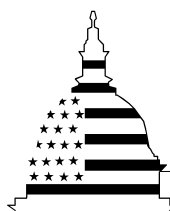


August 2004

FINANCIAL AUDIT

U.S. Senate Stationery Room Revolving Fund's Fiscal Years 2002 and 2001 Financial Statements



G A O

Accountability ★ Integrity ★ Reliability

Contents

Letter	1
Auditor’s Report	2
Opinion on the Financial Statement	2
Opinion on Internal Control	2
Compliance with Laws and Regulations	5
Recommendations for Executive Action	5
Objectives, Scope, and Methodology	6
Management’s Comments and Our Evaluation	8
Financial Statement	9
Statement of Receipts, Disbursements, and Fund Balance	9
Notes to the Financial Statement	10

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United States Government Accountability Office
Washington, D.C. 20548

August 27, 2004

The Honorable Emily J. Reynolds
Secretary of the Senate
United States Senate

Dear Ms. Reynolds:

This report presents the results of our audit of the Senate Stationery Room's Statement of Receipts, Disbursements, and Fund Balance for the fiscal years ended September 30, 2002 and September 30, 2001. 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 provision of laws and regulations we tested. We performed this audit at your request.

As arranged with your office, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will provide 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. This report will also be available on GAO's home page 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 Chanetta Reed, Lindsay Saylor, Kara Scott, and Stacey Smith.

Sincerely yours,

Jeanette M. Franzel
Director
Financial Management and Assurance

To the Secretary of the Senate

We have audited the accompanying Statement of Receipts, Disbursements, and Fund Balance for the Senate Stationery Room Revolving Fund for the fiscal years ended September 30, 2002 and 2001. In our audit, we found

- the statement is presented fairly in all material respects, on a cash basis;
- although certain internal controls should be improved, the Stationery Room had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- no reportable noncompliance with the selected provisions of laws and regulations we tested, although an internal control weakness regarding the preference to purchase domestically made goods resulted in uncertainty about compliance for a limited number of transactions.

The following sections present each conclusion in more detail and discuss the scope of our audit.

Opinion on the Financial Statement

The Statement of Receipts, Disbursements, and Fund Balance and the accompanying notes present fairly in all material respects, in conformity with the cash basis of accounting, the receipts, disbursements, and fund balance of the Stationery Room Revolving Fund for the fiscal years ended September 30, 2002 and 2001. As described in note 2 of the accompanying statement, the cash basis of accounting is a comprehensive basis of accounting that recognizes transactions when cash is received and disbursed. This basis of accounting differs from U.S. generally accepted accounting principles, which recognize revenue when earned and expenses when incurred.

Opinion on Internal Control

Although certain internal controls should be improved, the Stationery Room maintained in all material respects effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2002, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statement would be prevented or detected

promptly. Our opinion is based on criteria established in the Comptroller General's *Standards for Internal Control in the Federal Government*.¹

Our work did identify the need to improve certain internal controls. These weaknesses in internal control, although not considered material,² represent reportable conditions in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the internal control objectives listed above. We reported on two of these reportable conditions in internal control in our prior audit, which was issued on December 21, 2001.³ In that report we provided the Stationery Room with five recommendations to address these issues, two of which were still open as of the date of this report. Still open were recommendations that Stationery Room management ensure that (1) individuals responsible for approving purchase orders sign each document to formally evidence their actions and (2) reconciliations of Stationery Room disbursement transactions and fund balance with amounts recorded by the Senate Disbursing Office are routinely completed in a timely manner. In addition to the two reportable conditions in internal control that we included in our last report, we identified a third issue — the lack of documentation supporting decisions to purchase foreign goods to support compliance with section 109 of title 2 of the United States Code, which establishes a preference for the Secretary to purchase domestic goods. Specifically, we found the following:

1. Authorized personnel did not always properly sign purchase orders documenting initial management approval; thus, several cash disbursement transactions lacked evidence of the proper level of approval as required by the Stationery Room's policies and procedures. The Stationery Room's policies and procedures manual requires that purchase orders be approved prior to execution. During fiscal year 2001, we found that approvals were not documented for more than half

¹GAO, *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, Washington, D.C., November 1999).

²A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

³GAO, *Financial Audit: U.S. Senate Stationery Room Revolving Fund's Fiscal Year 2000 Financial Statement*, GAO-02-130 (Washington, D.C.: Dec. 21, 2001).

of the purchase orders for disbursement transactions. Stationery Room management, in response to our fiscal year 2000 audit findings, implemented a policy whereby payment cannot be made without appropriate supporting documentation, including approved purchase orders. During fiscal year 2002, Stationery Room management improved controls in this area and we found a significantly reduced number of payments (4 out of 100 tested) that were made without an approved purchase order.

2. The Stationery Room did not perform timely reconciliations for cash disbursement and receipt transactions to the Senate Disbursing Office records on a monthly basis. Stationery Room policies and procedures require that month-end reconciliations be performed for cash receipts and disbursements with appropriate accounting records. Instead, the monthly reconciliations for fiscal years 2002 and 2001 transactions were completed during our audit by an independent contractor. Without these monthly reconciliations being performed on a timely basis, the Stationery Room faces increased risk that misstatements in the financial records resulting from cash receipt and cash disbursement posting errors or invalid transactions might not be detected or corrected on a timely basis. The Keeper of Stationery informed us that automated reconciliation procedures will be incorporated into the Stationery Room's systems upgrade and modernization.
3. There were 8 instances for fiscal year 2002 and 10 instances for fiscal year 2001 in which the Stationery Room lacked supporting documentation to justify foreign purchases based on quality and price; and one instance in each fiscal year in which the Stationery Room staff was unaware that an item purchased from one of its United States distributors was manufactured in a foreign country. Section 109 of title 2 of the United States Code requires the Secretary of the Senate to purchase articles of United States origin, provided the domestic item can be purchased "upon as good terms as to the quality and price" as the foreign-made item. The Stationery Room does not have policies and procedures in place to determine and document the basis (sole supplier, quality, and price) for making decisions to purchase goods manufactured outside of the United States or to ensure that goods received from American distributors are not being manufactured in foreign countries in instances when comparable goods manufactured in the United States are available. The Keeper of Stationery has indicated that foreign purchases are only made in cases of single supplier, best price, and best quality, but did not maintain documentation to support

that fact. Documentation of the facts is important to provide sufficient evidence that a decision to purchase foreign goods was made based on sole supplier, best price, and best quality. The Keeper of Stationery informed us that the Stationery Room is in the process of implementing documentation procedures to support decisions to purchase foreign goods.

Compliance with Laws and Regulations

We found no instances of noncompliance with the selected provisions of laws and regulations we tested that would be reportable under U.S. generally accepted government auditing standards. As described in the previous section, while testing for compliance with section 109 of title 2 of the United States Code, which establishes a preference for the Secretary to purchase domestic goods, we identified an internal control weakness over the documentation of decisions regarding foreign purchases to show evidence of compliance with section 109. Although we were able to use alternative methods for testing compliance for the majority of the goods purchased from foreign manufacturers, we could not determine whether 8 transactions for fiscal year 2002 and 10 transactions for fiscal year 2001, which were immaterial to the respective Statements of Receipts, Disbursements, and Fund Balance, complied with the requirements of section 109 of title 2 of the United States Code. 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.

Recommendations for Executive Action

In light of the reportable conditions identified during our audit, we are making three recommendations to Stationery Room management to strengthen internal control over transaction approvals and documentation and reconciliations of financial reports. Specifically, we recommend that the Secretary of the Senate direct the Stationery Room management to continue its efforts to strengthen internal control to provide assurance that

- individuals responsible for approving purchase orders sign each document to formally evidence their approval;
- Stationery Room receipt and disbursement transactions as well as fund balance amounts are timely reconciled to the Senate Disbursing Office records on a monthly basis; and

-
- policies and procedures are developed and implemented to document the basis (sole supplier, quality, and price) for decisions to purchase goods that are not of United States origin, including purchases from American distributors of goods manufactured in foreign countries, to ensure compliance with section 109 of title 2 of the United States Code.

Objectives, Scope, and Methodology

The Stationery Room management is responsible for (1) preparing the Statement of Receipts, Disbursements, and Fund Balance in conformity with the cash basis of accounting; (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 Statement of Receipts, Disbursements, and Fund Balance is presented fairly in all material respects, in conformity with the cash basis of accounting and (2) management maintained effective internal control, the objectives of which are the following.

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the Statement of Receipts, Disbursements, and Fund Balance in conformity with the cash basis of accounting, 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 Statement of Receipts, Disbursements, and Fund Balance.

We are also responsible for testing compliance with selected provisions of laws and regulations that were determined to have a direct and material effect on the Stationery Room's Statement of Receipts, Disbursements, and Fund Balance for the fiscal years ended September 30, 2002 and 2001.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the Statement of Receipts, Disbursements, and Fund Balance; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the Statement of Receipts, Disbursements, and Fund Balance; (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 (including safeguarding assets) and compliance and evaluated the design and operational effectiveness of internal control; and (6) tested compliance with selected provisions of the following relevant laws and regulations:

- 2 U.S.C. § 46a-1, relating to the establishment of the Stationery Room Revolving Fund, including deposit of sales receipts and disbursements from the fund,
- 2 U.S.C. § 109, relating to preference to purchase American goods,
- 2 U.S.C. § 68, relating to the approval of disbursements, and
- the Antideficiency Act, relating to the disbursement of revolving fund assets.

We did not evaluate internal controls relevant to the effectiveness and efficiency of the Stationery Room's operations. We limited our internal control testing to relevant controls over financial reporting (including safeguarding assets) and compliance. Because of inherent limitations in any system of 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.

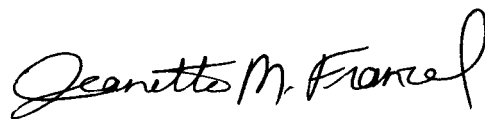
With respect to our tests of selected provisions of laws and regulations, we did not test compliance with all laws and regulations applicable to the Stationery Room, therefore, we caution that noncompliance may have occurred and not been detected by the tests we performed. Accordingly, the scope of our tests of noncompliance may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards.

Management's Comments and Our Evaluation

We provided drafts of this report to the management of the Stationery Room and representatives of the Office of the Secretary of the Senate for review and comment. In commenting on the draft report, they agreed with the report's findings and recommendations and stated that appropriate actions will be taken to address the recommendations contained herein.

Jeanette Franzel



Director
Financial Management and Assurance

August 18, 2004

Financial Statement

Statement of Receipts, Disbursements, and Fund Balance

United States Senate Stationery Room Revolving Fund Statement of Receipts, Disbursements, and Fund Balance

	Fiscal years ended September 30	
	2002	2001
Receipts		
Sales (note 3)	\$ 4,617,278	\$ 3,634,051
Total receipts	<u>4,617,278</u>	<u>3,634,051</u>
Disbursements (note 4)		
Inventory and supplies	4,460,487	2,995,539
Professional and other services	30,800	593,365
Equipment	195,979	58,187
Total disbursements	<u>4,687,266</u>	<u>3,647,091</u>
Net receipts (disbursements)	<u>(69,988)</u>	<u>(13,040)</u>
Beginning fund balance (note 5)	<u>1,374,753</u>	<u>1,387,793</u>
Ending fund balance (note 5)	<u>\$ 1,304,765</u>	<u>\$ 1,374,753</u>

The accompanying notes are an integral part of this financial statement.

Notes to the Financial Statement

**United States Senate Stationery Room Revolving Fund
Notes to the Statement of Receipts, Disbursements, and Fund
Balance****Note 1. Description of Entity**

The United States Senate Stationery Room was established to provide stationery and office supplies to members of the Senate, Senate offices, and other Senate committees. The Stationery Room Revolving Fund (Fund) was established within the contingent fund of the Senate to support the activities of the Stationery Room. Any amounts received as proceeds from the sales of the Stationery Room are to be deposited into the Revolving Fund and are available until expended for the purpose for which the fund was established (2 U.S.C. § 46a-1).

Note 2. Basis of Accounting

Amounts received from and used for Stationery Room operations are accounted for and reported by the Fund on the cash basis. The cash basis of accounting recognizes transactions when the cash is received and disbursed. The cash basis is a comprehensive basis of accounting that differs from U.S. generally accepted accounting principles, which recognize revenues when earned and expenses when incurred.

All receipts from the sale of stationery items are deposited into the Fund. The fund balance is used to pay for purchases of (1) inventory items available for resale to customers of the Stationery Room and (2) equipment and related services that directly support Stationery Room operations. The fund balance was not used to pay for salaries and benefits of Senate employees who work in the Stationery Room, the costs of which are charged to the "Salaries, Officers, and Employees" appropriation account for the Senate. Additional incidental costs for the Fund such as rent and utilities cannot be readily determined and are covered by other appropriated funds.

Note 3. Sales Receipts

Sales receipts consist of cash sales and collections for sales made on account. The various Senate offices purchase their stationery and office supplies from the Stationery Room on account. Each month,

following review and approval of these transactions, the Senate Disbursing Office makes an adjusting entry, which records the receipts in the Revolving Fund and the disbursements in the various Senate office accounts, thus paying each account in full.

Note 4. Disbursements

Disbursements represent amounts paid to purchase goods for resale, special orders, and other goods and services needed to support Stationery Room operations.

Note 5. Fund Balance

The beginning fund balances represents the balances at Treasury at October 1, 2000 and October 1, 2001, respectively, carried over from the prior period. The ending fund balances represent the balances at Treasury at September 30, 2002 and September 30, 2001, and are the amount of funds available for disbursement in a subsequent period.

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