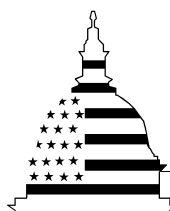


March 2004

FINANCIAL AUDIT

Daniel Webster Senate Page Residence Revolving Fund's Fiscal Year 2002 Financial Statements



G A O

Accountability ★ Integrity ★ Reliability

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

March 31, 2004

The Honorable William H. Pickle
Senate Sergeant at Arms

Dear Mr. Pickle:

This report presents the results of our audit of the financial statements of the Daniel Webster Senate Page Residence Revolving Fund (the Fund) as of and for the fiscal year ending September 30, 2002. This report also contains our opinion on the effectiveness of the Fund's related internal control as of September 30, 2002, and our evaluation of its compliance with selected provisions of laws and regulations we tested. We performed this audit at the request of the former Senate Sergeant at Arms.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Rules and Administration; the Senate Committee on Appropriations; and the Senate Subcommittee on Legislative Branch, Committee on Appropriations. The report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9471 or Keith Thompson, Assistant Director, at (202) 512-6328. You can also reach us by e-mail at franzelj@gao.gov or thompsonk@gao.gov. Key contributors to this report were Patricia Blumenthal, Erik Braun, Kimberley McGatlin, and Kara Scott.

Sincerely yours,

Jeanette M. Franzel
Director
Financial Management and Assurance



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

To the Senate Sergeant at Arms

We have audited the accompanying statement of financial position of the Daniel Webster Senate Page Residence Revolving Fund (the Fund) as of September 30, 2002, and the related statement of revenue and expenses and changes in fund balance and statement of cash flows for the fiscal year then ended. In our audit, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain internal controls should be improved, the Fund had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- no reportable noncompliance with selected provisions of laws and regulations we tested.

The following sections provide additional detail about our conclusions and the scope of our audit.

Opinion on the Financial Statements

The accompanying financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Fund's financial position as of September 30, 2002, and the results of operations and cash flow for the fiscal year then ended.

Opinion on Internal Control

Although certain internal controls should be improved, the Fund maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2002, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established in the Comptroller General's *Standards for Internal Control in the Federal Government*.¹ Our work did

¹ U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.:November 1999).

identify the need to improve certain internal controls as described below. These weaknesses in internal control, although not considered material weaknesses, represent significant deficiencies in the design or operations of internal control, which could adversely affect the entity's ability to meet the internal control objectives.

- A significant number of the Fund's expense and accounts payable transactions were not recorded in the proper fiscal year using the accrual basis of accounting, and significant adjustments were made during the audit process in order to reflect balances based on the accrual basis of accounting. This was caused by the monthly and fiscal year-end financial statement closeout processes, which do not require recording (or accruing) of expense transactions associated with the particular fiscal year into the Fund's financial records after the closeout date.

The Fund does not have structured year-end closeout procedures to ensure that transactions are recorded in the proper period under the accrual basis. Essentially, the Fund is following a modified cash basis of accounting during the year with conversion to accrual-based accounting for financial reporting at the end of the year. Although the Fund is not required to use the accrual basis of accounting to present its year-end financial statements, the Fund's management elected to present the financial statements on that basis. However, as described above, the Fund does not have proper procedures for converting to the accrual basis of accounting.

- Existing policies and procedures do not provide for a level of management review of journal entries sufficient to prevent or detect errors that could result in misstatements to the financial statements. Staff accountants can post journal entries that have not been reviewed or approved by Fund management into the Fund's financial records. Because the Fund does not have a policy that requires staff accountants to obtain management approval of journal entries before recording them into the financial records, there is an increased risk that misstatements will result from incorrect entries or posting errors and that these misstatements might not be detected or corrected on a timely basis.
- During fiscal year 2002, staff authorized to use purchase cards on behalf of the Fund exceeded the annual spending limits established for card usage. The purchase card limits are established in Senate Procurement Regulations adopted by the Senate Committee on Rules and

Administration as well as by Procurement Procedures issued by the Sergeant at Arms. Senate Procurement Regulations provide for the Committee to grant waivers from requirements in the regulations and procedures. Fund staff exceeded the fiscal year 2002 spending limits based on verbal approval received from Sergeant at Arms staff. Subsequently, the Sergeant at Arms sought and obtained ratification of the excess purchase card spending from the Committee.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

The Fund's management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of internal control are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) management maintained effective internal control, the objectives of which are as follows:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with laws and regulations: Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the Fund's financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Fund's financial statements for the fiscal year ended September 30, 2002.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations, (5) tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control, and (6) tested compliance with selected provisions of the following laws and regulations:

- 2 U.S.C. 88b-7 (b), relating to collection of fees and moneys, and
- 2 U.S.C. 88b-7 (c), relating to approval of disbursements.

We did not evaluate all internal controls relevant to the effectiveness and efficiency of the Fund's operations. We limited our internal control testing to controls over financial reporting (including safeguarding of assets) and compliance. 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.

We did not test compliance with all laws and regulations applicable to the Fund. We limited our tests of compliance to those laws and regulations that we deemed to have a direct and material effect on the financial statements for the fiscal year ended September 30, 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards. We requested comments on our draft report from your financial management staff.

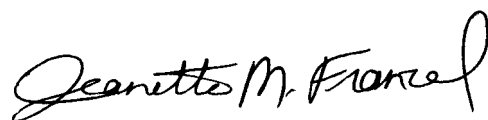
Recommendations for Executive Action

In light of the internal control weaknesses identified during our audit, we are making four recommendations to the Sergeant at Arms to strengthen controls over financial reporting and recording of transactions for the Daniel Webster Senate Page Residence Revolving Fund. Specifically, we recommend that the Sergeant at Arms direct Fund management to

- evaluate whether the accrual basis is the basis of accounting that is most useful to the Fund's management or whether the modified cash basis, which is essentially what is in place during the year, is most effective and adopt the most appropriate basis for presentation of the financial statements;
- improve policies and procedures to achieve the proper recording of transactions in accordance with the basis of accounting selected;
- develop and implement procedures so that journal entries are properly reviewed; and
- improve controls so that purchase card spending limits are monitored and followed.

Management's Comments and Our Evaluation

We provided copies of our draft report to the Chief Financial Officer of your office for review and comment. He generally agreed with the contents of this report and stated that he will initiate actions to address the recommendations contained herein.



Jeanette M. Franzel
Director
Financial Management and Assurance

February 25, 2004

Financial Statements

Statement of Financial Position

Daniel Webster Senate Page Residence Revolving Fund
Statement of Financial Position
September 30, 2002

Assets	
Cash	<u>\$ 248,220</u>
Total Assets	<u><u>\$ 248,220</u></u>
 Liabilities & Equity	
Liabilities:	
Accounts Payable	\$ 24,431
Security Deposits	<u> 9,000</u>
Total Liabilities	<u>\$ 33,431</u>
Equity:	
Fund Balance	<u>\$ 214,789</u>
Total Liabilities & Equity	<u><u>\$ 248,220</u></u>

See accompanying notes.

Statement of Revenue and Expenses and Changes in Fund Balance

**Daniel Webster Senate Page Residence Revolving Fund
Statement of Revenue and Expenses
and Changes in Fund Balance
For the Year Ended September 30, 2002**

Revenue:	
Fees	\$ 131,990
Total Revenue	\$ 131,990
Expenses:	
Meal Costs	\$ 121,134
Transportation	33,558
Office Supplies	9,012
Training/Conference Fees	7,300
Other	2,764
Total Expenses	\$ 173,768
Revenue Over Expenses (deficit)	\$ (41,778)
Beginning Fund Balance	\$ 256,567
Ending Fund Balance	\$ 214,789

See accompanying notes.

Statement of Cash Flows

Daniel Webster Senate Page Residence Revolving Fund
Statement of Cash Flows
For Year Ending September 30, 2002

Operating Activities

Revenue over Expenses (deficit)	\$	(41,778)
Increase in:		
Accounts Payable		2,099
Security Deposits		1,000
Net cash used by operations	\$	(38,679)
Net cash decrease for period	\$	(38,679)
Cash at beginning of period		286,899
Cash at end of period	\$	248,220

See accompanying notes.

Notes to the Financial Statements

**Office of the Sergeant at Arms – U.S. Senate
Notes to the Financial Statements
Daniel Webster Senate Page Residence Revolving Fund**

Note 1. Description of the Entity

The Daniel Webster Senate Page Residence Revolving Fund (the Fund) was established under The Legislative Branch Appropriations Act, 1995 (2 U.S.C. 88b-7) to provide for the operating and maintenance costs of the residence not normally performed by the Architect of the Capitol. The Sergeant at Arms collects fees from the Senate pages to fund the operation and maintenance, as well as the costs of food and food related items, activities, and other items for the pages. Other costs associated with operating the page residence are funded by appropriations. The money in the Fund is available, without fiscal year limitation, for disbursement by the Secretary of the Senate on vouchers approved by the Sergeant at Arms.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements are presented in conformity with U. S. generally accepted accounting principles (GAAP). Accordingly, assets, liabilities, revenues, and expenses are presented on the accrual basis of accounting.

B. Funds with U. S. Treasury

Cash receipts from fees and security deposits are deposited in the U.S. Treasury and credited to the Fund for use by the Daniel Webster Page Residence Revolving Fund.

C. Security Deposit

The Sergeant at Arms collects a security deposit which is refundable after a page checks out of the residence and it has been determined that no costs associated with damages to the room have been incurred.

D. Page Fees

Page fees are collected monthly from each pages' salary to fund the costs of food and food related items, activities, and other items for the pages. Pages receive a salary that is paid from the Sergeant at Arms appropriated fund. Page salaries are not included in the financial statements for the Page Residence.

Note 3. Other Sources of Financial Support

Certain costs of operating the Daniel Webster Senate Page Residence 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 the Residence for the fiscal year ended September 30, 2002 are shown below.

Salaries for Residence staff	\$217,688
Benefits	37,088
Depreciation (equipment)	1,710
Telephone	<u>1,560</u>
Total	<u>\$258,046</u>

The Architect of the Capitol maintains the Daniel Webster Senate Page Residence building and therefore funds normal costs associated with building maintenance.

The Sergeant at Arms Appropriations were used to purchase furniture and equipment for Daniel Webster Senate Page Residence.

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