

April 1995

# FINANCIAL AUDIT

## House Beauty Shop Revolving Fund for the Year Ended 9-30-93 and 9 Months Ended 9-30-92







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

Comptroller General  
of the United States

B-259472

April 14, 1995

Mr. Scot M. Faulkner  
Chief Administrative Officer  
House of Representatives

Dear Mr. Faulkner:

As required by the Legislative Branch Appropriations Act, 1970, Public Law 91-145, 83 Stat. 347, and as requested by the Acting Director of the former office of Non-Legislative and Financial Services, we audited the House of Representatives Beauty Shop Revolving Fund statements of financial position for the year ended September 30, 1993, and for the 9 months ended September 30, 1992, 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;
- internal controls need to be improved; however, those controls in effect on September 30, 1993, provided reasonable assurance that losses, noncompliance with laws and regulations, and misstatements material to the financial statements would be prevented or detected; and
- one issue of noncompliance with laws and regulations we tested for fiscal year ended September 30, 1993, and the 9 months ended September 30, 1992.

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

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## Opinion on Financial Statements

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

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

However, misstatements may nevertheless occur in other financial information reported by the Beauty Shop as a result of the internal control weaknesses described in the following section.

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As discussed in note 1, the financial statements present only the House Beauty Shop Revolving Fund and do not present the financial position and results of operations of the House Beauty Shop operations as a whole. The statements do not include such costs as space occupancy and utilities, which are not readily identifiable, and certain costs which are identifiable and disclosed in note 1, such as telephone service.

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## Opinion on Internal Controls

The internal controls we evaluated were those 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.

In our last report,<sup>1</sup> we identified the need to improve certain internal controls. Although we noted internal control improvements in our current audit, two issues remain outstanding. First, we continued to find it difficult to substantiate the summary retail sales revenue balances because the Beauty Shop did not maintain adequate supporting documentation for individual retail sales transactions. Second, there continued to be no reconciliation of cash between the Beauty Shop and the House Finance Office records, which are the official receipt and disbursement records for the House of Representatives.

House Beauty Shop management acknowledged the need to strengthen documentation requirements for retail sales and perform reconciliations, and consequently, in 1994, implemented an automated system. The system is designed to record individual retail sales and to provide data for periodic reconciliations with the House Finance Office records.

Until the automated system corrects these weaknesses in internal controls, they will continue to adversely affect the Beauty Shop's ability to meet the internal control objectives previously listed. These weaknesses could also result in misstatements in other financial information reported by the Beauty Shop. However, controls in effect on September 30, 1993, provided reasonable assurance that losses, noncompliance, or

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<sup>1</sup>Financial Audit: House Beauty Shop Revolving Fund for Periods Ended 9/30/92, 12/31/91, 12/31/90 (GAO/AIMD-93-42, September 13, 1993).

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misstatements material to the financial statements would be prevented or detected.<sup>2</sup>

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## Compliance With Laws and Regulations

Other than the matter described below, nothing came to our attention in the course of our work to indicate that noncompliance with selected provisions of laws and regulations occurred.

In our previous report dated September 13, 1993, we disclosed that the Beauty Shop Revolving Fund was required to transfer \$16,531 (\$4,928 and \$11,603, respectively) to Treasury for the 9 months ended September 30, 1992, and the year ended December 31, 1991. Public Law 91-145, 83 Stat. 347 (1970) mandates that “the net profit established by the General Accounting Office audit, after restoring any impairment of capital and providing for replacement of equipment, shall be transferred to the general fund of the Treasury.” As discussed in note 2, these funds were not transferred and remain a liability because of insufficient cash.

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## Objectives, Scope, and Methodology

Management is responsible for

- preparing financial statements in conformity with generally accepted accounting principles,
- establishing and maintaining internal controls to provide reasonable assurance that the internal 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) relevant internal controls are in place and operating effectively. 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;

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<sup>2</sup>Our report on the Beauty Shop’s internal control structure and compliance with laws and regulations for 1992, 1991, and 1990 are presented in GAO/AIMD-93-42, dated September 13, 1993.

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- assessed the accounting principles used and significant estimates made by management;
  - evaluated the overall presentation of the financial statements;
  - evaluated and tested relevant internal controls which encompassed the areas of treasury, inventory, equipment, revenues, expenditures, payroll, and financial reporting; and
  - tested compliance with selected provisions of the following laws and regulations:
    - the Legislative Branch Appropriations Act, 1970, Public Law 91-145, 83 Stat. 347, which prescribes the operating, accounting, and auditing requirements of the Fund, and
    - the U.S. House of Representatives Congressional Handbook, which provides the regulations and accounting procedures for members, committees, and employees of the House of Representatives.

We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, 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.

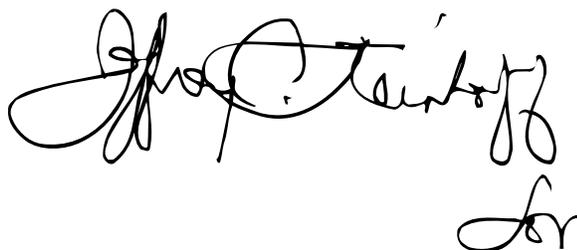
We performed our audit in accordance with generally accepted government auditing standards. We completed our audit work on January 4, 1995.

As adopted in the Rules of the House of Representatives for the 104th Congress, the Office of Inspector General was directed to coordinate and contract with an independent accounting firm, or firms, for a series of audits that will result in a consolidated report of the financial operations of the House, including the House Beauty Shop. Such a consolidated report should provide valuable information on the overall results of operations and current financial position of the House of Representatives.

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We continue to strongly encourage all federal entities to prepare and have audited comprehensive financial statements as an integral facet of their financial management program.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowsher". The signature is written in a cursive style with a large initial "C" and "A". Below the main signature, there is a smaller, stylized signature that appears to be "CB".

Charles A. Bowsher  
Comptroller General  
of the United States

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# Financial Statements

## Statements of Financial Position

	<u>September 30, 1993</u>	<u>September 30, 1992</u>
<b>Assets</b>		
Current Assets		
Funds in U.S. Treasury	\$35,308	\$53,366
Petty cash and change funds	800	800
Accounts receivable	89	67
Inventory of merchandise and supplies	<u>8,218</u>	<u>9,037</u>
Total current assets	<u>44,415</u>	<u>63,270</u>
Fixed Assets		
Equipment	19,231	17,031
Less accumulated depreciation	<u>16,766</u>	<u>16,459</u>
Net fixed assets	<u>2,465</u>	<u>572</u>
<b>Total Assets</b>	<b><u>\$46,880</u></b>	<b><u>\$63,842</u></b>
<b>Liabilities and Government Equity</b>		
Liabilities		
Accounts payable	\$ 2,831	\$ 3,534
Employees' commissions payable	261	901
Taxes payable	103	367
Advance from House Finance Office	800	800
Employees' accrued leave	14,804	7,236
Due to Treasury (note 2)	<u>16,531</u>	<u>16,531</u>
Total liabilities	<u>35,330</u>	<u>29,369</u>
Government Equity		
Invested capital	27,000	27,000
Cumulative results of operations (note 3)	<u>(15,450)</u>	<u>7,473</u>
Total government equity	<u>11,550</u>	<u>34,473</u>
<b>Total Liabilities and Government Equity</b>	<b><u>\$46,880</u></b>	<b><u>\$63,842</u></b>

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Operations

	Year ended September 30, 1993	9 months ended September 30, 1992
<b>Revenues</b>		
Beauty services	\$237,948	\$196,079
Retail sales	45,694	45,983
Miscellaneous	<u>305</u>	<u>138</u>
<b>Total revenues</b>	<b><u>283,947</u></b>	<b><u>242,200</u></b>
<b>Expenses</b>		
Salaries		
Beauticians	94,257	70,127
Administrative	68,491	46,978
Manicurists	<u>32,689</u>	<u>22,468</u>
Total salaries	195,437	139,573
Commissions	16,501	20,162
Employee benefits--employer contributions (note 1)	55,909	38,938
Retail merchandise	27,899	26,291
Supplies	9,682	7,986
Office	390	177
Depreciation	307	162
Bad debts	147	198
Miscellaneous	<u>598</u>	<u>393</u>
<b>Total expenses</b>	<b><u>306,870</u></b>	<b><u>233,880</u></b>
<b>Results of Operations</b> (notes 2 and 3)	<b><u>\$(22,923)</u></b>	<b><u>\$ 8,320</u></b>

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Cash Flows

	Year ended September 30, 1993	9 months ended September 30, 1992
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$283,925	\$243,075
Cash paid to suppliers and employees	(299,783)	<u>236,435</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>(15,858)</u></b>	<b><u>6,640</u></b>
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	<u>(2,200)</u>	<u>0</u>
<b>Net cash used in investing activities</b>	<b><u>(2,200)</u></b>	<b><u>0</u></b>
<b>Net Increase (Decrease) in Cash</b>	<b><u>(18,058)</u></b>	<b><u>6,640</u></b>
Cash at beginning of period	<u>54,166</u>	<u>47,526</u>
<b>Cash Balance at End of Period</b>	<b><u>\$ 36,108</u></b>	<b><u>\$ 54,166</u></b>
<b>Reconciliations of Results of Operations to Net Cash Provided by Operating Activities</b>		
Results of Operations (Expenses Over Revenues)	\$ (22,923)	\$ 8,320
Adjustments to reconcile results of operations to net cash provided by operating activities		
Depreciation	307	162
Decrease (increase) in assets		
Accounts receivable	(22)	(56)
Inventory of merchandise and supplies	819	(532)
Increase (decrease) in liabilities		
Accounts payable	(703)	1,490
Commissions payable	(640)	(470)
Taxes payable	(264)	(216)
Accrued Leave	<u>7,568</u>	<u>(2,058)</u>
Total adjustments	<u>7,065</u>	<u>(1,680)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (15,858)</u></b>	<b><u>\$ 6,640</u></b>

The accompanying notes are an integral part of these statements.

## Notes to Financial Statements

**Note 1. Significant Accounting Policies****Description of Entity**

The House of Representatives Beauty Shop Revolving Fund was authorized by the Legislative Branch Appropriations Act, 1970, Public Law 91-145, 83 Stat. 347. Until January 4, 1995, the management and operation of the House Beauty Shop was under the jurisdiction of the Committee on House Administration, which is now renamed the House Oversight Committee. On November 14, 1990, the Committee delegated management and operations of Beauty Shop to Office of Doorkeeper and effective May 1, 1993, transferred that responsibility to the Director, Non-Legislative and Financial Services. Subsequently, on January 4, 1995, the Director's responsibilities were transferred to the Chief Administrative Officer of the House of Representatives.

**Basis of Accounting**

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles. Inventories are stated at cost and are charged to operations using the first-in, first-out method. Equipment is depreciated over a 10-year life using the straight-line method. Bad debt expense is recognized at the time receivables are deemed uncollectible and written off.

During 1992, the Beauty Shop changed its fiscal year end from December 31 to September 30 to facilitate the consolidated presentation of financial statements of several House operations. As a result, these financial statements include a transition period of 9 months from January 1, 1992, to September 30, 1992.

**Employee Benefits**

Employee benefits include the employer's share of health insurance, life insurance, and pension-related contributions. House Beauty Shop Revolving Fund employees are covered by the Civil Service Retirement System or the Federal Employees Retirement System, to which employees and the Fund contribute. For employees covered by FERS, the Fund also contributes 1 percent of pay to the Thrift Savings Plan and then matches employee contributions up to an additional 4 percent of pay. The Office of Personnel Management (OPM) and not the House Beauty Shop Revolving Fund is responsible for paying benefits for retirees.

The following pension-related contributions were made by the House Beauty Shop Revolving Fund during fiscal year 1993, and during the 9 months ended September 30, 1992.

**Pension-related Contributions**

<u>Contributions</u>	<u>Year ended September 30, 1993</u>	<u>9 months ended September 30, 1992</u>
Civil Service Retirement System	\$ 5,757	\$ 4,475
Federal Employees Retirement System	21,430	15,410
Thrift Savings Plan	<u>4,645</u>	<u>3,420</u>
<b>Total</b>	<b><u>\$31,832</u></b>	<b><u>\$23,305</u></b>

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At year-end, the balance in the accrued leave account is adjusted to reflect current pay rates of cumulative annual leave earned, but not taken. Sick leave is expensed as it is taken.

**Other Operating Costs**

Certain costs of operating the House Beauty Shop are financed through other funds appropriated to the House of Representatives rather than through the Fund. These costs are not readily identifiable; therefore, they are not included in the Fund's financial statements or notes. Types of costs that cannot be readily determined are space occupancy, utilities, and building repairs and maintenance. Identifiable costs, which are paid from appropriated funds of the Architect of the Capitol and the Clerk of the House on behalf of the Fund, for the fiscal year ended September 30, 1993, and the 9 months ended September 30, 1992, are shown in the following table.

**Identifiable Costs Paid With Appropriated Funds**

<u>Costs</u>	<u>Year ended September 30, 1993</u>	<u>9 months ended September 30, 1992</u>
Telephone service	\$1,187	\$ <sup>a</sup>
Office expense	0	619
Renovations	<u>0</u>	<u>2,590</u>
<b>Total</b>	<b><u>\$1,187</u></b>	<b><u>\$3,209</u></b>

<sup>a</sup>For the 9 months ended September 30, 1992, telephone service was not readily identifiable.

**Note 2. Future Transfer to U.S. Treasury**

The Legislative Branch Appropriations Act, 1970, requires that any net profit of the House Beauty Shop Revolving Fund, after meeting authorized capital requirements (invested capital) plus restoring any impairment of capital and providing for the replacement of equipment, be transferred to the general fund of the U.S. Treasury. The following table shows the computation of the amount due to Treasury.

	<u>Year ended</u> <u>September 30, 1993</u>	<u>9 months ended</u> <u>September 30, 1992</u>	<u>Year ended</u> <u>December 31, 1991</u>
Government equity of the House of Representatives, end of period (before transfer to Treasury)	\$ <u>11,550</u>	\$ <u>39,401</u>	\$ <u>42,684</u>
Less: Authorized capital requirements	(27,000)	(27,000)	(27,000)
Less: Projected capital replacement (based on projected cost adjusted for inflation over the life of the equipment for 1993 and 1992)	<u>(9,848)</u>	<u>(7,473)</u>	<u>(4,081)</u>
<b>Total requirements</b>	<b><u>(36,848)</u></b>	<b><u>(34,473)</u></b>	<b><u>(31,081)</u></b>
<b>Subtotal</b>	<b><u>(25,298)</u></b>	<b><u>4,928</u></b>	<b><u>11,603</u></b>
<b>Funds Subject to Transfer to the U.S. Treasury</b>	<b>\$ <u>0</u></b>	<b>\$ <u>4,928</u></b>	<b>\$ <u>11,603</u></b>

The House Beauty Shop Revolving Fund did not have available cash resources to transfer the funds to the U.S. Treasury at the time they were informed of the liability. Therefore, \$16,531 subject to transfer to the U.S. Treasury for the 9 months ended September 30, 1992, and for the year ended December 31, 1991, of \$4,928 and \$11,603, respectively, were not transferred and remain a Fund liability.

**Note 3. Effect on Cumulative Results of Operations**

The following table summarizes the effect of revenues over expenses (expenses over revenues) on cumulative results of operations.

**Effect on Cumulative Results of Operations**

	<u>Year ended September 30, 1993</u>	<u>9 months ended September 30, 1992</u>	<u>Year ended December 31, 1991</u>
Cumulative results of operations, beginning of period	\$ 7,473	\$ 4,081	\$ 1,250
Results of operations	<u>(22,923)</u>	<u>8,320</u>	<u>14,434</u>
Subtotal	(15,450)	12,401	15,684
Due to Treasury from current operations (note 2)	<u>0</u>	<u>4,928</u>	<u>11,603</u>
<b>Cumulative Results of Operations, End of Period</b>	<b><u>\$(15,450)</u></b>	<b><u>\$ 7,473</u></b>	<b><u>\$ 4,081</u></b>

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**Financial Statements**

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