteria into smaller search groups. As a result, more potential duplicates can be identified. These four criteria sets are applied simultaneously monthly to a single cumulative financial activity data base, and potential duplicates are researched and corrective action taken, if necessary. Currently, the CAO has incorporated this search into a commercial off-the-shelf program but will transition this capability to an in-house program in the coming months. In addition, the House’s new financial system, ATLAS, will have the capability to identify potential duplicate payments at the point of entry. This function will be used in addition to the monthly data loads documented above, thus strengthening internal controls by giving the House capability to identify potential duplicate payments both before and after payments have been processed. The CAO believes we have taken the appropriate action to close this recommendation.</p>
<p>2.b. We recommend that CAO ensure that the House complies with its annual inventory procedures. We also recommend the CAO request Accountable Equipment and Assets (AEA), HIR, and Office of the Clerk receiving departments to review and strengthen policies for ensuring accurate record updates to FAIMS.</p>	<p>New</p>	<p>CONCUR.</p> <p>The CAO concurs with this recommendation. The Accountable Equipment and Assets and HIR will comply with the annual inventory procedures currently in effect. In addition, after reviewing specific weaknesses, the Accountable Equipment and Assets (AEA) and HIR receiving departments will review and strengthen policies for ensuring accurate record updating to FAIMS. The CAO has no authority over the receiving department for the Office of the Clerk; but will offer guidance for the review of their inventory and receiving policies. The CAO expects to complete this review by December 31, 2009</p>
<p>2.c. We recommend that CAO require the Office of Financial Solutions to review the process of recording cash flows and develop appropriate policies and procedures to ensure accurate recording.</p>	<p>New</p>	<p>CONCUR.</p> <p>The CAO will continue to track lease payments and the associated reduction of the capital lease liabilities according to amortization schedules consistent with the terms of the lease. The Consolidated Statement of Cash Flows will be eliminated beginning with the Fiscal Year 2009 Financial Statement Compilation and subsequent years thereafter as the House transitions to preparing financial statements in compliance with Office of Management and Budget (OMB) Circular A-136 guidelines. Future capital lease commitments including both imputed interest and net capital lease liability were disclosed correctly in Note 8 of the Fiscal Year 2008 Financial Statements. This recommendation was based on an inadvertent error where annual principal payments on capital leases were summarized and presented incorrectly as a single amount on cash flow statements, and that amount did not match the amortization schedules; however, the amortization schedules were correct. Based on cash flow statements being eliminated in the future, the CAO believes we have taken the appropriate action to close this recommendation.</p>

Weakness 3: Weaknesses in the financial information system reduced the integrity of financial data and reporting.

Entity-Wide Security Program Planning and Management

Recommendation	Status	Management Response
<p>3.a. We recommend that CAO management perform certification testing to ensure that NBC FFS user controls are in place and working effectively. This includes any controls documented within the SAS 70 user control considerations and the Interconnection Security Agreement with NBC.</p>	New	<p>CONCUR.</p> <p>We agree that effective user controls over access to FFS are required under our agreement with the NBC. We will continue to execute the controls over user access that are working effectively. We will also review the NBC agreements to improve our compliance with required controls that are not effective or not clearly documented.</p>
<p>3.b. We recommend that CAO management complete their effort to certify and accredit (Perform HISPOL 007.0 Compliance Review), the primary general support system supporting CAO financial applications.</p>	New	<p>CONCUR.</p> <p>The CAO concurs that the effort to certify and accredit all general support systems needs to be completed. The CAO is working on the certification of the House network and is schedule to have it completed by October 31, 2009. The CAO believes no further action is necessary on this portion of the recommendation.</p>
<p>04-HOC-07, 2.02 Develop, document, and put in place procedures to ensure compliance with HISPOL 003.0. These procedures should include risk assessments performed at all levels (application, database, and server) before new systems are installed and when enhancements are made to existing systems. In addition, this would include developing a schedule of risk assessments for existing and new financial systems and developing procedures to identify, implement, and track corrective actions designed to resolve weaknesses identified in the risk assessment.</p>	Open	<p>The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.</p>
<p>07-HOC-08, 1.01 Develop, document, and put in place, a process for testing security controls identified as corrected, to ensure actions taken adequately mitigate or correct identified weaknesses.</p>	Open	<p>The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.</p>
<p>04-HOC-07, 2.03 Develop procedures to ensure that system-specific security plans are developed and updated as needed to reflect changes to software, hardware, and business operations.</p>	Open	<p>The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.</p>

Access Control

Recommendation	Status	Management Response
<p>3.c. We recommend that CAO management ensure the [redacted] database is configured to meet Oracle database audit checklist (HISPUB) requirements.</p>	<p>New</p>	<p>CONCUR.</p> <p>The [redacted] database was last audited against the checklist in 2005. We have not audited the database since that time because the application is no longer on vendor support and the database has not been updated in that period. We will review against the checklist no later than December 31, 2009.</p>
<p>3.d. We recommend that CAO management update Member Payroll application user roles to enforce the rule of least privilege; or develop and implement compensating controls, such as logging or monitoring, to ensure users are only performing authorized activities.</p>	<p>New</p>	<p>CONCUR.</p> <p>We agree that certain activity logs would provide compensating controls. Current plans call for Member Payroll to be consolidated into the Lawson environment in 2010. At that point, we will review the logging and monitoring processes already existing in Lawson that can be applied to Member Payroll, and will determine if additional logs are necessary.</p>
<p>05-HOC-07, 2.05 Modify existing procedures to ensure that CAO system administrators are notified immediately when employees leave or are terminated from employment with the House.</p> <p>Assign responsibility for quarterly review of all CAO network accounts and require all reviews be documented for future reference. Reviewers should look for active accounts that have not been used in a specified period of time. These accounts should be followed up to determine if they are still necessary and disabled or deleted if not.</p>	<p>Open¹</p>	<p>The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.</p>

¹ As the result of our FY 2008 audit, we noted that system administrators were not notified immediately when an employee was terminated, and network accounts were not disabled or deleted when no longer needed. During our testing of the population of 39 CAO employees separated from October 1, 2007, through September 30, 2008, we identified 5 active accounts for 3 separated employees. One of the 5 accounts identified was used after the employee's separation date.

In addition, CAO network accounts were not being periodically reviewed to identify and delete inactive accounts and to ensure that all active accounts were necessary. During our review of the population of 1,941 CAO network accounts, we identified 1,005 CAO network accounts that had never been logged into. We noted that 634 of the 1,005 accounts (63%) that had never been logged into were still active.

Service Continuity

Recommendation	Status	Management Response
02-HOC-06, 4.05 Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, mainframe computer, FFS, PD, and all critical financial systems.	Open	The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.

Application Software Development and Program Change Control

Recommendation	Status	Management Response
06-HOC-08, 1.17 Develop, document, and implement controls over movement of program changes for Paylinks. Controls should be adequate to ensure that only authorized changes are moved into production, and management is notified.	Open ²	The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.
08-HOC-13, 3.02 Develop, document, and implement procedures to ensure that users do not install any personal or unlicensed software, or any software instances in excess of current license agreements. This may include the use of automated tools or other tracking systems to ensure that the existence of any personal or unlicensed software, or any software instances in excess of current license agreements are detected, reported, acted on and corrected.	Open	The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.

Segregation-of-Duty Controls

Recommendation	Status	Management Response
06-HOC-08, 1.20 Develop, document, and implement policies and procedures to ensure that CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end user and administrative levels.	Open	The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.
06-HOC-08, 1.21 Develop and implement procedures to ensure that segregation-of-duty principles are understood by key personnel, such as system and data owners and program managers.	Open	The CAO believes appropriate action has been taken to close this recommendation. This recommendation will be reviewed and considered for closure during the next audit cycle.

² During our review of CAO responses to Independent Auditor's Report on Internal Control related to the House CY 2007 Annual Financial Statement Audit, we noted that CAO still does not perform logging and monitoring to ensure that only authorized PayLinks changes are introduced into production. When changes are moved into production, management personnel are alerted only if the person moving the change notifies them.

SUMMARY OF CLOSED PRIOR-YEAR FINANCIAL STATEMENT AUDIT RECOMMENDATIONS

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

07-HOC-08, 1.1	The House properly recognized services rendered for postal services at the offsite facility during FY 2008.
07-HOC-08, 1.2	The quality control and review process related to the preparation of year-end financial statements operated effectively. Additionally, the process applied to report the accounts receivables related to payroll transactions were effective during FY 2008.
07-HOC-08, 1.3	The beginning balances related to Inventory Held for Resale and Capital Lease Liabilities general ledger accounts were accurately recorded in FFS based on the prior year ending balance.
07-HOC-08, 1.4	The Accounts Payable accrual methodology developed and implemented during FY 2008 was appropriate and accounted for properly.
07-HOC-08, 1.6	The proper procedures to report contingent liabilities at year end were developed and implemented during FY 2008.
07-HOC-08, 1.7	Procedures for ensuring the correct amount of deferred revenue is recognized properly are sufficient.
07-HOC-08, 2.1	Procedures related to the Final Payroll Certification performed between Payroll and Benefits, Payroll Operations and House Employing Offices were properly documented.
07-HOC-08, 2.2	The Payroll department increased correspondence with House Employing Offices related to Personnel Authorization Forms (PAFs) submitted by the 15 th of each month.
07-HOC-08, 2.3	The Federal Tax Withholdings submitted through the FEDTAX program was accurately reported during FY 2008.
07-HOC-08, 2.4	Payroll reconciliation procedures related to Gross to Net Payroll and the Tracking Log for cancelled and stop payment payroll checks were documented and/or updated appropriately.
05-HOC-07, 2.02	Modify HISPUB 024 (pending) to require CAO SSPs to identify specific individuals as system and data owners.
05-HOC-07, 2.03	Modify HISPUB 024 to include guidance on what expected behaviors should be documented within CAO SSPs. CAO should fully implement all requirements identified in HISPUB 024 by updating CAO SSPs to comply with HISPUB 024.
06-HOC-08, 1.03	Require all CAO employees and contractors who are users of the Network/Financial systems to read and sign expected rules of behavior.
06-HOC-08, 1.01	Develop, document, and put in place procedures to ensure all new CAO employees and contractors complete security awareness training before being granted access to the network and financial applications.
06-HOC-08, 1.02	Develop, document, and implement a formal certification and accreditation program to achieve: <ul style="list-style-type: none"> • Certification and accreditation of the general support system and all major financial applications. • Recertification every 3 years or when major changes occur. • Development of a SSP for the House general support system (network) to include requirements identified in HISPUB 024. • Identification of system owners and administrators including security administrators.
05-HOC-07, 2.04	Controls are not adequate to ensure that CAO network access authorizations are: <ul style="list-style-type: none"> • Documented on standard forms and maintained on file, • Approved by senior managers, and Securely transferred to security managers
05-HOC-07, 2.09	Document policies and procedures for granting emergency and temporary access. Monitor emergency and temporary access, and automatically terminate access after a predetermined period when possible.
06-HOC-08, 1.07	Develop policies and procedures to ensure that standard security configuration baselines are developed, tested, and implemented for all CAO financial applications before placing them into production. When management must configure a database against industry best practice for functionality reasons, clearly document this in the security baseline.

06-HOC-08, 1.08	Update Paylinks SSP to address logging and monitoring at the application and database levels. The SSP should identify what information or activities are to be logged; how long logs are to be retained, who has access to logs, and who should review logs.
05-HOC-07, 2.06	Identify and document specific activities that security administrators should be logging and reviewing on a weekly basis such as failed logon attempts, changes to security profiles, and unsuccessful attempts to access unauthorized systems or data by users and outsiders.
07-HOC-08, 1.02	Enforce FAIMS account review policies and procedures to ensure that inactive accounts are disabled when no longer needed. Ensure user's access within FAIMS agrees with their authorized access documented on access request forms.
07-HOC-08, 1.04	Update House incident response policies to require annual incident response training and conduct the annual training.
06-HOC-08, 1.09	Ensure that security audits are performed in accordance with House Information Security Policy 007.
06-HOC-08, 1.10	Develop and document standard security configuration baselines for all operating systems supporting CAO financial applications. Standard security configurations should be documented and clearly show how the operating system is intended to be configured. When risky or sensitive settings or processes must be used, management should clearly document reasons in the standard security configuration baseline.
06-HOC-08, 1.11	Develop, document, and test emergency procedures for the Ford data center. Ensure that procedures include specific steps to take in the data center during an emergency and identify who is responsible for taking such steps. Address activities such as emergency shutdown of systems and responding to fires or water leaks.
08-HOC-13, 3.01	Develop, document, and implement configuration management procedures to ensure that requests and related management approvals are documented and maintained for all changes due to Active Directory Windows service packs, hot fixes, and patches. Procedures should ensure that all initial requests for changes are documented, even if they are never implemented; that approvals are documented within requests forms to note management approval of the initial requests, management approval of test plans prior to testing, and management approval prior to implementation of the change.
06-HOC-08, 1.12	Require that functional/ technical specification documentation submitted by the developer be attached or included with change request forms and other documentation supporting changes to Paylinks.
06-HOC-08, 1.13	Develop procedures to ensure that test plans and results for changes are documented and included with other documentation supporting changes to Paylinks.
06-HOC-08, 1.15	Develop, document, and implement controls to ensure that only authorized and approved changes to Paylinks are introduced into production.
06-HOC-08, 1.16	Periodically review production program changes to ensure that access and change controls are being followed.
06-HOC-08, 1.18	Develop and implement procedures to ensure that systems are developed and tested in accordance with House SDLC requirements and industry best practices, particularly in light of the forthcoming FFS replacement.
07-HOC-08, 1.05	Identify, document, and implement controls for incompatible functions in FAIMS. Specific activities which should be considered include system administration, security administration, and system development. If management determined individuals need access within the system which is traditionally considered excessive or incompatible, management should identify and implement compensating controls to reduce the risk of unauthorized activities occurring.

**Office of the Chief Administrative Officer
Audit Report Response**

APPENDIX B
MANAGEMENT COMMENTS

Daniel P. Beard
Chief Administrative Officer

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

MEMORANDUM

To: Theresa Grafenstine
Acting Inspector General

From: Daniel P. Beard
Chief Administrative Officer

Subject: CAO responses to *Independent Auditor's Report on Internal Control* related to the House of Representatives Fiscal Year 2008 Annual Financial Statement Audit

Date: MAR 10 2010

Thank you for the opportunity to comment on the subject audit report. We have carefully reviewed the report's findings and recommendations and concur with the recommendations.

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

Weakness 1: **Weaknesses in the processing and reporting of payroll data are exacerbated by deficiencies within the House's control environment.**

Recommendation 1a: We recommend that CAO ensure existing controls for the payroll validation and the amounts exceeding the Speaker Pay Order limit check are sufficient to prevent data entry errors. We also recommend that CAO consider implementing edit checks within the payroll system or implement other compensating controls to ensure that hourly rates do not result in an annual salary exceeding the Speaker Pay Order limit.

CONCUR. The overpayment referenced by the external auditors was an isolated event and the CAO collected the overpayment. The overpayment was caused by uploading transaction batches into the payroll system which bypasses the warning message to the data entry personnel that the transaction exceeded Speaker's Pay Order limits. The CAO has discontinued this practice and has implemented a source document to draft payroll register validation during the pay cycle, in addition to the current Speaker's Pay Order edit report. Additionally, operating procedures include checking overtime transactions prior to entry to ensure that they do not exceed Speaker's Pay Order limits. Additional edits cannot be added to the payroll system without customizing the application source code. The cost of such customization would outweigh the benefits achieved as the edit would be used to detect a single error. The CAO has completed corrective action on this recommendation and requests closure.

Recommendation 1b: We recommend that CAO develop procedures to reconcile payroll deduction receipt and disbursement amounts on a monthly basis as part of payroll processing. Additionally, we recommend that CAO properly recognize and record payroll transactions in FFS.

CONCUR. The Office of Payroll and Benefits (P&B) has developed procedures to reconcile optional life insurance, basic life insurance, health insurance, and flexible spending account deductions and disbursements. P&B also validates Federal and state tax withholding elections and FICA and Medicare taxable gross and deductions on the employee level. Accounting performs **validations of Federal, FICA and Medicare taxable wages and withholdings for deposit and 941 reporting, State Tax and TSP deductions and disbursements.** P&B has also implemented additional cash balancing procedures to ensure the net pay reconciles to the amount disbursed through the Federal Reserve.

Recommendation 1c: We recommend the CAO enforce use of the ImageNow system to support payroll transactions recorded in Lawson.

CONCUR. The CAO has implemented additional quality assurance steps to ensure that payroll and benefit transactions are archived in the ImageNow. In July 2009, the Payroll Operations team began auditing a random sample of 135 transactions each pay period to ensure that the actions are recorded in ImageNow. The CAO recently completed an automated audit between the ImageNow and Lawson systems validating the indexing of approximately 3.5 million documents. The CAO will conduct this audit on a semi-annual basis. The CAO has completed corrective action on this recommendation and requests closure.

Recommendation 1d: We recommend that CAO, in coordination with the OIG and Committee on House Administration (CHA), identify offices that do not comply with requirements for timely PAF submission or submission of payroll certification reports, provide assistance, and reinforce the need for compliance with these controls.

CONCUR. The CAO concurs with this recommendation and will coordinate with the Office of the Inspector General and the Committee on House Administration. The CAO does not have the authority to enforce timely submissions of PAFs or payroll certification reports. The CAO currently communicates monthly submission deadlines in each monthly payroll and benefits newsletter, sends notices to offices that do not return payroll certification reports in a timely manner, and has encouraged adherence to deadlines. The CAO will institute a monthly notification to identify employing offices that do not return payroll certifications.

Recommendation 1e: We recommend that the CAO establish a management control program to ensure that controls are designed, implemented, and operating effectively using guidance contained in OMB Circular A-123 Appendix A.

CONCUR. The CAO concurs with this recommendation. The CAO is actively recruiting for an audit and internal controls manager. Upon successfully filling this vacancy, the CAO plans

to begin developing a centralized management control program. This management control program will be limited to only those activities which the CAO has policy enforcement authority.

Weakness 2: **Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.**

Recommendation 2a: We recommend that CAO revise the methodology for identifying duplicate payments to include using multiple selection criteria to identify potential duplicates. If the current duplicate payment software is not adequate, we recommend that CAO consider alternative commercial programs or develop an in-house program to perform the duplicate payment function. Additionally, we recommend that CAO develop and implement systematic preventive controls within Atlas to identify and prevent duplicate payments.

CONCUR. The CAO has already revised its methodology for identifying duplicate payments to include four unique selection criteria sets that use multiple attributes to divide the criteria into smaller search groups. As a result, more potential duplicates can be identified. These four criteria sets are applied simultaneously monthly to a single cumulative financial activity data base, and potential duplicates are researched and corrective action taken, if necessary. Currently, the CAO has incorporated this search into a commercial off-the-shelf program but will transition this capability to an in-house program in the coming months. In addition, the House's new financial system, ATLAS, will have the capability to identify potential duplicate payments at the point of entry. This function will be used in addition to the monthly data loads documented above, thus strengthening internal controls by giving the House capability to identify potential duplicate payments both before and after payments have been processed. The CAO believes we have taken the appropriate action to close this recommendation.

Recommendation 2b: We recommend that CAO ensure that the House complies with its annual inventory procedures. We also recommend the CAO request Accountable Equipment and Assets (AEA), HIR, and Office of the Clerk receiving departments to review and strengthen policies for ensuring accurate record updates to FAIMS.

CONCUR. The CAO concurs with this recommendation. The Accountable Equipment and Assets and HIR will comply with the annual inventory procedures currently in effect. In addition, after reviewing specific weaknesses, the Accountable Equipment and Assets (AEA) and HIR receiving departments will review and strengthen policies for ensuring accurate record updating to FAIMS. The CAO has no authority over the receiving department for the Office of the Clerk, but will offer guidance for the review of their inventory and receiving policies. The CAO expects to complete this review by the December 31, 2009.

Recommendation 2c: We recommend that CAO require the Office of Financial Solutions to

review the process of recording cash flows and develop appropriate policies and procedures to ensure accurate recording.

CONCUR. The CAO will continue to track lease payments and the associated reduction of capital lease liabilities according to amortization schedules consistent with the terms of the lease. *The Consolidated Statement of Cash Flows* will be eliminated beginning with the Fiscal Year 2009 Financial Statement Compilation and subsequent years thereafter as the House transitions to preparing financial statements in compliance with Office of Management and Budget (OMB) Circular A-136 guidelines. Future capital lease commitments including both imputed interest and net capital lease liability were disclosed correctly in Note 8 of the Fiscal Year 2008 Financial Statements. This recommendation was based on an inadvertent error where annual principal payments on capital leases were summarized and presented incorrectly as a single amount on cash flow statements, and that amount did not match the amortization schedules; however, the amortization schedules were correct. Based on cash flow statements being eliminated in the future, the CAO believes we have taken the appropriate action to close this recommendation.

Weakness 3: **Weaknesses in the financial information system reduced the integrity of financial data and reporting.**

Recommendation 3a: We recommend that CAO management perform certification testing to ensure that NBC FFS user controls are in place and working effectively. This includes any controls documented within the SAS 70 user control considerations and the Interconnection Security Agreement with NBC.

CONCUR. We agree that effective user controls over access to FFS are required under our agreement with the NBC. We will continue to execute the controls over user access that are working effectively. We will also review the NBC agreements to improve our compliance with required controls that are not effective or not clearly documented.

Recommendation 3b: We recommend that CAO management complete their effort to certify and accredit (Perform HISPOL 007.0 Compliance Review) the primary general support system supporting CAO financial applications.

CONCUR. The CAO concurs that the effort to certify and accredit all general support systems needs to be completed. The CAO is working on the certification of the House network and is scheduled to have it completed by October 31, 2009. The CAO believes no further action is necessary on this portion of the recommendation.

Recommendation 3c: We recommend that CAO management ensure the Procurement Desktop Oracle database is configured to meet Oracle database audit checklist (HISPUB) requirements.

CONCUR. The Procurement Desktop database was last audited against the checklist in 2005. We have not audited the database since that time because the application is no longer on vendor support and the database has not been updated in that period. We will perform a review against

the checklist not later than December 31, 2009.

Recommendation 3d: We recommend that CAO management update Member Payroll application user roles to enforce the rule of least privilege; or develop and implement compensating controls, such as logging or monitoring, to ensure users are only performing authorized activities.

CONCUR. We agree that certain activity logs would provide compensating controls. Current plans call for Member Payroll to be consolidated into the Lawson environment in 2010. At that point, we will review the logging and monitoring processes already existing in Lawson that can be applied to Member Payroll, and will determine if additional logs are necessary.

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Fiscal Year 2008 Financial Statements

U.S. House of Representatives
Consolidated Statement of Financial Position
as of September 30, 2008 and September 30, 2007

	2008	2007
	Consolidated	Consolidated
ASSETS		
Fund Balance with U.S. Treasury (Note 4)	\$ 169,311,592	\$ 197,273,657
Cash (Note 4)	739	1,731
Fund Balance with U.S. Treasury and Cash	<u>169,312,331</u>	<u>197,275,388</u>
Accounts Receivable, Net (Note 5)	513,569	582,090
Advances and Prepayments (Note 6)	4,244,321	5,415,179
Inventory	1,247,985	1,685,937
Property and Equipment, Net (Note 7)	<u>57,243,868</u>	<u>44,911,359</u>
Total Assets	<u>\$ 232,562,074</u>	<u>\$ 249,869,953</u>
LIABILITIES AND NET POSITION		
Accounts Payable (Note 9)	\$ 40,071,711	\$ 36,333,389
Capital Lease Liabilities (Note 8)	6,957,008	1,103,289
Accrued Funded Payroll and Benefits (Note 10)	8,841,009	7,694,679
Accrued Workers' Compensation (Note 10)	2,108,616	2,580,573
Accrued Unfunded Annual Leave (Note 10)	6,131,784	5,428,091
Deferred Credits (Note 11)	1,217,375	3,371,955
Unfunded Workers' Compensation		
Actuarial Liability (Note 12)	22,392,436	21,416,485
Other Liabilities	<u>107,493</u>	<u>280,944</u>
Total Liabilities	<u>87,827,432</u>	<u>78,209,405</u>
Unexpended Appropriations	101,638,132	130,918,403
Cumulative Results of Operations	<u>43,096,510</u>	<u>40,742,145</u>
Total Net Position (Note 13)	<u>144,734,642</u>	<u>171,660,548</u>
Total Liabilities and Net Position	<u>\$ 232,562,074</u>	<u>\$ 249,869,953</u>

U.S. House of Representatives
Consolidated Statement of Operations
for the Years Ended September 30, 2008 and September 30, 2007

	2008	2007
	<u>Consolidated</u>	<u>Consolidated</u>
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	\$ 2,973,938	\$ 2,647,063
Sales of Services to Federal Agencies	4,061,714	4,604,975
Sales of Services of the Public	927,445	924,716
Interoffice Sales (Note 14)	-	-
Other Revenue	991,411	600,603
Total Revenue from Operations	<u>8,954,508</u>	<u>8,777,357</u>
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Expended (Note 15)	1,338,630,992	1,239,261,523
Appropriations Unexpended (Note 15)	2,679,644	1,137,887
Imputed Financing Source (Note 16)	56,526,799	58,745,201
Total Revenue and Financing Sources	<u>\$ 1,406,791,943</u>	<u>\$ 1,307,921,968</u>
EXPENSES		
Personnel Compensation	\$ 752,712,069	\$ 720,303,454
Benefits (Note 16)	306,706,989	298,666,559
Postage and Delivery	34,779,829	16,350,352
Repairs and Maintenance	60,976,495	53,546,925
Depreciation and Amortization (Note 7)	15,816,197	20,129,990
Rent, Communications, and Utilities	27,396,324	27,652,162
Telecommunications	25,262,524	28,790,797
Supplies and Materials	16,268,886	17,538,259
Travel and Transportation	43,542,733	35,427,049
Contract, Consulting, and Other Services	70,676,664	56,260,737
Printing and Reproduction	30,900,844	14,971,278
Subscriptions and Publications	12,722,097	9,509,895
Cost of Goods Sold	6,381,566	6,779,735
Other Expenses	1,460,149	594,319
Bad Debts	226,009	360,385
Interest on Capital Leases	199,016	216,459
Total Expenses	<u>\$ 1,406,028,391</u>	<u>\$ 1,307,098,355</u>
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	<u>\$ 763,552</u>	<u>\$ 823,613</u>
CHANGE IN NET POSITION		
Net Position, Beginning Balance	\$ 171,660,548	\$ 156,667,490
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	763,552	823,613
Plus (Minus) Non-Operating Changes	(27,689,458)	14,169,445
Net Position, Ending Balance	<u>\$ 144,734,642</u>	<u>\$ 171,660,548</u>

U.S. House of Representatives
Consolidated Statement of Cash Flows
for the Years Ended September 30, 2008 and September 30, 2007

	2008 Consolidated	2007 Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess / (Deficiency) of Revenue and Financing Sources over Expenses	\$ 763,552	\$ 823,613
Adjustments affecting Cash Flow		
Expended and Unexpended Appropriations	(1,341,310,636)	(1,242,212,658)
(Increase)/Decrease in Accounts and Interoffice Receivable	(157,488)	(109,206)
Increase/(Decrease) in Allowance for Doubtful Accounts	226,009	272,915
(Increase)/Decrease in Advances and Prepayments	1,170,858	(2,707,820)
(Increase)/Decrease in Inventory	437,952	197,820
Increase/(Decrease) in Accounts and Interoffice Payable	3,738,322	4,646,776
Increase/(Decrease) in Other Accrued Liabilities	6,615,948	1,426,840
(Gain)/Loss on Disposal of Assets	460,149	594,319
Depreciation and Amortization	15,816,197	20,129,990
Net Cash Provided / (Used) by Operating Activities	(1,312,239,137)	(1,216,937,411)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(18,578,485)	(16,055,046)
Net Cash Provided / (Used) by Investing Activities	(18,578,485)	(16,055,046)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	1,307,838,000	1,265,463,431
Funds Returned to the U.S. Treasury	(4,247,192)	(9,817,745)
Principal Payment on Capital Lease Liabilities	(736,243)	(84,963)
Net Cash Provided / (Used) by Financing Activities	1,302,854,565	1,255,560,723
Net Cash Provided / (Used) by Operating, Investing, and Financing Activities	(27,963,057)	22,568,266
Fund Balance with U.S. Treasury and Cash, Beginning	197,275,388	174,707,122
Fund Balance with U.S. Treasury and Cash, Ending	\$ 169,312,331	\$ 197,275,388

Notes to the Financial Statements

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The U.S. House of Representatives (House) is one of two separate legislative chambers that comprise the Congress of the United States. The other is the U.S. Senate (Senate). All lawmaking powers of the Federal government are given to the Congress under Article I of the Constitution of the United States. The House and Senate jointly agree on a budget for the Legislative Branch and submit it to the President of the United States. The Members of the House serve two-year terms of office, which coincide with the sequential numbering of the entire Congress.

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

These financial statements reflect the organizational structure of the House under the 110th Congress. The following is a summary of the entity groupings as they appear in the fiscal year 2008 consolidating financial statements:

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; four Delegates, one each, from the District of Columbia, Guam, Virgin Islands, and American Samoa; and one Resident Commissioner from Puerto Rico.

The **Committees** financial information aggregates transactions of the Standing and Special and Select Committees of the 110th 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 110th Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and Labor
- Committee on Energy and Commerce
- Committee on Financial Services

- Committee on Foreign Affairs
- Committee on Homeland Security
- Committee on House Administration
- Committee on the Judiciary
- Committee on Natural Resources
- Committee on Oversight and Government Reform
- Committee on Rules
- Committee on Science and Technology
- Committee on Small Business
- Committee on Standards of Official Conduct
- Committee on Transportation and Infrastructure
- Committee on Veterans' Affairs
- Committee on Ways and Means
- Permanent Select Committee on Intelligence
- Select Committee on Energy Independence and Global Warming
- Select Committee on Voting Irregularities

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

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

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

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

The **Joint Functions** financial information aggregates transactions of the joint activities of the House and the Senate to the extent that the House funds these functions in

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

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

Eliminations on the consolidating financial statements are used to negate the effect of financial transactions between House entities. Consolidated House financial information would be misleading if inter-entity transactions were not eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

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

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

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

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

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

B. Basis of Accounting

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

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

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

- Fund Balance with the U.S. Treasury includes House accounts, as well as the Congressional Use of Foreign Currency account, which is held at the U.S. Treasury and is maintained and administered by the Department of State on behalf of the House.
- For purposes of the Consolidated Statement of Cash Flows, funds held with the U.S. Treasury are considered cash.

D. Accounts Receivable

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

E. Advances and Prepayments

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

F. Inventory

The Office Supply Service & Gift Shop maintain an inventory of goods for sale. These entities are included with Officers and Legislative Offices in the consolidating financial statements. Inventories for sale are valued at the moving weighted average method.

Furnishings, also included with Officers and Legislative Offices, maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair

materials. These items are not for sale and are reflected in the financial statements at an estimated value based on the first in/first out inventory valuation method.

G. Property and Equipment

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

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

H. Leases

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

I. Deferred Credits

The House receives advance payments from other Federal government entities for shared services, in advance of the delivery of these services. These advance payments are recorded as deferred credits. As the services are rendered the deferred credit account is drawn down and the appropriate revenue is recognized.

J. Revenue from Operations

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

- Sales of goods to the public consist of Office Supply Service and Gift Shop sales.
- Sales of services to the public are comprised of Photography sales, Child Care fees, Postal fees and Attending Physician fees.
- Interoffice sales between House entities consist of graphic services, telecommunications, office supplies, framing, recording, office equipment, photography, tape duplication, and are eliminated on the consolidating financial statements.
- Other revenue consists of Page School room and board, and vendor commissions.

K. Appropriations to Cover Expenses

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

L. Postage and Delivery

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

M. Repairs and Maintenance

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

N. Depreciation and Amortization

The cost of capital assets is allocated ratably over an asset's useful life as depreciation or amortization expense. The House calculates depreciation and amortization expense based on the straight-line method over an asset's estimated useful life. Depreciation expense is applicable to tangible

assets such as furniture, equipment, and vehicles. Amortization expense is applicable to intangible assets such as software and capital leases. Assets acquired under capital leases are generally amortized over the lease term. However, if a lease agreement contains a bargain purchase option or otherwise transfers title of the asset to the House, the asset is amortized on the same basis as similar categories of owned assets.

O. Rent, Communications, and Utilities

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

P. Telecommunications

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

Q. Supplies and Materials

Supplies and materials include office supplies used by the House and medical supplies used by the Attending Physician. Supplies and materials do not include inventories held for sale by retail entities such as the Office Supply Service and Gift Shop.

R. Travel and Transportation

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

S. Contract, Consulting, and Other Services

Contract, consulting, and other services include the cost of management services in House Postal Operations, annual audit fees, the cost of studies and analyses, as well as computer, janitorial, catering, and audio and video services.

T. Printing and Reproduction

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

U. Subscriptions and Publications

Subscriptions and publications include the cost of periodicals and online news services.

V. Cost of Goods Sold

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

W. Loss or Gain on Disposal of Assets

A loss is recognized when the net book value of the asset at the time of disposal exceeds any proceeds received. A gain is recognized when the net book value of the asset at the time of disposal is less than any proceeds received.

X. Annual Leave

Annual leave for the House Officers and their employees is accrued as earned, and the liability is reduced as leave is taken. The accrued annual leave balance as of September 30, 2008 is calculated according to Public Law 104-53, November 19, 1995, Sec. 109 Stat. 522. See Note 10, Accrued Payroll and Benefits and Leave, for additional information.

Y. Federal Employee and Veterans Benefits

This benefit expense includes the current cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. Also included is the current period expense for the future cost of providing post-retirement health benefits and life insurance to House employees. See Note 16, Benefits, for additional information.

Z. 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 3 - INTRA-GOVERNMENTAL FINANCIAL ACTIVITIES

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

Transactions with Executive Branch Agencies

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

- U.S. Postal Service for postage,
- General Services Administration for the use and upkeep of office space in certain Members' district offices, office supplies and leased vehicles,
- U.S. Department of Labor for unemployment and workers' compensation,
- U.S. Department of Education for the student loan program,
- U.S. Department of Transportation for transit benefits program,
- Department of Defense for contractual and maintenance services,
- U.S. Department of Energy for contractual services,
- U.S. Department of Homeland Security for security services,
- U.S. Department of the Interior, U.S. Geological Survey, National Business Center for financial system contract and consulting services, and
- Other Executive Branch agencies for special studies as requested by House.

Significant cash disbursements to Executive Branch agencies during the fiscal years ended September 30, 2008 and 2007 were approximately:

Disbursements to Executive Branch Agencies	2008	2007
U.S. Postal Service	\$ 34,105,000	\$ 16,039,000
General Services Administration	4,261,000	4,696,000
U.S. Department of Labor	2,899,000	3,903,000
U.S. Department of Education	2,459,000	2,374,000
U.S. Department of Transportation	2,242,000	2,076,000
Department of Defense	2,142,000	1,870,000
U.S. Department of Energy	710,000	338,000
U.S. Department of Homeland Security	429,000	177,000
U.S. Department of the Interior	428,000	524,000
Other Executive Branch Agencies	232,000	49,000

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

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

Foreign Currency Balance with the U.S. Department of State	2008	2007
Beginning Balance	\$ 33,461,569	\$ 26,918,332
Appropriation Received	18,000,000	15,000,000
Travel Expenses:		
Leadership	(2,094,205)	(2,061,610)
Committees	(10,636,855)	(6,395,153)
Ending Balance	<u>\$ 38,730,509</u>	<u>\$ 33,461,569</u>

Transactions with Legislative Branch Agencies

The House pays for support services provided by other Legislative Branch entities. These entities receive their own appropriations and operate autonomously from the House's administrative functions. The House received support services from the United States Senate in 2008. The House also receives support services from the Government Printing Office, Government Accountability Office, and the Architect of the Capitol.

Disbursements to Legislative Branch Entities	2008	2007
United States Senate	\$ 1,168,000	\$ 988,000
Government Printing Office	613,000	29,000
Government Accountability Office	246,000	187,000
Architect of the Capitol	234,000	330,000

The House also receives payments for services provided to the Congressional Budget Office and the Architect of the Capitol and for the reimbursement of services shared with other Federal government entities. In 2008, the House shared services with the Library of Congress. In 2007, the House shared services with the Library of Congress and the U.S. Senate. Cash receipts decreased due to the U.S. Senate opting out of utilizing the off-site House Postal Facility in 2008.

Cash Receipts from Legislative Branch Entities	2008	2007
Library of Congress	\$ 4,146,000	\$ 4,388,000
United States Senate	-	468,000
Architect of the Capitol	261,000	250,000
Congressional Budget Office	78,000	70,000

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

The House has appropriated and revolving fund balances with the U.S. Treasury. The balances, as of September 30, 2008 and 2007 were:

Fund/Cash Accounts Maintained by the House	2008	2007
Fund Balance with Treasury/Cash	\$ 130,581,822	\$ 163,813,819
Congressional Use of Foreign Currency	38,730,509	33,461,569
Total	\$ 169,312,331	\$ 197,275,388

The House usually receives the full amount of its appropriation at the beginning of each fiscal year.

Cash on Hand represents deposits in transit and amounts held in a commercial bank account. Cash on Hand was \$739 and \$1,731 as of September 30, 2008 and 2007, respectively.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts Receivable balances represent amounts owed the House by Federal agencies, Members, employees and/or vendors less an allowance for doubtful accounts. The Allowance for Doubtful Accounts was derived from the receivables amount owed to the House for more than six months. The House is actively pursuing these overpayments.

Accounts Receivable	2008	2007
Accounts Receivable	\$ 1,633,794	\$ 1,476,306
Less: Allowance for Doubtful Accounts	(1,120,225)	(894,216)
Accounts Receivable, Net	\$ 513,569	\$ 582,090

NOTE 6 - ADVANCES AND PREPAYMENTS

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

expense and prepayment amounts applicable to the current accounting period for financial statement purposes.

Advances and Prepayments are:

Advances and Prepayments	2008	2007
Advances	\$ -	\$ 81,291
Prepayments	4,244,321	5,333,888
Total	\$ 4,244,321	\$ 5,415,179

NOTE 7 – PROPERTY AND EQUIPMENT

Software is capitalized if its acquisition cost equals or exceeds \$10,000. Also, vehicles and equipment, including computers, are capitalized if their acquisition cost equals or exceeds \$25,000. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the fiscal year end. Depreciation

and amortization expense is based on the straight-line method over an asset's estimated useful life. The change in work in process is due to several projects not placed in service during the fiscal year. Property and equipment as of September 30, 2008 and the related depreciation and amortization expense are:

2008 Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/ Depreciation	Estimated Net Book Value	Amortization/ Depreciation Expense
Work in Process	N/A	\$ 26,319,495	\$ -	\$ 26,319,495	\$ -
Computer Software and Hardware	3	76,913,883	70,629,883	6,284,000	7,520,300
Assets Under Capital Lease	3	4,107,369	114,094	3,993,275	114,094
Computer Software and Hardware	5	790,911	790,911	-	-
Equipment	5	47,016,876	34,811,234	12,205,642	5,230,870
Motor Vehicles	5	10,524,770	7,113,465	3,411,305	1,888,556
Furnishings and Other Equipment	10	1,686,189	1,538,100	148,089	18,392
Assets Under Capital Lease	10	1,354,473	643,375	711,098	135,447
Leasehold Improvements	10	<u>9,085,375</u>	<u>4,914,411</u>	<u>4,170,964</u>	<u>908,538</u>
Total		<u>\$ 177,799,341</u>	<u>\$ 120,555,473</u>	<u>\$ 57,243,868</u>	<u>\$ 15,816,197</u>

Property and equipment as of September 30, 2007 and the related depreciation and amortization expense are:

2007 Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/ Depreciation	Estimated Net Book Value	Amortization/ Depreciation Expense
Work in Process	N/A	\$ 10,312,531	\$ -	\$ 10,312,531	\$ -
Computer Software and Hardware	3	83,979,429	74,103,583	9,875,846	11,534,626
Computer Software and Hardware	5	790,911	790,911	-	-
Equipment	5	43,511,046	30,228,415	13,282,631	5,470,531
Motor Vehicles	5	10,499,782	5,151,960	5,347,822	2,064,928
Furnishings and Other Equipment	10	1,808,757	1,642,276	166,481	23,070
Assets Under Capital Lease	10	1,354,473	507,926	846,547	135,447
Leasehold Improvements	10	<u>9,085,375</u>	<u>4,005,874</u>	<u>5,079,501</u>	<u>901,388</u>
Total		<u>\$ 161,342,304</u>	<u>\$ 116,430,945</u>	<u>\$ 44,911,359</u>	<u>\$ 20,129,990</u>

NOTE 8 – LEASE COMMITMENTS

Capital Leases

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

Future Capital Lease Payments Due as of September 30, 2008:

Year	
2009	\$ 1,818,187
2010	1,848,474
2011	1,848,474
2012	1,848,474
2013	951,317
Thereafter	75,357
Total Future Capital Lease Payments	\$ 8,390,283
Less: Imputed Interest	(1,433,275)
Net Capital Lease Liabilities	\$ 6,957,008
Unfunded Liability	\$ 6,957,008

Operating Leases

The House enters into various operating leases for temporary usage of office space, vehicles, hardware, and software. Leases that convey the benefits and risks

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

Future Operating Lease Payments Due as of September 30, 2008:

Year	Vehicles	Office Space	Parking	Total
2009	\$ 433,559	\$ 6,198,678	\$ 30,530	\$ 6,662,767
2010	132,207	-	-	132,207
Total	\$ 565,766	\$ 6,198,678	\$ 30,530	\$ 6,794,974

Lease expense for office space was \$24,384,031 and \$23,508,273 for the years ended September 30, 2008 and 2007, respectively. Lease expense for vehicles was \$1,398,019 and \$1,752,992 for the years ended September 30, 2008 and 2007, respectively.

NOTE 9 - ACCOUNTS PAYABLE

Accounts Payable balances represent amounts owed for the cost of goods and services received but not yet paid. Accounts Payable also includes amounts owed to DOL for unemployment compensation.

Accounts Payable	2008	2007
Vendor Payables	\$ 39,895,011	\$ 35,977,983
Unemployment Compensation	176,700	355,406
Total	\$ 40,071,711	\$ 36,333,389

NOTE 10 - ACCRUED PAYROLL AND BENEFITS AND LEAVE

The House has both funded and unfunded payroll, benefits and leave. 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.

The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, Sec. 109 Stat. 522 (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). Sick and other types of paid leave are expensed as they are taken. Accrued payroll and benefits include salaries and associated benefits earned in the current fiscal year and paid in the subsequent fiscal year.

The Members' and Committees' Congressional Handbooks allow offices to adopt personnel policies that provide for the accrual of annual leave and use of such leave. Leadership offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding the accrual and payment of leave time. Therefore, an accrued leave liability for Members, Committees, and

Leadership offices is estimated on the financial statements. In 2008, the estimate was based on a three-year average of actual annual leave paid. Accrued Workers' Compensation is the amount billed by Department of Labor that will be paid in subsequent fiscal years. In 2008, there was a change in accounting practice. Accrued Workers' Compensation was changed from an unfunded to a funded liability. Accrued annual leave and accrued payroll and benefits as of September 30, 2008 and 2007 were:

Accrued Leave, Payroll and Benefits, and Workers' Compensation	2008	2007
Funded		
Accrued Payroll and Benefits	\$ 8,841,009	\$ 7,694,679
Accrued Workers' Compensation	2,108,616	-
Total Funded	<u>\$ 10,949,625</u>	<u>\$ 7,694,679</u>
Unfunded		
Accrued Annual Leave	6,131,784	5,428,091
Accrued Workers' Compensation	-	2,580,573
Total Unfunded	<u>\$ 6,131,784</u>	<u>\$ 8,008,664</u>

NOTE 11 - DEFERRED CREDITS

In 2008, the House received payments in advance of receipt of shared services from the Library of Congress. In 2007, the House received payments in advance of receipt of shared services from the Library of Congress, the U.S. Senate, the

Department of Defense and the Department of State. The deferred credit balance as of September 30, 2008 and 2007 was \$1,217,375 and \$3,371,955, respectively.

NOTE 12 - UNFUNDED WORKERS' COMPENSATION ACTUARIAL LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for the benefit of House employees under FECA are administered by DOL, which pays the initial claim and obtains reimbursement from the House. The unfunded workers' compensation actuarial liability is an estimate based on actuarial calculations using historical payment

patterns to predict what costs will be incurred in the future. The liability is adjusted annually by applying actuarial procedures. Any upward or downward adjustment to the liability is recorded as an annual increase or decrease to benefits expense. The House calculated the actuarial liability based on a model developed by DOL. The projected Unfunded Workers' Compensation Actuarial Liabilities as of September 30, 2008 and 2007 were \$22,392,436 and \$21,416,485, respectively.

NOTE 13 - NET POSITION

The components of Net Position are:

- Unexpended Appropriations - Appropriations are not considered expended until goods have been received or services have been rendered.
- Total Cumulative Results of Operations:

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

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

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

Unexpended appropriations cancel at the end of the second fiscal year following the year in which appropriated. As required by law, these funds must be returned to the U.S. Treasury general account. Funds that were canceled and returned to the U.S. Treasury during fiscal years 2008 and 2007 are:

Appropriations	2008	2007
2006	\$ 4,247,192	\$ -
2005	-	9,817,745
Total	\$ 4,247,192	\$ 9,817,745

Net Position as of September 30, 2008 and 2007 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Net Expenses of Equipment, Page School, House Services, Net Expenses of Telecommunications, and Office Supply Service revolving funds are shown in the following table:

Net Position	Net Position September 30, 2008 Totals	Net Position September 30, 2007 Totals
Unexpended Appropriations	\$ 101,638,132	\$ 130,918,403
Cumulative Results of Operations:		
Cumulative Results of Operations	\$ 20,085,883	\$ 24,673,286
Invested Capital	51,534,846	45,494,008
Future Funding Requirements	(28,524,219)	(29,425,149)
Total Cumulative Results of Operations	43,096,510	40,742,145
Total Net Position	\$ 144,734,642	\$ 171,660,548

Changes in net position may include prior period adjustments, excesses or shortages of revenue and financing sources over expenses, and non-operating changes, such as investments in capital assets and inventory. Increases (or decreases) in non-operating changes result when amounts invested in capital assets

and inventory exceed (or are less than) the amounts of liabilities to be funded by future appropriations.

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

NOTE 14 - REVOLVING FUNDS, INTEROFFICE SALES, AND TRANSFERS

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

- Customer Solutions, which transfers costs of equipment and services for recording, photography and graphics to the Members and Committees,
- House Information Resources, which transfers telecommunication charges, and

- Office Supply Service and Gift Shop, which transfers office supply purchases and flag sales.

Some House business-like entities operate as revolving funds. A revolving fund is a budgetary structure established by statute that authorizes certain government agencies to collect user fees or revenue to finance operating expenses. In 2008, the House operated revolving fund type activities for the House Recording Studio, Page School, Office Supply Service and Gift Shop, Child Care Center, and House Services.

NOTE 15 - APPROPRIATIONS TO COVER EXPENSES

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

Appropriations Unexpended consist of expenses that are incurred in the current period, but will be funded by future appropriations. Such amounts include accrued actuarial liabilities and annual leave.

NOTE 16 - BENEFITS

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

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

Both FERS and CSRS employees can contribute to the Thrift Savings Plan (TSP) up to the IRS limit. FERS employees also receive an automatic one percent House-paid contribution, as well as an additional House matching TSP contribution up to five percent of their basic pay. CSRS employee contributions to TSP do not receive matching House contributions. FERS employees could receive benefits from FERS, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP.

CSRS employees contribute a portion of their earnings

Member and Employee Benefits	2008	2007
Retirement Plan Contributions	\$ 138,255,671	\$ 134,238,538
Federal Employee and Veterans' Benefits	56,526,799	58,745,201
Social Security	50,160,528	47,562,097
Health Insurance	43,888,901	42,384,648
Student Loan/Fitness Center Programs	9,948,855	8,777,136
Unemployment and Workers' Compensation	1,671,000	3,783,124
Annual Leave	703,693	(2,797,139)
Death Benefits	926,124	975,421
Transit Benefits	2,489,071	2,072,218
Life Insurance	1,160,396	1,119,224
Workers' Compensation Actuarial Adjustment	975,951	1,806,091
Total	\$ 306,706,989	\$ 298,666,559

Benefits costs for the past 3 years have averaged approximately \$300 million per year.

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

The measurement of the service cost requires the use of actuarial cost methods and assumptions, with the factors applied by the House provided by the Office of Personnel Management (OPM), the federal agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the House represents the

NOTE 17 - EMERGENCY PREPAREDNESS

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

NOTE 18 - CONTINGENCIES

The House is not currently involved in any lawsuit where the outcome is probable and the amount can be estimated. During fiscal year 2008, the House settled a lawsuit from a

amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM.

The House does not receive an appropriation to fund this expense. Therefore, this portion of the pension expense is considered an imputed financing source to the House, and is included in the Imputed Financing Sources on the Statement of Operations. This amount was \$11,086,203 in 2008 and \$11,226,160 in 2007.

Federal-employing entities also recognize a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still employed. This cost is included in Federal Employee and Veterans' Benefits expense in the Statement of Operations. Employees and the House do not currently make contributions to fund these future benefits, and the House does not receive an appropriation to fund this expense. Therefore, this portion of the post-retirement health benefits and life insurance is considered an imputed financing source to the House, and is included in Imputed Financing Sources on the Statement of Operations. This amount was \$45,440,596 in 2008 and \$47,519,041 in 2007.

Federal Employee and Veterans' Benefits (Imputed Financing Source)	2008	2007
Current Service Cost - Federal Employees Health Benefits	\$ 45,326,565	\$ 47,409,363
Current Service Cost - Federal Pensions	11,086,203	11,226,160
Current Service Cost - Federal Employees Group Life Insurance	114,031	109,678
Total	\$ 56,526,799	\$ 58,745,201

Approximately \$21 million and \$16 million were expended in 2008 and 2007, respectively.

prior year in the amount of \$1million that is reflected in the current year operating results.

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Supplemental Financial Schedules

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Consolidating Statements

U.S. House of Representatives
Consolidating Statement of Financial Position
as of September 30, 2008

	Members	Committees
ASSETS		
Fund Balance with U.S. Treasury	\$ 24,334,971	\$ 8,609,861
Cash	-	-
Fund Balance with U.S. Treasury and Cash	24,334,971	8,609,861
Accounts Receivable, Net	99,649	18,353
Interoffice Receivable	-	-
Advances and Prepayments	2,565,738	587,699
Inventory	-	-
Property and Equipment, Net	207,989	4,502,373
Total Assets	\$ 27,208,347	\$ 13,718,286
LIABILITIES AND NET POSITION		
Accounts Payable	\$ 11,204,261	\$ 1,686,032
Interoffice Payable	1,215,717	250,941
Capital Lease Liabilities	-	-
Accrued Funded Payroll and Benefits	8,151,261	182,456
Accrued Workers' Compensation	1,270,636	462,595
Accrued Unfunded Annual Leave	1,161,369	653,151
Deferred Credits	-	-
Unfunded Workers' Compensation		
Actuarial Liability	-	-
Other Liabilities	-	-
Total Liabilities	23,003,244	3,235,175
Unexpended Appropriations	6,429,115	7,096,484
Cumulative Results of Operations	(2,224,012)	3,386,627
Total Net Position	4,205,103	10,483,111
Total Liabilities and Net Position	\$ 27,208,347	\$ 13,718,286

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ 6,060,590	\$ 126,832,635	\$ 3,473,535	\$ -	\$ 169,311,592
-	739	-	-	739
<u>6,060,590</u>	<u>126,833,374</u>	<u>3,473,535</u>	<u>-</u>	<u>169,312,331</u>
2,410	393,157	-	-	513,569
-	1,651,239	-	(1,651,239)	-
77,399	813,455	200,030	-	4,244,321
-	1,247,985	-	-	1,247,985
<u>133,545</u>	<u>51,983,845</u>	<u>416,116</u>	<u>-</u>	<u>57,243,868</u>
<u>\$ 6,273,944</u>	<u>\$ 182,923,055</u>	<u>\$ 4,089,681</u>	<u>\$ (1,651,239)</u>	<u>\$ 232,562,074</u>
\$ 486,313	\$ 25,859,921	\$ 835,184	\$ -	\$ 40,071,711
53,182	121,664	9,735	(1,651,239)	-
-	6,957,008	-	-	6,957,008
170,813	328,124	8,355	-	8,841,009
58,179	292,733	24,473	-	2,108,616
47,406	4,263,178	6,680	-	6,131,784
-	1,217,375	-	-	1,217,375
-	22,392,436	-	-	22,392,436
<u>-</u>	<u>107,493</u>	<u>-</u>	<u>-</u>	<u>107,493</u>
<u>815,893</u>	<u>61,539,932</u>	<u>884,427</u>	<u>(1,651,239)</u>	<u>87,827,432</u>
5,430,091	79,981,585	2,700,857	-	101,638,132
27,960	41,401,538	504,397	-	43,096,510
<u>5,458,051</u>	<u>121,383,123</u>	<u>3,205,254</u>	<u>-</u>	<u>144,734,642</u>
<u>\$ 6,273,944</u>	<u>\$ 182,923,055</u>	<u>\$ 4,089,681</u>	<u>\$ (1,651,239)</u>	<u>\$ 232,562,074</u>

U.S. House of Representatives
Consolidating Statement of Operations
for the Year Ended September 30, 2008

	Members	Committees
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	\$ -	\$ -
Sales of Services to Federal Entities	-	-
Sales of Services to the Public	-	-
Interoffice Sales	-	-
Other Revenue	-	-
Total Revenue from Operations	-	-
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received	832,910,027	227,008,871
Appropriations Yet To Be Received	160,653	(35,804)
Imputed Financing Source	35,028,789	11,878,366
Total Revenue and Financing Sources	\$ 868,099,469	\$ 238,851,433
EXPENSES		
Personnel Compensation	\$ 482,822,319	\$ 148,824,824
Benefits	194,986,022	60,860,201
Postage and Delivery	34,605,987	15,003
Repairs and Maintenance	23,270,668	5,622,390
Depreciation and Amortization	140,594	1,796,344
Rent, Communications, and Utilities	26,961,050	16,224
Telecommunications	14,276,297	1,927,790
Supplies and Materials	8,668,290	1,658,139
Travel and Transportation	27,634,279	11,892,491
Contract, Consulting, and Other Services	14,948,922	4,396,375
Printing and Reproduction	30,700,307	47,941
Subscriptions and Publications	8,923,617	1,474,297
Cost of Goods Sold	-	-
Other Expenses	17,575	308,051
Bad Debts	143,542	11,363
Interest on Capital Leases	-	-
Total Expenses	\$ 868,099,469	\$ 238,851,433
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	\$ -	\$ -
CHANGE IN NET POSITION		
Net Position, Beginning Balance	\$ 9,276,185	\$ 13,057,713
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	-	-
Plus (Minus) Non-Operating Changes	(5,071,082)	(2,574,602)
Net Position, Ending Balance	\$ 4,205,103	\$ 10,483,111

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ -	\$ 2,973,938	\$ -	\$ -	\$ 2,973,938
-	4,061,714	-	-	4,061,714
-	808,011	119,434	-	927,445
-	21,517,640	-	(21,517,640)	-
-	991,411	-	-	991,411
-	30,352,714	119,434	(21,517,640)	8,954,508
31,327,849	232,104,737	15,279,508	-	1,338,630,992
(11,268)	2,561,697	4,366	-	2,679,644
1,461,526	7,524,438	633,680	-	56,526,799
\$ 32,778,107	\$ 272,543,586	\$ 16,036,988	\$ (21,517,640)	\$ 1,406,791,943
\$ 18,846,112	\$ 94,345,422	\$ 7,873,392	\$ -	\$ 752,712,069
7,623,972	40,045,931	3,190,863	-	306,706,989
13,568	141,674	3,597	-	34,779,829
1,017,023	30,381,310	685,104	-	60,976,495
46,941	13,354,164	478,154	-	15,816,197
122,571	296,479	-	-	27,396,324
611,279	8,322,080	125,078	-	25,262,524
775,201	4,567,825	599,431	-	16,268,886
2,673,445	1,254,394	88,124	-	43,542,733
564,564	48,183,895	2,582,908	-	70,676,664
87,426	61,489	3,681	-	30,900,844
368,037	1,669,256	286,890	-	12,722,097
-	27,899,206	-	(21,517,640)	6,381,566
15,631	1,118,892	-	-	1,460,149
12,337	58,435	332	-	226,009
0	199,016	-	-	199,016
\$ 32,778,107	\$ 271,899,468	\$ 15,917,554	\$ (21,517,640)	\$ 1,406,028,391
\$ -	\$ 644,118	\$ 119,434	\$ -	\$ 763,552
\$ 5,104,565	\$ 140,908,562	\$ 3,313,523	\$ -	\$ 171,660,548
-	644,118	119,434	-	763,552
353,486	(20,169,557)	(227,703)	-	(27,689,458)
\$ 5,458,051	\$ 121,383,123	\$ 3,205,254	\$ -	\$ 144,734,642

U.S. House of Representatives
Consolidating Statement of Cash Flows
for the Year Ended September 30, 2007

	Members	Committees
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess / (Deficiency) of Revenue and Financing Sources over Expenses	\$ -	\$ -
Adjustments affecting Cash Flow		
Expended and Unexpended Appropriations	(730,422,295)	(174,860,482)
(Increase)/Decrease in Accounts and Interoffice Receivable	12,894	(23,425)
Increase/(Decrease) in Allowance for Doubtful Accounts	3,538	8,201
(Increase)/Decrease in Advances and Prepayments	519,765	54,855
(Increase)/Decrease in Inventory	-	-
Increase/(Decrease) in Accounts and Interoffice Payable	687,192	227,276
Increase/(Decrease) in Other Accrued Liabilities	409,151	72,668
(Gain)/Loss on Disposal of Assets	17,575	308,051
Depreciation and Amortization	140,594	1,796,344
	(728,631,586)	(172,416,512)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(267,314)	(825,940)
	(267,314)	(825,940)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	691,339,000	163,511,000
Funds Returned to the U.S. Treasury	(36,549)	(75,726)
Appropriated Funds Allocated	34,231,521	7,292,620
Principal Payment on Capital Lease Liabilities	-	-
	725,533,972	170,727,894
Net Cash Provided / (Used) by Operating, Investing and Financing Activities	(3,364,928)	(2,514,558)
Fund Balance with U.S. Treasury and Cash, Beginning	27,699,899	11,124,419
Fund Balance with U.S. Treasury and Cash, Ending	\$ 24,334,971	\$ 8,609,861

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ -	\$ 644,118	\$ 119,434	\$ -	\$ 763,552
(43,853,523)	(380,064,647)	(12,109,689)	-	(1,341,310,636)
105,153	174,505	-	(426,615)	(157,488)
(6,634)	220,814	90	-	226,009
49,845	618,217	(71,824)	-	1,170,858
-	437,952	-	-	437,952
111,145	3,275,209	(989,115)	426,615	3,738,322
148,134	5,977,152	8,843	-	6,615,948
15,631	118,892	-	-	460,149
46,941	13,354,164	478,154	-	15,816,197
<u>(43,383,308)</u>	<u>(355,243,624)</u>	<u>(12,564,107)</u>	<u>-</u>	<u>(1,312,239,137)</u>
<u>(77,336)</u>	<u>(16,985,166)</u>	<u>(422,729)</u>	<u>-</u>	<u>(18,578,485)</u>
<u>(77,336)</u>	<u>(16,985,166)</u>	<u>(422,729)</u>	<u>-</u>	<u>(18,578,485)</u>
20,880,286	420,104,714	12,003,000	-	1,307,838,000
(304,298)	(2,723,398)	(1,107,221)	-	(4,247,192)
23,605,884	(66,118,639)	988,614	-	-
-	(736,243)	-	-	(736,243)
<u>44,181,872</u>	<u>350,526,434</u>	<u>11,884,393</u>	<u>-</u>	<u>1,302,854,565</u>
721,228	(21,702,356)	(1,102,443)	-	(27,963,057)
<u>5,339,362</u>	<u>148,535,730</u>	<u>4,575,978</u>	<u>-</u>	<u>197,275,388</u>
<u>\$ 6,060,590</u>	<u>\$ 126,833,374</u>	<u>\$ 3,473,535</u>	<u>\$ -</u>	<u>\$ 169,312,331</u>

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