United States General Accounting Office

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Report to the Sergeant at Arms, U.S. Senate

August 1995

FINANCIAL AUDIT

Senate Recording Studio Revolving Fund Financial Statements for the Periods Ended 9/30/93 and 3/31/93

GAO/AIMD-95-174

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-261526

August 15, 1995

The Honorable Howard O. Greene, Jr.
Sergeant at Arms
United States Senate

Dear Mr. Greene:

This report presents our opinion on the financial statements of the Senate Recording Studio Revolving Fund for the 6 months ended September 30, 1993 and the fiscal year ended March 31, 1993, as well as our opinion on management's assertions regarding the effectiveness of its system of internal controls as of September 30, 1993 and March 31, 1993. This report also discusses our evaluation of the Studio's compliance with laws and regulations for the periods ended September 30, 1993 and March 31, 1993.

We are sending copies of this report to interested congressional committees and other interested parties. Copies will be made available to others on request.

Sincerely yours,

for

Charles A. Bowsher
Comptroller General
of the United States

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The Honorable Howard O. Greene, Jr.
Sergeant at Arms
United States Senate

Dear Mr. Greene:

As your predecessor requested, we audited the accompanying balance sheets of the Senate Recording Studio Revolving Fund as of September 30, 1993, and March 31, 1993, and the related statements of operations and cash flows for the periods then ended. We found

- the financial statements were reliable in all material respects;
- management fairly stated that internal controls in place on September 30, 1993, and on March 31, 1993, were effective in safeguarding assets from material loss, assuring material compliance with laws and regulations, and assuring that there were no material misstatements in the financial statements; and
- no reportable noncompliance with laws and regulations we tested for the periods ended September 30, 1993 and March 31, 1993.

The following sections outline each conclusion in more detail and discuss the scope of our audits.

Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, the Fund's

- assets, liabilities, and government equity;
- revenues and expenses; and
- cash flows.

As discussed in note 3, the financial statements present the results of activities financed through the Senate Recording Studio Revolving Fund, and are not intended to represent the financial position and results of operations of the Senate Recording Studio as a whole. Other readily identifiable costs, such as employee salaries and benefits, amounting to nearly $870,000 in the 6 months ended September 30, 1993 and to nearly $1.6 million in the fiscal year ended March 31, 1993, which are financed by other appropriated funds, are not included in the financial statements. These costs are disclosed in note 3. Also, the statements do not include such costs as space and utilities, which are not readily identifiable.

Opinion on Management's Assertion About the Effectiveness of Internal Controls

We evaluated management's assertion about the effectiveness of its internal controls designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with laws and regulations; and
- properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets.

The Studio's management fairly stated that those controls in place on September 30, 1993, and on March 31, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected in a timely manner. Management made this assertion based on criteria in GAO's Standards for Internal Controls in the Federal Government.

Compliance With Laws and Regulations

Our audit tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. We do not express an opinion on overall compliance with such provisions.

Objectives, Scope, and Methodology

Studio management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing the internal control structure to provide reasonable assurance that the control objectives mentioned above are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly in conformity with generally accepted accounting principles) and (2) management's assertion about the effectiveness of internal controls is fairly stated in all material respects based on control criteria mentioned above. We are also responsible for testing compliance with selected provisions of laws and regulations.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the internal control structure related to safeguarding assets, compliance with laws and regulations, and financial reporting;
- tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls; and
- tested compliance with selected provisions of 2 U.S.C. 123b and 123b-1 and the Department of the Treasury's regulations on cash.

We limited our internal control testing to accounting and other controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements 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.

We performed our work in accordance with generally accepted government auditing standards.

Sincerely yours,

for

Charles A. Bowsher
Comptroller General
of the United States

June 6, 1995

Financial Statements

Balance Sheets

	September 30, 1993	March 31, 1993
Assets		
Current assets		
Cash in U.S. Treasury	$ 894,351	$ 794,446
Accounts receivable	49,223	64,770
Total current assets	943,574	859,216
Fixed assets		
Equipment	1,225,531	1,469,339
Less accumulated depreciation	(815,003)	(906,753)
Total equipment	410,528	562,586
Recording studio facilities	531,896	531,896
Less accumulated depreciation	(531,896)	(531,896)
Total recording studio facilities	0	0
Total fixed assets	410,528	562,586
Total Assets	**$1,354,102**	**$1,421,802**
Liabilities and Government Equity		
Liabilities		
Accounts payable	$ 4,273	$ 35,093
Government equity		
Invested capital	183,619	183,619
Cumulative results of operations	1,166,210	1,203,090
Total government equity	1,349,829	1,386,709
Total Liabilities and Government Equity	**$1,354,102**	**$1,421,802**

The accompanying notes are an integral part of these statements.

Statements of Operations

	Six months ended September 30, 1993	Fiscal year ended March 31, 1993
Revenue		
Sales	$159,819	$284,775
Expenses		
Depreciation of equipment	82,377	158,908
Materials	17,268	56,728
Satellite transmission (note 4)	0	32,060
Small equipment and fixtures	14,606	36,686
Maintenance and repairs	5,450	13,524
Miscellaneous	10,921	10,010
Total expenses (note 3)	130,622	307,916
Income (Loss) From Operations	**29,197**	**(23,141)**
Other Income		
Gain (Loss) on disposal of equipment	(66,077)	1,453
Results of Operations	**$ (36,880)**	**$ (21,688)**

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	Six months ended September 30, 1993	Fiscal year ended March 31, 1993
Cash Flows From Operating Activities		
Cash received from customers	$175,366	$310,773
Cash paid to suppliers	(67,139)	(131,091)
Net cash provided by operating activities	**108,227**	**179,682**
Cash Flows From Investing Activities		
Cash received from sale of equipment	4,851	8,700
Capital expenditures	(13,173)	(218,140)
Net cash provided (used) in investing activities	**(8,322)**	**(209,440)**
Net Increase (Decrease) in Cash	**99,905**	**(29,758)**
Cash at beginning of period	794,446	824,204
Cash at End of Period	**$894,351**	**$794,446**

Reconciliation of Results of Operations to Net Cash Provided by Operating Activities		
Results of operations	$(36,880)	$(21,688)
Adjustments to reconcile results of operations to net cash provided by operating activities		
Depreciation of equipment	82,377	158,908
Decrease (increase) in accounts receivable	15,547	25,998
Increase (decrease) in accounts payable	(18,894)	17,917
Loss (gain) on sale of equipment	66,077	(1,453)
Total adjustments	145,107	201,370
Net Cash Provided by Operating Activities	**$108,227**	**$179,682**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Description of the Entity

Effective April 1, 1991, Public Law No. 101-520, Section 7, 104 Stat. 2258 (1990), 2 U.S.C. 123b, 123b-1 (1994), separated the activities of the Senate Recording and Photographic Studios into the Senate Recording Studio and the Senate Photographic Studio. The law also distributed the Senate Recording and Photographic Studios Revolving Fund's balance as of March 31, 1991--$787,042--by providing $100,000 to the newly established Senate Photographic Studio Revolving Fund and $687,042 to the newly established Senate Recording Studio Revolving Fund.

The Recording Studio is for the exclusive use of Senators, the Vice President, committees of the Senate, the Secretary of the Senate, and the Senate Sergeant at Arms. The Studio is operated by the Senate Sergeant at Arms under the direction and control of the Senate Committee on Rules and Administration. Charges for materials and services provided by the Senate Recording Studio are set by the Committee on Rules and Administration. Such charges and fees are generally paid from the appropriation for the "Senators Official Personnel and Office Expense Account" and defray some of the Studio's operating costs. (See note 3.) All moneys from the Studio's operations are deposited into the Revolving Fund in the U.S. Treasury and are available for the operation of the Studio.

Note 2. Significant Accounting Policies

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting in accordance with generally accepted accounting principles.

The Senate Recording Studio's equipment, with an acquisition cost of $1,000 or more, is capitalized and depreciated over a 5- or 10-year life using the straight-line method of depreciation. Materials and supplies are expensed when purchased.

During 1993, the Senate Recording Studio changed from a fiscal year ending March 31 to a fiscal year ending September 30.

Note 3. Costs Paid Directly From Other Appropriated Funds

Certain costs of operating the Senate Recording Studio are not financed through the Revolving Fund. Instead, they are paid directly from other appropriations made to the Senate or the Architect of the Capitol. Identifiable costs paid directly from other appropriated funds on behalf of the Studio for the 6 months ended September 30, 1993, and the fiscal year ended March 31, 1993, are shown in the following table.

Senate Recording Studio employees work on televising and recording Senate floor proceedings and other appropriated fund activities, as well as Revolving Fund activities. Thus, salaries and benefits are allocated based on management's estimate of time worked on each activity. Benefits are estimated based on the average of benefits paid on behalf of all Senate Sergeant at Arms employees. Other costs cannot be readily determined, such as Studio space occupancy, utilities, building maintenance, office furnishings, and depreciation on equipment purchased in fiscal years prior to 1991.

Identifiable Senate Recording Studio Operating Costs
Paid from Other Appropriated Funds
(Dollars rounded to thousands)

	Six months ended September 30, 1993	Fiscal year ended March 31, 1993
Salaries	$625,000	$1,156,000
Benefits	172,000	317,000
Depreciation	64,000	70,000
Materials	5,000	20,000
Telecommunications	3,000	5,000
Miscellaneous	0	1,000
Total	**$869,000**	**$1,569,000**

Note 4. Satellite Transmission

During the fiscal year ended March 31, 1993, the Studio instituted a new billing procedure for satellite services. The new billing procedure allows satellite vendors to bill the Studio users directly for satellite services.

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