AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

INSPECTOR GENERAL AUDIT OF THE HOUSE'S FISCAL YEAR 2009 FINANCIAL STATEMENTS

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON HOUSE ADMINISTRATION

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

Held in Washington, DC, May 26, 2011

Printed for the use of the Committee on House Administration

Available on the Internet:
http://www.gpoaccess.gov/congress/house/administration/index.html

U.S. GOVERNMENT PRINTING OFFICE

67–642 WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON HOUSE ADMINISTRATION

DANIEL E. LUNGREN, California, *Chairman*

GREGG HARPER, Mississippi
PHIL GINGREY, M.D., Georgia
AARON SCHOCK, Illinois
TODD ROKITA, Indiana
RICHARD B. NUGENT, Florida

ROBERT A. BRADY, Pennsylvania, *Ranking Minority Member*
ZOE LOFGREN, California
CHARLES A. GONZALEZ, Texas

PROFESSIONAL STAFF

PHILIP KIKO, *Staff Director & General Counsel*
JAMIE FLEET, *Minority Staff Director*

SUBCOMMITTEE ON OVERSIGHT

PHIL GINGREY, M.D., Georgia, *Chairman*

AARON SCHOCK, Illinois
RICHARD B. NUGENT, Florida
TODD ROKITA, Indiana

ZOE LOFGREN, California
CHARLES A. GONZALEZ, Texas

INSPECTOR GENERAL AUDIT OF THE HOUSE'S FISCAL YEAR 2009 FINANCIAL STATEMENTS

THURSDAY, MAY 26, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT,
COMMITTEE ON HOUSE ADMINISTRATION,
Washington, DC.

The subcommittee met, pursuant to call, at 9:37 a.m., in room 1310, Longworth House Office Building, Hon. Phil Gingrey (chairman of the subcommittee) presiding.

Present: Representatives Gingrey, Schock, Nugent, and Lofgren.

Staff Present: Kimani Little, Parliamentarian; Joe Wallace, Legislative Clerk; Yael Barash, Assistant Legislative Clerk; Salley Wood, Communications Director; Linda Ulrich, Director of Oversight; Reynold Schweickhardt, Oversight Staff; Katie Ryan, Oversight Staff; Jamie Fleet, Minority Staff Director; Kyle Andersen, Minority Press Secretary; Mike Harrison, Minority Professional Staff; and Matt Pincus, Minority Professional Staff.

Mr. GINGREY. I now call to order the Committee on House Administration's Subcommittee on Oversight for today's oversight hearing on the Inspector General's audit of the House's 2009 financial statements. The hearing record will remain open for 5 legislative days so that members may submit any materials that they wish to be included therein.

A quorum is present, so we may proceed.

The Subcommittee on Oversight has the important task of conducting vigorous and effective oversight of our legislative agencies and their operations. As stewards of tax dollars, we have no more important task than to make sure this House's administrative conduct and business is performed with the greatest efficiency, transparency, and ethical standards, which is why I was extremely disappointed when I received the results of the audit of fiscal year 2009.

As we will hear, the 2009 audit reports the demonstrable problems at the CAO, created by its former leadership. Several "material weaknesses"—that is a phrase—were reported due to the lack of a management control program and ineffective controls over information security. It also highlights significant deficiencies in internal controls over financial reporting and controls over the payroll process.

When this country is in financial dire straits, reports of financial misfeasance are outrageous and simply unacceptable.

Fortunately, the management of the CAO has been substantially improved, and we commend Mr. Strodel for his dedication for improving the efficiency and management of the CAO, Chief Administrative Office, and Officer; but we still have a way to go. And I also want to commend the IG, the Inspector General Theresa Grafenstine, for her commitment to ensuring financial accountability within this institution.

I want to thank each of my colleagues for being here today. And I would now like to recognize our ranking member of the subcommittee, Congresswoman Zoe Lofgren, for the purpose of providing an opening statement. Ranking Member Lofgren.

Ms. LOFGREN. Thank you very much, Mr. Chairman. As you have indicated, the House of Representatives, like other government agencies, gets its funding from the American people; and as stewards of tax dollars, it is our responsibility to use the funds responsibly and in a transparent manner. The public needs to have faith in the accounting and record keeping done by their government, and this is why the annual financial audits that we do here in the House are important.

The 2009 financial statement audit report gave the House an unqualified or clean opinion for its financial statements. An unqualified or clean opinion means that the auditors found the financial statements fairly represented the House's assets and liabilities. It also means the financial practices used by the House conform with generally accepted accounting principles. This is the 12th year in a row that the House has received an unqualified opinion on its financial audits. We should commend the CAO and the IG's office for this positive track record.

What is not commendable are the four significant internal control deficiencies that were highlighted in the 2009 audit report. I will come back to these internal control issues during the questioning period with the witnesses.

Perhaps the most troublesome information to come out of the 2009 financial audit was the apparent lack of cooperation and misleading information coming from the former Chief Administrative Officer and other senior CAO staff towards the auditors, the IG's office, and even with this committee.

Let me try and outline some of the events that took place just for the record.

The auditors first raised concerns about the 2009 financial internal controls issues to the IG's office on January 15, 2010. The IG's office called a meeting with the auditors and the CAO to request additional cooperation from the CAO's staff. The Chief Administrative Officer was invited, but he did not come to this meeting. He sent his staff in his place. In March of 2010 an adverse opinion on the 2009 audit appeared likely because of the continued lack of cooperation from the former CAO, which had made it difficult for the auditor to review necessary documents in a timely manner.

On the morning of March 22, 2010, the IG's office and the auditor jointly briefed House Administration Democratic and Republican staff on the problems they were encountering with the CAO. In the afternoon of March 22, the House Administrative Committee Staff Director had a meeting with the Chief Administrative Officer. The Chief Administrative Officer's statements at this meeting led the Staff Director to believe that the CAO understood the serious nature of the situation and would fully cooperate with the auditors.

On June 30, 2010, the IG and the auditor informed House Administration Democratic and Republican staff that the House would receive an adverse opinion on the internal control portion of the financial statement for 2009. At that point, then Chairman Brady called Mr. Lungren to let him know that we would be meeting with the CAO. The following morning on July 1, Chairman Brady, Representative Capuano and myself had a meeting with the Chief Administrative Officer, Mr. Beard. Following the meeting Mr. Beard announced his resignation.

On July 10, Dan Strodel was appointed as the new Chief Administrative Officer. I look forward to hearing the testimony of CAO Strodel and IG Grafenstine on the current working relationship between the CAO and the IG's office. I also look forward to hearing from them on what progress is being made in the development of new internal controls for the House.

I yield back.

Mr. GINGREY. I thank the ranking member. Does any other member wish to be recognized for the purpose of making an opening statement?

I would now like to introduce our two witnesses. The Honorable Theresa Grafenstine was appointed Inspector General of the House on July 30, 2010. Ms. Grafenstine has been with the House Office of the Inspector General since 1998, starting as a staff level auditor and has served in each of the House OIG, Office of Inspector General, organizational units. She led the first-ever review of the House complex fire and emergency response program as well as numerous security and internal control assessments. Prior to joining the House OIG, Ms. Grafenstine served in the Department of Defense's Office of Inspector General. She has numerous certifications and is active on numerous boards and committees related to auditing governance and accounting.

Our second witness, the Honorable Dan Strodel, was sworn in as Chief Administrative Officer, CAO, of the United States House of Representatives on January 5, 2011. He also served as the Chief Administrative Officer during the last 6 months of 2010. Mr. Strodel leads an organization created during the 104th Congress which has now more than 700 employees charged with carrying out the administrative functions of the House, including things such as operating budgets, financial management, procurement, and payroll. Mr. Strodel has a wealth of experience in this institution—over 26 years, I might say, to be exact. He began in the Office of Finance under the Office of the Clerk and has since then held positions with the United States Capitol Police, the House and Senate Sergeant at Arms and in other capacities within CAO. We thank both of you for being here today.

As I mentioned in my opening statement, I was shocked to read this report, and I am anxious to hear about the corrective measures necessary to make sure that these systemic problems do not reappear.

The committee has received your written testimonies. At the appropriate time, I will recognize each of you for 5 minutes to present a summary of that submission. And to help you keep time, we have a timing device near the witness table—I think right in front of you. The device will emit a green light for 4 minutes and then turn yellow, letting you know that just 1 minute remains. When the light turns red, it means your time has expired. I probably won't hit the gavel quite as hard as I did to convene us, but we will try to stay on time.

Inspector General, we will start with you, and you may proceed.

STATEMENTS OF THE HON. THERESA GRAFENSTINE, INSPECTOR GENERAL, UNITED STATES HOUSE OF REPRESENTATIVES; AND THE HON. DAN STRODEL, CHIEF ADMINISTRATIVE OFFICER, UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT OF THE HON. THERESA GRAFENSTINE

Ms. GRAFENSTINE. Terrific. Thank you. Good morning, Chairman Gingrey, Ranking Member Lofgren, and members of the subcommittee. I am both pleased and honored to appear before you today in my capacity as the Inspector General of the U.S. House of Representatives. Thank you for this opportunity to brief you on the results of the fiscal year 2009 financial statement audit of the House. Since I have submitted my written comments for the record, I will try to keep this brief.

The process of preparing financial statements instills discipline in the financial recording and reporting processes. Financial statements also provide transparency and accountability and tell the public that the House can and does accurately account for its financial activity.

The 2009 financial statement audit tells two stories. The first is one of staff heroics, where a dedicated few put in an amazing amount of effort and long hours to assure that the House maintained its clean audit opinion. And for that reason I can say, for the 12th year in a row, the House received an unqualified or clean opinion on its financial statement.

Getting a clean opinion is a significant accomplishment, given that this was the first year that the CAO prepared its House financial statements in accordance with generally accepted accounting principles for Federal agencies, otherwise known as FedGAAP. Understand that changing the basis in accounting is a really big deal and requires a lot of effort. FedGAAP also puts the House in alignment with government best practices.

The second story is one of mismanagement, disengagement, and at times obstruction. In contrast to the clean opinion that the House received on its financial statement, the external auditor expressed an adverse opinion on the CAO's internal controls. So what does that mean in nonaccounting language? An adverse opinion means that the CAO did not have effective controls over financial reporting. Consequently, the CAO and, therefore, the House is at greater risk of not detecting an error in the financial statements or in the processing of payroll, finding inaccuracies in payroll, and not catching overpayments to vendors or not realizing that it is missing assets.

So what did the external auditor find that led them to this conclusion? Among a variety of control weaknesses they identified two material weaknesses, the most severe. The material weaknesses were the lack of an internal controls program and ineffective controls over information technology, or IT. While the absence of the formal internal control program and the ineffective controls over IT are significant and require management action and attention, I believe the deteriorating control environment in the CAO and the lack of action by management played a greater role in the House receiving an adverse opinion on its internal controls in 2009.

Let me explain. For several years, the external auditor had advised the CAO with increasing urgency and formality of the need for an internal controls program. Despite their concurrence with this recommendation, as of 2009 the CAO still had not made any notable progress. Even more troubling was that the CAO environment at the senior management level had become one which was generally unsupportive of the financial statement process, exhibiting disinterest, lack of cooperation, and even obstruction to auditors' requests for information.

It is important to note that between these two stories that are being told by the 2009 financial statement audit, the first story on the clean opinion on the House financial statements is more significant and fundamental. This should give the public confidence that the House can and does accurately account for its financial activities.

The second story, while dire, is one that can be corrected through decisive actions and commitment. So what has the House and the CAO done to correct these issues?

As Ms. Lofgren pointed out, in January of 2010, within days of my being appointed by the then-acting Inspector General, the external auditor informed me of their growing concerns about the 2009 financial statements. I called an emergency meeting with the external auditor, the former CAO, and all managers associated with the financial statement process. I wanted to make sure that we were all on the same page as to the importance of the financial statements and to stress the need for cooperation and participation. Although the former CAO did not participate in this initial emergency meeting or any of the weekly sessions held thereafter, all other senior CAO managers did.

While this intervention helped to reemphasize the importance of the financial statements and being responsive to the external auditors' request, a lack of commitment and participation was still pervasive. By the spring of 2010, it appeared more likely that the House would receive either an adverse opinion or a disclaimer because of scope limitations and the inability for the auditor to get required information.

In the OIG's efforts to support the Committee on House Administration's governance and oversight duties, the external auditor and I jointly briefed the committee of this possibility in March of 2010. After it became clear that the House would receive an adverse opinion on its internal controls, the external auditor and I again jointly briefed the Committee on House Administration on June 30 of that same year.

On a bipartisan basis, the Committee on House Administration took decisive and immediate actions to address the control environment or tone at the top deficiencies. The Committee on House Administration understood the seriousness of these internal control issues.

The former CAO announced his resignation the following day and a new CAO, Mr. Strodel, was appointed immediately thereafter. As soon as Mr. Strodel was appointed, he made sweeping changes, including the appointment of a director of internal controls, creating a senior assessment team to oversee the implementation of an internal control program, appointing a new senior management team, one with a commitment to transparency and accountability of House financial activity through the issuance of reliable financial statements.

The Committee on House Administration's decisive actions, combined with Mr. Strodel's leadership, have resulted in a complete reversal in tone within the CAO and have contributed to a much more effective and timely audit process during the 2010 audit cycle.

Before closing, I would like to give you a brief status on where we are at in the 2010 and 2011 audits. In contrast to the 2009 cycle in which it took the CAO nearly 14 months to issue finalized financial statements, they were able to do so in 2010 within 2 months after the fiscal year end. It is important to note, however, despite all these significant changes that have occurred since Mr. Strodel's appointment, the House will receive an adverse opinion again in 2010. During an audit, the controls that were in place during the period of review are what are considered. Since many of these corrective actions did not occur until July 2010, when Mr. Strodel was appointed, there was not enough time to make those types of corrective actions before the end of the fiscal year.

A robust control program will help to ensure processes are repeatable and will enable the CAO to be proactive in addressing issues rather than reactive. We also believe that many of the IT control weaknesses will be addressed with the internal controls program.

With that, I concede back. Sorry for running over.

Mr. GINGREY. I should have let you finish that last sentence at least. But thank you. And of course, as you know, your entire report is submitted for the record, and we appreciate that.

We will now go ahead to our second witness Mr. Dan Strodel, the Chief Administrative Officer.

STATEMENT OF THE HON. DAN STRODEL

Mr. STRODEL. Good morning, Chairman Gingrey, Ranking Member Lofgren, Congressman Nugent. I am Dan Strodel, the Chief Administrative Officer. And I will go as quickly as I can through the summary. I know you will want to get quickly to questions and you have other business for today.

The most important thing I want to start with is to recognize the contributions that the Inspector General has made, Terry Grafenstine, and the management advisories that she has provided has helped me personally as well as the entire House officer corps. As so we continue to work together, and it is my hope to always remain on her good side.

With that said, when I reviewed the audit findings, the independent report from Cotton & Company and the materials provided by the Inspector General, there were some 21 recommendations.

Whether they were determined to be material or significant deficiencies, there was still a fairly large number of findings. The lead finding was one material weakness, the primary finding of a lack of an internal controls program. That struck me because the following 20 were very specific and ultimately provided a road map for us. I spent some time trying to figure out, why is this the number one recommendation, and why is the number one material weakness the lack of internal controls program? That told me the primary driver to the situation that evolved was the tone at the top of the organization. There is a group of extremely professional dedicated staff and, as the Inspector General referenced, who have been on staff for a while, that have been through these processes before, and were trying to continue to do good work. However there seemed to be a disengagement. This struck me as the long-term focus I have to make to begin to put in place the structures that are going to help the organization evolve and transform into a high-performing organization again. We can get into more details about the particular internal controls, but that is my primary point.

[The statement of Mr. Strodel follows:]

Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements

Testimony
Daniel J. Strodel

Chief Administrative Officer

U.S. House of Representatives

Before the

Subcommittee on Oversight

Committee on House Administration

May 26, 2011

Summary

Mr. Chairman and Members of the Subcommittee: I am pleased to appear before you to discuss the results of the Inspector General's Audit of the House's Fiscal Year 2009 Financial Statements.

Let me begin by expressing my gratitude for your continuing support of the CAO's office.

It is a pleasure to be back in this room, although it does feel different to be on this side of the dais. Also, I am honored to be appearing today with my colleague Terry Grafenstine, the Inspector General (IG). She is an accomplished leader and true partner dedicated to improving administration and management of House operations.
I have a unique perspective on this particular issue -- first as a staffer on this Committee during the time the audit was conducted and now as the CAO, responsible for implementing the recommendations.

I recall last Spring, the IG raised concerns about the level of cooperation from my predecessor's office regarding requests for data to support the financial statement audit. The Committee was alarmed to learn that the CAO was months behind in providing this critical information. While the auditors believed their review of the House financial statement would indicate a "clean" audit, the CAO still lacked an internal controls program to ensure the financial and information technology systems had effective safeguards, in accordance with generally accepted accounting principles (GAAP). For some, this may seem like a minor or relatively technical point. But in actuality, internal controls provide the framework and foundation for the integrity of our business processes and practices. The Committee took action and my predecessor announced his resignation. A few weeks later I was selected as CAO and one of my first meetings in that capacity was in the conference room of this Committee on this very topic.

My approach to resolving the issue has several components:

First - change the tone at the top. One of our fundamental management principles is transparency. To that end, we respond quickly and comprehensively to auditors' requests for information.

Second – communicate, on an organizational level, that internal controls isn't just a program, it's a philosophy. As stewards of the taxpayers' money, we need to take every step possible to ensure that these dollars are spent in accordance with applicable laws and rules of this House. CAO senior leadership must incorporate internal controls knowledge and awareness in their management approach.

And third, we have to do more with less. An internal controls program not only satisfies the auditor and provides confidence for me and you, it can help us refine our processes, achieve efficiencies and reduce costs.

Audit Results

The House's Fiscal Year 2009 Financial Statement Audit reported an unqualified, or "clean," opinion on the House's financial results. However, the opinion on internal controls contained two material weaknesses and two significant deficiencies. The material weaknesses related to the lack of a management internal controls program and ineffective controls over Information Technology.

Prior Actions

The Fiscal Year 2008 Financial Statement Audit recommended that the House implement an internal controls program. To accomplish this recommendation, we hired a very experienced audit professional named Bill Leibach to serve in the position of Audit Liaison in February 2010. This position had been vacant since early 2009. The duties of this position include serving as liaison between the Inspector General and the CAO, and monitoring status of outstanding audits, audit recommendations, and remediation of outstanding weaknesses identified by the auditors and management. In addition, the position has an emphasis on the implementation and sustainment of an internal controls program. In particular, Mr. Leibach, a Certified Public Accountant and Certified Information Security Auditor, has been instrumental in communicating the new tone at the top internally with our senior managers and externally with our stakeholders.

Audit Recommendations

The auditors recommended that the House implement a management internal controls program consistent with that outlined in Appendix A of OMB Circular A-123. The program includes the creation of a Senior Assessment Team, evaluation of internal controls at the entity and process level, testing of operational effectiveness, and concluding and reporting on the internal controls program.

In addition, the auditors recommended a series of actions to remediate ineffective controls over information technology. The recommendations include the identification, documentation and assessment of information technology controls in accordance with Appendix A of OMB Circular A-123. The recommendations also include a series of actions including the development of a risk management framework, updating system security plans with relevant security controls, assessment of security controls, implementation of change control processes, implementation of processes to track action plans, account management processes, coordination of contingency management processes, configuration management of active directory, and adequate segregation of duties within financial systems.

Status of Corrective Actions

We have taken significant actions to address the weaknesses reported in the Fiscal Year 2009 Financial Statement Audit report. Those actions began in earnest in August of 2010; and while they will not be fully evident in the Fiscal Year 2010 Financial Audit report they are critical steps toward our long term solution:

Chief Administrative Officer
Inspector General Audit of the House's Fiscal Year 2009 Financial Statements

1. Tone at the Top

The tone at the top relates to the emphasis placed by CAO leadership on the importance of incorporating internal controls principles in our management philosophy. Specifically, to communicate internally our stewardship responsibilities and our open and transparent approach with our stakeholders.

2. Establishment of a Senior Assessment Team

A Senior Assessment Team comprised of the CAO's business unit leaders was established to provide oversight of the financial reporting process and internal controls program, and to communicate the philosophy of internal controls in our management practices. The team has met monthly since August 2010, and includes a representative from the Office of Inspector General.

3. Information system security, segregation of duties and contingency management planning, testing and evaluation

To date, we have identified and documented processes that are materially relevant to the House's financial reporting. Key controls have been identified assessed, and tested for operating effectiveness for the 1st quarter of fiscal year 2011. Additional testing, remediation, and documentation of key processes are currently in progress. The intent of the current effort is to sustain the internal controls program and provide reasonable assurance for fiscal year 2011 and all years going forward.

We also have taken actions to implement corrective actions over information technology controls that impact financial reporting processes; actions designed to mitigate, in a relatively short timeframe, the significant weaknesses that have been identified. These actions include revising system security plans for applications and general support systems relevant to financial reporting, conducting management and independent testing of key controls over these applications and general support systems, implementing change and configuration management processes, actions to ensure segregation of duties have been implemented, and contingency management documentation has been developed.

Closing Remarks

In summary, my CAO colleagues and I will continue to serve the House by demonstrating fiduciary responsibility in safeguarding House assets and resources, promoting the highest quality stewardship of taxpayer dollars; and providing a financial management and internal control infrastructure that ensures the financial integrity of the House. I look forward to working with the subcommittee and am happy to answer any questions.

Thank you

Dan Strodel
Chief Administrative Officer

Mr. Strodel has over 26 years of service to Congress. He began his career in the Office of Finance under the Office of the Clerk and over the next ten years rose from an entry-level personnel clerk to benefits counselor to supervisor and finally to the position of Director of the CAO's Office of Personnel and Benefits. In 1995, he was selected to be the director of human resources management for the United States Capitol Police, a command-level position. In 1999, he took on additional leadership responsibilities as the 3rd highest ranking official in the Office of the Clerk serving as the lead executive for financial and human capital management. In 2005, legal counsel duties were added to his senior management role, serving as general counsel to both the Senate and House Sergeant at Arms. In 2009, he accepted the position of senior advisor to the Committee on House Administration where he assisted with oversight responsibilities for House Officers and other legislative branch entities. In July of 2010, he was asked to serve as the Chief Administrative Officer for the House.

Mr. Strodel received a B.A. degree in History from Hobart College and a law degree from the Catholic University of America. He has completed the Executive Leadership Curriculum at the Kennedy School of Government at Harvard University. He is a member of the bar of the Supreme Court of the United States and the Supreme Court of the State of Pennsylvania. He is also a member of the Federal Bar Association. He holds a Top Secret/SCI level DoD security clearance.

Mr. GINGREY. Have you completed your testimony?

Mr. STRODEL. Yes, sir.

Mr. GINGREY. You surprised me. It is not very often that we get someone that only takes half of his or her time. Certainly we appreciate very much both witnesses' testimony.

Let me yield to myself for the first set of questions. We will each take 5 minutes, and if we have more questions and sufficient time, we will have a second round.

I will direct my first line of questioning to Ms. Grafenstine. It took the previous CAO 14 months to prepare the financial statements. How did his delay and deliberate withholding of information, if it was deliberate withholding of information, impact the overall cost of the audit? The outside auditor cost.

Ms. GRAFENSTINE. Yes. As you know, we do use external auditors to manage the financial statement audit, and we oversee their activity. It increased our efforts. We had a lot of coordination done on the inside from the IG perspective. But it did result in real additional modifications to contracts where we would have to pay the external auditor additional funds because it was consuming more of their time than traditionally it would have consumed.

Mr. GINGREY. So the costs involved were more to not only the Cotton firm, the outside auditor, but also led to more work internally.

Ms. GRAFENSTINE. Internally. So what that would do is, it would detract from our internal resources, from being able to focus on other areas of concerns in the House.

Mr. GINGREY. For that particular fiscal year, though, you don't have a number, a dollar amount?

Ms. GRAFENSTINE. I could definitely get you the extra contract costs. But from an internal perspective, from the opportunity cost aspect, I could probably impute that and get that back to you for the record.

Mr. GINGREY. Well, if you would do that and submit it for the record because I think it is important to know what we are talking about in regard to an efficient operation versus an inefficient operation. It leads to increase costs, obviously. And thank you.

[The information follows:]

Theresa M. Grafenstine
Inspector General

386 Ford House Office Building
Washington, DC 20515–9990

Phone: 202–226–1250
Facsimile: 202–225–4240

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515–9990

Debbie B. Hunter
Deputy Inspector General
Audit and Investigative Services

Michael T. Ptasienski
Deputy Inspector General
Advisory and Administrative Services

MEMORANDUM

TO: The Honorable Phil Gingrey, Chairman
Committee on House Administration, Subcommittee on Oversight

The Honorable Zoe Lofgren, Ranking Member
Committee on House Administration, Subcommittee on Oversight

FROM: Theresa M. Grafenstine Theresa M Grafenstine
Inspector General

DATE: June 8, 2011

SUBJ: Inspector General Audit of the House's FY 2009 Financial Statements

Thank you for the opportunity to brief you on the results of the fiscal year (FY) 2009 financial statement audit of the House. During my testimony, a question was posed as to whether the delays in responding to the financial statement auditor's requests for information resulted in increased costs to the House. I responded affirmatively but committed to providing a detailed accounting of the actual costs for inclusion in the record.

The Office of the Chief Administrative Officer's (CAO) delays in providing necessary information and finalized financial statements resulted in two contract modifications with an increase in contract costs of $122,166. This represents a twenty-three percent increase in the total cost of the contract. Additionally, the Office of Inspector General (OIG) typically allocates one half of one full-time OIG staff person to oversee the external auditor and to coordinate with the CAO. The CAO's delays and unwillingness to provide documentation pertinent to the financial statement audit increased the level of effort to approximately two full-time OIG staff persons. Diverting additional OIG resources to the financial statement audit resulted in the delay of other high priority audits.

Feel free to contact me if you have questions. I can be reached at (202) 225-3134.

Mr. GINGREY. For the internal controls you have suggested, how do you compare other industries and other government entities to the internal control, or lack of, that exists within CAO?

Ms. GRAFENSTINE. If we compare ourselves to other governmental entities, 2006 was when OMB's A–123 internal controls program was put into place and became a requirement. So the rest of the government would be significantly ahead of us because they have been working on this for 5 years. So while they may not necessarily all have perfect unqualified opinions on their internal controls, they are still going to have more solidified programs in place, just because they have been working on it for about 5 years.

Mr. GINGREY. Thank you, Ms. Grafenstine. I will ask Mr. Strodel in my next couple of minutes, it is referenced in the Inspector General's report that minimal resources, staff, were assigned to assist the financial reporting process. To correct this problem, you are utilizing both consultants and staff. Do you envision needing consultants indefinitely to maintain the program? How do you plan to allocate resources in this area in the future?

Mr. STRODEL. The consultants, Chairman Gingrey, were brought on to assist us in responding to that number one recommendation and the material weakness, which was to establish a robust internal controls program. The House went from commercial GAAP, generally accepted accounting principles, to what is referred to as FedGAAP during this time. FedGAAP brings along with it additional requirements related to internal controls, whether that is financial reporting or information technology. There is a very clear path and a guideline. There is actually a large document that provides guidance on how to implement an internal controls program and conduct a risk assessment under that program.

We decided to bring that function, that responsibility, to the top of the organization, which includes all aspects of the organization, including our counsel, HIR, the technical team, assets, furnishings, and logistics, finance, and every part of the organization that is applicable.

Mr. GINGREY. Let me interrupt you just for a second.

Mr. STRODEL. Yes, sir.

Mr. GINGREY. Clear this up for me. Are you suggesting that the government way of looking at things—the internal controls I think you referred to as FedGAAP—is a better system than the commercial way of doing things, commercial GAAP? The general public would probably think that that sounds like an oxymoron.

Mr. STRODEL. I was not suggesting that since the decision was made beyond my involvement. It is this committee that sets the rules, responsibilities and functions of the officers; and how we are going to do our business. My point is that, whether it is commercial GAAP or FedGAAP, you still have to do internal controls. It should be a part of how you do your business. There is a unique requirement on the government side, as you have instructed us, with regard to transparency and providing reliable financial reporting for the citizens, for the Members of Congress, and for this committee. This is not as much a recommendation of mine, but I think a collective decision.

Mr. GINGREY. Well, I have gone over my time. And I will yield to the ranking member for her 5 minutes, plus. And hopefully other members might want to further address this particular issue. I wasn't suggesting that I thought that the Federal Government was less efficient in that regard than the commercial sector. It certainly shouldn't be, but it was a general impression of the public, I think, that I was referring to.

Ms. Lofgren.

Ms. LOFGREN. First, before I ask any questions, let me thank both of you for your service to the House. You are both career professionals. You have worked here for many, many years and are now leading your organizations. And I appreciate what you do, the leadership that you have provided your team, and the confidence that you will instill in the taxpayers by making sure that identified problems get resolved and that we can move forward with our heads held high.

Let me ask you, Mr. Strodel, in Ms. Grafenstine's testimony, she stated that during the 2009 auditing process, the CAO environment at the senior management level had become—I think she said generally unsupportive of the financial statement process and there had seemed to be disinterest and a lack of cooperation.

Have you made any personnel changes at the senior management level since becoming the CAO to make sure that we have a responsive team and we are all over anything that has been identified?

Mr. STRODEL. Ranking Member Lofgren, my observations and experience in not just reading the report but from my time working for your committee, was that the direction of the organization seemed to wander away from its core mission. As I may have mentioned earlier, we are kind of the blue collar officer corps. We are the people who move the furniture. We are the people who pay the bills. We are the people who make sure your computer is working. That is our core mission. That is what we are focused on. It occurred to me that some of the staff didn't understand that message and there was a communication gap between our core mission and the direction we were going.

Some individuals did move on; and throughout the fall, we made some personnel changes. We have a new Chief Financial Officer, Traci Beaubian, who has been with the House for a very long time. We have a new Director of Audit, Bill Leibach, a new HIR deputy, and other personnel changes. It is an evolution, but we have begun.

Ms. LOFGREN. Let me ask you, in the 2009 audit report, they have identified these deficiencies, four of them which have already been referenced. You outlined in your testimony some of the progress that has been made in these areas. Do you think all of these deficiencies will be rectified by the time of the 2011 audit?

Mr. STRODEL. Ms. Lofgren, it is my hope and I think my reputation is on the line at this point. I have been in the position for 10 months. We have developed a senior assessment team which includes a representative from Ms. Grafenstine's office. Additionally all of our senior staff are engaged in the process, meet on a monthly basis and hit our milestones. It is not a stand-alone process. Once a year we don't bring out the audit woman or man and then talk about it. It is a part of how we are managing the organization. It is a part of, as Chairman Gingrey mentioned, a disciplined management tool, and that is how we intend to use it.

Ms. LOFGREN. Very good. Are there any other issues related to the House financial statements or internal control procedures or the auditing process that you feel the committee should be made known of at this time?

Mr. STRODEL. It has always been my understanding and my experience that the responsibilities, particularly of the CAO, are delegations from this committee. In the past, you may recall in the finance area, vouchers, which are reimbursements for official expenses, were ultimately approved at the committee level. House Information Resources used to be a subcommittee of this committee. We feel a unique connection and an added responsibility that we ensure the committee is aware of what we are doing, that transparency is external, internal, and also with the committee.

We need to continue internally coalescing as a management and leadership group, and that will bring itself to bear with our interaction with our stakeholders at your level and others in the institution.

Ms. LOFGREN. I guess we will have a second round. So I will get to ask Ms. Grafenstine her questions at that time. But I would also like to thank the staff of the House Administration Committee. We work together on a bipartisan basis to try to deal with issues about the House. It is like being mayor of the city. And I know that the Members of the House may have different philosophical views on policy issues, but our staff works very closely together to deal with these issues. And I would like to publicly thank them for their hard work and good efforts as well.

I yield back, Mr. Chairman.

Mr. GINGREY. Thank you, Ms. Lofgren. We will now turn to the gentleman from Illinois for his 5 minutes of questions, Mr. Aaron Schock.

Mr. SCHOCK. Thank you, Mr. Chairman. And thank you both for your testimony and your work on behalf of the committee and the Congress. I just have a couple of follow-up questions for Mr. Strodel.

In your testimony, you referenced September 30 of this year as a deadline for implementation of the internal control recommendations. My question is whether or not you are on track to meet that deadline and what conversations, if any, you have had with the auditors to ensure that you are doing everything necessary to obtain a clean opinion from them.

Mr. STRODEL. Thank you, Mr. Schock. The short answer is, we are on track, but I would like to provide additional information. Our senior assessment team, which has been driving this change and the effort to set milestones for hitting our goals, has been working with a staff member from the Office of Inspector General. Also, we have met from time to time, as recently as this week, with the independent auditors at Cotton and they are ready to start looking at our data. We are focusing on providing a preliminary round of information to them after June 30 so we can hit that September 30 target.

I would defer to Ms. Grafenstine, but I feel we are on track.

Mr. SCHOCK. Ms. Grafenstine, would you care to address that?

Ms. GRAFENSTINE. I can say that Mr. Strodel's group has put a significant amount of time and attention on this, and I do believe that they are on track.

Mr. SCHOCK. Also, Mr. Strodel, in your testimony, you did not address the significant deficiencies in the processing and reporting of the payroll data. And I am just wondering, in the report, it noted that payroll certifications were not performed, which led to over- and underpayments. What are you currently doing to fix that area of concern?

Mr. STRODEL. Mr. Schock, the question related to one of the significant deficiencies. There was a hierarchy of levels of importance or emphasis on, whether it is material or a significant deficiency. One was related to payroll. The House is a unique environment. Where a typical Federal agency may have one payroll office for the entire organization, we have 441 offices and 20-some committees that are essentially their own business unit. We are centrally processing payroll on their behalf. Each month, there is a certification process that the Member, the committee chair, and so on, has to sign and submit to us, certifying that those individuals are due pay. There is a little bit of a difference in understanding the requirement between the auditors and us regarding that unique environment. It is hard to find a similar organization as it relates to payroll processing. We have internal controls that aren't necessarily typical in a Federal agency environment. Therefore, we work with the auditors to show how our unique operating environment works and the various types of internal controls in our organization. The segregation of duties where a person can't pay themselves through another Member's account is an example of internal controls.

We do have internal controls that mitigate risk but the concern was, they don't meet OMB's A–123 Internal Control Program as it is laid out. This was a dialogue between us and the auditors showing what we do have, which we hope will go from a significant deficiency to a deficiency or go away altogether.

Mr. SCHOCK. Are there recommendations in how we do payroll processing that you suggest different from the process now that would lead to better controls?

Mr. STRODEL. Slightly, yes. The verification and certification processes, at the end of the period, need to have tighter deadlines. During each monthly payroll cycle, certifications should not go beyond the following month without closing the process out. On our side, we must interact more effectively with the Member offices and the other employing authorities to make sure they understand the requirements and that we are here to assist them in meeting these deadlines.

Mr. SCHOCK. Okay. I understand that it may not be a similar organization as most companies would be run, but I can't imagine that it is that much different. I actually personally sign my payroll certifications. I think it is requested that Members do each month. And while we may all be individual offices, there is one central payment processing point, and it would seem to me that it is up to the Member on whether I make a mistake on paying someone too much or too little. But based on what I submit to you is how it should be paid. I guess I question why the processing center would make a mistake based on what I sign or don't sign.

Mr. STRODEL. Sometimes errors are due to a delay in receiving the certifications, either between us or the employing entity. There are reconciliation processes that happen during the pay period and those that follow the pay period. The close-out and the reconciliation is done, in the auditor's opinion, too far away from the actual event. Sometimes it is an error on our side as well. It is that reconciliation process where we can do a better job reaching out to the Member office and making sure that certification comes in on time.

Mr. SCHOCK. Thank you.

Mr. GINGREY. Thank you, Mr. Schock. And now we will refer to the gentleman from Florida for 5 minutes, Mr. Nugent.

Mr. NUGENT. I would like to expand a little more to the issue of the payroll issue. The process that we use today in regards to payroll, have we looked at any other processes that could speed that up for you in regards to automation?

Mr. STRODEL. Mr. Nugent, the Lawson payroll system is what we use. It is very effective. There are so many different employing offices, and there is an education process on our end—that means on the payroll end—for how payroll is processed. This includes the forms required, and the cutoff dates to have things in so they can be processed in that particular pay period, in effect. Yes, is the short answer. Prior to PeopleSoft, we had a mainframe-based system. The House's monthly pay cycle is an exception based process. This means once you put individuals on the payroll, they keep getting paid until you tell us otherwise, whether it is an increase, decrease, or removing those individuals from the payroll. The control of these payroll actions and related to Mr. Schock's question, rests entirely with the employing entity, the 441 Members, committee chairs, and so on.

On a monthly basis, we are processing changes and all of them come in ultimately manually. There are certainly efficiencies we can make and it is something that we should move slowly on. We implemented a new financial system for the House called PeopleSoft Financials which interacts with Lawson. We are moving forward with some efficiencies on the voucher, the official expense reimbursement. Payroll is also an area we want to work on with this committee to make sure that any changes we make are good, in your opinion, for the House.

Mr. NUGENT. With reference to internal controls, and particularly on the general ledger aspect, where do we stand today?

Mr. STRODEL. Well, I am extremely glad our Chief Finance Officer is here today, sir, Traci Beaubian.

Mr. NUGENT. And that is a good answer.

Mr. STRODEL. Traci, could you address that briefly?

Ms. BEAUBIAN. We have made significant progress on the general ledger accounts. To date we have identified a number of transactions where we have changed the posting models and associated general ledger accounts for proper financial reporting. Additionally we have posted a number of entries required for the upcoming financial statements for fiscal year 2011. We are on target for closing out many of the general ledger-type issues.

Mr. NUGENT. Well, as a past CEO of a government agency, obviously the last thing you want to see is an adverse report come back. And I would think that your Chief Financial Officer is a key driver behind making sure that you get the information that is necessary but also make sure of the internal controls. And so that is one of the areas that is always of concern in regards to the internal controls and the separation of duties to make sure that you are not having people authorizing payments that are also making a request for payment. And have we addressed all that from the IG's perspective?

Ms. GRAFENSTINE. Yes, sir. I do agree that that is very important. And that is one of the basic things we look at. Whether it is within Lawson or PeopleSoft, we would look at the roles and responsibilities to make sure that there is adequate segregation of duties. We didn't find any significant deficiencies in either of those areas. The payroll deficiencies that we did find pertained to the lack of offices submitting those certifications in a timely manner.

Mr. NUGENT. Do you have any recommendations on how you can get offices to comply?

Ms. GRAFENSTINE. There are rules that explicitly say that Members and committees need to submit those payroll certifications in a timely manner. I do see that as a big deal. And I think with Mr. Strodel proactively reaching out through the payroll counselors and giving folks a reminder—because they do get distracted because they are working on legislation. But if they reach out proactively and remind them, I think that that may help to improve your overall situation because when you look at the House financials, personnel costs are our biggest expense. So those payroll certifications are our biggest control over that.

Mr. NUGENT. I just want to take this opportunity again to thank both of you for trying to right the ship. I understand that we are going to wind up with a possible adverse. But that is okay as long as we show that we are making progress to reverse that so our next audit will be crystal clean. That is our hope.

Mr. GINGREY. I thank the gentleman from Florida for his questions. And that essentially completes the first round. It went quickly. And we actually have a few more questions. So we will start a second round and, again, allow each of the Members up to 5 minutes of questioning. And I will yield to myself the first 5 minutes.

Ms. Grafenstine, as a result of the fiscal year 2009 audit, we know that the House did not have effective internal controls in place for financial reporting. That is a compelling factor behind why it took 14 months to do something that should have taken no longer than—you said I think 3 months. Without an internal control program, there is no reasonable assurance that the House's financial statements can be complete or accurate. That is why an adverse rating was assigned on the internal controls related to financial reporting.

Here is my question, and this seems a little counterintuitive: How can the financial statements themselves receive what I now know about a "clean opinion" while the internal controls receive an adverse opinion? Can you elaborate on that and help explain that to the members?

Ms. GRAFENSTINE. Yes, I can. And I do agree that it would seem counterintuitive, sir, that you could have a clean opinion on the financials while receiving an adverse on the internal controls. How they differ is that with the financial statements, you can tick and tie all the numbers. You can trace them back and realize that they are, through substantive testing, making sure that the numbers are supported. It just takes a whole lot longer because you can't rely on the internal controls. If adequate internal controls were in place, typically they would find the mistakes and there would be some type of monitoring process in place where they would detect the mistakes and then fix them. But because they didn't have those processes in place, you have to do a lot more testing to validate the numbers that they are, in fact, correct.

So that was one of the other reasons why it extended the amount of time and effort, from an audit perspective, added testing and increasing contract costs and those sorts of things, to make sure that we could validate the numbers from the financial statements.

Mr. GINGREY. Let me shift to the Chief Administrative Officer, Mr. Strodel. I wanted to just ask you some factual questions. How many employees are actually under your supervision within the office?

Mr. STRODEL. In the entire Office of the Chief Administrative Officer, currently there are 684 people onboard.

Mr. GINGREY. And how does that compare to how that trended over the past several years?

Mr. STRODEL. In the last 5 years, that is an increase of I would say approximately 10 percent.

Mr. GINGREY. Would you say today that you are right sized with regard to the number of folks that you have?

Mr. STRODEL. I would say that I think we are soon to be right sized by the budget cut that is coming. I wouldn't necessarily agree with it, but we are going to have to live with it, sir. In returning to our core mission, we are looking at what it is that we do and how we do it.

Mr. GINGREY. Yeah. Well, you have said, of course, that your reputation is on the line. All of our reputations are on the line every day when we come to work. But I certainly understand what you are referring to based on the past performance in the office that you hold, the position that you hold. Clearly the budget cuts are tough on everybody. But with $1.6 trillion and 40 percent borrowed money every year, you can understand—I think everybody can understand it is time to do a little belt-tightening.

The other thing I wanted to ask you, although you have 600-plus folks that work for you, that work directly for you at the management level, operational level. But you have many, many more folks that work for the House of Representatives.

Do you have an idea of what that total number is that you have jurisdiction over?

Mr. STRODEL. Well, the entire House population is a little over 10,000. This includes members of your staff, for example, here and in the district, the committee staffs, the entire House population and payroll community, if that is responsive.

Mr. GINGREY. That is exactly what I was talking about. And the reason I ask that question is because I think that it is really important for us to understand the scope of your operation. This is my ninth year, my fifth term. And you know, the choosing of a Chief Administrative Officer or Clerk of the House or Sergeant at Arms or Parliamentarian, you know, these things, you just don't pay a lot of attention to. At least I didn't. But all of a sudden, in this position as chairman of the Subcommittee on Oversight of the House Administration Committee, it comes home to you, and you realize this is one heck of an operation to control and to do it right.

So I share with my colleagues in commending both of you for the great job that you are doing in this short period of time. But you have a huge challenge going forward to get everything—well, to get the House in order. Well, thank you.

My time has expired, and I will yield to the ranking member, Ms. Lofgren.

Ms. LOFGREN. Thank you, Mr. Chairman. I just wanted to ask a couple of quick questions for the IG. In your written testimony, you reference that during the 2009 auditing process, the CAO environment at the senior management level had been kind of unsupportive and disinterested and not very cooperative, and you made the changes. Do you feel these attitudes of a lack of cooperation exist today in the CAO's office?

Ms. GRAFENSTINE. Absolutely not. It was night and day, the complete sweeping changes that occurred since last summer with the amount of cooperation and the commitment and the focus on not only with the financial statement process but overall, the internal control program which impacts—that is a broader program. That is going to hit IT. It is going to hit procurement. It is going to hit all facets of CAO operations. It is completely reversed.

Ms. LOFGREN. You pointed out also in your testimony that despite the changes that had been made by Mr. Strodel, the adverse opinion on internal controls was made part of the audit because he came in late into the process. I know you probably can't say for sure, but with the changes you have seen so far that have been made in the CAO's office, do you have any confidence that the internal control deficiencies will be resolved for the 2011 audit?

Ms. GRAFENSTINE. I believe that they are on track. However, since it is the external auditor's opinion, I wouldn't be able to make assurances on their behalf. But I do believe that the CAO is doing everything that is possible to make sure that they do meet that deadline.

Ms. LOFGREN. We are kind of a unique environment here. The Members of the House have our own staffs, and we can all think of some of our colleagues who aren't the most cooperative, might not get things in on time, might think that they don't need to, and certainly Mr. Strodel has to deal with that. We answer to our constituents, not to the CAO. So it is a difficult environment, and some of the Members sometimes make it more difficult. Certainly no one sitting here in this room today. But I do commend you. And I guess the only thing is that the chairman and ranking member sometimes are called upon to assist with difficult Members. So I know that Mr. Lungren and Mr. Brady stand ready to assist you in those circumstances as well so that we can have a smoothly operated system here.

And with that, I don't have additional questions, Mr. Chairman. I yield back.

Mr. GINGREY. Thank you, Ms. Lofgren. I yield now to the gentleman from Illinois, Mr. Schock.

Mr. SCHOCK. Thank you, Mr. Chairman. A couple of follow-up questions. First, just going back to my original question about the payroll reporting, one suggestion I might have is that we move towards an electronic system where you would have a secure entrance point for either myself or an assigned staff person that you can update payrolls as necessary. But the idea of me physically signing a piece of paper that then has to travel to an office in the 21st century seems a bit outdated. And I would think electronically, it would make your lives a lot easier from a payroll standpoint for mistakes not to happen. So for what it is worth.

Second, you had mentioned—and Ms. Lofgren's comments had made reference to the fact that there had been several months between the time at which we recognized there was a problem with the previous CAO and the point at which there was a resignation. I am just wondering if the two of you could speak to that and if there are certain things that this committee could be doing it ensure that something like that doesn't happen down the road.

Ms. GRAFENSTINE. I was not privy to the behind-the-scenes communications with the former CAO and the committee. However, from my perspective, it would seem that they were providing him constructive feedback in trying to get his team on board. It just didn't seem to have a lasting effect. So we were keeping the committee up to date on what was going on with the audit. But again, as soon as it became clear that we had reached the point of no return, it was swift and immediate. And with the former CAO resigning, that is not going to be the first path, the first option that a committee would take. They obviously wanted to make sure that he had as much time to readjust the course.

Mr. STRODEL. If I could just add a few points. There were other areas of CAO that I think at the time were also suffering from that sense of disengagement. In particular in the finance area, where I used to work, there were problems. There were delays in processing vouchers. Some vouchers were even lost and the IG provided some information about this issue. The financial audit wasn't a standalone issue. I think there were others that were percolating that came to a head around that time. That is where I saw this issue, again, the core mission seemed to be not the priority.

Ms. GRAFENSTINE. I would agree with that. It was not the priority.

Mr. SCHOCK. Thank you. That is all.

Mr. GINGREY. I thank you, Mr. Schock. The chairman now will yield to the gentleman from Florida for an additional 5 minutes, Mr. Nugent.

Mr. NUGENT. I appreciate Mr. Schock's comments and reference to the automated payroll system. That is what I was leading up to in that questioning that I had. I think it would be an improvement across the board, particularly in timeliness.

What is the overall amount of money that moves through the CAO?

Mr. STRODEL. Congressman Nugent, the House appropriation is approximately $1.3 billion annually. In addition to that, there are also revolving funds that receive moneys. So it is close to 1.5 billion, 1.4, 1.5 that moves through the system. If that gives you a sense of the scope of it.

I also wanted to follow up on your point and Mr. Schock's as well. In moving towards electronic and other efficiencies, the PeopleSoft System, the financial system that was implemented this past October, replaced a legacy system that was about 15 years old. That was a massive undertaking, and several years in the process. What it has brought us and what we hope to continue to do is more electronic processing. We are moving forward in the area of vouchers, those official reimbursements, where the financial points of contact in offices in the future and the not so distant future, can access the financial system and see where a voucher is in the disbursement process on a particular date. Whereas before offices did not see it come through the system during the give or take 7 day process until disbursement. There is a pilot currently being conducted.

That is an example of where we have made that leap. We have efficiencies and we think there will be more capabilities down the road, even where member offices can be the ones to submit that voucher on line electronically. There is a movement in working with the committee—again, perhaps too slow for some—to make sure that this is the right way to go and that it is ready to be rolled out.

On the payroll side, the Lawson System can be linked to PeopleSoft, the financial engine, but it is something that I would want to work with the committee and go very slow. I would rather it be pushed than kicked. I think we can get there, but I would rather go methodically.

Mr. NUGENT. I would appreciate that you keep us informed on all those avenues with regards to upgrading and the ability to do it electronically across the board. So any help that we can give you in regards to working with other Members, that is I believe part of our responsibility, not just to lay it back on you, but also as this committee we can do things to help educate Members to make sure we are working as a team because the amount of dollars that are going through your office are—it is a staggering amount of money and it certainly is one that requires excellent controls. So anything that we can do to assist in that, particularly I am sure your Finance Director would appreciate that, to help in that regard.

One last thing. The reference to controls as it relates to IT, where do we stand?

Mr. STRODEL. The two material weaknesses—one was having an overall program for internal controls and then, second, and very detailed, I think there were 12 to 15 specific recommendations as it related to IT and finance security. Working with the senior assessment team, Mr. Leibach and our outside consultants, we developed milestones along the way that our group, including 5 or 6 senior leaders in HIR, the House Information Resources Division, are engaged in their specific areas of particularly developing system security plans, for example, in the IT area. Again, we are on target. This information is going to be presented to the outside auditors soon after June 30th. We are to the point where we are ready to provide this preliminary documentation and information to them.

Mr. NUGENT. One last question, and this one is probably going to be difficult. The sense of the prior CAO, what priorities did he lay out for your office or was that muddled?

Mr. STRODEL. I am not really sure.

Mr. NUGENT. That is a good answer. So obviously it was somewhat muddled.

Mr. STRODEL. I must say being a little further away from it and not working directly at the time, I am not sure.

Mr. NUGENT. Okay. That was probably an unfair question to ask, but it is one that needed to be asked. Thank you very much for both of your testimonies.

Mr. GINGREY. I thank the gentleman. And I don't think it was necessarily an unfair question, but definitely a tough question, and obviously our two witnesses have given us good testimony today regarding their concerns and our concerns. I wasn't on the committee in the 111th and I wasn't on the committee when the previous Chief Administrative Officer was hired and would like to commend the former majority for having the insight and the good judgment to make obviously a needed change, whether it was because of misfeasance or malfeasance. I don't guess that is digging up bones and we don't really need to do that.

But this has been a good opportunity for we members, we new members in particular, to get a real in depth understanding of both the breadth and the depth of the job that you have and we appreciate very much you being here.

I might ask one real quick last of Mr. Strodel. I think you said in the aggregate, your budget was about $1.5 billion. How much of that or what percentage of that is personnel expense, and does it include the Office of the Inspector General?

Mr. STRODEL. The figure I was referring to about the 1.4 to the $1.5 billion was the entire House. As it relates to the Chief Administrative Officer's office, our entire budget was $130 million until the CR brought it down to 127, and I imagine it is going further down.

Mr. GINGREY. Okay. Thank you very much. I want to ask the committee unanimous consent to enter the following document into the hearing record. The document is the United States House of Representatives audit report which you have been talking about, audit of the financial statements for the fiscal year ending September 30, 2009. Without objection to the request, it is so ordered.

[The information follows:]

UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

Audit of the Financial Statements
For the Fiscal Year Ended September 30, 2009
Report No. 11-HSW-03
May 26, 2011

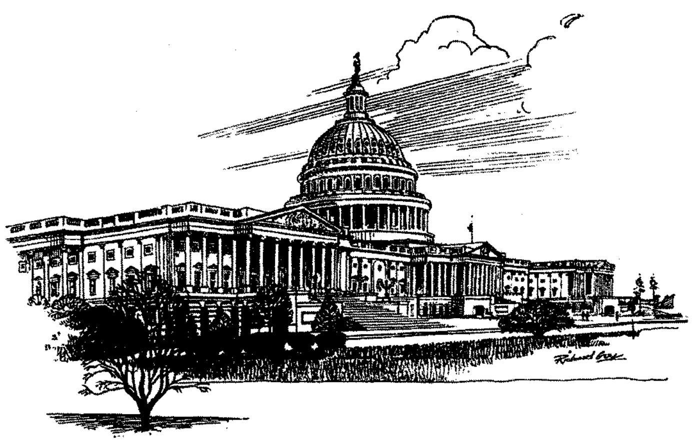


Table of Contents

Office of Inspector General
Audit Report Summary

Theresa M. Grafenstine
Inspector General

380 Ford House Office Building
Washington, DC 20515–9990

Phone: 202–226–1250
Facsimile: 202–225–4240

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515–9990

Debbie B. Hunter
Deputy Inspector General
Audit and Investigative Services

Michael T. Ptasienski
Deputy Inspector General
Advisory and Administrative Services

ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2009

SUMMARY

This audit report provides the audited Annual Financial Statements of the U.S. House of Representatives for the fiscal year (FY) ended September 30, 2009. An independent certified public accounting firm, Cotton and Company LLP, was engaged to audit the:

- Financial Statements of the House as of September 30, 2009, and for the year then ended,
- Internal control over financial reporting, and
- Compliance with laws and regulations.

The audit was performed in accordance with U.S. generally accepted government auditing standards.

For the twelfth consecutive year, the independent auditors expressed an unqualified opinion on the House's financial statements. An unqualified 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 (GAAP).

For fiscal year 2009, the House made a significant accomplishment in preparing the financial statements in accordance with GAAP issued by the Federal Accounting Standards Advisory Board and form and content requirements of the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*. Prior to FY 2009, the House prepared financial statements using GAAP similar to commercial entity presentation. The House presented its FY 2009 financial statements in a single year presentation to reflect its initial year of transition to this basis of reporting.

The audit found the House did not have effective internal control over financial reporting. The auditor's identified four significant deficiencies, of which two are considered material weaknesses. The two material weaknesses relate to the lack of a management control program and ineffective controls over information security. The significant deficiencies relate to weaknesses in the controls over financial reporting and payroll processes. Management concurred with the auditor's report and has contracted with a professional services firm to assist in addressing the internal control deficiencies with planned date for taking corrective actions by September 30, 2011.

The auditors identified no instances of non-compliance with applicable laws and regulations.

Cotton and Company LLP is responsible for the attached auditor's report dated March 4, 2011 and the conclusions expressed in the report. The Office of Inspector General does not express an opinion on the House's financial statements or internal control over financial reporting or conclusions on compliance with laws and regulations.

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

Management's Discussion & Analysis

Management's Discussion and Analysis
FY 2009

Introduction

Management's Discussion and Analysis (MDA) is designed to provide a high level overview of the House of Representatives: who we are, what we do, and how we accomplished our mission in fiscal year 2009.

Origin, History, and Mission

The United States House of Representatives (House) is one of two legislative chambers that comprise the Congress of the United States, the other being the United States Senate. Congress was created by Article I, Section I, of the Constitution, adopted by the Constitutional Convention on September 17, 1787. This article states that all legislative or lawmaking powers of the federal government are given to Congress.

Congress consists of two chambers for two main reasons. First, the Constitution was framed after the British Parliament, which was also bicameral. Second, the two chambers allow for equal representation of the states: two representatives in the Senate from each state and a number of representatives, or Members, based on population, in the House.

In addition to their constitutional duty to make laws, the House and the Senate are responsible for submitting a jointly agreed-upon budget for the Legislative Branch to the President of the United States. The House also has a special role in tax legislation; it has the authority to initiate all revenue bills, as well as spending bills, which sets the framework for questions of collecting taxes and raising money for the U.S. Treasury. Subsequently, the House and Senate are responsible for distributing these monies through legislative appropriations.

Location, Size, and Organization

The official House of Representatives, where lawmaking takes place, is located in the Capitol Building in Washington, DC. Other administrative buildings in Washington, DC include the Cannon, Longworth, Rayburn and Ford House Office Buildings.

The House consists of 435 Members, five delegates (one each from the District of Columbia, Guam, Virgin Islands, American Samoa, and the Northern Mariana Islands), one Resident Commissioner (Puerto Rico) and approximately 10,250 employees. House Members and delegates serve two-year terms of office. The Resident Commissioner serves a 4-year term.

HOUSE LEADERSHIP

Office of the Speaker of the House of Representatives

The Speaker of the House of Representatives is elected by his or her fellow Members to preside over the House. The Speaker typically maintains three roles: as the Representative for his or her district, as a leader of his or her party and as the leader of the House as a whole. The party that holds a majority of the seats in the House will generally elect a Representative of their own party to serve as Speaker.

As specified in the rules and customs of the House, responsibilities of the Speaker include:

- Calling the House to order;
- Administering the oath of office to House Members;

- Presiding over debate, recognizing Members to speak on the floor, and preserving order; or delegating that power to another Member of Congress;
- Setting the legislative agenda;
- Leading the appointment process for the chairs of the various committees and subcommittees in the House, including conference committees which negotiate final versions of legislation.

The Speaker is also second in the line of succession to the presidency after the Vice President under the Presidential Succession Act of 1947.

Office of the Majority Leader

The Majority Leader is the second-ranking official in the House of Representatives. The Majority Leader is chosen by the majority party's membership prior to the launch of a new Congress. While the responsibilities of the Majority Leader are largely defined by little more than history and tradition, there are certain duties that now customarily fall under the Leader's purview. These responsibilities include the scheduling of legislation for Floor consideration and the planning of daily, weekly and annual legislative agendas.

In addition to more formal obligations, the Majority Leader is also expected to consult with Members to gauge attitudes and prevailing sentiment on the issues of the day, urge party colleagues to support or defeat a particular piece of legislation and communicate the party's overarching policy messages to the media and the public at large.

Office of the Minority Leader

The Minority Leader is one of the party leaders of the House of Representatives. The Minority Leader of the House serves as Floor leader of the opposition party and is the minority counterpart to the Majority Leader. Generally, the Minority Leader is on the ballot for Speaker of the House during the convening of the Congress. The Minority Leader is usually the party's top choice for Speaker if party control flips after an election. The Minority Leader usually meets with the Majority Leader and the Speaker to discuss agreements on controversial issues.

HOUSE COMMITTEES

The Members also elect other officers to administer both legislative and non-legislative functions that support the institution and the Members in carrying out their legislative duties.

To help carry out its constitutional duties, the House creates Member committees that are responsible for gathering information, identifying policy problems, proposing solutions and reporting bills to the full chamber for consideration. While the House can create select and special committees, the following are standing House committees:

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and Labor
Committee on Energy and Commerce
Committee on Financial Services
Committee on Foreign Affairs
Committee on Homeland Security
Committee on Natural Resources
Committee on Oversight and Government Reform
Committee on Rules
Committee on Science and Technology
Committee on Small Business
Committee on Standards of Official Conduct
Committee on Transportation and Infrastructure
Committee on Veterans' Affairs
Committee on Ways and Means

Committee on House Administration
Committee on the Judiciary
Select Committee on Voting Irregularities
Permanent Select Committee on Intelligence
Select Committee on Energy Independence and Global Warming

The Committee on House Administration (CHA) is the committee charged with the oversight of federal elections and the day-to-day functions of the House. CHA manages the daily operations that keep the House of Representatives running smoothly. The budget authorizations for expenses of House committees and those for expenses of Members of Congress are set by CHA. Additionally, CHA is responsible for oversight of the House officers, including the administrative and technical functions of the House.

HOUSE OFFICERS

The House Members elect three House Officers and appoint other administrative officers to provide various services and oversight functions to the operations of the House. These officers include the Chief Administrative Officer, the Clerk of the House of Representatives, the Sergeant at Arms, the Chaplain, the Parliamentarian and the Inspector General.

Chief Administrative Officer

The Chief Administrative Officer (CAO) provides operations support services and business solutions to the community of House Members, Officers and staff. The CAO organization comprises technical and administrative staff working in a variety of areas, including information technology, finance, budget management, human resources, payroll, childcare, food and vending, procurement, logistics and administrative counsel.

The Office of the CAO was first created in the 104th Congress in 1995. The Chief Administrative Officer is elected every two years when the House organizes for a new Congress.

Clerk of the House

The Clerk manages the legislative operations of the House and oversees nine departments. The Clerk is required to:

- Prepare the roll of Members-elect; call the Members-elect to order at the commencement of each Congress; call the roll of Members-elect and, pending the election of the Speaker, to preserve order and decorum and to decide all questions of order;
- Prepare and print the House Journal after each session of Congress, and to distribute the Journal to Members and to the executive and the legislature of each State;
- Attest and affix the seal of the House to all writs, warrants, subpoenas and formal documents issued by the House;
- Certify the passage by the House of all bills and joint resolutions;
- Receive messages from the President and the Senate when the House is not in session;
- Prepare and deliver messages to the Senate and otherwise as requested by the House;
- Retain, in the official library, a permanent set of the books and documents generated by the House;
- Manage the office and supervise the staff of any deceased, resigned or expelled Member until a successor is elected;
- Act as custodian of all noncurrent records of the House, pursuant to Rule VII.

Sergeant at Arms

An officer of the House whose history extends back to the First Congress, the Sergeant at Arms is the House's principal law enforcement official, charged with maintaining security on the floor and for the

House side of the Capitol complex. The modern Sergeant at Arms serves on the Capitol Police Board and the Capitol Guide Board along with the Senate Sergeant at Arms and the Architect of the Capitol. A total of 35 individuals have served as the House Sergeant at Arms since 1789.

Mandated under the current House Rule II, the Sergeant at Arms also enforces protocol and ensures decorum during floor proceedings. The Mace, which symbolizes the authority of the House, is maintained by the Office of the Sergeant at Arms. On occasion, the Sergeant at Arms has presented the Mace to restore order on the floor. The Sergeant at Arms also is empowered to compel absent Members onto the House floor to conduct business. Over time, the office's duties have encompassed administrative functions: arranging Capitol funerals, managing parking facilities and issuing identification to Members and staff.

Office of the Chaplain

In 1774, the Continental Congress chose Episcopal Rector Jacob Duché to open its legislative sessions with prayer. In 1789, the First Congress chose Reverend William Lynn, a Presbyterian from Philadelphia, as the official chaplain of the House of Representatives. Each succeeding Congress has named a Chaplain, except between the years 1855–1861, when local clergy served as volunteer chaplains. In the 20th century, the average tenure of House Chaplains was 21 years. In recent Supreme Court decisions, the constitutionality of the Chaplain's role has been upheld based on precedent and tradition.

Parliamentarian

The Parliamentarian of the House is the authoritative source on legislative proceedings in the House. Often referred to by the press as Congress' "coach," the Parliamentarian is an appointed officer who serves as a nonpartisan adviser to Members. Positioned next to the Speaker's rostrum on the floor, the Parliamentarian's chief duty is to rule on procedure and to advise the presiding officer.

Persons who have performed various aspects of the Parliamentarian's duties held a series of titles throughout congressional history, including "Messenger to the Speaker," "Clerk to the Speaker," and "Clerk at the Speaker's Table." Beginning in the 70th Congress (1927-1929) the title became "Parliamentarian."

Office of Inspector General

The U.S. House of Representatives established the Office of Inspector General (OIG) during the 103rd Congress to conduct periodic audits of the financial and administrative functions of the House and of joint entities. Over the past 16 years, the OIG has added value by working closely with the CHA and the House Officers to improve the operations of the House, to reduce inefficiencies and to minimize costs. In addition to providing traditional audit services, the OIG also provides proactive analysis and guidance in the improvement of House operations through its management advisory services. These advisory services to the House have included work in the areas of emerging technology, systems development, business process improvement and risk management.

Additionally, over the years, CHA has asked the OIG to perform various investigative inquiries in response to events of concern to the House. Recognizing this broader mission, changes to the Standing Rules of the House were approved at the beginning of the 111th Congress. Changes to Rule II now formally recognize the OIG's advisory and investigative services, grant the OIG appropriate authority to carry out its mission and allow the OIG to better implement guidance and standards in accordance with the Government Accountability Office's Government Auditing Standards.

FINANCIAL STATEMENT HIGHLIGHTS

Basis of Accounting and Presentation

The consolidated financial statements for fiscal year (FY) 2009 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 form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, "Financial Reporting Requirements."

The House has presented its FY 2009 financial statements and accompanying notes in a single year presentation, in its initial year of transitioning into reporting in accordance with GAAP for Federal entities and the formats prescribed by OMB. Prior to FY 2009, the House prepared financial statements on an annual basis in accordance with GAAP similar to those used by commercial entities. The House will begin reporting FY comparative financial statements in FY 2010 in accordance with GAAP for Federal entities and the formats prescribed by OMB.

Budgetary Resources

The House receives most of its funding from appropriations received from Congress and administered by the U.S. Department of the Treasury. Other sources of revenue include sales of goods to the public, sales of services and other revenue earned through the Page School room and board and vendor commissions. The House reported total budgetary resources for FY 2009 of $1.5 billion. The House reported $112 million of total unpaid obligated balances as of fiscal year end (FYE) 2009.

Balance Sheet

Total Assets – The House reported total assets of $284 million as of FYE 2009. The Fund Balance with Treasury of $213 million represents the primary asset on the Balance Sheet of the House, followed by Property and Equipment with a net balance of $63 million.

Total Liabilities – The House reported total liabilities of $88 million as of FYE 2009. The primary categories include Accounts Payable of $44 million and Actuarial Federal Employees' Compensation Act Liabilities of $21 million.

Total Net Position – The Net Position as of FYE 2009 was $195 million. The balance was primarily comprised of Unexpended Appropriations of $155 million.

Statement of Net Cost

Net Cost of Operations – The Net Cost of Operations for FY 2009 was $1.6 billion, primarily comprised of Legislative Activities.

Limitations of the Financial Statements

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

While the statements have been prepared from the books and records of the entity 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.

INTERNAL CONTROLS

The House considers internal controls to be an integral part of all systems and processes that the organization utilizes in managing its daily operations and achieving its strategic goals and objectives. The House holds its managers accountable for efficiently and effectively performing their duties in compliance with applicable laws and regulations and for maintaining the integrity of their activities through the use of internal controls.

The House fiscal year 2009 financial statement audit reported two material weaknesses and two significant deficiencies. The material weaknesses related to the lack of an internal control over financial reporting program and controls over information technology. The significant deficiencies related to financial reporting and payroll processes.

The Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Controls emphasize management's responsibility for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and complying with applicable laws and regulations. The House is committed to fully implementing a program to assess the effectiveness of the organization's internal controls over financial reporting. However, the House is in the early stages of standing-up an internal controls program that meets the intent of OMB Circular A-123 and, thus, are unable to provide assurance that our internal controls over financial reporting are operating effectively.

The House has initiated actions to implement an internal controls program that will substantially resolve the reported weaknesses. These actions include the creation of a Senior Assessment Team responsible for the oversight and implementation activities of the program. In addition, the House has designated an Internal Control Manager to assist in the design, implementation, monitoring, and modification of a House internal controls program. The internal controls program will be implemented during fiscal year 2011.

Independent Auditors' Report

Cotton & Company

Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT

To the Inspector General
U.S. House of Representatives

In accordance with Generally Accepted Auditing Standards (GAAS) in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States, we are responsible for conducting audits of the U.S. House of Representatives. The following summarize results of our audit of House Fiscal Year (FY) 2009 financial statements:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP),
- The House did not have effective internal control over financial reporting as of September 30, 2009 (including safeguarding assets).
- We identified no reportable noncompliance with laws and regulations we tested.

This is the first year in which the House prepared its financial statements in accordance with GAAP for federal agencies. The House received an unqualified opinion on these financial statements. Although the House was able to produce financial statements that were fairly presented, it lacked a management control program to ensure effective internal control over financial reporting. Specifically, the House did not have a risk assessment program or a monitoring program to ensure effective internal controls. We have identified the lack of a management control program as a material weakness. Additionally, we have identified controls over information technology as a material weakness.

The following sections discuss in more detail these and other conclusions; objectives, scope, and methodology; other matters related to internal control; and House comments and our evaluation.

OPINION ON THE FINANCIAL STATEMENTS

The financial statements including accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the House's assets, liabilities, and net position as of September 30, 2009; and net costs, changes in net position, and budgetary resources for the fiscal year then ended.

As discussed in financial statement Note 1, Significant Accounting Policies, Section C, Basis of Accounting and Presentation, the House prepared financial statements in accordance with GAAP for federal entities issued by the Federal Accounting Standards Advisory Board (FASAB) and form and content requirements of Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. Before FY 2009, the House prepared financial statements similar to commercial entities following commercial U.S. generally accepted accounting principles. For FY 2009, the House presented its financial statements and accompanying notes in a single-year presentation to reflect its initial year of transition to this basis of reporting.

OPINION ON INTERNAL CONTROL

Because of the material weaknesses in internal control discussed below, the House did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2009, and thus did not provide reasonable assurance that losses, misstatements, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis.

Our opinion is based on criteria established by U.S. Code, Chapter 35, Section 3512(c), known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for Internal Control. Additionally, guidance provided by OMB Circular A-123, *Management's Responsibility for Internal Control*, is based on criteria established under FMFIA. The COSO framework and OMB Circular A-123 represent industry best practices for establishing a successful management control program. For the remainder of this report we will refer to guidance prescribed by COSO and OMB Circular A-123 as industry best practices.

During our audit of the House's FY 2009 financial statements, we identified four significant deficiencies. The first two below represent material weaknesses in internal control over financial reporting. The third and fourth deficiencies listed below were reported last year and in prior years. The four significant deficiencies identified below are discussed in Appendix A of this report:

1. Lack of a Management Control Program (Material Weakness)
2. Ineffective Controls over Information Technology (Material Weakness)
3. Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations
4. Weaknesses in Processing and Reporting Payroll Data

The two material weaknesses created significant management challenges that:

- Resulted in House management's inability to provide reasonable assurance that its financial statements are complete and accurate and prepared in a timely manner.

- Reduced assurance that data processed by the House's information systems are reliable and appropriately protected.

Despite its material weaknesses in internal control, the House was able to prepare financial statements that were fairly stated in all material respects for FY 2009. Material weaknesses in the House's internal control over financial reporting noted above may, however, adversely affect any decision by House management based in whole or in part on information that is inaccurate as the result of these weaknesses. In addition, unaudited financial information reported by the House may also contain misstatements resulting from these weaknesses. We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the House's FY 2009 financial statements. We caution that misstatements may occur and not be detected by our tests and that such testing may not be sufficient for other purposes.

We also identified other deficiencies in the House's system of internal control that we do not consider material weaknesses or significant deficiencies, but which merit House management attention and correction. We have communicated these matters to House management informally and, as appropriate, will report them in writing to the House.

Compliance with Laws and Regulations

Our tests of the House's compliance with selected provisions of law and regulations for FY 2009 disclosed no instances of noncompliance that would be reportable under U.S. Generally Accepted Government Auditing Standards (GAGAS) or OMB audit guidance. The objective of our audit was not, however, to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

The House's Management's Discussion and Analysis and required supplementary information (including stewardship information) contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. We did, however, compare this information for consistency with the financial statements and discussed the methods of measurement and presentation with House officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

Objectives, Scope, and Methodology

House management is responsible for:

1. Preparing financial statements in conformity with GAAP.

2. Establishing and maintaining effective internal control over financial reporting and assessing its effectiveness.

3. Complying with applicable laws and regulations.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether House financial statements are presented fairly, in all material respects, in conformity with GAAP, and whether House management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, the objectives of which are as follows:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit preparation of financial statements 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 selected provision of laws and regulations that have a direct and material effect on the financial statements and performing limited procedures with respect to certain other information accompanying the financial statements.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting amounts and disclosures in the financial statements.
- Assessed accounting principles used and significant estimates made by management.
- Evaluated overall presentation of the financial statements.
- Obtained an understanding of the House and its operations, including its internal control over financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority).
- Assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting.
- Evaluated the design and operating effectiveness of internal control over financial reporting based on assessed risk.
- Tested relevant internal controls over financial reporting and compliance and evaluated design and operating effectiveness of internal control.
- Tested compliance with selected provisions of laws and regulations specific to the House, which are contained in the *Members' Congressional Handbook* and *Committees' Congressional Handbook.*

An entity's internal control over financial reporting is a process effected by those charged with governance and management and by other personnel, the objectives of which are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit preparation of financial statements in accordance with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and transactions are executed in accordance with the laws and regulations that could have a direct and material effect on the financial statements.

We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, loss, or noncompliance may nevertheless occur and not be detected. We caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate as the result 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 House. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the House's financial statements for the fiscal year ended September 30, 2009. 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 audit in accordance with GAGAS and OMB audit guidance. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Other Matters Related to Internal Control

In performing an examination of the effectiveness of the House's internal control over financial reporting for the period ended September 30, 2009, in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), GAS, and *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, we identified four deficiencies in internal control that we consider significant deficiencies under standards established by AICPA, two of which are material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

House Comments and Our Evaluation

In commenting on the draft of this report, House Management concurred with the facts and conclusions in our report. Management's comments are in Appendix B. We did not audit Management's response, and accordingly, we express no opinion on it.

Cotton & Company LLP

Matthew H. Johnson, CPA
Partner

March 4, 2011
Alexandria, Virginia

APPENDIX A
MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES
NOTED DURING FY 2009 FINANCIAL STATEMENT AUDIT

APPENDIX A
MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES
NOTED DURING FY 2009 FINANCIAL STATEMENT AUDIT

During our audit of the House's FY 2009 financial statements, we identified four significant deficiencies in internal control over financial reporting, two of which we consider material weaknesses. These material weaknesses give rise to significant challenges that have:

- Resulted in House management's inability to provide reasonable assurance that its financial statements are complete and accurate and prepared in a timely manner.

- Reduced assurance that data processed by the House's information systems are reliable and appropriately protected.

- Impaired management's ability to prepare timely and accurate financial statements.

Weakness 1: **Lack of a Management Control Program**
Summary Status: **Material Weakness**
New Condition
Open

House management lacked a management control program that ensured effective internal control over financial reporting. Specifically, the House did not have a risk assessment program or monitoring program to ensure effective internal controls. Although the House was able to produce financial statements that were fairly presented in all material respects, it lacked a management control program that ensured effective internal control over financial reporting.

OMB CircularA-123, Appendix A, *Internal Control over Financial Reporting*, addresses the assessment, documentation, and reporting on the effectiveness of internal control over financial reporting to assure Congress and the public that the federal government is committed to safeguarding its assets and providing reliable financial information. Internal control is broadly defined as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

The only objectives relevant to internal control over financial reporting are those pertaining to reliability of financial reporting.

Internal control consists of the following five interrelated components:

1. **Control Environment.** The control environment sets the tone of an organization and is the foundation for all other components of internal control.

2. **Risk Assessment.** For an agency to exercise effective control, it must establish objectives and understand the risks that could undermine achievement of those objectives. Risk assessment is the

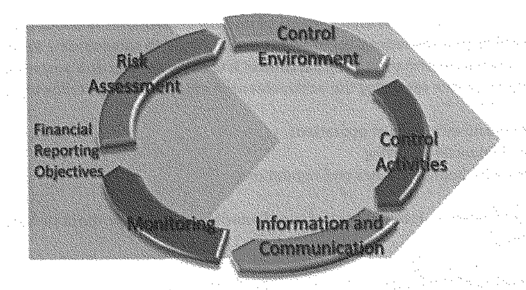
identification and analysis of relevant risks to achieving objectives, forming a basis for determining how risks should be managed. For the purposes of assessing internal control over financial reporting, management should identify the risks of a material misstatement in the financial statements.

3. **Control Activities.** Control activities are the policies and procedures that help ensure that management's directives are carried out. Control activities occur throughout the organization, at all levels and in all functions. They include the fundamentals of internal control, such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, and segregation of duties.

4. **Information and Communication.** Pertinent information must be identified, captured, and communicated in an effective manner to enable individuals to carry out their responsibilities. Information systems produce reports containing operational, financial, and compliance-related information that make it possible to run and control the business. These systems not only deal with internally-generated data, but also with information about external events necessary for informed business decision-making and external reporting (e.g., industry, economic, and regulatory information). Effective communication must also occur throughout and among all levels of the organization.

5. **Monitoring.** Monitoring is the continuous process that management uses to assess the quality of internal control over time. Ongoing monitoring occurs in the ordinary course of operations and includes regular management and supervisory activities. Periodic monitoring involves less frequent activities performed by senior management. Monitoring also encompasses a process for reporting deficiencies and undertaking remediation efforts.

The illustration below depicts an effective management control program that includes all five components of an internal control framework as it relates to financial reporting objectives.



While each component is important in establishing an effective internal control program, risk assessment is the first critical step in the process to determine the extent of controls. Monitoring is the strength behind an internal control program because it identifies poorly designed or ineffective controls and measures the effectiveness of all internal control activities.

Lack of Risk Assessment and Monitoring

The House has not identified both internal and external risks that may prevent the agency from meeting its objectives. The process of identifying and analyzing risk is a critical component of an effective internal control system that includes how management identifies risks relevant to preparation of financial statements and information; assesses the likelihood of the manifestation of those risks; and decides upon actions to manage and mitigate those risks. Additionally, these risks have not been analyzed for their potential effect or impact on the agency.

Additionally, House management has not implemented a monitoring program to include periodic reviews, reconciliations, or comparisons of data to determine if existing control activities are designed and operating effectively. Furthermore, House management has not redesigned or improved its controls found to be deficient or communicated internal control objectives to ensure the agency is committed to sustaining an effective control environment. Specifically:

- In the FY 2008 financial statement audit report, we recommended that the Office of the Chief Administrative Officer (CAO) establish a management control program to ensure that internal controls over financial reporting are designed, implemented, and operating effectively. Such a program would include processes for both assessing risk and monitoring controls. Management concurred with this recommendation, but as of September 30, 2009, had not taken sufficient actions to implement such a program.

- The lack of an effective management control program identifying risks and weaknesses contributes to House Management's failure to take corrective actions on outstanding prior-year deficiencies identified as part of past financial statement audits. Some deficiencies have been reported for numerous years.

- The lack of an effective risk assessment precluded the House from identifying the necessary procedures for ensuring the reasonableness of imputed rent costs. Specifically, the House did not consider the risk associated with the accuracy of square-footage amounts or square-footage rates provided by the Architect of the Capital (AOC) necessary to calculate imputed rent costs. As a result, imputed costs and financing sources were not properly reported.

These identified weaknesses give rise to significant management challenges that reduce assurance that losses, misstatements, or noncompliance material in relation to the financial statements would be prevented or detected and corrected in a timely manner. Successfully implementing a management control program is critical to the House for achieving accountability and transparency.

Recommendation

We recommend that CAO:

1. Establish and implement an annual management controls evaluation program to ensure controls are designed, implemented, and operating effectively. We recommend that the House consider implementing a program consistent with that outlined by OMB Circular A-123, Appendix A. We further recommend that the House use the Chief Financial Officer's Council's Implementation Guide for OMB Circular A-123, published July 2005. This guide recommends the following steps for establishing an effective management control program.

- **Planning.** Establish a Senior Assessment Team and determine the overall approach, to include determining the scope (identify significant reports), determining materiality, considering organizational structure, determining key processes, assessing risk, integrating and coordinating review activities, planning monitoring and testing approaches, and developing documentation standards.
- **Evaluating Internal Control at the Entity Level.** Document and assess entity-wide controls.
- **Evaluating Internal Control at the Process Level.** Gain an understanding of key financial reporting processes, including general and application controls, identify key controls, and assess the adequacy of control design.
- **Testing Control Design and Operating Effectiveness at the Transaction Level.** Test and document the operating effectiveness of controls.
- **Concluding, Reporting and Correcting.** Determine if controls are operationally effective based on test results, assessments of compensating controls, and identified material weaknesses in internal control over financial reporting.

Weakness 2: **Ineffective Controls over Information Technology**
Summary Status: **Material Weakness**
Prior-Year Condition
Open

The House has not adopted an information technology (IT) controls framework or implemented an overarching IT security program that ensures a strong general controls environment for information systems and data processing. Management has not implemented, documented, or tested sufficient internal controls over the general IT environment to ensure that financial data are complete, accurate, and reliable. Specifically, we noted the following 11 conditions related to internal controls over information systems that collectively represent a material weakness in the control environment.

a. A process or program has not been created to identify, document, and assess IT internal controls to provide reasonable assurance regarding the accuracy and reliability of data processing for financial reporting.

Management has not assigned responsibility for managing IT internal controls and developing a program to assess IT internal controls over financial reporting. Management has not assessed IT internal controls to provide assurance that IT internal controls are effective and operating as intended. This increases the risk that the financial reporting process could produce incomplete, inaccurate, or even fraudulent data.

b. A process has not been implemented to ensure that all major systems within the House IT environment have undergone a risk management process, such as the Certification and Accreditation process defined by National Institute of Standards and Technology (NIST).

House Information Security Policy (HISPOL) for the Information Security Compliance Program 007.0 requires that all major systems, support systems, and applications undergo a Certification and Accreditation (C&A) process prior to implementation and at least every 2 years thereafter. The House did not, however, track progress or implementation status for HISPOL 007.0 and has not developed a formal information systems inventory identifying all systems and applications operating within the House environment. Without identification of all systems and applications, management cannot effectively implement and ensure compliance with HISPOL 007.0.

Only seven systems have previously undergone any significant part of the C&A process, including development of a system security plan, assessment of security controls, and issuance of a security certification. Additionally, as of the end of the audit period, only one system had undergone the C&A process within the past 2 years and was operating with a current security certification that granted the system authority to operate.

Furthermore, the House network general support system, which provides significant security controls for all financial systems, has never been granted an authority to operate as a result of the compliance program. The lack of a C&A and authorization for the House network was first noted in the Calendar Year (CY) 2005 financial statement audit report.

c. System Security Plans (SSPs) for major financial systems have not been developed and maintained in accordance with House policy and industry best practices.

SSPs were inadequate for the House network, Paylinks, Procurement Desktop (PD), Member Payroll (MP), and Fixed Asset and Inventory Management System (FAIMS). Management has not enforced policies ensuring that all systems have accurate and complete security control documentation. SSPs did not enumerate and document minimum security controls based on system criticality and data.

Additionally, SSPs were not maintained and updated in accordance with HISPOL 007.0. SSPs for the House Network, PD, MP, and FAIMS have not been updated on an annual basis (no updates during FY 2009). Because management did not enforce policies requiring accurate and complete SSP documentation, the risk increases that all recommended system security controls, based on the criticality of data processed, are not in place. Also, because minimum security controls are not identified and enumerated, testing of individual controls is not possible.

d. Security control assessments were not conducted to test the design and operating effectiveness of implemented controls for the House network and financial systems. Management relied on system scans to substitute for control assessments.

Management has not identified and documented specific minimum security controls for the House network and financial systems in respective SSPs and thus cannot conduct security control assessments. Further, management cannot gain assurance that all required controls are in place and operating effectively if it has not conducted security control assessments. This increases the risk that the confidentiality, integrity, and availability of financial data within systems may be compromised. By placing reliance on system scans alone, which test some technical controls, management cannot gain assurance over management or operational controls.

e. The information systems change control process for financial systems and data did not include adequate documentation to ensure that all changes were adequately managed, tested, and approved.

Evidence of testing system changes prior to implementation was not retained. Evidence of testing, including test plans, expected results, and actual results, was not developed and maintained for changes made to the major financial system, Paylinks. We obtained change request forms from a sample of ten system changes implemented during the reporting period. Additional supporting documentation, such as detailed change specifications, test plans, and unit and user testing results, was not, however, available.

Additionally, a data clean-up and conversion process was in progress for the major financial system, Federal Financial System (FFS). Documentation was not being developed and maintained to record changes made to production financial data and to assess the impact of those changes. The audit team was unable to obtain a population of changes from this project for testing.

Without a thorough change control process, the risk increases that changes are not being managed effectively and efficiently. Without documentation of testing, the risk increases that changes are being implemented without sufficient testing, thereby introducing possible system errors or even malicious code into the House production environment. Without change specifications, management cannot review or manage the change process to ensure that the impact of changes has been fully addressed.

Furthermore, without a structured and documented change management process, management cannot ensure the ongoing confidentiality, integrity, and availability of its systems and data.

f. A process has not been developed or implemented for identifying and tracking all known security weaknesses and incidents across the agency and ensuring that appropriate corrective action is taken.

Records of security incidents identified by Information Security were not maintained, and follow-up investigations were not conducted. A process to document, track, and test corrective actions related to audit recommendations and ensure that identified weaknesses are corrected was not in place. Also, a Plan of Action and Milestones (POA&M) has not been developed or maintained for financial systems and applications.

By not identifying and tracking all security weaknesses, management cannot ensure that appropriate and timely corrective action is taken to address all known issues and weaknesses. This increases the risk that a significant security weakness will remain vulnerable for an extended period of time.

g. Account management controls were not adequately managed and enforced throughout CAO. Inactive accounts and accounts for terminated individuals at both the network (Active Directory) level and financial application levels were not removed in a timely manner.

We noted the following exceptions for 1,200 CAO active directory accounts:

- 89 accounts previously logged in and inactive longer than 180 days (7.42% of total accounts). Of these 89, only 3 were disabled.

- 259 accounts had never been logged in (21.58% of total accounts). Of these 259, 115 were disabled.

- 15 user accounts remained in the Active Directory for terminated users. Of these 15, we noted the following:

  - 2 were related to CAO employees and were disabled.
  - 13 were related to CAO contractors; 5 of these 13 were disabled.

Paylinks accounts (both core users and MyPaylinks accounts) for terminated employees could remain active for up to 2 months after termination, because the monthly Paylinks account review for terminated employees only identifies accounts to be removed for employees terminated for more than 30 days. During this period, management places reliance on the timely removal of the employee's Active Directory access as a compensating control for MyPaylinks accounts. As noted above, however, Active Directory controls for removing access in a timely manner are ineffective.

Additionally, the quarterly periodic recertification of all Paylinks accounts did not operate at a sufficient level of precision, because the recertification did not include a review of the access level granted to core users.

h. Management has not conducted adequate oversight of the outsourced financial system, FFS.

In accordance with Statement on Auditing Standards (SAS) 70, *Service Organizations*, management should review the *Report on Controls Placed in Operation and Tests of Operating Effectiveness* provided by the service organization. Additionally, Management should complete an assessment of user controls considerations identified by the service provider (National Business Center (NBC)) which are necessary to achieve the service provider's control objectives included in the SAS 70 report. Management did not review this report nor did they assess the user controls considerations for FFS in FY 2009. Furthermore, the House was not in compliance with the Interconnection Security Agreement (ISA), which was signed by both the House and the FFS hosting entity, NBC in May 2008. The ISA requires that the House perform a C&A over the House network in accordance with NIST. As previously mentioned, the House network has not been through the C&A process, and significant weaknesses exist in the current certification process.

Without reviewing and assessing FFS controls, the risk is increased that the confidentiality, integrity, and availability of FFS data may be compromised, thus leading to the possibility of inaccurate or fraudulent financial reporting.

i. Contingency planning and recovery policies and procedures have not been developed and implemented to ensure a comprehensive approach that includes the House network, FFS, and all critical financial systems.

Contingency plans to coordinate recovery activities between the House network and all critical financial systems have not been developed. Without developed and tested contingency plans, the risk is increased that House financial operations, data, or systems may become unavailable for an extended period of time without sufficient alternate operating procedures in place to carry out core requirements.

j. Active Directory domain controllers were not adequately configured and monitored to ensure compliance with House policy and industry best practices.

We reviewed settings deployed to production domain controllers and identified 49 settings that deviated from the Center for Information Security (CIS) Windows Server 2003 Benchmark, which is considered an industry best practice. Of these 49 deviations:

- 22 were also not in compliance with HISPOL 007.1.11, *Windows 2003 Server Security Checklist*, developed by House Information Security.
- 14 resulted from configuration settings not covered in HISPOL 007.1.11.
- 13 were in compliance with HISPOL 007.1.11, but the HISPOL configurations did not match the CIS benchmark.

k. Policies and procedures for segregation of duties within financial systems have not been developed.

Policies and procedures have not been developed and implemented to ensure that principles of proper segregation of incompatible duties are understood by key personnel and enforced by financial applications. Specifically, policies and procedures have not been developed, documented, and implemented to ensure that CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end-user and administrative levels. Without proper segregation-of-duties controls in place for financial applications, financial data may be manipulated by unauthorized individuals. Subsequently, the risk increases that fraudulent acts may go undetected, and financial data may become inaccurate and unreliable.

Recommendations

We recommend that CAO:

2a. Develop and implement a process to identify, document, and assess IT internal controls in accordance with OMB Circular A-123.

2b. Implement and enforce a risk management framework to ensure that all systems are identified and undergo a security assessment process in accordance with House policy and industry best practices for federal information systems.

2c. Update SSPs for the House network and all financial systems to include enumerating minimum security controls based on the criticality and environment of the system and documenting these controls in accordance with industry best practices.

2d. Conduct and document security control assessments for the House network and financial systems to test the design and operating effectiveness of all implemented controls. For each control tested, documentation should include the description of the implemented control, test steps to be conducted, expected test results, and actual test results.

2e. Develop and implement a change control process for all financial systems that ensures all changes are tracked, tested, and approved. This includes developing and maintaining documentation for all changes, including change specifications, approvals, test plans, and results of testing.

2f. Develop, document, and implement a process to identify and track all security weaknesses and incidents identified throughout the environment and ensure that appropriate corrective action is taken. This process should include the following:

- Developing a procedure to test security controls identified as corrected to ensure that actions taken adequately mitigate or correct identified weaknesses.

- Developing and maintaining a POA&M, or equivalent documentation, for all House systems and applications to track security weaknesses as well as issues noted as a result of audits.

- Maintaining documentation for all identified security incidents throughout the House and ensuring that appropriate follow-up investigations are performed.

2g. Develop and implement an account management process to ensure that inactive accounts and accounts for terminated personnel are disabled and removed in a timely manner. This process should be enforced at network and financial-application levels.

2h. Perform C&A testing to ensure that controls protecting FFS data are adequately implemented and operating effectively. This includes performing a review of SAS 70 and ISA related to FFS to ensure that adequate client controls are in place.

2i. Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the House network, FFS, PD, and all critical financial systems.

2j. Ensure that configuration settings documented in HISPOL 007.1.11 include industry best practices, such as benchmarks approved by NIST, and document any deviations. Additionally, ensure that configuration settings documented in HISPOL 007.1.11 are enforced for all domain controllers.

2k. Develop, document, and implement policies and procedures to ensure that:

- **CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end-user and administrative levels.**

- **Segregation-of-duty principles are understood by key personnel, such as system and data owners and program managers.**

Weakness 3: **Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations**

Summary Status: **Significant Deficiency**
Prior-Year Condition
Open

Weaknesses in procedures used to ensure the completeness and accuracy of yearend financial statements and notes disclosures adversely affected the House's ability to initiate, authorize, record, process, or report financial data reliability in accordance with GAAP and guidance contained in OMB Circular A-136.

During FY 2009, CAO management did not assign sufficient resources to compile, analyze, and prepare the House's annual financial statements. The House relied upon one key individual for much of the financial reporting process. As a result, this individual had an excessive workload, and adequate succession planning was not evidenced. In addition, the quality control review processes to ensure accurate and complete financial reporting were inadequate. As stated in our audit report, the House received an unqualified opinion on its FY 2009 financial statements. Financial statements were, however, delivered months late, and went through multiple iterations and revisions.

OMB Circular A-123 states:

> *Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:*
>
> 1. *All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);*
> 2. *All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);*
> 3. *All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);*
> 4. *All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);*
> 5. *The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);*
> 6. *The transactions are in compliance with applicable laws and regulations (compliance);*
> 7. *All assets have been safeguarded against fraud and abuse; and*
> 8. *Documentation for internal control, all transactions, and other significant events is readily available for examination.*

We identified weaknesses in four of the eight assertions identified above (Nos. 2, 4, 5, and 8). Our findings and associated recommendations for corrective actions are provided below in order of significance.

a. The House did not comply with OMB A-136 requirements (Assertion No. 5).

OMB Circular A-136, Section II.4, *Instructions for the Annual Financial Statements*, states that reporting entities should ensure that information in the financial statement is presented in accordance with GAAP for federal entities and requirements from FASAB standards and interpretations.

House presentation and disclosure of federal financial statements and note disclosures were not in full compliance with OMB A-136 requirements. We noted the following presentation and disclosure exceptions:

- **Financial Statement(s) Statement of Net Cost:** The House overstated gross costs and earned revenues by $18,339,275, because eliminations of interoffice revenue and expense were not properly recorded.
- **Statement of Change in Net Position:** The House improperly reported cancelled funds returned to Treasury (Account 3106, Unexpended Appropriations – Adjustments) as a transfer (Account 3103, Unexpended Appropriations – Transfer Out).
- **Financial Statement Note Disclosure:** The House did not initially present disclosures in accordance with OMB Circular A-136 for the following: Significant Accounting Principles; Fund Balance with Treasury; Cash and Other Monetary Assets; Inventory and Related Property, Net; General PPE; Other Assets; Federal Employee and Veteran's Benefits; Other Liabilities; and Intra-governmental Costs and Exchange Revenue.

b. House financial statement crosswalks were not in full compliance with the United States Standard General Ledger Crosswalk (Assertion No. 5).

The House uses Treasury's Financial Management Service's (FMS) crosswalk for preparing its annual financial statements. This crosswalk, however, is based upon a federal entity that maintains its general ledger consistent with the U.S. Standard General Ledger (USSGL). The House's general ledger is not, in all cases, consistent with the USSGL. As a result, the House must map its existing chart of accounts to the USSGL prior to preparing its financial statements consistent with the crosswalk.

This contributed to delays in preparing financial statements and increased the risk of errors in the financial statements when accounts are not properly mapped. For the House to report financial statement line items correctly when preparing financial statements, it must incorporate use of ad-hoc queries, extensive manual analyses, and worksheet adjustments.

c. Financial transactions were not recorded in FFS (Assertion No. 8).

Member's Services tracked and recorded financial activity using QuickBooks; transactions were not recorded in the House system of record, FFS. The Member Service's financial activity related to payroll, benefits, and administrative expenses, was reported on the financial statements based on summary-level Hyperion adjustments posted at yearend.

In accordance with GAO's *Standards for Internal Control in the Federal Government*, transactions should be promptly recorded in the system of record to maintain their relevance and value to management in controlling operations and making decisions. Controls over the design and use of records do not provide reasonable assurance that transactions and events are recorded accurately.

d. Manual worksheet adjustments were not recorded in FFS (Assertion No. 8).

Balances reported on the FY 2008 final adjusted trial balance did not agree to FY 2009 beginning balances. Differences relating to yearend Hyperion adjustments and manual worksheet adjustments were not recorded in FFS. Based on GAO's *Standards for Internal Control in the Federal Government, Accurate and Timely recording of Transactions and Events*, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

To prepare federal GAAP financial statements, the House prepared post-closing worksheet adjustments to account for prior-year accounting events not recorded in budgetary accounts. These worksheet adjustments were not recorded in FFS. The House must track adjustments manually to report financial statement lines accurately.

e. A budgetary entry for offsetting collection transactions in FFS did not exist (Assertion No. 2).

Offsetting collection transactions included cash receipts from receivables, rejected automated clearing house (ACH) disbursements, and stop payments. There is no budgetary entry to recognize and record revenue related to offsetting collection accounting events in FFS. OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, Section 1, states that federal entities should record spending authority from offsetting collections equal to cash collections received during the year and record the cash collection as an offset to the budget authority.

FFS posting logic related to transaction code HV (standard voucher adjustment), and transaction types RR (recognize direct collection) and RV (timing adjustment to recognize drawdown of an advance from prior year) did not record revenue to the budgetary account, Reimbursements and other Income Earned – Collected. As a result, the House must perform ad-hoc queries to account for HV, RR, and RV transactions to identify offsetting collections and prepare a manual adjustment to account for such transactions.

f. Revenue and expenses were improperly reported (Assertion No. 2).

Revenue earned and costs associated with concessionaire revenue sources were commingled. According to Statements on Federal Financial Accounting Standards (SFFAS), No. 7, paragraph 18, operations of an entity engaged in exchange transactions produce revenue earned as well as the associated cost incurred. Financial accounting should relate the revenue to the cost for these transactions.

The House did not distinguish revenue earned from services provided by one of its concessionaire contractors or expenses incurred related to expenses deducted (greening and miscellaneous contract deductions). Expenses deducted totaled $478,381, of which $394,759 related to the greening initiative and other costs. The House improperly recorded these expenses in FFS, resulting in improper reporting of these expenses on the Statement of Net Cost.

g. The House overstated imputed costs and financial sources (Assertion No. 4).

House of Representatives overstated imputed costs. Estimates used in the calculation were not verified independently and, consequently, imputed costs were not reasonable and contained errors in the data provided by AOC.

The House did not have an adequate process in place to ensure imputed costs and financing sources were properly reported. The Federal Accounting Standards Advisory Board's *Statement of Federal Financial Accounting Standards 30, Inter-Entity Cost Implementation Amending SFFAS No. 4*, requires that:

> *Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods and services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.*

In accordance with GAAP, estimates should be reasonable and based on the best information available. This requires accumulating sufficient relevant and reliable data on which to base reasonable assumptions and resulting estimates.

Recommendations

We recommend that CAO:

3a. Develop and implement financial reporting procedures to ensure that information in the financial statements is presented in accordance with OMB Circular A-136, Section II.4.

3b. Implement the USSGL to ensure the financial statements are presented in accordance with OMB financial reporting requirements.

3c. Ensure Members' Services payroll and benefits financial activity is recorded in the system of record (FFS) as transactions occur (monthly).

3d. Ensure all budgetary yearend accounting transaction and events are accurately recorded in FFS to establish proper post-closing balances.

3e. Update the posting logic in FFS to properly record revenue resulting from offsetting collections. Ensure that proper posting logic is built in the new financial system, PeopleSoft (PS), to ensure that proper revenue recognition exists for both proprietary and budgetary accounting events.

3f. Properly record sales from cafeteria and catering services that reflect both revenue earned and cost incurred as they relate to the House's "Greening the Capitol" initiative.

3g. Require management to develop a methodology for estimating imputed costs, to include:

- Obtaining and independently verifying formal documentation from AOC that supports amounts and/or value of occupied space.

- **Obtaining and documenting relevant information and assumptions used to determine estimated square-foot rental rates.**
- **Reviewing assumptions, estimates, and calculations for reasonableness and accuracy.**
- **Periodically reviewing the methodology to determine if changes are required.**

Weakness 4: **Inaccurate Processing and Reporting of Payroll Data**
Summary Status: **Significant Deficiency**
Prior-Year Condition
Open

We identified several instances in which the House's internal control over payroll processing did not ensure accurate reporting of transactions and balances. Controls were inadequate in some cases, and, although they existed in other cases, were not always adhered to due to the overall prevailing weaknesses discussed in Weakness 1, above.

We made inquiries and observed controls in place to determine if policies and procedures were adequately documented and implemented. We tested controls over the processing and reporting of payroll data, which included processing Payroll Authorization Forms (PAFs). We performed substantive tests of details to validate changes made in the payroll system through precertification and final certification processes, and we performed tests of details related to the disbursement and reporting of payroll and the reconciliation of payroll data.

During FY 2009, CAO authority and responsibility were not sufficient to ensure that all House offices complied with documented controls related to payroll processing. As a result, key controls were not operating effectively. CAO, which is responsible for ensuring compliance with these controls, did not have the authority to enforce such controls. Therefore, controls were not always adhered to by all offices, and payroll compliance processing errors continued to occur.

Internal control procedures to ensure completeness and accuracy of payroll transactions included in the financial statements were not effective or did not exist in all cases. We identified three instances, discussed below, in which payroll controls did not operate in an effective manner.

a. Payroll certifications were not performed before disbursements.

Employing offices were not required to perform payroll certifications to validate accuracy before payroll disbursement. GAO's *Standards Internal Control in the Federal Government* states that transactions and other significant events, including payroll, should be authorized and executed only by an authorizing official prior to the event.

Because payroll was not certified before disbursement, employing officials were unable to ensure that separated employees were properly removed from their respective payroll registers. As a result, employees may receive payments following termination. Also, additional errors may remain undetected, such as under- and overpayments to employees who received changes in their employment status.

b. PAFs were late or missing.

Timely submission of PAFs was complicated by an inconsistent due date policy within the House. In accordance with CAO policy, PAFs are due on the 15th of the month. This date was selected to ensure adequate time between PAF submission and preparation of the monthly payroll. The *Members' Congressional Handbook*, however, requires PAF submission by the 18th of the month.

Timely submission of PAFs is further complicated by employing offices not adhering to either policy. Of the 45 samples tested, 7 PAFs were submitted after the 18th day of the terminated month. The *Members' Congressional Handbook,* Pay Section: Appointment, states that subsequent adjustments to a

payroll appointment (pay adjustments, title changes, furlough status, terminations, etc.) must be made on the appropriate form (PAF) and are due to the Human Resources office by the 18th day of each month in which the adjustment is effective. Late submission of documentation creates the potential for inaccurate payroll disbursement to terminated, temporary, and permanent employees.

Recommendations

We recommend that CAO:

4a. Require all employing offices to perform pre-certifications and work with Payroll Operations and Office of Payroll and Benefits, to ensure that payroll is certified by employing offices before disbursements.

4b. Take actions to ensure consistent policy regarding the PAF due date, including timely PAF submission, between CAO and the *Members' Congressional Handbook*.

Appendix B
Management's Response to
FY 2009 Financial Statement Audit Report

Chief Administrative Officer's
Audit Report Response

Daniel J. Strodel
Chief Administrative Officer

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

MEMORANDUM

To:	Theresa Grafenstine Inspector General
From:	Daniel J. Strodel Chief Administrative Officer
Subject:	Chief Administrative Officer responses to the *Fiscal Year 2009 Financial Statement Audit Report*
Date:	January 5, 2011

Thank you for the opportunity to comment on the U.S. House of Representatives Financial Statement Audit for fiscal year 2009. We have reviewed and concur with the two material weaknesses and two significant deficiencies and the corresponding recommendations contained in the report. The Chief Administrative Office (CAO) provided responses during the audit process for each of the specific findings. Brief summaries of our actions related to these issues are outlined below.

Weakness 1 - The CAO has contracted with a professional services firm to establish and implement an internal controls program over financial reporting to ensure that controls are documented, designed, implemented, and operating effectively. The initial program implementation is scheduled to be completed by March 31, 2011. On-going sustainability and testing efforts will be performed for the remainder of the fiscal year to ensure that as of September 30, 2011, controls are documented, designed, implemented, and operating effectively. These actions will establish an internal controls framework relevant to the U.S. House of Representatives based on industry best practices that will be periodically assessed and tested.

Weakness 2 – As noted above, the CAO is in the process of implementing an internal controls program over financial reporting. The program will include relevant information technology controls that impact financial reporting processes. Specific actions completed include updates to the system security plan templates in accordance with industry best practices. The templates will be the basis for updated system security plans and assessment of those security plans and related controls. House Information Resources (HIR) has also completed development of an IT contingency framework policy and processes that generally complies with industry best practices. Additional actions are in process to address the remaining actions necessary to ensure that contingency plans are developed and tested for critical House systems. Actions are scheduled to be completed by September 30, 2011.

Weakness 3 – The CAO has completed actions to remediate and/or mitigate the noted issues. Additional actions are in process to further strengthen the processes over Members' Services payroll and benefits financial activity and reporting of concessionaire revenue. These additional actions are scheduled to be completed by March 31, 2011.

Weakness 4 – The process issues will be addressed during the internal controls review that is currently in process. These actions will address the current process and identify mitigating controls over payroll certifications and late payroll actions.

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

Fiscal Year 2009 Financial Statements

Financial Statements Included in This Report

The U.S. House of Representatives (House) has prepared financial statements for fiscal year (FY) 2009 in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the 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 auditors' report accompanies the financial statements.

The House's financial statements for FY 2009 consisted of the following:

- The **Balance Sheet**, which presents as of September 30, 2009 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 **Statement of Net Cost**, which presents the net cost of the House's operations for the year ended September 30, 2009. The House's net cost of operations includes the gross costs incurred by the House less any exchange revenue earned from House activities.

- The **Statement of Changes in Net Position**, which presents 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 year ended September 30, 2009.

- The **Statement of Budgetary Resources**, which presents the budgetary resources available to the House during FY 2009, the status of these resources at September 30, 2009, the change in obligated balance during FY 2009, and net outlays of budgetary resources for the year ended September 30, 2009.

U.S. HOUSE OF REPRESENTATIVES
Consolidated Balance Sheet
As of September 30, 2009

		2009
ASSETS		
Intergovernmental:		
Fund Balance with U.S. Treasury (Note 2)	$	213,204,524
Accounts Receivable, Net (Note 3)		192,014
Total Intragovernmental		213,396,538
Cash and Other Monetary Assets (Note 2)		1,653
Accounts Receivable, Net (Note 3)		197,560
Inventory and Operating Materials and Supplies (Note 4)		1,368,211
Property and Equipment, Net (Note 5)		63,212,805
Advances and Prepayments (Note 7)		5,454,320
Total Assets	$	283,631,087
Stewardship Property and Equipment (Note 6)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$	1,308,443
Advances from Others		641,483
Capital Lease Liabilities		877,417
Other Liabilities		2,478,995
Total Intragovernmental		5,306,338
Accounts Payable		43,104,203
Actuarial Federal Employees' Compensation Act Liabilities		21,458,664
Accrued Payroll and Benefits		9,170,015
Accrued Annual Leave		6,628,475
Capital Lease Liabilities		2,520,766
Other Liabilities		155,310
Total Liabilities (Note 8)	$	88,343,771
NET POSITION		
Unexpended Appropriations	$	155,434,854
Cumulative Results of Operations		39,852,462
Total Net Position (Note 15)	$	195,287,316
Total Liabilities and Net Position	$	283,631,087

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statement of Net Cost
For the Year Ended September 30, 2009

		2009
NET COST OF OPERATIONS (Note 11)		
Net Costs by Program Area		
Legislative Activities		
Gross Costs	$	1,574,306,418
Less: Earned Revenue		(10,419,254)
Net Program Costs		**1,563,887,164**
Revolving Funds		
Gross Costs		3,300,414
Less: Earned Revenue		(3,762,366)
Net Program Costs		**(461,952)**
Net Cost of Operations	**$**	**1,563,425,212**

U.S. HOUSE OF REPRESENTATIVES
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2009

		2009
Unexpended Appropriations		
Beginning Balance	$	101,638,132
Budgetary Financing Sources		
Appropriations Received		1,420,662,438
Appropriations Used		(1,361,899,910)
Other Adjustments		(4,965,806)
Total Budgetary Financing Sources		53,796,722
Total Unexpended Appropriations	**$**	**155,434,854**
Cumulative Results of Operations		
Beginning Balance	$	43,096,510
Budgetary Financing Sources		
Appropriations Used		1,361,899,910
Other Adjustments		(16,634,657)
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 16)		214,915,911
Total Financing Sources		1,560,181,164
Net Cost of Operations		(1,563,425,212)
Net Change		(3,244,048)
Total Cumulative Results of Operations	**$**	**39,852,462**
Net Position	**$**	**195,287,316**

U.S. HOUSE OF REPRESENTATIVES
Statement of Budgetary Resources
For the Year Ended September 30, 2009

	2009
Budgetary Resources	
Unobligated Balance, Brought Forward, October 1	$ 58,406,661
Recoveries of Prior Year Unpaid Obligations	5,478,689
Budget Authority:	
Appropriations Received	1,420,662,438
Borrowing Authority	-
Contract Authority	-
Spending Authority from Offsetting Collections:	
Earned:	
Collected	33,931,073
Change in Receivable from Federal Sources	-
Change in Unfilled Customer Orders:	
Advances Received	(3,990,085)
Without Advance from Federal Sources	-
Anticipated for Rest of Year, Without Advances	-
Previously Unavailable	-
Expenditure Transfers from Trust Funds	-
Subtotal Budget Authority	$ 1,450,603,426
Nonexpenditure Transfers, Net, Anticipated and Actual	-
Temporarily Not Available Pursuant to Public Law	-
Permanently Not Available (Cancelled)	(13,349,739)
Total Budgetary Resources	**$ 1,501,139,037**
Status of Budgetary Resources	
Obligations Incurred:	
Direct	$ 1,374,707,884
Reimbursable	25,427,863
Total Obligations Incurred	1,400,135,747
Unobligated Balances - Available:	
Apportioned	-
Exempt from Apportionment	41,529,592
Total Unobligated Balance - Available	41,529,592
Unobligated Balance - Not Available	59,473,698
Total Status of Budgetary Resources	**$ 1,501,139,037**
Change in Obligated Balance	
Obligated Balance, Brought Forward, October 1	
Unpaid Obligations	$ 110,088,474
Less: Uncollected Customer Payments from Federal Sources	-
Total Unpaid Obligated Balance, Brought Forward, October 1	110,088,474
Obligations Incurred, Net	1,400,135,747
Less: Gross Outlays	(1,392,923,720)
Obligated Balance Transferred, Net:	
Actual Transfers, Unpaid Obligations	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-
Total Unpaid Obligated Balance Transferred, Net	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(5,478,689)
Change in Uncollected Customer Payments from Federal Sources	-
Obligated Balance, Net, End of Period:	
Unpaid Obligations	111,821,812
Less: Uncollected Payments from Federal Sources	-
Total Unpaid Obligated Balance, Net, End of Period	**$ 111,821,812**
Net Outlays	
Gross Outlays	$ 1,392,923,720
Less: Offsetting Collections	(29,940,988)
Total Net Outlays	**$ 1,362,982,732**

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 appoints unelected Officers 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 111th Congress. The fiscal year 2009 financial statements are comprised of two programs: Legislative Activities and Revolving Funds.

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 U.S. 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 111th 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 111th Congress are:

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and Labor
Committee on Energy and Commerce
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 and Technology
Committee on Small Business
Committee on Standards of Official Conduct
Committee on Transportation and Infrastructure

Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence
Select Committee on Energy Independence and Global Warming
Select Committee on Voting Irregularities

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
Clerk of the House
Office of Congressional Ethics
Office of Emergency Planning, Preparedness and Operations
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 in whole or in part. House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these statements include:

Attending Physician
Joint Committee on Taxation, which has members from both the House and the Senate

Revolving Funds
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 Recording Studio
House Services
Net Expenses of Equipment
Net Expenses of Telecommunications
Page School
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 the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*.

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. These consist of:

Attending Physician
Joint Committee on Taxation, which has members from both the House and the Senate

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 form and content requirements of the OMB Circular No. A-136, *Financial Reporting Requirements*.

Prior to fiscal year (FY) 2009, the House prepared financial statements on an annual basis in accordance with GAAP similar to those used within commercial entities. This information was reported through the Balance Sheet, Income Statement and Cash Flow Statement in a comparative year financial statement format.

The House has presented its financial statements and accompanying notes in a single year presentation for FY 2009 in its initial year of transitioning into a new financial reporting format.

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 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, *Financial Reporting Requirements*, 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 and Cash
The U.S. Treasury processes cash receipts and disbursements for the House through its cash management services. Fund Balance with Treasury represents the aggregate amount of House fund accounts with the U.S. Treasury available to pay current liabilities and finance authorized purchases. Fund Balance with Treasury consists of balances for general fund expenditure accounts, revolving funds, and other fund types as of the end of the fiscal year. Fund Balance with Treasury 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 Special Fund Receipts. 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.

Special Fund Receipt Accounts are fund accounts used to record receipts from specific sources earmarked by law for specific purposes.

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 and 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 fiscal year. Deposit Fund accounts are used to record monies withheld from Federal government payments for goods and services received pending payment; 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 Chief Administrative Office (CAO), Assets, Furnishings and Logistics Office maintains an inventory of supplies and merchandise purchased by the Office Supply Service and Gift Shop for resale to the public. Inventories for sale are valued at the moving weighted average method.

Operating Material and Supplies are tangible personal property to be consumed during normal operations. The CAO Assets, Furnishings and Logistics Office maintains inventories of such items 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 such items 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 first in/first out inventory valuation method. (See Note 4)

G. General Property and Equipment, Net
General Property and Equipment consists of office and computer equipment, furniture, vehicles, software, assets acquired under capital leases, leasehold improvements and work in process. The House capitalizes property and equipment when the acquisition cost equals or exceeds an established threshold and has a useful life of greater than one year. The costs of such items are recognized as assets when acquired.

Property and equipment are capitalized if the unit acquisition cost is equal to or greater than $25,000 and the item has a useful life greater than one year 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 greater than one year. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the end of the fiscal year. The change in work in process is due to several projects not placed in service during the fiscal year.

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 capital leases. Assets acquired under capital leases are generally amortized over the lease term. However, if a lease agreement contains a bargain purchase option or otherwise transfers title of the asset to the House, the asset is amortized on the same basis as similar categories of owned assets.

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 property and equipment accounts. The House recognizes an imputed cost and related imputed financing source in its financial statements for the costs associated with House office buildings. (See Notes 1K and 16)

H. Stewardship Property and Equipment

Stewardship Property, Plant and Equipment (PP&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 heritage assets, such as objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections; and non-collection-type heritage 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 heritage 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 heritage asset is considered a multi-use heritage asset, which is included in general PP&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 are disclosed on the Balance Sheet as a note reference with no asset amount shown, and are generally not included in the general PP&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 acquisition of assets. These goods and/or 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/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are payments made in advance of the receipt of goods and services. Prepayments include payments for subscriptions and software licenses and are 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 financial activity determined on a three-year averaging methodology.

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.

Capital Lease Liability that represents the portion recorded at the net present value of the minimum lease payments at lease inception.

Unfunded Workers' Compensation Actuarial Liability that represents 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 incurred 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 fiscal year for which an appropriation has not yet been received.

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

Annual leave for the House Officers 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). 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 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, and Leadership offices is estimated on the financial statements. In 2009, the estimate was based on a three-year average of actual annual leave paid.

Other Intragovernmental Liabilities that represent the Accrued workers' compensation amount billed by DOL that will be paid in subsequent fiscal years and Unemployment compensation amounts owed to DOL.

Other Public Liabilities that represent amounts primarily related to Page School Security Deposits, amounts held pending proper accounting disposition or amounts withheld from payments for goods and services received pending payment.

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 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. (See Note 15)

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 fees, photography sales, postal fees and Attending Physician fees; (3) interoffice sales between House entities for graphic services, telecommunications, office supplies, framing, recording, office equipment, photography, and tape duplication; and (4) other revenue for Page School room and board and vendor commissions. Non-exchange revenue is derived from the government's sovereign right to demand payment. The House did not have non-exchange revenue during the fiscal year.

Imputed Financing from Cost Absorbed by Others (and Related Imputed Costs)
The House must recognize the amount of cost incurred by a Federal entity for goods or 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 and House office buildings under the custody of the AOC and the Federal Employee and Veterans' Benefits. 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 must recognize an occupancy cost for the U.S. Capitol and House office buildings 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.

The imputed occupancy cost for the U.S. Capitol and House office buildings is calculated by multiplying the gross square footage of the buildings by the estimated per square foot value.

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 16)

L. Leases

The House enters into operating leases for temporary usage of office space, vehicles, software, computers and other equipment. Leases that convey the benefits and risks of ownership, but do not meet House capitalization criteria are also recognized as operating leases. 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. Members and Officers also enter into leases to rent vehicles for official business purposes.

The House also enters into capital leases for building structures and hardware. Assets under capital leases are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases, if the net present value of the minimum lease payments due at lease inception meets House capitalization criteria. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the minimum lease payments at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. (See Note 9)

M. Personnel and Benefits Compensation

House Members and employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both Members and employees are eligible for retirement benefits under CSRS or FERS. 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 reduced benefits at age 50 with 20 years of service or at any age with 25 years of service. The FERS basic benefit plan provides 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 fund. The House also contributes an amount toward the FERS retirement and Social Security funds. Both FERS and CSRS 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 FERS, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP. (See Note 12)

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.

NOTE 2 - FUND BALANCE WITH THE U.S. TREASURY AND CASH

Fund Balance with Treasury as of September 30, 2009 was:

Fund Balance with Treasury	2009
General and Other Funds	
House maintained	$ 158,804,843
Congressional Use of Foreign Currency	33,706,776
Total General and Other Funds	$ 192,511,619
Revolving Funds	20,692,905
Total	**$ 213,204,524**

Status of Fund Balance with Treasury as of September 30, 2009 was:

Status of Fund Balance with Treasury	2009
Unobligated Balance	
Available	$ 41,909,014
Unavailable	59,473,698
Obligated Balance not yet Disbursed	111,821,812
Total	**$ 213,204,524**

Unobligated balances reported for the status of Fund Balance with Treasury may not agree with unobligated balances reported in the Statement of Budgetary Resources because the budgetary balances included adjustments to status of funds.

Cash and Other Monetary Assets as of September 30, 2009 were:

Cash and Other Monetary Assets	2009
Cash on Hand	$ 1,653
Total	**$ 1,653**

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts Receivable, Net as of September 30, 2009 was:

Accounts Receivable, Net	2009
Accounts Receivable, Gross	$ 1,289,880
Less: Allowance for Doubtful Accounts	(900,306)
Total	**$ 389,574**

NOTE 4 - INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property, Net as of September 30, 2009 were:

Inventory and Related Property, Net	2009
Operating Materials and Supplies Held for Use	$ 427,955
Inventory Purchased for Resale	940,256
Total	**$ 1,368,211**

NOTE 5 - GENERAL PROPERTY AND EQUIPMENT, NET

General Property and Equipment, Net as of September 30, 2009 and the related depreciation and amortization expense were:

Classes of Property and Equipment	Service Life (Years)	Estimated Acquisition Value	Accumulated Amortization/ Depreciation	Estimated Net Book Value	Amortization/ Depreciation Expense
Work in Process	N/A	$ 24,763,874	$ -	$ 24,763,874	$ -
Computer Software and Hardware	3	87,676,143	74,847,751	12,828,392	5,397,421
Assets Under Capital Lease	3	4,000,184	111,116	3,889,068	2,124,728
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	54,241,493	38,343,134	15,898,359	5,526,155
Motor Vehicles	5	10,686,103	8,820,869	1,865,234	1,508,871
Furnishings and Other Equipment	10	1,519,035	1,389,234	129,801	18,289
Assets Under Capital Lease	10	1,354,473	778,822	575,651	135,447
Leasehold Improvements	10	9,085,375	5,822,949	3,262,426	908,538
Total		$ 193,841,048	$ 130,628,243	$ 63,212,805	$ 15,619,449

NOTE 6 - STEWARDSHIP PROPERTY AND EQUIPMENT

Collection-type heritage assets as of September 30, 2009 were:

Heritage Assets	2009
Artwork	305
Artifacts	3,124
Total	3,429

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 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 Art Board, conducts a formal process to ensure they meet minimum standards as required by the American Association of Museum's 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 Museum's guidelines and best practices, determines the asset is in irretrievable condition; does not meet the needs of the collection; or withdraws 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 heritage assets.

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, 2009 were:

Advances and Prepayments	2009
Advances	$ 18,641
Prepayments	5,435,679
Total	**$ 5,454,320**

NOTE 8 - LIABILITIES

Liabilities covered and not covered by budgetary resources as of September 30, 2009 were:

Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2009
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities					
Accounts Payable	$ 1,308,443	$ -	$ -	$ -	$ 1,308,443
Advances from Others	641,483	-	-	-	641,483
Capital Lease Liabilities	-	-	148,755	728,662	877,417
Other Liabilities					
Accrued Workers' Compensation	-	-	-	2,248,334	2,248,334
Unemployment Compensation	230,661	-	-	-	230,661
Total Other Liabilities	230,661	-	-	2,248,334	2,478,995
Total Intragovernmental Liabilities	2,180,587	-	148,755	2,976,996	5,306,338
Public Liabilities					
Accounts Payable	43,104,203	-	-	-	43,104,203
Actuarial FECA Liability	-	-	-	21,458,664	21,458,664
Accrued Payroll and Benefits	9,170,015	-	-	-	9,170,015
Unfunded Accrued Annual Leave	-	-	-	6,628,475	6,628,475
Capital Lease Liabilities	2,520,766	-	-	-	2,520,766
Other Liabilities	155,310	-	-	-	155,310
Total Public Liabilities	54,950,294	-	-	28,087,139	83,037,433
Total	**$ 57,130,881**	**$ -**	**$ 148,755**	**$ 31,064,135**	**$ 88,343,771**

NOTE 9 - LEASE COMMITMENTS

Capital Leases

Assets Under Capital Lease as of September 30, 2009 were:

Summary of Assets Under Capital Lease	2009
Buildings Structures	$ 1,354,473
Hardware	4,000,184
Accumulated Amortization	(889,938)
Total	**$ 4,464,719**

Future Capital Lease Payments Due as of September 30, 2009 were:

Year	Building Structures	Hardware	Total
2010	$ 423,000	$ 712,538	$ 1,135,538
2011	423,000	712,538	1,135,538
2012	423,000	712,538	1,135,538
2013	423,000	712,538	1,135,538
2014	105,750	-	105,750
Thereafter	-	-	-
Total Future Capital Lease Payments	1,797,750	2,850,152	4,647,902
Less: Imputed Interest	(403,651)	(329,386)	(733,037)
Less: Executory Costs	(516,682)	-	(516,682)
Net Capital Lease Liability	$ 877,417	$ 2,520,766	$ 3,398,183

The House maintains capital leases for building structures and hardware. The occupancy agreement for the building structures lease includes multi-year funding obligations of the tenant that state the agreement is cancelable upon 30 days written notice. Space relinquishment rights and obligations state the agreement is cancelable by providing 30 days written notice to the U.S General Services Administration. The terms and conditions for the hardware lease indicate the House's agreement to pay for products for the full multi-year lease term with the option to renew for fiscal years beyond the initial fiscal year. The House also agrees that its right to not renew the lease for a fiscal year is limited solely to the House not obtaining an appropriation for the year in an amount equal to or in excess of lease payments for the year. The House may terminate the agreement in whole or in part as prescribed in the agreed upon settlement methodology.

Operating Leases

Future Operating Lease Payments Due as of September 30, 2009 were:

Year	Vehicles	Office Space	Parking	Total
2010	$ 846,925	$ 22,466,519	$ 216,979	$ 23,530,423
2011	296,402	5,383,344	40,572	5,720,318
Total	**$ 1,143,327**	**$ 27,849,863**	**$ 257,551**	**$ 29,250,741**

The House maintains operating leases for 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. The House requires that leases entered into by Members for space be no longer than the elected term of the Member. The Members' Congressional Handbook states that a Member cannot enter into a lease for office space beyond his/her elected term. 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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The House is not currently involved in any lawsuit where the outcome is probable and the amount can be estimated.

NOTE 11 - INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental Costs and Exchange Revenue as of September 30, 2009 are:

Intragovernmental Costs and Exchange Revenue	2009
Legislative Activities	
Intragovernmental Costs	$ 249,792,974
Public Costs	1,324,513,444
Total Costs	1,574,306,418
Intragovernmental Earned Revenue	(3,905,893)
Public Earned Revenue	(6,513,361)
Total Earned Revenue	(10,419,254)
Net Program Costs	1,563,887,164
Revolving Funds	
Intragovernmental Costs	170,482
Public Costs	3,129,932
Total Costs	3,300,414
Intragovernmental Earned Revenue	(2,037,361)
Public Earned Revenue	(1,725,005)
Total Earned Revenue	(3,762,366)
Net Program Costs	(461,952)
Total	
Intragovernmental Costs	249,963,456
Public Costs	1,327,643,376
Total Costs	1,577,606,832
Intragovernmental Earned Revenue	(5,943,254)
Public Earned Revenue	(8,238,366)
Total Earned Revenue	(14,181,620)
Net Cost of Operations	**$ 1,563,425,212**

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.

NOTE 12 - PERSONNEL AND BENEFITS COMPENSATION

Member and Employee Personnel and Benefits Compensation	2009
Personnel Compensation	$ 785,018,829
Retirement Plan Contributions	144,764,684
Social Security	52,846,066
Health Insurance	46,594,336
Student Loan/Fitness Center Programs	12,613,054
Unemployment and Workers' Compensation	3,473,080
Transit Benefits	2,406,554
Life Insurance	1,218,081
Death Benefits	1,032,411
Annual Leave	496,691
Workers' Compensation Actuarial Adjustment	(933,772)
Total	**$ 1,049,530,014**

NOTE 13 - EMERGENCY PREPAREDNESS

The House continues to develop contingency plans to ensure the continuation of all House Operations in the event of an emergency evacuation. Approximately $20 million was expended in 2009.

NOTE 14 - EXCHANGE REVENUES

Reporting entities that provide goods and services to the public or another Government entity should disclose specific information related to their pricing policies. 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 - NET POSITION

The components of Net Position are:

- Unexpended Appropriations - Appropriations are not considered expended until goods have been received or services have been rendered. The House has single and multi-year appropriations. For multi-year appropriations the House alternates each fiscal year between 15-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.

- Total Cumulative Results of Operations:

  Cumulative Results of Operations - The net difference between expenses and revenue and financing sources including appropriations, revenues from operations and imputed financing sources.

  Invested Capital - Funds used to finance capital assets such as computer hardware and software, vehicles, equipment, and inventory.

  Future Funding Requirements - Known liabilities to be funded by future appropriations for accrued Annual Leave and Workers' Compensation.

Funds that were canceled and returned to the U.S. Treasury as of September 30, 2009 were:

Appropriations	Total
2007 (single)	$ 12,641,660
2006 (multi)	382,270
2005 (multi)	325,809
Total	**$ 13,349,739**

Net Position as of September 30, 2009 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Net Expenses of Equipment, Page School, House Services, Net Expenses of Telecommunications, and Stationery revolving funds are shown in the following table:

Net Position

Unexpended Appropriations		$ 155,434,854
Cumulative Results of Operations:		
Cumulative Results of Operations	$ 6,756,768	
Invested Capital	61,182,833	
Future Funding Requirements	(28,087,139)	
Total Cumulative Results of Operations		39,852,462
Total Net Position		**$ 195,287,316**

Changes in net position may include prior period adjustments, excesses or shortages of revenue and financing sources over expenses, and non-operating changes, such as investments in capital assets and inventory. Increases (or decreases) in non-operating changes result when amounts invested in capital assets and inventory exceed (or are less than) the amounts of liabilities to be funded by future appropriations.

The Net Position table above reflects an additional cumulative results of operations line which further disaggregates activity other than invested capital or future funding requirements.

NOTE 16 - IMPUTED FINANCING FROM COST ABSORBED BY OTHERS

The House must recognize an imputed cost and imputed financing source for costs associated with the occupancy of the U.S. Capitol and House office buildings and Federal Employee and Veterans' Benefits. 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.

Imputed Cost and Financing Source	2009
Federal Employee and Veteran's Benefits	
Current Service Cost - Federal Employees Health Benefits	$ 50,740,579
Current Service Cost - Federal Pensions	13,439,610
Current Service Cost - Federal Employees Group Life Insurance	118,949
Total Federal Employee and Veteran's Benefits	64,299,138
Occupancy Costs	150,616,773
Total	**$ 214,915,911**

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". The appropriation funds 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

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government as of September 30, 2009 were:

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government	Budgetary Resources	Net Outlays
Statement of Budgetary Resources	$ 1,420,662,438	$ 1,362,982,732
Difference	(1,662,438)	1,017,268
Budget of the U.S. Government	$ 1,419,000,000	$ 1,364,000,000

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.

NOTE 19 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders as of September 30, 2009 were:

Undelivered Orders at the End of the Period	2009
Undelivered Orders, Unpaid	$ 58,008,337
Undelivered Orders, Paid	5,454,320
Total	**$ 63,462,657**

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

NOTE 20 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

	2009
Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations incurred	$ 1,400,135,747
Less: Spending Authority from Offsetting Collections and Recoveries	(35,419,677)
Obligations Net of Offsetting Collections and Recoveries	1,364,716,070
Less: Offsetting Receipts	-
Net Obligations	1,364,716,070
Other Resources	
Donations/Forfeited Property	-
Transfers in/out Without Reimbursement	-
Imputed Financing from Costs Absorbed by Others	214,915,911
Net Other Resources Used to Finance Activities	214,915,911
Total Resources Used to Finance Activities	1,579,631,981
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	8,087,112
Resources that Fund Expenses Recognized in Prior Periods	2,567,117
Budgetary Receipts and Offsetting Collections that do not affect Statement of Net Cost	
Resources that Finance the Acquisition of Assets	29,616,181
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost	
Total Resources Used to Finance Items not Part of the Net Cost of Ops	40,270,410
Total Resources Used to Finance the Net Cost of Operations	$ 1,539,361,571
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 in Annual Leave Liability	$ 496,691
(Increase)/Decrease in exchange revenue receivable	254,374
Other	1,352,957
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	2,104,022
Components not Requiring or Generating Resources:	
Depreciation and Amortization	15,619,449
Revaluation of Assets or Liabilities	1,757,092
Other	4,583,078
Total Components of Net Cost of Operations not Requiring or Generating Resources	21,959,619
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	24,063,641
Net Cost of Operations	$ 1,563,425,212

Required Supplementary Information

Required Supplementary Information

Stewardship Property and Equipment

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

The House's Curator manages and cares for the House's collection of works of art and artifacts under its jurisdiction which are located throughout the U.S. Capitol complex including House office buildings and other locations under the control of the House. Since these locations are not in a museum setting, works of art and artifacts may be subject to damage from 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 procedures and professional standards. General conditions are categorized as excellent, good, fair and 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, 2009:

Heritage Asset Collection	***Description***	***2009***	***General Condition***
Artwork	*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.*	*305*	*Good to Excellent*

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. Examples of the oils on canvas include that of Henry Clay by Guiseppe Fagnani in 1852. Henry Clay was one of the most prominent Speakers to serve in the Old Hall of the House. His portrait was the first of what was to become the series of Speaker's portraits in the House Collection. This portrait series became official with House Resolution 164 in 1910, which decreed that the service of every speaker be commemorated with an oil portrait. All Speaker portraits hang in the Speaker's Lobby and in the East and West Chamber stairways that adjoin. Other oil paintings cared for by the House include a portrait of George Washington, painted by American artist George Vanderlyn; and an oil on canvas of Sam Rayburn of Texas, the longest serving Speaker of the House, painted by Douglas Chandor in 1941. George Washington's painting hung in the Old Hall of the House and was moved with the Congress to the new Chamber in 1858, where it remains today.

Acrylic Paintings

The House's collection of acrylic paintings includes items such as Committee portraits painted in acrylic on canvas. One such example is the portrait of former Chairman of the Committee on Appropriations, George Mahon.

Works on Paper

The House's collection of works on paper includes items such as an early 19th century sketch of Speaker Jonathan Dayton.

Sculptures

The House's collection of sculptures includes items such as several marble busts of former Speakers of the House, including Speakers Thomas B. Reed, Joseph G. Cannon, James Beauchamp Clark, and Nicholas Longworth.

Heritage Asset Collection	Description	2009	General Condition
Artifacts	The artifacts include items in various types of media, including but not limited to paper, metal, plaster, wood, textile and stone. These items range from photographs and other historical images, literature (e.g., newspapers, magazines, and handbills), and political campaign buttons to engravings, furniture, and other types of historical artifacts.	3,124	Good to Excellent

Examples of the House's collection of artifacts include:

Paper

The House's collection of paper artifacts include items such as photographs of the House of Representatives Chamber in 1937; Visitor's Gallery passes from various Representatives from the early 1900's; detail of a tally sheet of the February 9, 1825 Electoral College vote from the records of the U.S. House of Representatives with the names of Andrew Jackson of Tennessee, John Quincy Adams of Massachusetts, William H. Crawford of Georgia, and Henry Clay of Kentucky appearing written in longhand; and Campaign Cards and other memorabilia of various Representatives dating back to the early 1900s. Also included in the collection are a New York Times photo spread of the Congressional Baseball Game in 1912 and an artifact of the House Chamber of the Congressional Pugilists etching on woven paper in 1798. The etching comically illustrated the event of the first known instance of the presentation of a mace that took place in Congress Hall in Philadelphia, on January 30, 1798.

Metal

The House's collection of metal artifacts includes items such as an artifact of the House Chamber, the Mace of the U.S. House of Representatives. The Mace is among the oldest and most important symbols of our nation's government. It is composed of thirteen ebony rods, representing the original states in the union, bound together with silver bands, symbolizing authority and the strength of unity. The shaft is topped by a silver globe with the continents etched into the globe and North America facing front; and surmounted by an intricately cast solid silver eagle, the national bird, with its wings spread. It is used to indicate the House is in session; the House is meeting as the Committee of the Whole House on the State of the Union; or to maintain order on the House floor. Also included in the collection is the "The Ascent to the Capitol", a steel engraving by William Henry Bartlett in 1839; and the historic inkwell that sits on the Speakers desk when the House is in session, which dates back to the 19th century. The inkwell is known to have been used as long ago as 1821 in the Old Hall of the House before the Members moved to the present chamber.

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 items such as the gavel used by Speaker Nancy Pelosi to open the 110th Congress as the first woman to serve as the House's presiding officer; a Thomas Constantine Cabinet Shop, 1819 mahogany House Chamber Desk; and a Thomas Constantine Cabinet Shop, 1819 mahogany House Chamber Chair.

Textile

The House's collection of textile artifacts includes items such as a recent vintage of a House Page uniform, donated to the collection by a former Page.

Stone

The House's collection of stone artifacts includes items such as a small piece of the U.S. Capitol East front stairs.

Mr. GINGREY. I want to thank the witnesses for their testimony and all of the members for their participation and now I adjourn the subcommittee.

[Whereupon, at 10:40 a.m., the subcommittee was adjourned.]