United States House *of* Representatives Financial Audit Report 2016

Audit *of the* Financial Statements
for the Fiscal Year Ended September 30, 2016

June 29, 2017 | *Report No. 17-HSW-07*

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ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2016

SUMMARY

This report presents the audited Annual Financial Statements of the U.S. House of Representatives (House) for the fiscal years ended September 30, 2016 and 2015[1]. We contracted with Cotton and Company LLP, a certified public accounting firm, to perform an audit of the House's financial statements, and to report on internal control over financial reporting and on any reportable noncompliance with tested laws and regulations. The contract required that the audit be performed in accordance with auditing standards generally accepted in the United States of America.

For the nineteenth consecutive year, the external auditors expressed an unmodified[2] opinion on the House's financial statements, a noteworthy accomplishment for the House. An unmodified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles.

However, Cotton and Company LLP reported two repeat significant deficiencies[3] relating to ineffective controls over information technology and property and equipment. Additionally, the independent auditors reported a new significant deficiency related to insufficient governance and oversight of Management's Internal Control Program activities.

Cotton and Company LLP is solely responsible for the attached auditor's report dated April 7, 2017 and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the House's financial statements, the effectiveness of internal control over financial reporting, or conclusions on compliance with tested laws and regulations.

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

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[1] Comparative statements presenting the current and preceding years are required by professional standards.
[2] Prior to fiscal year 2013, a "clean" audit opinion was reported as an "unqualified" audit opinion.
[3] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Management's Discussion *and* Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2016

INTRODUCTION

The U.S. House of Representatives (House) is one of two legislative chambers that comprise the Congress of the United States. The other is the U.S. Senate. Congress is a part of the Federal Government's legislative branch. Fiscal Year (FY) 2016 (October 1, 2015 – September 30, 2016) coincided with sessions of the 114th U.S. Congress.

Our History

Article I, Section 1 of the Constitution, adopted by the Constitutional Convention on September 17, 1787, created and vested all legislative powers to the Congress. As outlined in the Constitution, the House represents citizens based on district populations, while the Senate represents citizens on an equal state basis. The primary purpose of the House is to pass federal legislation. The House has several powers assigned exclusively to it, including the power to initiate revenue bills, impeach federal officials, and elect the President in the case of an Electoral College tie.

OUR ORGANIZATION

House Membership

The House is comprised of 435 voting Representatives, proportionally representing the population of the 50 states. The current size was set by Public Law 62-5 on August 8, 1911, and in effect since 1913. Article I, Section 2 of the U.S. Constitution provides for both the minimum and maximum numbers of Members in the House and each state, territory, or district is entitled to at least one Representative. A Resident Commissioner from Puerto Rico and Delegates from American Samoa, the District of Columbia, Guam, the Northern Mariana Islands, and the Virgin Islands complete the composition of the House. The Resident Commissioner and Delegates possess most of the authority that Members have, except that they may not vote when the House is meeting as the House of Representatives.

Members are elected by the people for 2-year terms, with all terms running for the same period. Elections for Representatives are held every even-numbered year on Election Day. Article I, Section 2 of the U.S. Constitution states: "No Person shall be a Representative who shall not have attained to the Age of twenty five Years, and been seven Years a Citizen of the United States, and who shall not, when elected, be an Inhabitant of that State in which he shall be chosen."

House Leadership

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

The Speaker acts as leader of the House and combines several institutional and administrative roles. Majority and minority leaders represent their respective parties on the House floor. Whips assist leadership in managing their party's legislative program on the House floor.

A party caucus or conference is the name given to a meeting or organization of all party Members in the House. During these meetings, party Members discuss matters of concern. The majority party Members and the minority party Members meet in separate caucuses to select their leader. Third parties rarely have had enough Members to elect their own leadership, and independents will generally join one of the larger party organizations to receive committee assignments.

Committees

The Rules of the House, adopted at the beginning of each new Congress, allow for the creation of Standing and Special and Select Committees. Before Members are assigned to Committees, each Committee's size and the proportion of Republicans to Democrats must be decided by the party leaders. The total number of Committee slots allotted to each party is approximately the same as the ratio between majority party and minority party Members in the full Chamber.

The House's 20 Standing Committees have different legislative jurisdictions. Each considers bills and issues and recommends measures for consideration by the House. Committees also have oversight responsibilities to monitor agencies, programs, and activities within their jurisdictions, and in some cases in areas that cut across Committee jurisdictions. Current Joint Committees include the Joint Economic Committee, the Joint Committee on the Library, the Joint Committee on Printing, and the Joint Committee on Taxation.

The Committee of the Whole House is a Committee of the House on which all Representatives serve and which meets in the House Chamber for the consideration of measures from the Union calendar.

Commissions

Congress has created a wide variety of temporary and permanent commissions to serve as advisory bodies for investigative or policy-related issues, or to carry out administrative, interparliamentary, or commemorative tasks. Such commissions are typically created by either law or House Resolution, and may be composed of House Members, private citizens, or a mix of both. In some cases, the commissions are entities of the House or Congress itself; in other cases, they are crafted as independent entities within the legislative branch.

House Officers and Officials

Rule II of the Rules of the House for the 114th Congress provided for the election of four officers to support House operations: a Clerk, a Sergeant-at-Arms, a Chief Administrative Officer (CAO), and a Chaplain. The Rules of the House also established the Offices of Inspector General, Historian, and General Counsel.

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

Location

The House Chamber is located in the U.S. Capitol in Washington, D.C. Other House administrative buildings in Washington, D.C. include the O'Neill Federal building and the Cannon, Longworth, Rayburn, and Ford House office buildings.

The financial summary and highlights that follow provide an overview of the FY 2016 financial statements of the House. The independent auditor, Cotton & Company, LLP audited the House's financial statements. The complete financial statements, including the independent auditor's reports, notes, and required supplementary information, begins on page 19.

In order to help the reader to understand the House's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

Basis of Accounting and Presentation

The FY 2016 financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the House. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the applicable form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*.

The House's accounting structure, in accordance with GAAP, utilizes both accrual and budgetary accounting. Under accrual accounting, events are recognized as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting, on the other hand, facilitates compliance with legal constraints on, and controls over, the use of Federal funds.

Balance Sheet

The Balance Sheet is a representation of the House's financial condition at the end of the fiscal year. It shows the resources that the House holds to meet its statutory requirements (Assets); the amounts it owes that will require payment from these resources (Liabilities); and, the difference between them (Net Position).

Condensed Balance Sheet Data

Dollars in Millions	2016	2015	% Change
Fund Balance with Treasury	$319	$320	0%
Property and Equipment, Net	21	24	-13%
Other Assets	14	12	17%
Total Assets	**$354**	**$356**	**-1%**
Accounts Payable	24	24	0%
Actuarial FECA Liabilities	27	32	-16%
Other Liabilities	16	20	-20%
Total Liabilities	**$67**	**$76**	**-12%**
Unexpended Appropriations	267	263	2%
Cumulative Results of Operations	20	17	18%
Total Net Position	**$287**	**$280**	**3%**
Total Liabilities and Net Position	**$354**	**$356**	**-1%**

Assets

The House reported total assets of $354 million as of September 30, 2016, a 1 percent decrease from prior year total assets of $356 million. The Fund Balance with Treasury of $319 million represents the primary asset on the Balance Sheet of the House (90 percent of total assets).

Property and Equipment is the second largest asset, with a net balance of $21 million. The major items in this category include computer software, hardware, and equipment. Other Assets include Cash, Accounts Receivable, Inventory and Operating Materials and Supplies, and Advances and Prepayments.

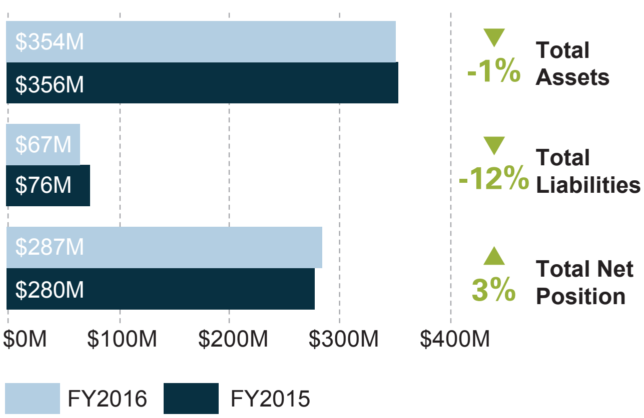
Liabilities

The House reported total liabilities of $67 million as of September 30, 2016, a 12 percent decrease from the prior year total of $76 million. The primary categories include Accounts Payable of $24 million (36 percent of total liabilities) and Actuarial Federal Employees' Compensation Act (FECA) Liabilities of $27 million (40 percent of total liabilities).

Other Liabilities include categories such as Accrued Payroll and Benefits, Accrued Annual Leave, Advances from Others and Other Liabilities.

Total Net Position

The Net Position as of September 30, 2016 was $287 million, an increase of $7 million (3 percent) from the prior fiscal year. The balance was primarily comprised of Unexpended Appropriations of $267 million.



Statement of Net Cost

The Statement of Net Cost (SNC) in the Federal Government is different from a private-sector income statement in that the SNC reports expenses first and then subtracts the revenues that financed those expenses to arrive at a net cost.

Earned Revenues

Earned revenues occur when the House provides goods or services to another Federal entity or the public. The House reports earned revenues regardless of whether it is permitted to retain the revenue or remit it to Treasury.

Net Cost of Operations

The Net Cost of Operations for FY 2016 was $1.5 billion, the same as FY 2015, and primarily comprised of Legislative Activities.

Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) reports the change in net position during the reporting period. Net Position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations.

Net Position for FY 2016 totaled $287 million, a $7 million increase from FY 2015.

Cumulative Results of Operations

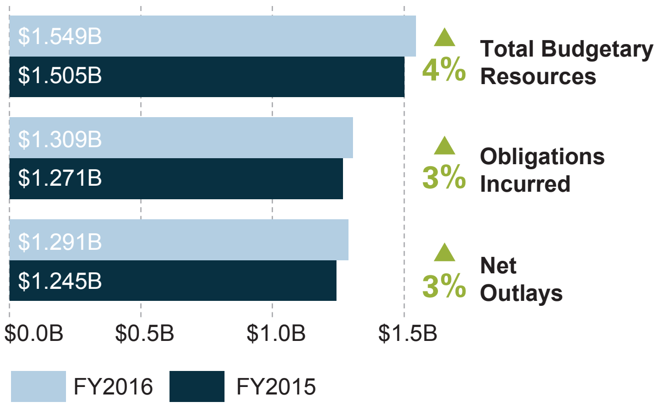
The Total Cumulative Results of Operations for FY 2016 was $20 million, an increase of $3 million from FY 2015.

Unexpended Appropriations

Unexpended Appropriations for FY 2016 was $267 million, an increase of $4 million from FY 2015.

Statement of Budgetary Resources

In accordance with Federal statutes and regulations, the House may incur obligations and make payments to the extent it has budgetary resources to cover such items. The Statement of Budgetary Resources (SBR) presents the sources of the House's budgetary resources, their status at the end of the year, obligated balances, and the relationship between its budgetary resources and the outlays it made against them.



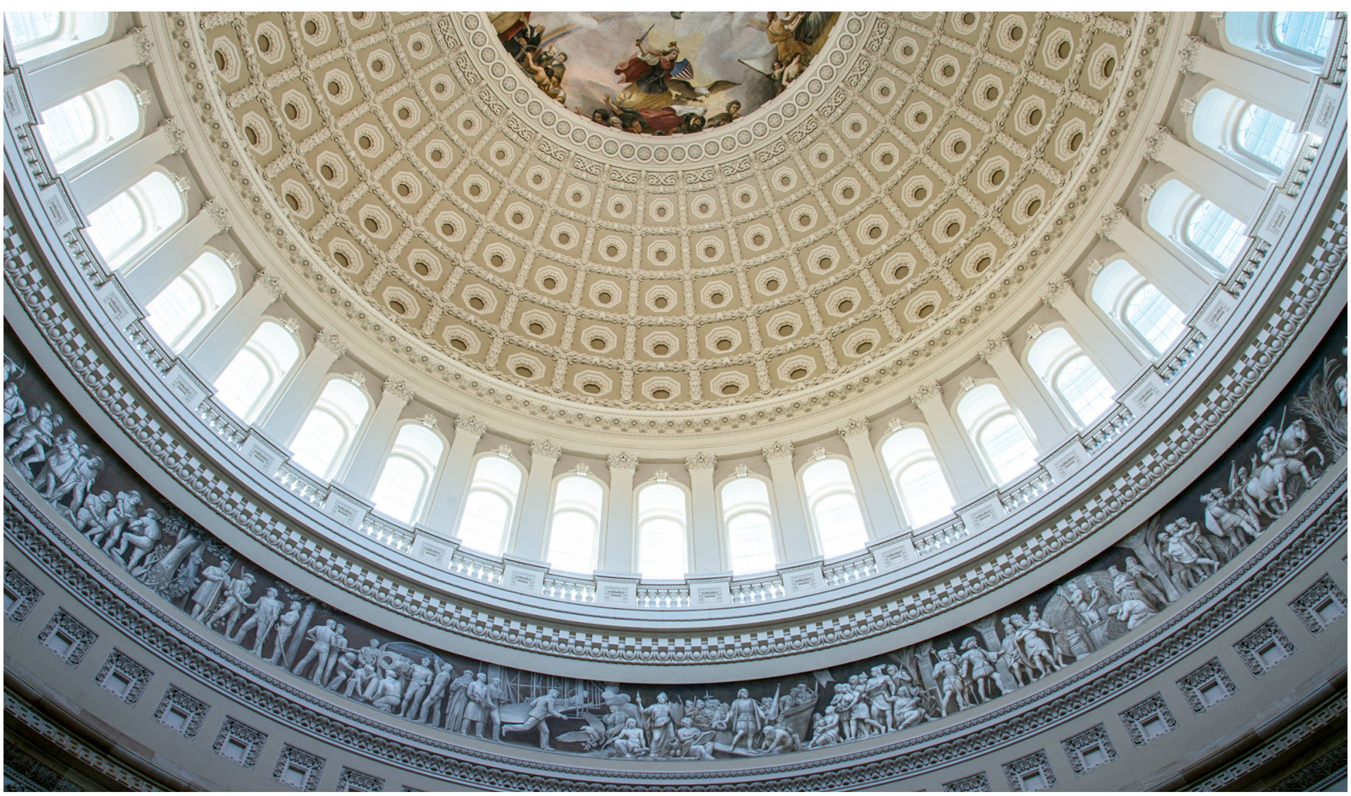
The House finances most of its operations through congressional appropriations of budget authority. To the extent that revenue generated by some House entities does not cover expenses, appropriations are required. The House receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation. The House usually receives the full amount of its appropriation at the beginning of each fiscal year as stated in the public law. The House reported total budgetary resources for FY 2016 of $1.549 billion, up 4 percent from FY 2015.

Limitations of the Financial Statements

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

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

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



Philip G. Kiko
Chief Administrative Officer

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

HB–26, The Capitol

December 16, 2016

MANAGEMENT ASSURANCES

Fiscal Year 2016 Statement of Assurance
On Internal Control over Financial Reporting

The Office of the Chief Administrative Officer (CAO) is responsible for establishing and maintaining effective internal control over financial reporting that meets the objectives of the Federal Manager's Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibilities for Internal Control.* The CAO conducted its assessment of the CAO's internal control over financial reporting in accordance with the intent of Appendix A of OMB Circular A-123. Based on the results of the evaluation, the CAO is able to provide reasonable assurance that its internal control over financial reporting as of June 30, 2016 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The CAO continued to note a significant deficiency over the property and equipment asset process as of June 30, 2016. As of September 30, 2016, the CAO had implemented corrective actions to continue remediating the condition as a significant deficiency. Documentation of property and equipment sub-processes is expected to be substantially completed during FY 2017. While the House reports no material weaknesses related to financial reporting as a result of the above evaluations, the CAO continues its work to address management priorities. These priorities will be represented in our developing strategic management efforts of the CAO in its support to the House in accomplishing its legislative and oversight mission.

Philip G. Kiko

Philip G. Kiko
Chief Administrative Officer

Internal Control Assessment
OMB Circular A-123, Appendix A Review

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

Under Rule II of the Rules of the U.S. House of Representatives (the House) for the 114th Congress, as amended, the CAO has "operational and financial responsibility for functions as assigned by the Committee on House Administration." The Rule further requires the CAO to "fully cooperate with the appropriate offices and persons in performance of reviews and audits of financial records and administrative operations."

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

The SAT assessed and evaluated the CAO's compliance with Appendix A of OMB circular A-123 requirements as of June 30, 2016, and determined that as of September 30, 2016 the deficiencies related to property and equipment identified continued to be significant. As of June 30, 2016 the internal controls over financial reporting were operating effectively.

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

Under House Rule II of the House for the 114th Congress, the Office of the Inspector General (OIG) provides "audit, investigative, and advisory services to the House and joint entities in a manner consistent with government-wide standards. For FY 2015, the OIG engaged Cotton & Company LLP to perform the external audit of the House's financial statements. The House received an unmodified audit opinion. Cotton & Company LLP did not report any material weakness in FY 2015. The audit report noted two significant deficiencies related to ineffective controls over property and equipment, and information technology. Cotton & Company remains the financial statements auditor for FY 2016.

Table I – Summary of the Financial Statement Audit for FY 2016

Independent Auditor's Report						
Audit Opinion	**Unmodified**					
Restatement	No					
Name of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0

Table 2 – Summary of Management Assurances for FY 2016

Effectiveness of Internal Control over Financial Reporting (FMFIA §2)						
Statement of Assurance	**Unqualified**					
Name of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0

Independent Auditor's Report

Cotton & Company

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INDEPENDENT AUDITORS' REPORT

To the Inspector General
U.S. House of Representatives

In our audits of the fiscal years (FYs) 2016 and 2015 financial statements of the U.S. House of Representatives (House), we found:

- The financial statements as of and for the FYs ended September 30, 2016 and 2015, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- No material weaknesses in internal control over financial reporting as of September 30, 2016.
- Three significant deficiencies in internal control over financial reporting as of September 30, 2016.
- No reportable noncompliance in FY 2016 with the provisions of applicable laws, regulations, and contracts that we tested.

The following sections contain:

1. Our report on the House financial statements, including required supplementary information and other information included with the financial statements.
2. Other reporting required by *Government Auditing Standards*, which includes: a) our report on the House's internal control over financial reporting; b) our conclusions on the House's compliance with laws, regulations, and contracts; and c) the House's comments on a draft of this report.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the House as of September 30, 2016 and 2015, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of

America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and as applicable, Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the House as of September 30, 2016 and 2015, and its consolidated net cost, consolidated changes in net position, and combined budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America, and as applicable, OMB Circular No. A-136, *Financial Reporting Requirements,* require that the Management's Discussion and Analysis and other required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedules of Spending for the FYs ended September 30, 2016 and 2015, are presented for

purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to auditing procedures and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Internal Control Over Financial Reporting and on Compliance with Laws, Regulations, and Contracts

Internal Control Over Financial Reporting

In planning and performing our audit of the FY 2016 financial statements, we considered the House's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the House's internal control. Accordingly, we do not express an opinion on the effectiveness of the House's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Significant Deficiencies

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

1. Ineffective Controls Over Property and Equipment
2. Ineffective Controls Over Information Technology
3. Insufficient Governance and Oversight of Management's Internal Control Program Activities

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

Limitations of Internal Control

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

Compliance with Laws, Regulations, and Contracts
As part of obtaining reasonable assurance about whether the House's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We did not test compliance with all laws and regulations applicable to the House. We limited our tests of compliance to those provisions of laws and regulations OMB audit guidance requires that we test and we deemed applicable to the financial statements for the FY ended September 30, 2016. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB audits.

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

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

COTTON & COMPANY LLP

Catherine L Nocera

Catherine L. Nocera, CPA, CISA
Partner
Alexandria, VA
April 7, 2017

Appendix A
Significant Deficiencies Noted During the FY 2016 Financial Statement Audit

During our audit of the House's FY 2016 financial statements, we identified three significant deficiencies in internal control, described in this appendix. We do not consider these deficiencies to be material weaknesses.

Finding 1: **Ineffective Controls Over Property and Equipment**
Summary Status: **Prior-Year Significant Deficiency**
Open

The House's property and equipment (property) records are not always accurate. Property included in account balances may have been disposed of, and property that has been removed from account balances may still be in service.

The House continued to make progress in remediating its internal control deficiencies over property; however, as of September 30, 2016, the Office of the Chief Administrative Officer (CAO) had not fully designed, documented, implemented, and tested all of its standard operating procedures related to asset management, and it does not plan to complete the implementation until the third quarter of FY 2018. For instance, the Asset Management directorate had not:

- Documented its policies and procedures for receiving, transferring, and disposing of assets.
- Finalized its policies and procedures for conducting property and equipment inventories.
- Included assets located at all facilities during its annual CAO inventory.
- Assessed the risk associated with known control deficiencies on non-CAO offices' operations or evaluated the need for, or feasibility of, expanding CAO procedures such as centralized receiving and inventory-scanning technology throughout all House offices.
- Completed implementation of the business inventory specialist (BIS) role throughout the House to provide further oversight of assets and monthly transactions.

There were several challenges in fully remediating this significant deficiency, including:

- The Asset Management directorate has not developed a comprehensive and detailed strategic plan for property and equipment process improvements that identifies all objectives; issues; causes, including obstacles and challenges to meeting objectives; corrective actions; task assignments; timeframes and deadlines; and monitoring responsibilities.
- The House's Asset Management directorate, which was created during FY 2015, was not fully staffed during FY 2016, and included a vacancy in the Director position.
- The House's property is decentralized, and CAO and non-CAO offices have different procedures and practices over receipts, transfers, disposals, and physical inventories, making implementation and monitoring difficult.

We noted the following matters during our audit, indicating that controls are not placed in operation or operating as intended.

During the CAO's FY 2016 property inventory, the House identified 24 capitalized items with a total acquisition cost of $2,058,504 and a net book value[1] of $19,672 that were recorded as in service in the PeopleSoft accounting system but were not located during the inventory. The House also identified 11

[1] Net book value is the acquisition cost of an asset less accumulated depreciation.

capital assets with a total acquisition cost of $372,698 and a net book value of zero that were previously recorded as disposed of in PeopleSoft but were still in service and needed to be reinstated in the system.

We performed existence testing over a sample of 48 capitalized assets in PeopleSoft, including 17 property items acquired during FY 2016. We identified the following exceptions:

- One equipment item with an acquisition cost of $260,855 and a net book value of zero had been returned to the vendor and was no longer in service; however, the asset was not removed from PeopleSoft.
- One capitalized property addition with an acquisition cost of $353,378 was recorded as in service in PeopleSoft in February 2016, eight months after its actual in-service date. Because the asset has an estimated useful life of 5 years, depreciation expense for FY 2016 was understated by $23,559, and accumulated depreciation as of September 30, 2016 was understated by $47,117.
- One capitalized property addition with an acquisition cost of $387,395 was not actually in service and should still have been recorded in Work in Process (WIP). The House informed us that the asset was accidentally switched with another equipment item in PeopleSoft with an identical cost and description that was in WIP but should have been placed in service.

During our existence testing, we also compared certain details about each asset that we inspected with the information recorded in PeopleSoft. In addition, we selected 20 capitalized or accountable assets that we observed during our property inspections to see if they were completely and accurately recorded in PeopleSoft. We identified the following exceptions:

- Three items had incorrect or missing asset ID tags.
- Seven items had an incorrect physical location.
- Two items had incorrect serial numbers.
- Three items had incorrect descriptions.

To test the House's disposal records, we compared items included in the House's General Services Administration (GSA) transfer manifests (SF-126) with items included in the House's property listing as of September 30, 2016. We identified ten assets (including one capitalized asset and nine accountable property items) that were on the GSA transfer manifests, were initially retired in PeopleSoft, and were later reinstated and included in the House's property records as in service as of September 30, 2016. The House stated that all ten of these assets were observed during the FY 2016 CAO physical inventory. Thus, all of them were incorrectly listed as shipped to GSA on the manifests.

We also tested a sample of ten capitalized assets that were listed as disposals in PeopleSoft during FY 2016. One of the disposals with an acquisition cost and accumulated depreciation of $11,160 was not recorded in a timely manner. This was a capitalized software item that was determined to no longer be in service during the House's FY 2016 software inventory. The software had not been in use for over one year before it was recorded as a disposal in PeopleSoft.

Finally, we conducted a walkthrough of a physical inventory conducted at a non-CAO office, and reviewed 12 inventory reconciliation worksheets for physical inventories conducted of other non-CAO offices. We then followed up on the results of these inventories and determined whether appropriate updates were made to PeopleSoft. We identified the following exceptions related to accountable property:

- One desktop computer found during our walkthrough had previously been recorded as disposed of in PeopleSoft and needed to be reinstated.
- One computer monitor found during our walkthrough matched the description of a monitor on the office's property listing; however, the serial number did not match.
- One laptop computer found during a non-CAO office inventory had previously been disposed in PeopleSoft and needed to be reinstated. Additionally, the organization code and location of the asset were not updated once it was reinstated.
- One laptop computer found during a non-CAO office inventory conducted by GSA was recorded as disposed of in PeopleSoft and needed to be reinstated. The item was not reinstated in PeopleSoft until we inquired about the item. CAO stated that the record for this asset had not been located in PeopleSoft prior to our inquiry because the serial number provided by GSA during its inspection was incorrect.
- One photocopier found during a non-CAO office inventory was not initially added to the office's property list. Once we inquired about this item, CAO discovered that the copier had a purchase order in PeopleSoft but had never been added to the Asset Management module because it had never been recorded as received.

FASAB's *Statements on Federal Financial Accounting Standards (SFFAS) No. 6: Accounting for Property, Plant, and Equipment,* states:

> *In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.*

The U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (the Green Book, amended 2014), Section 2 – Establishing an Effective Internal Control System, states:

> *OV2.24 A subset of the three categories of objectives is the safeguarding of assets. Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.*

GAO Green Book, Attribute 10.03, Design of Appropriate Types of Control Activities, states:

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

As a result of these matters, the House's property records were overstated by a known error of $260,855, with a likely overstatement of $3,820,784. In addition, without effective controls, the risk of material misstatements in the financial statements is increased, and accountability is diminished.

We recommend that the CAO develop a comprehensive and detailed strategic plan for property and equipment process improvements to ensure:

- Finalized documentation of property management policies and procedures covering all House operations.
- Finalized documentation of business process maps showing full operational capabilities and key control activities.
- Full implementation, testing, and monitoring of new and existing policies, processes, and procedures.
- Training for management and process owners (including those working offsite) who are responsible for internal control, compliance, and accounting activities.
- Continued physical inventories of CAO property that include all offsite locations, software items, and cabling and wiring.
- Assessment of inherent and control risk associated with property procedures for non-CAO offices, and an evaluation of the need for, or feasibility of, expanding centralized receiving and inventory-scanning technology throughout all House offices.
- Rollout of BIS roles throughout all House offices.

Finding 2: **Ineffective Controls Over Information Technology**
Summary Status: **Prior-Year Significant Deficiency**
Open

During FY 2016, the House continued to make progress in improving its internal controls over information technology (IT). It successfully remediated a prior-year deficiency concerning inappropriate access to sensitive roles in PeopleSoft; however, the House is still in the process of fully implementing a risk management framework, including maintenance of system security plans (SSPs) and implementation of baseline configurations. We first identified and reported the issues concerning the risk management framework in FY 2009. In addition, there are still other areas for improvement in strengthening controls surrounding financial systems.

We noted the following control deficiencies related to internal controls over information systems, which collectively represent a significant deficiency:

1. The House has not fully implemented procedures to ensure that all major systems within its IT environment have undergone a risk management process.
2. The House has not fully developed and maintained SSPs for major financial systems.
3. The House has not adequately designed and implemented audit logging and monitoring controls for financial systems.
4. The House does not actively monitor and review access to PeopleSoft shared group accounts.

We discuss each of these deficiencies below and provide our recommendations for improvement.

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

The House did not complete all risk management framework activities in accordance with National Institute of Standards and Technology (NIST) guidance for PeopleSoft, Human Resource Information Systems (HRIS), FinMart, the House Network, and Active Directory. Specifically, SSPs continue to need improvement, control assessment processes are not fully implemented, and the continuous monitoring program has not been finalized. As a result of these limitations, none of the in-scope systems had authorizations to operate (ATOs) in FY 2016.

NIST Special Publication (SP) 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, indicates that an organization must assess its security controls before authorizing the information system to operate. During FY 2016, the CAO did achieve a significant milestone in implementing a formal risk management framework by updating SSPs for all in-scope systems, developing a Common Controls Catalogue to document controls that may be inherited, and continuing progression with the Assessment and Authorization (A&A) Plan developed in FY 2015. The Plan's projects are scheduled for completion by December 2017. However, without completing all risk management framework activities, management cannot obtain adequate assurance that the general IT environment and all information systems are operating with an acceptable level of risk.

NIST SP 800-37, Revision 1, requires that organizational officials, in collaboration with the senior information security officer, assess the information provided by the system owner or common control provider regarding the current security state of the system and make recommendations for addressing any residual risks. Risk assessments are employed at the discretion of the organization to provide needed information on threats, vulnerabilities, and potential impacts, as well as the analyses for risk mitigation.

We recommend that the CAO:

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

2. **The House has not fully developed and maintained SSPs for major financial systems.**

The House's A&A Plan for implementing a risk management framework includes a project for updating SSPs for major financial systems. SSP development includes minimum security control selection, scoping, and tailoring of selected security controls. In FY 2016, the House updated the SSPs and developed a Common Control Catalogue to document controls that may be inherited; however, it has not completed assessments for the SSPs, and additional issues persist with control selection and implementation. We identified controls in the application SSPs that were identified as inherited which were not included in the Common Controls Catalogue. Furthermore, we identified several components and required controls that were not addressed in the SSPs. According to the A&A Plan, all major financial systems (Network, Active Directory, PeopleSoft, HRIS, and FinMart) should have updated ATOs in place as of FY 2017, with the ATOs for all systems scheduled to be in place by FY 2018. As a result, there is an increased risk that potential threats and vulnerabilities will go unmitigated due to a lack of security controls commensurate with the risk of the system security categorization.

NIST SP 800-18, Revision 1, *Guide for Developing Security Plans for Federal Information Systems*, provides guidance for developing SSPs. In accordance with NIST SP 800-18, agencies must meet the minimum security requirements of Federal Information Processing Standard (FIPS) 200.These requirements represent a broad-based, balanced information security program that addresses the management, operational, and technical aspects of protecting the confidentiality, integrity, and availability of federal information and information systems. Agencies meet the minimum security requirements in FIPS 200, *Minimum Security Requirement for Federal Information and Information Systems,* by applying security controls selected in accordance with NIST SP 800-53, Revision 4, *Recommended Security Controls for Federal Information Systems and Organizations*, and with the designated impact levels of the information systems. The impact levels of the information system are determined using guidance provided by FIPS 199, *Standards for Security Categorization of Federal Information and Information Systems*.

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

3. The House has not adequately designed and implemented audit logging and monitoring controls for financial systems.

We noted inadequate logging and monitoring of FinMart infrastructure components. Specifically, CAO management does not log and monitor the modification or deletion of content in SQL server agent jobs on the FinMart production SQL server. The SQL server agent is responsible for running scheduled tasks within the Microsoft SQL database; these tasks are referred to as jobs. SQL server agent jobs manage the daily data transfer within PeopleSoft, as well as the system assurance job that ensures data integrity.

During FY 2016, we noted that CAO management had begun the process of remediating this issue, specifically through the implementation of an audit logging and monitoring tool. During testing, however, the tool did not alert management regarding sensitive queries. Management is currently in the process of remediating this issue; however, it was not resolved as of the end of FY 2016. In addition, we noted that the implementation of the audit logging and monitoring tool on Lawson database servers is not operating as intended.

In accordance with NIST SP 800-53, Revision 4, organizations should determine, based on a risk assessment and mission/business needs, that the information system is capable of auditing organizationally defined auditable events. The organization should review and analyze information system audit records for indications of inappropriate or unusual activity and report findings to designated organizational officials.

We recommend that the CAO implement audit logging and monitoring tools for FinMart and Lawson to ensure that management actively monitors audit logs for sensitive financial records and tables, as well as for key security activities, and that all reviews and any follow-up actions are documented.

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

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

During FY 2015, management developed documentation acknowledging the requirement for improved privileged account and access management (PAAM), as well as an implementation plan for increased PAAM capabilities. In FY 2016, management continued planning to determine the best approach for addressing PAAM.

These issues are due to a lack of adequately established policies and procedures guiding the usage and monitoring of PeopleSoft shared group accounts, including privileged administrator accounts. The lack of policies and procedures, and adherence to such, increases the risk that inappropriate actions may be performed with a privileged account within the financial system and go undetected. Even if inappropriate actions are detected, accountability for those actions may not be determinable.

In accordance with NIST SP 800-53, Revision 4, the information system should uniquely identify and authenticate organizational users or processes acting on behalf of organizational users. Unique identification of individuals in group accounts (e.g., shared privileged accounts) may need to be considered for detailed accountability of activity.

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

Finding 3: **Insufficient Governance and Oversight of Management's Internal Control Program Activities**
Summary Status: **New**

An effective internal control system is a key factor in improving accountability. GAO's Green Book provides a framework for an internal control system. The House has established an internal control program over financial reporting consistent with implementation requirements and guidance contained in OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix A, *Internal Control Over Reporting*, which incorporates the Green Book standards. While OMB Circular No. A-123 covers all aspects of an entity's strategic objectives (i.e., operations, reporting, and compliance) and has recently been expanded to incorporate an enterprise risk management capability, the House's current internal control program covers only controls over financial reporting.

The governance and oversight of the House's current internal control program need improvement to ensure that the program is effective and that controls are properly designed and operating as intended. We noted the following deficiencies:

1. The program lacks sufficient documentation in the following areas:
    - The establishment and operation of an oversight body (Senior Assessment Team or Senior Management Council), including a current charter that sets forth membership, authority, and records of meetings and decisions.

- The methodology and standard operating procedures to effectively follow the OMB Circular No. A-123 Implementation Guidance, including sampling methodology used, criteria for determining key versus non-key controls, and guidance for evaluating results of sample tests.
- Supervisory review and approval of key documents, including planning, risk assessment and conclusions, testing of internal controls, and evaluation of test results.

2. The House's Office of Internal Controls (OIC) was not able to provide documentary evidence to demonstrate that it had conducted testing at the entity-wide level to evaluate proper design, implementation, and operating effectiveness of control activities and support the risk rating. The review documentation only included a list of the components, principles, and attributes of internal control and their related risk rating.

3. The House did not perform its annual assessment of internal control for FY 2016 in a timely manner, thereby diminishing the effectiveness of the program. The OIC draft report on the FY 2016 internal control assessment was dated November 14, 2016, well after the end of the fiscal year. For the program to be meaningful and beneficial to management, results should be communicated throughout the process and finalized in time to implement corrective actions prior to fiscal year-end. We also noted that the OIC requested extensions on Cotton & Company's requests for draft and final documents that should have been completed throughout the fiscal year.

4. The House's risk assessment process should be more comprehensive in identifying and responding to the range of risks that the House faces. For example:
   - Although the OIC addressed fraud risk as part of its process-level risk assessments, it did not assess fraud risk in terms of incentive/pressure, opportunity, and attitude/rationalization.
   - The OIC did not determine if identified risks fell within the House's range of risk tolerance. Risk tolerance is defined as the acceptable level of variation in performance relative to the entity's objectives. The House assessed risks as high, medium, or low but did not specifically state the acceptable level of risk for each control objective.
   - House's risk assessment, which is presented on the Risk Assessment Control Matrix (RACM) needs improvement. The House's risk assessment is used to identify and document the key controls for each accounting cycle, and describe the control, the sample size selected, the testing procedures, and the test results. For instance,
     a. Key controls under the Payroll and Benefits accounting cycle to address the authorization for employees to be paid or the approval of their rate of pay were not tested.
     b. Sample selection methods for testing controls do not always use a population universe that provides sufficient coverage of transactions or actions throughout the fiscal year. As a result, it may not be appropriate to use the sample test results to forecast the operating effectiveness of controls throughout the fiscal year. For example, the sample selection method to test delegation of authority for the acquisition cycle was chosen from a population that extended from January 11 to February 19, 2016, instead of from a larger period within the fiscal year. For another sample, to test the approval for changes to Member payroll,

OIC selected 33 percent of items from March through May 2016, rather than a sample of actions occurring from October 2015 through May 2016.

The OIC does not have adequate policies and procedures to achieve the objectives of its internal control program. In addition, the OIC did not provide sufficient direction, oversight, and supervisory review to ensure that the internal control program was properly executed, including establishing the overall risk assessment methodology and sampling plans, evaluating results, establishing timelines for completing phases of the assessment, and reviewing assessment documentation. Finally, the OIC did not have the appropriate level of resources to perform the annual assessment in a timely manner, given the extent of its other responsibilities and activities, as well as a vacant position during the latter part of FY 2016.

OMB Circular No. A-123, Appendix A, Section IV.B, *Documenting the Assessment of Effectiveness*, states that the Senior Assessment Team must also document the assessment process of internal control over financial reporting, including:

- The establishment of the senior assessment team, its authority, and members.
- Key decisions of the senior assessment team.
- The assessment methodology and guide.

OMB Circular No. A-123, Section IV.D, *Internal Control Evaluation Approach*, Item 1 requires management to "conduct an evaluation of internal controls for each of the Green Book's principles for each of the entity objectives." Further, the Implementation Guide for OMB Circular No. A-123, Appendix A, Step 2: *Evaluating Internal Control at the Entity Level*, states, "Evaluating internal control at the entity-wide level is generally accomplished through observation, inquiry, and inspection."

GAO Green Book, Attribute 7.06, *Analysis of Risks*, states:

> *Management estimates the significance of the identified risks to assess their effect on achieving the defined objectives at both the entity and transaction levels. Management estimates the significance of a risk by considering the magnitude of impact, likelihood of occurrence, and nature of the risk.*

GAO Green Book Attribute 8.04, *Fraud Risk Factors*, states:

> *Management considers fraud risk factors. Fraud risk factors do not necessarily indicate that fraud exists but are often present when fraud occurs. Fraud risk factors include the following:*
>
> - *Incentive/pressure – Management or other personnel have an incentive or are under pressure, which provides a motive to commit fraud.*
> - *Opportunity – Circumstances exist, such as the absence of controls, ineffective controls, or the ability of management to override controls, that provide an opportunity to commit fraud.*
> - *Attitude/rationalization – Individuals involved are able to rationalize committing fraud. Some individuals possess an attitude, character, or ethical values that allow them to knowingly and intentionally commit a dishonest act.*

GAO Green Book, Attribute 7.08, *Response to Risks*, requires management to design overall risk responses for the analyzed risks based on the significance of the risk and defined risk tolerance. These risk responses may include acceptance, avoidance, reduction, or sharing.

Without an adequate internal control assessment program that is executed in a timely manner, the House cannot obtain reasonable assurance that it will achieve its financial reporting objectives, including assurance that losses of assets, misstatements in financial reporting, and noncompliance with laws and regulations material to the financial statements would be prevented, or detected and corrected in a timely manner.

We recommend that the CAO design and implement process improvements to its internal control program, including:

1. Documenting the formation and operation of the oversight body, to include, at a minimum, its charter, roles and responsibilities, and meeting minutes.
2. Implementing and documenting policies and standard operating procedures for the oversight and conduct of the House's annual risk assessment that incorporate recent guidance and standards contained in OMB Circular No. A-123 and the Green Book.
3. Assessing resource requirements to ensure that sufficient resources with the appropriate skill levels and training are available to execute an effective risk assessment program.

Appendix B
Management's Response

Philip G. Kiko
Chief Administrative Officer

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

HB–28, The Capitol

MEMORANDUM

To: Ms. Theresa M. Grafenstine
Inspector General

From: Philip G. Kiko
Chief Administrative Officer

Subject: Chief Administrative Officer Response to the *Independent Auditor's Report* on the House's Fiscal Years 2016 and 2015 Financial Statements

Date: June 15, 2017

Thank you for the opportunity to comment on the U.S. House of Representatives Financial Statement Audit for fiscal years 2016 and 2015. I am pleased to receive another clean audit opinion.

I have reviewed the three significant deficiencies and corresponding recommendations contained in the FY 2016 Financial Statement Audit Report. I concur with these findings and recommendations.

Please find below a summary of current CAO efforts and plans to address these recommendations.

Finding 1: Ineffective Control over Property and Equipment
Regarding the recommendations provided in your report related to property and equipment, the CAO plans the following activities.

Finalized documentation of property management policies and procedures covering all House operations.

The CAO is currently developing a more comprehensive House-wide Property and Equipment Policy. The CAO will formally submit this policy to the Committee on House Administration for approval in FY 2017.

The Asset Management Directorate has developed draft Standard Operating Procedures (SOPs) for the following property management processes: purchasing, receiving, inventory, transfer/redeployment, and disposal. The draft SOPs are currently in the latter stage of review and approval by management. These SOPs will provide guidance across the House for the consistent application of instructions that are foundational to a strong system of property management.

Finalized documentation of business process maps showing full operational capabilities and key control activities.

The SOPs mentioned above will include flowcharts or other visual displays of each business process and the participant groups that are involved in each step.

Full implementation, testing, and monitoring of new and existing policies, processes, and procedures.

The Asset Management Directorate will develop a schedule to perform testing and monitoring of new and existing processes and procedures in an ongoing effort for continuous improvement.

Training for management and process owners (including those working offsite) who are responsible for internal control, compliance, and accounting activities.

The Asset Management Directorate has developed customized training centered on the SOPs mentioned above and will implement it with the appropriate process owners in FY 2017.

Continued physical inventories of CAO property that include all offsite locations, software items, and cabling and wiring.

The Asset Management Directorate plans to perform an FY 2017 physical inventory for the CAO Washington, DC locale capitalized equipment hardware, including secured offsite equipment. In addition, Asset Management will conduct a physical inventory for all House capitalized hardware and perform operational reviews for all House software and cabling in FY 2017.

Assessment of inherent and control risk associated with property procedures for non-CAO offices, and an evaluation of the need for, or feasibility of, expanding centralized receiving and inventory-scanning technology throughout all House offices.

Asset Management plans to develop a risk register for use with CAO office procedures before extending the procedures to non-CAO offices. This will necessitate internal testing of certain controls within the processes to assess their operational effectiveness. In anticipation of supporting non-CAO, and eventually Member offices, with central receiving and inventory management, Asset Management plans to expand inventory-scanning technology throughout all House offices. This will minimize or eliminate manually-entered errors or mistakes in property management records and use existing technology as a highly efficient and effective methodology.

Regarding the rollout of BIS roles throughout all House offices.

Asset Management successfully implemented the Business Inventory Specialist (BIS) roles to CAO offices in FY 2016. Expanding the BIS roles to other House offices is dependent on approval of the House-wide property and equipment policies referenced above. The CAO will work with the Committee on House Administration in FY 2017 to develop appropriate BIS functions for other House offices.

Finding 2: Ineffective Controls over Information Technology

Regarding the recommendations provided in your report related to ineffective controls over information technology, the CAO plans the following activities.

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

   The Office of Cybersecurity (CS) continues to lead the implementation of the Risk Management Framework (RMF). Management committed funding for another year for four additional full-time contractors to augment the existing staff dedicated to supporting the development and execution of RMF policies, procedures, and processes.

   CS identified and established a baseline inventory of authorization boundaries to undergo the assessment and authorization (A&A) process. Through FY 2016 and entering the first quarter of FY 2017, management completed seven A&As, granting full authorizations for seven systems, including most major components of the House financial system. CS expects to complete the A&A for an eighth system, the Datacenter, this quarter. CS expects to conclude 13 additional assessments by end of the calendar year, which includes all financial systems and those systems that provide their underlying infrastructure support.

   CS initiated risk assessments in accordance with the NIST RMF on the submission of new applications that may affect the House. CS established a process for conducting risk assessments and completed six in the last fiscal year. CS continues to assess risk through the IT risk acceptance and Plan of Action and Milestone (POAM) processes. IT risk acceptance provides a formal acceptance of risk by the authorized stakeholders. The POAM process provides a formal mechanism to track, monitor, and account for risk remediation. CS continues to evolve and mature the processes that support the RMF. CS has formally reviewed 12 risks associated with CAO systems ensuring that HIR formally addresses weaknesses/risks that cannot be remediated within one year, for which remediating the weakness will degrade system functionality, or for which the cost of remediation exceeds the impact of an exploitation of the weakness.

2. *The House has not fully developed and maintained SSPs for major financial systems.*
Continuing from the progress noted in the response to Finding 2, Item 1, CS continues to work with authorization boundary owners to draft RMF recommended security documentation. CS completed System Security Plans (SSPs) in line with NIST SP 800-18 for 10 systems, which include most of the major components of the House Financial System. CS will complete and approve another seven SSPs by the end of FY 2017 and complete three more SSPs by the end of calendar year 2017. CS remains on schedule to complete SSPs for all authorization boundaries supporting the financial systems and their underlying infrastructure by December 2017.

3. *The House has not adequately designed and implemented audit logging and monitoring controls for financial applications.*
In November 2014, HIR implemented Database Activity Monitoring (DAM) on the production data warehouse databases (DBs). Throughout 2015 and early 2016, HIR monitored the effectiveness of the DAM tool to log and monitor controls for financial applications. As indicated in the CAO's FY 2015 response, CS anticipated completing testing and review of the DAM tool by March 31, 2016. Following testing, HIR determined that the DAM tool was not operating as intended and acquired a replacement tool. HIR deployed this tool by October 2016 and subsequently conducted training. The tool is currently monitoring for malicious activity against any database in HIR. HIR expects that testing the effectiveness of the new tool will conclude by September 30, 2017.

4. *The House does not actively monitor and review access to PeopleSoft shared group accounts.*
With approved funding, CS will deploy a privileged access management (PAM) solution by August 2019. The goals of the PAM solution include leveraging privileged session monitoring and access reporting to ensure compliance, enforcing centralized control over privileged accounts, controlling who can access privileged account credentials, auditing all password check-in/check-out, and recording privileged sessions.

Finding 3: Insufficient Governance and Oversight of Management's Internal Control Program Activities

Regarding the recommendations provided in your report related to our Internal Control Program, the CAO plans the following activities:

1. *Documenting the formation and operation of the oversight body, to include, at a minimum, its charter, roles and responsibilities, and meeting minutes.*
The CAO will review and make adjustments to the governance structure for the Internal Control Program. The CAO is reviewing the current Senior Assessment Team charter, oversight activity, and procedures and will make any necessary revisions to the program and related processes.

2. *Implementing and documenting policies and standard operating procedures for the oversight and conduct of the House' annual risk assessment that incorporates recent guidance and standards contained in OMB Circular A-123, and the Green Book.*
The Office of Internal Control (OIC) is making adjustments to the documentation methods to address the recommended areas, including sampling, testing, and supervisory review. The CAO will review and improve program methodology and documentation related to the entity-level control evaluation. The OIC is currently revising the program schedule to improve timing and overall program management.

3. *Assessing resource requirements, to ensure sufficient resources at the appropriate skill levels and training are available to execute an effective risk assessment program.*

The CAO will assess resource requirements and evaluate the staffing, skill levels, and training needed to appropriately execute an effective risk assessment program. Accordingly, we will make the necessary plans to adjust current staffing to ensure sufficient resources are available. The OIC will begin initial planning to incorporate improved risk assessment and an approach framework to guide the development of our Enterprise Risk Management program, as a key objective of the CAO's strategic planning and goals.

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

Fiscal Year 2016
Financial Statements

FINANCIAL STATEMENTS INCLUDED IN THIS REPORT

FISCAL YEAR 2016 FINANCIAL STATEMENTS

The U.S. House of Representatives (House) has prepared financial statements for fiscal year (FY) 2016 in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the applicable form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*. The responsibility for the integrity of the financial information included in these statements rests with management of the House. The audit of the House's financial statements was performed by Cotton & Company LLP. The auditor's report accompanies the financial statements.

The House's financial statements for FY 2016 and FY 2015 consisted of the following:

The **Consolidated Balance Sheets** present as of September 30, 2016 and 2015 those resources owned or managed by the House that are available to provide future economic benefits (assets); amounts owed by the House that will require payments from those resources or future resources (liabilities); and residual amounts retained by the House comprising the difference (net position).

The **Consolidated Statements of Net Cost** present the net cost of the House's operations for the years ended September 30, 2016 and 2015. The House's net cost of operations includes the gross costs incurred by the House less any exchange revenue earned from House activities.

The **Consolidated Statements of Changes in Net Position** present the change in the House's net position resulting from the net cost of the House's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2016 and 2015.

The **Combined Statements of Budgetary Resources** present the budgetary resources available to the House during FY 2016 and FY 2015, the status of these resources at September 30, 2016 and 2015, the change in obligated balance during FY 2016 and FY 2015, and net outlays of budgetary resources for the years ended September 30, 2016 and 2015.

U.S. HOUSE OF REPRESENTATIVES
CONSOLIDATED BALANCE SHEETS
As of September 30, 2016 and 2015

	2016	2015
ASSETS		
Intragovernmental:		
Fund Balance with U. S. Treasury (Note 2)	$ 319,136,168	$ 319,824,750
Accounts Receivable, Net (Note 3)	132,377	142,760
Advances and Prepayments (Note 7)	3,139,340	602,149
Total Intragovernmental	322,407,885	320,569,659
Cash and Other Monetary Assets (Note 2)	8,181	6,079
Accounts Receivable, Net (Note 3)	303,394	502,289
Inventory and Operating Materials and Supplies (Note 4)	1,138,376	1,204,215
Property and Equipment, Net (Note 5)	20,772,921	23,863,897
Advances and Prepayments (Note 7)	9,345,670	9,387,281
Total Assets	**$ 353,976,427**	**$ 355,533,420**
Stewardship Property and Equipment (Note 6)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 3,965,966	$ 3,100,879
Advances from Others	789,509	803,684
Other Liabilities	1,728,846	4,135,145
Total Intragovernmental	6,484,321	8,039,708
Accounts Payable	19,867,969	20,918,323
Actuarial Federal Employees' Compensation Act Liabilities	26,935,615	32,427,866
Accrued Payroll and Benefits	6,688,187	6,763,623
Accrued Annual Leave	6,863,143	7,321,389
Other Liabilities	39,838	36,374
Total Liabilities (Note 8)	**$ 66,879,073**	**$ 75,507,283**
NET POSITION		
Unexpended Appropriations	$ 267,275,262	$ 263,423,019
Cumulative Results of Operations	19,822,092	16,603,118
Total Net Position	**$ 287,097,354**	**$ 280,026,137**
Total Liabilities and Net Position	**$ 353,976,427**	**$ 355,533,420**

U.S. HOUSE OF REPRESENTATIVES
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2016 and 2015

	2016	2015
NET COST OF OPERATIONS (Note 11)		
Net Costs by Program Area		
Legislative Activities		
Gross Costs	$ 1,517,697,843	$ 1,465,566,238
Less: Earned Revenue	(4,167,666)	(4,555,636)
Net Program Costs	**1,513,530,177**	**1,461,010,602**
Revolving Fund Activities		
Gross Costs	3,855,413	2,514,857
Less: Earned Revenue	(4,672,451)	(4,547,110)
Net Program Costs	**(817,038)**	**(2,032,253)**
Net Cost of Operations	**$ 1,512,713,139**	**$ 1,458,978,349**

U.S. HOUSE OF REPRESENTATIVES
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cumulative Results of Operations		
Beginning Balance	$ 16,603,118	$ 7,270,492
Budgetary Financing Sources		
Appropriations Used	1,286,480,256	1,240,662,789
Non-exchange Revenue	13,400	12,310
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 15)	229,655,784	228,077,042
Other Adjustments	(217,327)	(441,166)
Total Financing Sources	1,515,932,113	1,468,310,975
Net Cost of Operations	(1,512,713,139)	(1,458,978,349)
Net Change	3,218,974	9,332,626
Total Cumulative Results of Operations	**$ 19,822,092**	**$ 16,603,118**
Unexpended Appropriations		
Beginning Balance	$ 263,423,019	$ 217,237,784
Budgetary Financing Sources		
Appropriations Received	1,305,669,000	1,295,556,000
Appropriations Transferred-In/Out	(8,300,000)	-
Other Adjustments	(7,036,501)	(8,707,976)
Appropriations Used	(1,286,480,256)	(1,240,662,789)
Total Budgetary Financing Sources	3,852,243	46,185,235
Total Unexpended Appropriations	**$ 267,275,262**	**$ 263,423,019**
Net Position	**$ 287,097,354**	**$ 280,026,137**

U.S. HOUSE OF REPRESENTATIVES
COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2016 and 2015

	2016	2015
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	$ 233,993,317	$ 192,856,060
Recoveries of prior year unpaid obligations	1,444,332	911,784
Other changes in unobligated balance	(6,499,128)	(7,727,483)
Unobligated balance from prior year budget authority, net	228,938,521	186,040,361
Appropriations (discretionary and mandatory)	1,297,369,000	1,295,556,000
Spending authority from offsetting collections (discretionary and mandatory)	22,209,498	22,975,772
Total budgetary resources	**$ 1,548,517,019**	**$ 1,504,572,133**
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 1,309,307,147	$ 1,270,578,816
Unobligated balance, end of year:		
Exempt from apportionment, unexpired accounts	198,900,056	223,072,499
Unexpired unobligated balance, end of year	198,900,056	223,072,499
Expired unobligated balance, end of year	40,309,816	10,920,818
Unobligated balance, end of year (total)	239,209,872	233,993,317
Total budgetary resources	**$ 1,548,517,019**	**$ 1,504,572,133**
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, Oct 1	$ 86,602,281	$ 85,704,477
New obligations and upward adjustments	1,309,307,147	1,270,578,816
Outlays (gross)	(1,313,775,190)	(1,268,769,228)
Recoveries of prior year unpaid obligations	(1,444,332)	(911,784)
Unpaid obligations, end of year	80,689,906	86,602,281
Memorandum (non-add) Entries:		
Obligated balance, start of year	$ 86,602,281	$ 85,704,477
Obligated balance, end of year	$ 80,689,906	$ 86,602,281
Budget Authority and Outlays, Net		
Budget authority, gross (discretionary and mandatory)	$ 1,319,578,498	$ 1,318,531,772
Actual offsetting collections (discretionary and mandatory)	(22,746,871)	(23,956,121)
Recoveries of prior year paid obligations (discretionary and mandatory)	537,373	980,349
Budget authority, net (total) (discretionary and mandatory)	**$ 1,297,369,000**	**$ 1,295,556,000**
Outlays, gross (discretionary and mandatory)	$ 1,313,775,190	$ 1,268,769,228
Actual offsetting collections (discretionary and mandatory)	(22,746,871)	(23,956,121)
Outlays, net (total) (discretionary and mandatory)	1,291,028,319	1,244,813,107
Distributed offsetting receipts	(233,675)	-
Agency outlays, net (discretionary and mandatory)	**$ 1,290,794,644**	**$ 1,244,813,107**

Notes *to the* Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

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

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

These financial statements reflect the organizational structure of the House under the 114th Congress. The Fiscal Year (FY) 2016 financial statements are comprised of two programs: Legislative Activities and Revolving Fund Activities.

Legislative Activities

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

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

The **Committees** financial information aggregates transactions of the Standing and Special and Select Committees of the 114th 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 114th Congress are:

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and the Workforce
Committee on Energy and Commerce
Committee on Ethics
Committee on Financial Services
Committee on Foreign Affairs
Committee on Homeland Security
Committee on House Administration
Committee on the Judiciary
Committee on Natural Resources
Committee on Oversight and Government Reform
Committee on Rules
Committee on Science, Space, and Technology
Committee on Small Business
Committee on Transportation and Infrastructure
Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence
Select Committee on Benghazi

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 (CAO)
Clerk of the House
Office of Congressional Ethics
Office of Interparliamentary Affairs
Office of the General Counsel
Office of the Historian
Office of Inspector General
Office of the Law Revision Counsel
Office of the Legislative Counsel
Parliamentarian
Sergeant at Arms

The **Joint Functions** financial information aggregates transactions of the joint activities of the House and the Senate to the extent that the House funds these functions. House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these statements include:

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

Revolving Fund Activities

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

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

House Child Care Center
House Recording Studio
House Services
Net Expenses of Equipment
Net Expenses of Telecommunications
Stationery

B. Basis of Consolidation

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

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

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

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

C. Basis of Accounting and Presentation

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

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

The House's accounting structure, in accordance with GAAP, utilizes both accrual and budgetary accounting. Under accrual accounting, events are recognized as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting, on the other hand, facilitates compliance with legal constraints on and controls over the use of Federal funds.

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

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

D. Fund Balance with the U.S. Treasury, Cash and Other Monetary Assets

The U.S. Treasury processes cash receipts and disbursements for the House through its cash management services. Fund Balance with Treasury (FBWT) represents the aggregate amount of House fund accounts with the U.S. Treasury available to pay current liabilities and finance authorized purchases. FBWT consists of balances for general fund expenditure accounts, revolving funds, and other fund types as of the end of the FY. FBWT also includes the Congressional Use of Foreign Currency account, which is held at the U.S. Treasury and is maintained and administered by the Department of State on behalf of the House. The House also maintains an account related to Other Fund Types. Cash and other monetary assets include cash on hand that represents deposits in transit and amounts held in a commercial bank account. *(See Note 2)*

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

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

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

Other Fund Types include General Fund Receipt and Deposit Fund accounts. General Fund Receipt accounts are used to record all receipts not earmarked by law for a specific purpose. These receipts may include miscellaneous recoveries and refunds as well as fines and penalties. The U.S. Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each FY. Deposit Fund accounts are used to record monies withheld from payroll, payments for goods and services that are pending disbursement to other entities, and receipts and disbursements awaiting determination of the proper accounting classification.

E. Accounts Receivable, Net

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

F. Inventory and Related Property, Net

Inventory is tangible personal property that is held for sale. The CAO Office Supply Service and Gift Shop maintain an inventory of supplies and merchandise purchased for resale to the public. Inventories for sale are valued by the historical cost method using the weighted average cost flow assumption.

Operating Material and Supplies are tangible personal property to be consumed during normal operations. The CAO Logistics and Support Office maintains inventories of items such as hardwood, carpet, leather, fabric, furniture components, and repair materials purchased by the House for use in its operations. The CAO House Information Resources Office maintains inventories of items such as fiber jumpers to support network connectivity and patch cords to support desktop computers. These items are not for sale and are reflected in the financial statements at an estimated value based on the historical cost method using the first in/first out cost flow assumption. *(See Note 4)*

G. General Property and Equipment, Net

General Property and Equipment (P&E) consists of office and computer equipment, furniture, vehicles, software, leasehold improvements, and work in process. The House capitalizes P&E when the acquisition cost equals or exceeds an established threshold and has a useful life of two years or more. The costs of such items are recognized as assets when acquired.

P&E are capitalized if the unit acquisition cost is equal to or greater than $25,000 and the item has a useful life of two years or more with the exception of software. Software is capitalized if the unit acquisition cost is equal to or greater than $10,000 and the item has a useful life of two years or more. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the end of the FY.

An appropriate portion of an asset's value is reduced and an expense for depreciation or amortization is recognized over the accounting periods benefited by the asset's use. The House calculates depreciation and amortization expense based on the straight-line method over an asset's estimated useful life. Depreciation expense is applicable to tangible assets such as equipment, furniture, and vehicles. Amortization expense is applicable to intangible assets such as software and leasehold improvements.

A loss is recognized when the net book value of the asset at the time of disposal exceeds any proceeds received. A gain is recognized when the net book value of the asset at the time of disposal is less than any proceeds received. *(See Note 5)*

House office buildings and land occupied by Members and employees in Washington, D.C. are under the custody of the Architect of the Capitol (AOC) and are excluded from the House's P&E accounts. The House recognizes an imputed cost and related imputed financing source in its financial statements for the costs associated with the occupancy of the U.S. Capitol, House office buildings, and the O'Neill Federal building. *(See Notes 1K and 15)*

H. Stewardship Property and Equipment

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

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

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

I. Advances and Prepayments

Advances and prepayments are transfers of cash to cover future expenses or the future acquisition of assets. These goods and services are delivered in increments that span several months. Advance payments are recorded as assets and consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. As the goods and services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. The House also pays for health plans under Public Law 111-148, *Patient Protection and Affordable Care Act (ACA)* and records this payment as an advance. The advance account is then drawn down and an expense is recognized when invoices are received for health care insurance premiums. Prepayments are also recorded as assets and represent payments made by a Federal entity to cover certain periodic expenses before those expenses are incurred. Prepayments include payments for subscriptions and are initially recorded as expenses. At year-end, all such payments made for the current year are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. *(See Note 7)*

J. Liabilities

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

The House's liabilities include:

Accounts Payable that represent amounts owed for the cost of goods and services received but not yet paid. The House estimates certain accounts payable balances based on methodology that encompasses historical data and the first months' financial activity of the subsequent FY.

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

Actuarial Federal Employees' Compensation Act Liabilities that represent an estimate based on actuarial calculations using historical payment patterns to predict what costs will be incurred in the future. The liability is adjusted annually by applying actuarial procedures. Any upward or downward adjustment to the liability is recorded as an annual increase or decrease to benefits expense. The House calculated the actuarial liability based on a model developed by the U.S. Department of Labor (DOL). The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims paid for the benefit of House employees under FECA are administered by DOL, which pays the initial claim and obtains reimbursement from the House.

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

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

Annual leave for the House Officers, the Inspector General, and their employees is accrued as earned, and the liability is reduced as leave is taken. The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, Sec. 109 Stat. 522 (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). The House utilizes actual hours to calculate the liability. Sick and other types of paid leave are expensed as they are taken. The Members' and Committees' Congressional Handbooks allow offices to adopt personnel policies that provide for the accrual of annual leave and use of such leave. Leadership and other select House offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding the accrual and payment of leave time. Therefore, an accrued leave liability for Members, Committees, Leadership, and select House offices is estimated on the financial statements. In FY 2016, the estimate was based on a three-year average of historical data of actual annual leave paid.

Other Intragovernmental Liabilities that represent the accrued workers' compensation amount billed by DOL that will be paid in subsequent FYs, unemployment compensation amounts owed to DOL, and accrued benefits.

Other Public Liabilities that represent amounts held pending proper accounting disposition or amounts withheld from payroll and payments for goods and services that are pending disbursement to other entities.

K. Revenue and Other Financing Sources

Appropriations

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

Exchange and Non-Exchange Revenue

The House classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the government and the other party receive value; and is recognized when goods have been delivered or services rendered. The House's exchange revenue consists of (1) sales of goods to the public for Office Supply Service and Gift Shop sales; (2) sales of services to the public for child care, photography sales, postal services and Attending Physician services; and (3) other revenue for vendor commissions. Non-exchange revenue is derived from the government's sovereign right to demand payment from the public (e.g., taxes, duties, fines, and penalties) but also includes donations. The House reports non-exchange revenue collected from donations for the Reduction of Public Debt and fines for Ethic Violations.

Intragovernmental Costs and Earned Revenues

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

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

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

Occupancy Cost

The House recognizes an occupancy cost for the U.S. Capitol, House office buildings, and the O'Neill Federal building under the custody of the AOC that are occupied by Members and staff in Washington, D.C. The House office buildings are comprised of the Cannon, Ford, Longworth, Rayburn, and other buildings and facilities. The AOC receives an appropriation for the maintenance, care, and operations of the House office buildings, facilities and grounds; and costs associated with the acquisition and maintenance of the land and buildings is accounted for by the AOC. A separate appropriation is received by AOC for the O'Neill Federal building which is included in the occupancy cost.

The imputed occupancy cost for the U.S. Capitol and House office buildings is calculated by multiplying the gross square footage of the buildings, which includes a 'common area factor' of 11.5 percent, by the estimated acquisition and maintenance cost per square foot. Actual cost paid by the AOC for the O'Neill Federal building is included in the occupancy cost.

Federal Employee and Veterans' Benefits Cost

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

The measurement of the service cost requires the use of actuarial cost methods and assumptions, with the factors applied by the House provided by the Office of Personnel Management (OPM), the Federal agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the House represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. The House does not receive an appropriation to fund this cost. Therefore, this portion of the pension cost is considered an imputed financing source to the House and is included in the Imputed Financing from Costs Absorbed by Others on the Statement of Changes in Net Position.

Federal-employing entities also recognize a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still employed. This cost is included in the Statement of Net Cost. Employees and the House do not currently make contributions to fund these future benefits, and the House does not receive an appropriation to fund this expense. Therefore, this portion of the post-retirement health benefits and life insurance is considered an imputed financing source to the House, and is included in Imputed Financing from Costs Absorbed by Others on the Statement of Changes in Net Position. *(See Note 15)*

L. Personnel and Benefits Compensation

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

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 unreduced benefits at age 50 with 20 years of service or at any age with 25 years of service. The FERS, FERS-RAE, and FERS-FRAE (collectively referred to as FERS) basic benefit plans provide the same benefits for either Members or employees.

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

All covered 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 the basic FERS annuity, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP. Post-employment retirement, health, and life insurance benefits are not reported by the House, rather they are reported by OPM. *(See Note 12)*

M. Net Position

Unexpended Appropriations

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

Appropriations are not considered expended until goods have been received or services have been rendered. The House has single, multi, and no-year appropriations. Multi-year appropriations consist of 15-month, 18-month, and 27-month multi-year funding. Funds cancel two years after expiration and are no longer available for obligation or expenditure for any purpose and are returned to the U.S. Treasury.

Cumulative Results of Operations

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

N. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenue and expense reported during the period. Actual results could differ from those estimates.

O. Reclassifications

The FY 2015 financial statements were reclassified to conform to the FY 2016 financial statement presentation requirements and include, among other things, changes in the presentation of the Combined Statements of Budgetary Resources in accordance with the requirements of OMB Circular No. A-136. The reclassifications had no effect on total budgetary resources as previously reported.

NOTE 2 – FUND BALANCE WITH THE U.S. TREASURY, CASH AND OTHER MONETARY ASSETS

Fund Balance with Treasury (FBWT) as of September 30, 2016 and 2015:

Fund Balance with Treasury	2016	2015
General and Other Funds		
House Maintained	$ 271,190,173	$ 270,798,041
Congressional Use of Foreign Currency	13,660,473	15,730,542
Total General and Other Funds	284,850,646	286,528,583
Revolving Funds	34,285,522	33,296,167
Total	**$ 319,136,168**	**$ 319,824,750**

Status of Fund Balance with Treasury as of September 30, 2016 and 2015:

Status of Fund Balance with Treasury	2016	2015
Unobligated Balance		
Available	$ 198,900,056	$ 223,072,499
Unavailable	40,309,816	10,920,818
Obligated Balance not yet Disbursed	80,689,906	86,602,281
Non-Budgetary FBWT*	(763,610)	(770,848)
Total	**$ 319,136,168**	**$ 319,824,750**

*Represents deposit funds held at the U.S. Treasury.

Funds that were canceled and returned to the U.S. Treasury as of September 30, 2016 and 2015:

Appropriations	2016	2015
2015 (single year)	$ 402,212	$ -
2014 (single year)	5,013,927	404,349
2013 (single year)	-	7,940,850
2013/2014 (multi-year)	1,404,423	-
2012/2014 (multi-year)	215,939	-
2012/2013 (multi-year)	-	26,090
2011/2013 (multi-year)	-	336,543
Total	**$ 7,036,501**	**$ 8,707,832**

There were no significant differences between the Fund Balance reflected in the House's financial statements and the balance in the Treasury accounts.

Cash and Other Monetary Assets as of September 30, 2016 and 2015:

Cash and Other Monetary Assets	2016	2015
Cash on Hand	$ 8,181	$ 6,079
Total	**$ 8,181**	**$ 6,079**

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net as of September 30, 2016 and 2015:

Accounts Receivable, Net	2016	2015
Intragovernmental		
Accounts Receivable	$ 132,377	$ 142,760
Total Intragovernmental	132,377	142,760
With the Public		
Accounts Receivable	331,627	515,632
Allowance for Doubtful Accounts	(28,233)	(13,343)
Total With the Public	303,394	502,289
Total	**$ 435,771**	**$ 645,049**

NOTE 4 – INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property, Net as of September 30, 2016 and 2015:

Inventory and Related Property, Net	2016	2015
Operating Materials and Supplies Held for Use	$ 341,364	$ 434,514
Inventory Purchased for Resale	797,012	769,701
Total	**$ 1,138,376**	**$ 1,204,215**

NOTE 5 – GENERAL PROPERTY AND EQUIPMENT, NET

General Property and Equipment, Net as of September 30, 2016 and the related depreciation and amortization expense:

2016 Classes of Property and Equipment	Service Life (Years)	Acquisition Cost	Accumulated Depreciation	Net Book Value	Depreciation Expense
Work in Process	N/A	$ -	$ -	$ -	$ -
Computer Software in Development	N/A	165,000	-	165,000	-
Computer Software and Hardware	3/5	85,940,310	74,299,328	11,640,982	8,110,858
Equipment	5	49,061,008	40,530,060	8,530,948	3,777,417
Motor Vehicles	5	10,906,808	10,760,077	146,731	90,430
Furnishings and Other Equipment	10	979,176	697,066	282,110	64,110
Leasehold Improvements	10	9,085,375	9,078,225	7,150	65,303
Total		**$ 156,137,677**	**$ 135,364,756**	**$ 20,772,921**	**$ 12,108,118**

General Property and Equipment, Net as of September 30, 2015 and the related depreciation and amortization expense:

2015 Classes of Property and Equipment	Service Life (Years)	Acquisition Cost	Accumulated Depreciation	Net Book Value	Depreciation Expense
Work in Process	N/A	$ 2,862,984	$ -	$ 2,862,984	$ -
Computer Software in Development	N/A	88,841	-	88,841	-
Computer Software and Hardware	3/5	85,396,522	73,300,719	12,095,803	7,709,626
Equipment	5	46,790,775	38,525,504	8,265,271	3,359,702
Motor Vehicles	5	10,915,661	10,783,334	132,327	272,834
Furnishings and Other Equipment	10	979,175	632,957	346,218	66,714
Leasehold Improvements	10	9,085,375	9,012,922	72,453	196,400
Total		**$ 156,119,333**	**$ 132,255,436**	**$ 23,863,897**	**$ 11,605,276**

NOTE 6 – STEWARDSHIP PROPERTY AND EQUIPMENT

Physical counts for collection-type heritage assets as of September 30, 2016 and 2015:

Heritage Assets	2015	Additions	Withdrawals	2016
Artwork	345	11	-	356
Artifacts	7,784	1,477	2	9,259
Total	**8,129**	**1,488**	**2**	**9,615**

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

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

The House acquires heritage assets by purchase, transfer from Federal entities, gift, or by provision of federal law. Prior to acquiring these assets, the House Curator, on behalf of the Clerk and the House of Representatives Fine Arts Board, ensures they meet minimum standards as required by the American Association of Museums' ethics guidelines and standards and best practices for accessioning of objects into museum collections. The House's collections continue to increase as it acquires additional assets and few items have been retired or disposed of to date.

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

The Required Supplementary Information section of this report provides additional information on the condition of stewardship P&E.

Descriptions of the types of heritage assets are:

Artwork

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

Artifacts

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

NOTE 7 – ADVANCES AND PREPAYMENTS

Advances and Prepayments as of September 30, 2016 and 2015:

Advances and Prepayments	2016	2015
Intragovernmental	$ 3,139,340	$ 602,149
Public	9,345,670	9,387,281
Total	**$ 12,485,010**	**$ 9,989,430**

NOTE 8 – LIABILITIES

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

Liabilities Covered and not Covered by Budgetary Resources as of September 30, 2016:

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities not Covered by Budgetary Resources		
	Current	Non-Current	Current	Non-Current	2016
Intragovernmental Liabilities					
Accounts Payable	$ 3,965,966	$ -	$ -	$ -	$ 3,965,966
Advances from Others	789,509	-	-	-	789,509
	4,755,475	-	-	-	4,755,475
Other Liabilities					
Withholdings Payable	-	-	-	-	-
Accrued Benefits	1,389,997	-	-	-	1,389,997
Accrued Workers' Compensation	771,768	-	-	-	771,768
Unemployment Compensation	150,000	-	-	-	150,000
Deposit Fund Liability - Federal	(763,522)	-	-	-	(763,522)
Liabilities for Non-Entity Assets	180,603	-	-	-	180,603
Total Other Liabilities	1,728,846	-	-	-	1,728,846
Total Intragovernmental Liabilities	6,484,321	-	-	-	6,484,321
Public Liabilities					
Accounts Payable	19,867,969	-	-	-	19,867,969
Actuarial FECA Liability	-	-	-	26,935,615	26,935,615
Accrued Payroll and Benefits	6,688,187	-	-	-	6,688,187
Unfunded Accrued Annual Leave	-	-	-	6,863,143	6,863,143
Other Liabilities	39,838	-	-	-	39,838
Total Public Liabilities	26,595,994	-	-	33,798,758	60,394,752
Total	**$ 33,080,315**	**$ -**	**$ -**	**$ 33,798,758**	**$ 66,879,073**

Liabilities Covered and not Covered by Budgetary Resources as of September 30, 2015:

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		
	Current	Non-Current	Current	Non-Current	2015
Intragovernmental Liabilities					
Accounts Payable	$ 3,100,879	$ -	$ -	$ -	$ 3,100,879
Advances from Others	803,684	-	-	-	803,684
	3,904,563	-	-	-	3,904,563
Other Liabilities					
Withholdings Payable	365	-	-	-	365
Accrued Benefits	1,393,648	-	-	-	1,393,648
Accrued Workers' Compensation	2,922,492	-	-	-	2,922,492
Unemployment Compensation	375,662	-	-	-	375,662
Deposit Fund Liability - Federal	(767,438)	-	-	-	(767,438)
Liabilities for Non-Entity Assets	210,416	-	-	-	210,416
Total Other Liabilities	4,135,145	-	-	-	4,135,145
Total Intragovernmental Liabilities	8,039,708	-	-	-	8,039,708
Public Liabilities					
Accounts Payable	20,918,323	-	-	-	20,918,323
Actuarial FECA Liability	-	-	-	32,427,866	32,427,866
Accrued Payroll and Benefits	6,763,623	-	-	-	6,763,623
Unfunded Accrued Annual Leave	-	-	-	7,321,389	7,321,389
Other Liabilities	36,374	-	-	-	36,374
Total Public Liabilities	27,718,320	-	-	39,749,255	67,467,575
Total	**$ 35,758,028**	**$ -**	**$ -**	**$ 39,749,255**	**$ 75,507,283**

NOTE 9 – LEASE COMMITMENTS

Operating Leases: Future Operating Lease Payments Due as of September 30, 2016:

Year	Building Structures	Vehicles	Office Space	Parking	Total
2017	$ 516,740	$ 228,569	$ 5,838,430	$ 91,296	$ 6,675,035
2018	528,299	48,169	-	-	576,468
2019	540,127	-	-	-	540,127
2020	552,231	-	-	-	552,231
2021	564,619	-	-	-	564,619
Thereafter	1,312,835	-	-	-	1,312,835
Total	**$ 4,014,851**	**$ 276,738**	**$ 5,838,430**	**$ 91,296**	**$ 10,221,315**

The House maintains operating leases for building structures, vehicles, and district office space and parking. The lease agreements are in accordance with House rules and regulations and agreed upon vendor terms and conditions. In accordance with the Members' Congressional Handbook, the House requires that leases entered into by Members for space be no longer than the elected term of the Member. Members and Officers also enter into leases to rent vehicles for official business purposes. A Member may lease a vehicle for a period that exceeds the current congressional term, but the Member remains personally responsible for the lease liability if service to the House concludes prior to lease termination. Operating lease payments are recorded as expenses. Future operating lease payments are not accrued as liabilities. Members may lease office space in their districts through the U.S. General Services Administration or may directly lease space from the private sector.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable. General contingent liabilities consist of claims filed against the House which are awaiting adjudication. For the purpose of estimating contingent liabilities for the financial statements, the House conducted a review of existing claims for which the likelihood of loss to the House is probable. Additionally, management and the House's General Counsel evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome.

The House is currently involved in one legal matter where the sacrifice of resources are reasonably possible, but the likelihood of an unfavorable outcome or the range of the loss cannot be estimated.

Management believes all other claims are immaterial with respect to the House's financial statements. Under law, any settlement of claims litigated in court would be settled by Treasury's Judgment Fund.

NOTE 11 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental Costs and Exchange Revenue for the Years Ended September 30, 2016 and 2015:

Intragovernmental Costs and Exchange Revenue	2016	2015
Legislative Activities		
Intragovernmental Costs	$ 525,541,021	$ 504,774,083
Public Costs	992,156,822	960,792,155
Total Costs	1,517,697,843	1,465,566,238
Intragovernmental Earned Revenue	(3,935,462)	(4,133,978)
Public Earned Revenue	(232,204)	(421,658)
Total Earned Revenue	(4,167,666)	(4,555,636)
Net Program Costs	**1,513,530,177**	**1,461,010,602**
Revolving Fund Activities		
Intragovernmental Costs	208,519	172,100
Public Costs	3,646,894	2,342,757
Total Costs	3,855,413	2,514,857
Intragovernmental Earned Revenue	(2,114,078)	(1,958,984)
Public Earned Revenue	(2,558,373)	(2,588,126)
Total Earned Revenue	(4,672,451)	(4,547,110)
Net Program Costs	**(817,038)**	**(2,032,253)**
Total		
Intragovernmental Costs	525,749,540	504,946,183
Public Costs	995,803,716	963,134,912
Total Costs	1,521,553,256	1,468,081,095
Intragovernmental Earned Revenue	(6,049,540)	(6,092,962)
Public Earned Revenue	(2,790,577)	(3,009,784)
Total Earned Revenue	(8,840,117)	(9,102,746)
Net Cost of Operations	**$ 1,512,713,139**	**$ 1,458,978,349**

NOTE 12 – PERSONNEL AND BENEFITS COMPENSATION

Personnel and Benefits Compensation for the Years Ended September 30, 2016 and 2015:

Member and Employee Personnel and Benefits Compensation	2016	2015
Personnel Compensation	$ 750,248,754	$ 740,761,368
Retirement Plan Contributions	154,588,557	149,543,129
Social Security	52,496,752	51,793,753
Health Insurance	45,379,023	40,316,499
Student Loan/Fitness Center Programs	14,674,514	14,283,424
Unemployment and Workers' Compensation	2,688,670	3,922,581
Transit Benefits	2,313,044	2,233,078
Life Insurance	1,090,695	1,091,234
Death Benefits	731,643	890,476
Annual Leave	(458,246)	195,420
Allowances	2,083	25,000
Workers' Compensation Actuarial Adjustment	(5,492,251)	(2,921,919)
Total	**$ 1,018,263,238**	**$ 1,002,134,043**

NOTE 13 – EMERGENCY PREPAREDNESS

The House continues to develop contingency plans and capabilities to ensure the continuation of essential House Operations in the occurrence of a disruptive event. Approximately $23 million and $17 million were expended in 2016 and 2015 respectively.

NOTE 14 – EXCHANGE REVENUES

In certain cases, the prices charged by the House for the sale of goods and services are set by House rules and regulations, which for program and other reasons may not represent full cost. In other cases, prices set for goods and services are intended to recover the full costs incurred by these activities (e.g., child care fees, postal fees, and Gift Shop sales to the public).

NOTE 15 – IMPUTED FINANCING FROM COST ABSORBED BY OTHERS

The House recognizes an imputed cost and imputed financing source for costs associated with the occupancy of the U.S. Capitol, House office buildings, and the O'Neill Federal building; a portion of Federal Employee and Veteran's Benefits (FEVB); and settlement of claims and litigation paid by Treasury's Judgment Fund. A portion of the retirement, health, and life insurance benefits provided to House employees is funded by OPM. In accordance with Federal accounting standards, the House recognizes identified costs paid by OPM on behalf of the House as an expense.

Imputed Financing from Cost Absorbed by Others for the Years Ended September 30, 2016 and 2015:

Imputed Cost and Financing Source	2016	2015
Occupancy Costs	$ 174,706,264	$ 176,560,336
Federal Employee and Veteran's Benefits		
Current Service Cost - Federal Employee Health Benefits	42,665,194	35,986,020
Current Service Cost - Federal Pensions	8,626,745	15,423,645
Current Service Cost - Federal Employee Group Life Insurance	107,581	107,041
Total Federal Employee and Veteran's Benefits	51,399,520	51,516,706
Claims to be Paid by the U.S. Treasury's Judgment Fund on Behalf of the House	3,550,000	-
Total	**$ 229,655,784**	**$ 228,077,042**

NOTE 16 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

Undelivered Orders as of September 30, 2016 and 2015:

Undelivered Orders at the End of the Period	2016	2015
Undelivered Orders, Unpaid	$ 47,856,139	$ 51,127,548
Undelivered Orders, Paid	12,485,010	9,989,430
Total	**$ 60,341,149**	**$ 61,116,978**

NOTE 17 – PERMANENT INDEFINITE APPROPRIATIONS

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

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

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

Congressional Use of Foreign Currency is maintained and administered by the Department of State on behalf of the House. This account, which was established in 1948 and made permanent in 1981, is authorized by legislation codified in Title 22, Sec. 1754 of the United States Code. The funds are available to Congressional Committees and delegations to cover local currency expenses incurred while traveling abroad. Use of the foreign currency account for Congressional delegations and other official foreign travel of the House is authorized by either the Speaker of the House or the chairman of a Standing, Special and Select, or Joint Committee.

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

The Budget of the U.S. Government with actual amounts has not been published as of September 30, 2016. This document will be available in February 2017.

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

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government as of September 30, 2015:

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government		Budgetary Resources		Net Outlays
Statement of Budgetary Resources	$	1,295,556,000	$	1,244,813,107
Difference		444,000		(813,107)
Budget of the U.S. Government	**$**	**1,296,000,000**	**$**	**1,244,000,000**

NOTE 19 – RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

For the Years Ended September 30, 2016 and 2015:

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 1,309,307,147	$ 1,270,578,816
Spending Authority from Offsetting Collections and Recoveries	(24,191,203)	(24,867,905)
Obligations Net of Offsetting Collections and Recoveries	1,285,115,944	1,245,710,911
Net Obligations	1,285,115,944	1,245,710,911
Other Resources		
Imputed Financing from Costs Absorbed by Others	229,655,784	228,077,042
Net Other Resources Used to Finance Activities	229,655,784	228,077,042
Total Resources Used to Finance Activities	1,514,771,728	1,473,787,953
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	761,654	(6,832,225)
Resources that Finance the Acquisition of Assets	(10,453,857)	(17,639,009)
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost	(203,927)	(428,856)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(9,896,130)	(24,900,090)
Total Resources Used to Finance the Net Cost of Operations	**$ 1,504,875,598**	**$ 1,448,887,863**
Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase/(Decrease) in Actuarial Liability	$ (5,492,251)	$ (2,921,919)
Increase/(Decrease) in Annual Leave Liability	(458,246)	195,420
Other	209,279	(207,554)
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	(5,741,218)	(2,934,053)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	12,108,118	11,605,276
Revaluation of Assets or Liabilities	40,149	40,811
Other	1,430,492	1,378,452
Total Components of Net Cost of Operations not Requiring or Generating Resources	13,578,759	13,024,539
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	7,837,541	10,090,486
Net Cost of Operations	**$ 1,512,713,139**	**$ 1,458,978,349**

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

STEWARDSHIP PROPERTY AND EQUIPMENT

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

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

The following tables present the general condition of the House's heritage assets and indicate an aggregate condition of the collection as of September 30, 2016:

Heritage Asset Collection - Artwork

General Condition	2015	Increase	Decrease	2016
Good to Excellent	345	11	-	356

The works of art include oil and acrylic paintings, works on paper, and sculpture in bronze, marble and other media. These items range from portraits and historical documents to statues and other works of art.

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

Oil Paintings

The House's collection of oil paintings primarily consists of the portraits of House of Representatives' Speakers and Committee Chairmen. A smaller collection of portraits represent "firsts" in House Membership. For example, three of these firsts are installed on the third floor of the Capitol near the press gallery. They are: Joseph Hayne Rainey, the first African American elected to the House, Jeannette Rankin, first woman in Congress, and Romualdo Pacheco, the first Hispanic American in Congress.

Acrylic Paintings

The House's collection of acrylic paintings includes Committee portraits. One such example is the portrait of former Chairman of the Banking Committee, Henry Barbosa González. This portrait was painted by an artist who was seriously wounded in Vietnam and for whom González had arranged for return home to Texas.

Works on Paper

The House's collection of works on paper includes a pencil-drawn portrait of Appropriations Committee chairman William Natcher and 19th century prints of happenings in the House Chamber.

Sculptures

The House's collection of sculpture includes full figure portraits. For example, a bronze of Sam Rayburn greets visitors at the Independence Avenue entrance of the Rayburn Building and Thomas Jefferson in marble makes a stately presence on the second floor of the Capitol.

Heritage Asset Collection - Artifacts

General Condition	2015	Increase	Decrease	2016
Good to Excellent	7,784	1,477	2	9,259

The artifacts include items in various types of media, including but not limited to paper, metal, plaster, plastic, wood, textile, and ceramic. For example, these items include photographs, magazines, handbills, spittoons, furniture, and drinking glasses.

Examples of the House's collection of artifacts include:

Paper

The House's collection of paper artifacts include items such as a 1930 press photograph of House Members supporting prohibition, charming and poignant letters from a House page in the 1860s to his mother, and ledgers from the Republican Cloakroom detailing daily floor activities from the late 20th century.

Metal

The House's collection of metal artifacts includes smoking stands and spittoons. The "Smokador: the Ashless Ashtray," a perfectly Art Deco stand, was probably used in the Longworth Building to team up with modern, sleek furniture designed for the building.

Plaster

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

Wood

The House's collection of wood artifacts includes a turn-of-the-20th century foot locker, a small wooden box used by Members to send papers back and forth to their districts. There is also a substantial collection of furniture which includes pieces from the Capitol and all three House buildings.

Textile

The House's collection of textile artifacts includes items such as a T-shirts from the House Page Program and the baseball jersey worn by a Member/player during a Congressional Baseball game.

Ceramic

The House's collection of ceramics includes souvenir plates from the Capitol and a full place setting of china used in the Speaker's dining room in the 1980s complete with serving pieces and glassware.

U.S. HOUSE OF REPRESENTATIVES
COMBINING STATEMENTS OF BUDGETARY RESOURCES

For the Year Ended September 30, 2016

	2016 Appropriated Funds	2016 Revolving Funds	2016 Total
Budgetary Resources:			
Unobligated balance brought forward, Oct 1	$ 203,248,964	$ 30,744,353	$ 233,993,317
Recoveries of prior year unpaid obligations	1,444,332	-	1,444,332
Other changes in unobligated balance	(6,499,128)	-	(6,499,128)
Unobligated balance from prior year budget authority, net	198,194,168	30,744,353	228,938,521
Appropriations (discretionary and mandatory)	1,297,369,000	-	1,297,369,000
Spending authority from offsetting collections (discretionary and mandatory)	3,921,222	18,288,276	22,209,498
Total budgetary resources	**$ 1,499,484,390**	**$ 49,032,629**	**$ 1,548,517,019**
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	$ 1,291,242,391	$ 18,064,756	$ 1,309,307,147
Unobligated balance, end of year:			
Exempt from apportionment, unexpired accounts	167,932,183	30,967,873	198,900,056
Unexpired unobligated balance, end of year	167,932,183	30,967,873	198,900,056
Expired unobligated balance, end of year	40,309,816	-	40,309,816
Unobligated balance, end of year (total)	208,241,999	30,967,873	239,209,872
Total budgetary resources	**$ 1,499,484,390**	**$ 49,032,629**	**$ 1,548,517,019**
Change in Obligated Balance:			
Unpaid Obligations:			
Unpaid obligations, brought forward, Oct 1	$ 84,048,318	$ 2,553,963	$ 86,602,281
New obligations and upward adjustments	1,291,242,391	18,064,756	1,309,307,147
Outlays (gross)	(1,296,476,270)	(17,298,920)	(1,313,775,190)
Recoveries of prior year unpaid obligations	(1,444,332)	-	(1,444,332)
Unpaid obligations, end of year	77,370,107	3,319,799	80,689,906
Memorandum (non-add) Entries:			
Obligated balance, start of year	$ 84,048,318	$ 2,553,963	$ 86,602,281
Obligated balance, end of year	$ 77,370,107	$ 3,319,799	$ 80,689,906
Budget Authority and Outlays, Net			
Budget authority, gross (discretionary and mandatory)	$ 1,301,290,222	$ 18,288,276	$ 1,319,578,498
Actual offsetting collections (discretionary and mandatory)	(4,458,595)	(18,288,276)	(22,746,871)
Recoveries of prior year paid obligations (discretionary and mandatory)	537,373	-	537,373
Budget authority, net (total) (discretionary and mandatory)	**$ 1,297,369,000**	**$ -**	**$ 1,297,369,000**
Outlays, gross (discretionary and mandatory)	$ 1,296,476,270	$ 17,298,920	$ 1,313,775,190
Actual offsetting collections (discretionary and mandatory)	(4,458,595)	(18,288,276)	(22,746,871)
Outlays, net (total) (discretionary and mandatory)	1,292,017,675	(989,356)	1,291,028,319
Distributed offsetting receipts	(233,675)	-	(233,675)
Agency outlays, net (discretionary and mandatory)	**$ 1,291,784,000**	**$ (989,356)**	**$ 1,290,794,644**

U.S. HOUSE OF REPRESENTATIVES
COMBINING STATEMENTS OF BUDGETARY RESOURCES
For the Year Ended September 30, 2015

	2015 Appropriated Funds	2015 Revolving Funds	2015 Total
Budgetary Resources:			
Unobligated balance brought forward, Oct 1	$ 164,256,107	$ 28,599,953	$ 192,856,060
Recoveries of prior year unpaid obligations	911,784	-	911,784
Other changes in unobligated balance	(7,727,483)	-	(7,727,483)
Unobligated balance from prior year budget authority, net	157,440,408	28,599,953	186,040,361
Appropriations (discretionary and mandatory)	1,295,556,000	-	1,295,556,000
Spending authority from offsetting collections (discretionary and mandatory)	4,313,007	18,662,765	22,975,772
Total budgetary resources	**$ 1,457,309,415**	**$ 47,262,718**	**$ 1,504,572,133**
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	$ 1,254,060,451	$ 16,518,365	$ 1,270,578,816
Unobligated balance, end of year:			
Exempt from apportionment, unexpired accounts	192,328,146	30,744,353	223,072,499
Unexpired unobligated balance, end of year	192,328,146	30,744,353	223,072,499
Expired unobligated balance, end of year	10,920,818	-	10,920,818
Unobligated balance, end of year (total)	203,248,964	30,744,353	233,993,317
Total budgetary resources	**$ 1,457,309,415**	**$ 47,262,718**	**$ 1,504,572,133**
Change in Obligated Balance:			
Unpaid Obligations:			
Unpaid obligations, brought forward, Oct 1	$ 82,889,312	$ 2,815,165	$ 85,704,477
New obligations and upward adjustments	1,254,060,451	16,518,365	1,270,578,816
Outlays (gross)	(1,251,989,662)	(16,779,566)	(1,268,769,228)
Recoveries of prior year unpaid obligations	(911,784)	-	(911,784)
Unpaid obligations, end of year	84,048,317	2,553,964	86,602,281
Memorandum (non-add) Entries:			
Obligated balance, start of year	$ 82,889,312	$ 2,815,165	$ 85,704,477
Obligated balance, end of year	$ 84,048,317	$ 2,553,964	$ 86,602,281
Budget Authority and Outlays, Net			
Budget authority, gross (discretionary and mandatory)	$ 1,299,869,007	$ 18,662,765	$ 1,318,531,772
Actual offsetting collections (discretionary and mandatory)	(5,293,356)	(18,662,765)	(23,956,121)
Recoveries of prior year paid obligations (discretionary and mandatory)	980,349	-	980,349
Budget authority, net (total) (discretionary and mandatory)	**$ 1,295,556,000**	**$ -**	**$ 1,295,556,000**
Outlays, gross (discretionary and mandatory)	$ 1,251,989,662	$ 16,779,566	$ 1,268,769,228
Actual offsetting collections (discretionary and mandatory)	(5,293,356)	(18,662,765)	(23,956,121)
Outlays, net (total) (discretionary and mandatory)	1,246,696,306	(1,883,199)	1,244,813,107
Distributed offsetting receipts	-	-	-
Agency outlays, net (discretionary and mandatory)	**$ 1,246,696,306**	**$ (1,883,199)**	**$ 1,244,813,107**

Other Information

U.S. HOUSE OF REPRESENTATIVES
COMBINED SCHEDULES OF SPENDING
For the Years Ended September 30, 2016 and 2015

	2016	2015
What Money is Available to be Spent?		
Total Resources	$ 1,548,517,019	$ 1,504,572,133
Less Amount Available but Not Agreed to be Spent	(198,900,056)	(223,072,499)
Less Amount Available to be Spent	(40,309,816)	(10,920,818)
Total Amounts Agreed to be Spent	**$ 1,309,307,147**	**$ 1,270,578,816**
How was the Money Spent/Issued?		
Personnel Compensation & Benefits	$ 1,025,180,843	$ 1,006,282,580
Contracts	99,397,157	97,689,105
Other	184,729,147	166,607,131
Total Amounts Agreed to be Spent	**$ 1,309,307,147**	**$ 1,270,578,816**
Who did the Money go to?		
Federal	$ 318,662,734	$ 295,715,313
Non-Federal	990,644,413	974,863,503
Total Amounts Agreed to be Spent	**$ 1,309,307,147**	**$ 1,270,578,816**

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U.S. House of Representatives

OFFICE OF INSPECTOR GENERAL