

Independent Auditor's Report

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COTTON & COMPANY LLP

auditors ♦ advisors

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INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the accompanying Consolidated Statement of Financial Position of the U.S. House of Representatives as of December 31, 2003, and 2002, and the related Consolidated Statements of Operations and Cash Flows for the years then ended. These financial statements are the responsibility of the Members and administrative management of the House. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the House as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of individual entities within the House. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated May 15, 2004, on our consideration of the House's internal control and its compliance with applicable laws, rules, and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of the audits, those reports should be read together with this report.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA, CISA
Partner

May 15, 2004
Alexandria, Virginia

Financial Statements

U.S. House of Representatives
Consolidated Statement of Financial Position
as of December 31, 2003 and December 31, 2002

	<u>2003</u> <u>Consolidated</u>	<u>2002</u> <u>Consolidated</u>
ASSETS		
Fund Balance with U.S. Treasury (Note 4)	\$1,044,066,926	\$ 321,774,954
Cash (Note 4)	1,200	1,829
Fund Balance with U.S. Treasury and Cash	<u>1,044,068,126</u>	<u>321,776,783</u>
Accounts Receivable, Net (Note 5)	200,528	2,283,423
Advances and Prepayments (Note 6)	4,506,719	3,763,900
Inventory	1,436,537	1,629,146
Property and Equipment, Net (Note 7)	<u>55,646,657</u>	<u>41,562,239</u>
Total Assets	<u>\$1,105,858,567</u>	<u>\$ 371,015,491</u>
LIABILITIES AND NET POSITION		
Accounts Payable (Note 9)	\$ 26,482,966	\$ 18,548,407
Capital Lease Liabilities (Note 8)	1,847,483	1,886,419
Accrued Funded Payroll and Benefits (Note 10)	7,536,519	7,118,755
Accrued Unfunded Annual Leave and Workers' Compensation (Note 10)	8,158,244	7,206,356
Deferred Credits (Note 11)	1,074,911	0
Unfunded Workers' Compensation Actuarial Liability (Note 12)	16,964,325	17,468,342
Other Liabilities	<u>107,681</u>	<u>57,349</u>
Total Liabilities	<u>62,172,129</u>	<u>52,285,628</u>
Unexpended Appropriations	997,911,063	296,177,991
Cumulative Results of Operations	<u>45,775,375</u>	<u>22,551,872</u>
Total Net Position (Note 13)	<u>1,043,686,438</u>	<u>318,729,863</u>
Total Liabilities and Net Position	<u>\$1,105,858,567</u>	<u>\$ 371,015,491</u>

U.S. House of Representatives
Consolidated Statement of Operations
for the Years Ended December 31, 2003 and December 31, 2002

	2003	2002
	<u>Consolidated</u>	<u>Consolidated</u>
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	\$ 3,210,216	\$ 3,431,487
Sales of Services to Federal Agencies	4,879,655	11,295,503
Sales of Services to the Public	697,515	643,487
Interoffice Sales (Note 14)	0	0
Other Revenue	549,003	569,681
Total Revenue from Operations	<u>9,336,389</u>	<u>15,940,158</u>
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received (Note 15)	1,066,211,992	975,087,190
Appropriations Yet To Be Received (Note 15)	1,747,595	10,047,044
Imputed Financing Source (Note 16)	48,172,434	40,195,515
Total Revenue and Financing Sources	<u>\$1,125,468,410</u>	<u>\$1,041,269,907</u>
EXPENSES		
Personnel Compensation	\$ 620,982,736	\$ 588,096,442
Benefits (Note 16)	241,877,043	222,392,510
Postage and Delivery	22,163,883	22,015,800
Repairs and Maintenance	54,799,974	50,946,000
Depreciation and Amortization (Note 7)	13,610,999	11,425,138
Rent, Utilities, and Communications	23,043,872	21,327,424
Telecommunications	21,990,868	18,535,692
Supplies and Materials	17,450,673	13,776,378
Travel and Transportation	30,734,296	24,773,408
Contract, Consulting, and Other Services	45,668,047	30,349,546
Printing and Reproduction	16,349,336	15,133,548
Subscriptions and Publications	8,700,285	7,444,215
Cost of Goods Sold	6,876,358	14,086,317
(Gain)/Loss on Disposal of Assets	451,260	369,604
Bad Debts	2,509	48,260
Interest on Capital Leases	103,962	112,851
Total Expenses	<u>\$1,124,806,101</u>	<u>\$1,040,833,133</u>
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	<u>\$ 662,309</u>	<u>\$ 436,774</u>
CHANGE IN NET POSITION		
Net Position, Beginning Balance	\$ 318,729,863	\$ 869,273,562
Adjustments (Note 9)	0	0
Net Position, Beginning Balance	318,729,863	869,273,562
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	662,309	436,774
Plus (Minus) Non-Operating Changes	724,294,266	(550,980,473)
Net Position, Ending Balance	<u>\$1,043,686,438</u>	<u>\$ 318,729,863</u>

U.S. House of Representatives
Consolidated Statement of Cash Flows
for the Years Ended December 31, 2003 and December 31, 2002

	<u>2003</u> <u>Consolidated</u>	<u>2002</u> <u>Consolidated</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess/(Deficiency) of Revenue and Financing Sources over Expenses	\$ 662,309	\$ 436,774
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(1,071,057,563)	(993,586,796)
(Increase)/Decrease in Accounts and Interoffice Receivable	2,082,895	(1,899,840)
(Increase)/Decrease in Advances and Prepayments	(742,819)	142,498
(Increase)/Decrease in Inventory	192,609	(529,241)
Increase/(Decrease) in Accounts and Interoffice Payable	7,934,559	(4,222,125)
Increase/(Decrease) in Other Accrued Liabilities	1,951,942	10,923,956
(Gain)/Loss on Disposal of Assets	451,260	369,604
Depreciation and Amortization	13,610,999	11,425,138
	<u>(1,044,913,809)</u>	<u>(976,940,032)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>(26,835,070)</u>	<u>(19,393,123)</u>
	<u>(26,835,070)</u>	<u>(19,393,123)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	1,800,618,891	435,963,863
Funds Returned to the U.S. Treasury	(6,398,843)	(6,347,524)
Principal Payment on Capital Lease Liabilities	<u>(179,826)</u>	<u>(170,937)</u>
	<u>1,794,040,222</u>	<u>429,445,402</u>
Net Cash Provided/(Used) by Operating, Investing, and Financing Activities	722,291,343	(566,887,753)
Fund Balance with U.S. Treasury and Cash, Beginning	<u>321,776,783</u>	<u>888,664,536</u>
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$1,044,068,126</u>	<u>\$ 321,776,783</u>

Notes to the Financial Statements

NOTE 1 - 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. These financial statements cover the years ended December 31, 2003 and 2002 and reflect the financial activities of the first session of the 108th Congress and the second session of the 107th 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 consolidated comparative 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 108th Congress. The following is a summary of the entity groupings as they appear in the calendar year 2003 combining financial statements:

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; four Delegates, one each, from the District of Columbia, Guam, Virgin Islands, and American Samoa; and one Resident Commissioner from Puerto Rico.

The **Committees** financial information aggregates transactions of the Standing and Special and Select Committees of the 108th 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 108th Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce
- Committee on Energy and Commerce
- Committee on Financial Services
- Committee on Government Reform
- Committee on House Administration
- Committee on International Relations
- Committee on the Judiciary
- Committee on Resources
- Committee on Rules
- Committee on Science
- 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 Homeland Security

The House **Leadership Offices** financial information aggregates transactions of:

- Speaker of the House
- Majority and Minority Leaders
- Majority and Minority Whips
- Chief Deputy Majority and Minority Whips
- Speaker's Office for Legislative Floor Activities
- 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
- Corrections Calendar Office
- Office of the General Counsel
- 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

Eliminations on the consolidating financial statements are used to negate the effect of financial transactions between House entities. Consolidated House financial information would be misleading if inter-entity transactions were not eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The financial statements include the accounts and significant activities of the House. The consolidated financial statements do not include legislative agencies that support the House and that receive separate appropriations. These agencies are:

Library of Congress
Congressional Budget Office
General Accounting Office
Government Printing Office
U.S. Botanic Garden
Architect of the Capitol
U.S. Capitol Police

Functions jointly shared between the House and the Senate are included in the consolidating 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

All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information.

B. Basis of Accounting

The House, in accordance with generally accepted accounting principles, utilizes the accrual basis of accounting, which provides for the recognition of events 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 accrual basis of accounting contributes significantly to the development of accurate cost information needed to report the financial position and results of operations.

C. Fund Balance with the U.S. Treasury and Cash

Funds available to the House to pay current liabilities and finance authorized purchases are held with the U.S. Treasury.

- Fund Balance with the U.S. Treasury includes House accounts, as well as 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.
- For purposes of the Consolidated Statement of Cash Flows, funds held with the U.S. Treasury are considered cash.

D. Accounts Receivable

Accounts receivable consists of money owed the House by Federal agencies, Members, employees and/or vendors less an Allowance for Doubtful Accounts.

E. Advances and Prepayments

Advances consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. Prepayments primarily consist of prepaid subscriptions for publications and data communication services.

F. Inventory

The *Gift Shop* and the *Supply Store* maintain an inventory of goods for sale. These entities are included with Officers and Legislative Offices in the consolidating financial statements. Inventories for sale are valued at the moving weighted average method.

The *Furniture Support Services*, also included with Officers and Legislative Offices, maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials. 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.

G. Property and Equipment

Property and equipment including computer purchases 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. 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. The costs of such items are recognized as assets when acquired. An appropriate portion of an asset's value is reduced and an expense recognized over the accounting periods benefited by the asset's use. See Note 7, Property and Equipment, for additional information on property and equipment held by the House.

The House has possession of numerous assets that may be of significant historical and artistic value. The House does not include these assets in the financial statements. The land and buildings occupied and used by Members, officers, and employees in Washington, D.C. are under the custody of the Architect of the Capitol and are not included in the financial statements of the House.

H. Leases

The House leases office space, vehicles, computers and other equipment. These leases are generally classified as operating leases. House regulations require that leases entered into by Members for space and vehicles be no longer than the elected term of the Member. The House also enters into leases, which 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 8, Lease Commitments, for additional lease information.

I. Deferred Credits

The House receives advance payments from other Federal government entities for shared services in advance of the delivery of these services. These advance payments are recorded as deferred credits. As the services are rendered the deferred credit account is drawn down and the appropriate revenue is recognized.

J. Revenue from Operations

Revenue is recognized when goods have been delivered or services rendered.

- Sales of goods consist of Gift Shop and Supply Store sales.
- Sales of services to the public are comprised of Photography sales, Child Care fees, and Attending Physician fees.
- Interoffice sales between House entities consist of computer services, telecommunications, office supplies, framing, recording, office equipment, photography, tape duplication charges, and are eliminated on the consolidating financial statements.
- Other revenue consists of Page School room and board, and vendor commissions.

K. Appropriations to Cover Expenses

Like other Federal government organizations, the House finances most of its operations with appropriations. The expenses of Members, Committees, and Leadership offices are entirely financed with appropriations. Other House entities require appropriations to the extent the revenue generated does not cover expenses. Appropriations are considered a financing source, not a revenue, since appropriations do not result from an earnings process.

L. Postage and Delivery

Postage and delivery consists of franked mail expenses and miscellaneous postage expenses. Members' postage includes the use of the Frank, which is charged to the Members' Representational Allowance. Miscellaneous postage expenses include courier charges, stamps, and rental of post office boxes.

M. Repairs and Maintenance

Repairs and maintenance include all expenses related to the maintenance and upkeep of House equipment in both Washington, D.C. and in Members' district offices, as well as related operating lease payments on various types of equipment. In addition, property and equipment purchases below the capitalization thresholds discussed in Note 2G, Property and Equipment, are classified as repairs and maintenance.

N. Depreciation and Amortization

The cost of capital assets is allocated ratably over an asset's useful life as depreciation or amortization expense. 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 furniture, equipment, 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.

O. Rent, Utilities, and Communications

Rent and utilities consist primarily of the rental of district offices by Members and any related utility payments. Communications costs consist of charges for news wire services, satellite fees, and external network access services.

P. Telecommunications

Telecommunications expense includes local and long distance telephone service in Washington, D.C. and in Members' district offices.

Q. Supplies and Materials

Supplies and materials include office supplies used by the House and medical supplies used by the Attending Physician. Supplies and materials do not include inventories held for sale by retail entities such as the *Gift Shop* and the *Supply Store*.

R. Travel and Transportation

Travel and transportation expenses include official travel by Members, Committees, and Leadership offices; travel by other House officers and employees and congressional delegations; freight and shipping costs; and expenses related to the lease and maintenance of vehicles.

S. Contract, Consulting, and Other Services

Contract, consulting, and other services include the cost of management services in House Postal Operations, annual audit fees, the cost of studies and analyses requested by Committees, as well as computer, recording, janitorial, and catering services.

T. Printing and Reproduction

This category primarily includes printing and reproduction of constituent communications. Also included are photography services, and printing and reproduction of items such as informational publications and reference materials.

U. Subscriptions and Publications

Subscriptions and publications include the cost of periodicals and news services.

V. Cost of Goods Sold

Cost of goods sold includes the cost of products sold in the retail operations of the *Gift Shop* and the *Supply Store*, and the cost of services provided to federal and non-federal entities, such as the House postal facility.

W. Loss or Gain on Disposal of 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.

X. Annual Leave

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 balance as of December 31, 2003 is calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 514. See Note 10, Accrued Payroll and Benefits and Leave, for additional information.

Y. Federal Employee and Veterans Benefits

This benefit expense includes the current cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. Also included is the current period expense for the future cost of providing retirement benefits and life insurance to House employees. See Note 15, Benefits, for additional information.

Z. 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 3 - INTRA-GOVERNMENTAL FINANCIAL ACTIVITIES

The House has significant intra-governmental financial activities with Executive and Legislative Branch entities. These financial activities include transactions and agreements to purchase goods and services.

Transactions with Executive Branch Agencies

The House's most significant interagency transactions are with the:

- U.S. Postal Service for postage.
- US Army Corps of Engineers for services provided for House technical support.
- U.S. Department of Labor (DOL) for unemployment and workers' compensation.
- General Services Administration for the use and upkeep of office space in certain Members' district offices, office supplies and leased vehicles.
- U.S. Department of the Interior, U.S. Geological Survey, National Business Center for financial system contract and consulting services.
- U.S. Department of Transportation for transit benefits program. Effective January 2003, the House increased its per employee monthly maximum subsidy from \$65 to \$100.
- Other Executive Branch agencies for special studies as requested by House Committees.

Significant cash disbursements to Executive Branch agencies during the years ended December 31, 2003 and 2002 were approximately:

Disbursements to Executive Branch Agencies	2003	2002
U.S. Postal Service	\$17,752,000	\$25,224,000
General Services Administration	5,525,000	5,274,000
U.S. Department of Labor	3,777,000	2,051,000
U.S. Department of Transportation	1,127,000	759,000
U.S. Department of the Interior	466,000	49,000
U.S. Army Corps of Engineers	116,000	251,000
Other Executive Branch Agencies	284,000	209,000

The House also reports significant financial transactions with the U.S. Department of State, which maintains and administers the Congressional Use of Foreign Currency account on behalf of Congress. 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. The fund balance related to the account is included in the Office of Finance's Fund Balance with U.S. Treasury under Officers and Legislative Offices.

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. Therefore, all foreign currency account financial activity is reported as Committee and Leadership office travel expense.

Foreign Currency Balance with the U.S. Department of State	2003	2002
Beginning Balance	\$ 7,160,059	\$ 8,023,281
Appropriation Received	10,800,000	4,300,000
Travel Expenses:		
Leadership	(1,160,095)	(931,305)
Committees	(5,455,276)	(4,231,917)
Ending Balance	\$ 11,344,688	\$ 7,160,059

Transactions with Legislative Branch Entities

The House pays for support services provided by other Legislative Branch entities. Some of these services are shared with the Senate. These entities receive their own appropriations and operate autonomously from the House's administrative functions. The House also receives support services from the Government Printing Office and the Library of Congress.

Significant cash disbursements to Legislative Branch entities during the years ended December 31, 2003 and 2002 were approximately:

Cash Disbursements to Legislative Branch Entities	2003	2002
Architect of the Capitol	\$ 298,000	\$ 297,000
Government Printing Office	166,000	146,000

The House also receives payments for services provided to the Congressional Budget Office and for the reimbursement of services shared with other Federal government entities. In 2003, the House shared services with the Library of Congress, the United States Senate and the General Accounting Office. Receipts from the Legislative Branch entities were approximately \$8,100,000.

Cash Receipts from Legislative Branch Entities	2003	2002
Library of Congress	\$ 5,608,000	\$ 8,204,000
United States Senate	2,051,000	1,127,000
General Accounting Office	321,000	-
Congressional Budget Office	93,000	105,000

NOTE 4 - FUND BALANCE WITH THE U.S. TREASURY AND CASH

The House has appropriated and revolving fund balances with the U.S. Treasury. The balances, as of December 31, 2003 and 2002 were:

Fund/Cash Accounts Maintained by the House	2003	2002
Fund Balance with Treasury/Cash	\$ 1,032,723,438	\$ 314,616,724
Congressional Use of Foreign Currency	11,344,688	7,160,059
Total	\$ 1,044,068,126	\$ 321,776,783

The House usually receives the full amount of its appropriation at the beginning of each fiscal year. Fund Balance with Treasury as of December 31, 2002 was significantly lower than the balance as of December 31, 2003 because the House was under a Continuing Resolution.

Cash on Hand represents deposits in transit and amounts held in a commercial bank account as of December 31, 2003 with a balance of \$1,200.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts Receivable balances represent amounts owed the House by Federal agencies, Members, employees and/or vendors less an allowance for doubtful accounts. The allowance for doubtful accounts was derived from the receivables amount owed to the House for more than one year. Accounts Receivable decreased in 2003 because the Library of Congress and the Senate owed the House

approximately \$2 million in 2002 for the reimbursement of shared services paid in 2003.

Accounts Receivable	2003	2002
Accounts Receivable	\$ 251,297	\$ 2,331,683
Less: Allowance for Doubtful Accounts	(50,769)	(48,260)
Accounts Receivable, Net	\$ 200,528	\$ 2,283,423

NOTE 6 - 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. As the goods and/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are made for subscriptions and software licenses and are charged as expenses. At year-end, all such payments made for the previous, current and

succeeding years are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. Advances and Prepayments are:

	2003	2002
Advances	\$ 397,305	\$ 484,363
Prepayments	4,109,414	3,279,537
Total	\$ 4,506,719	\$ 3,763,900

NOTE 7 – PROPERTY AND EQUIPMENT

Software and equipment, including computers, are capitalized if their acquisition cost equals or exceeds \$10,000 and \$25,000, respectively. Work in process consists of capitalized costs associated with assets received, but not placed in service as of December 31, 2003. Depreciation and amortization

expense is based on the straight-line method over an asset's estimated useful life. Estimated net book value increased in 2003 due to work in process for business continuity.

Property and equipment as of December 31, 2003 and the related depreciation and amortization expense are:

2003 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	\$ 19,959,443	\$ -	\$ 19,959,443	\$ -
Computer Software, Hardware, and Vehicles	3	61,241,077	45,980,828	15,260,249	8,659,014
Computer Software and Hardware	5	2,172,581	2,172,581	-	-
Equipment and Motor Vehicles	5	31,859,347	19,335,587	12,523,760	3,961,748
Furnishings and Other Equipment	10	2,887,176	2,723,547	163,629	84,420
Assets Under Capital Lease	10	2,170,207	434,040	1,736,167	217,021
Leasehold Improvements	10	<u>6,981,852</u>	<u>978,443</u>	<u>6,003,409</u>	<u>688,796</u>
Total		<u>\$ 127,271,683</u>	<u>\$ 71,625,026</u>	<u>\$ 55,646,657</u>	<u>\$ 13,610,999</u>

Property and equipment as of December 31, 2002 and the related depreciation and amortization expense are:

2002 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	\$ 6,799,719	\$ -	\$ 6,799,719	\$ -
Computer Software, Hardware, and Vehicles	3	58,960,435	43,247,307	15,713,128	7,475,757
Computer Software and Hardware	5	2,172,581	2,172,581	-	-
Equipment and Motor Vehicles	5	29,139,566	18,779,210	10,360,356	3,317,464
Furnishings and Other Equipment	10	2,887,176	2,471,433	415,743	125,249
Assets Under Capital Lease	10	2,170,207	217,020	1,953,187	217,021
Leasehold Improvements	10	<u>6,609,753</u>	<u>289,647</u>	<u>6,320,106</u>	<u>289,647</u>
Total		<u>\$ 108,739,437</u>	<u>\$ 67,177,198</u>	<u>\$ 41,562,239</u>	<u>\$ 11,425,138</u>

NOTE 8 – LEASE COMMITMENTS**Capital Leases**

The House enters into leases, which 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 future 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 future minimum lease payments due at lease inception. Assets under capital leases consist solely of building structures.

Future Capital Lease Payments Due as of December 31, 2003:

Year	
2004	\$ 311,827
2005	283,788
2006	283,788
2007	283,788
2008	283,788
Thereafter	851,364
Total Future Capital Lease Payments	\$2,298,343
Less: Imputed Interest	(450,860)
Total Capital Lease Liabilities	\$1,847,483
Unfunded Liability	\$1,847,483

Operating Leases

The House enters into various operating leases for temporary usage of office space, vehicles, hardware, and software. 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 GSA or may directly lease space from the private sector. 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. House administration leases hardware and software.

Future Operating Lease Payments Due as of December 31, 2003:

Year	Software and Hardware	Vehicles	Office Space	Total
2004	\$ 107,672	\$ 999,907	\$ 19,477,961	\$ 20,585,540
2005	-	196,066	-	196,066
2006	-	-	-	-
2007	-	-	-	-
2008	-	-	-	-
Thereafter	-	-	-	-
Total	\$ 107,672	\$ 1,195,973	\$ 19,477,961	\$ 20,781,606

Lease expense for office space was \$20,668,451 and \$18,848,893 for the years ended December 31, 2003 and 2002, respectively. Lease expense for vehicles was \$1,280,395 and \$1,096,252 for the years ended December 31, 2003 and 2002, respectively.

NOTE 9 - ACCOUNTS PAYABLE

Accounts Payable balances represent amounts owed for the cost of goods and services received but not yet paid as of December 31, 2003 and 2002. Accounts Payable also includes amounts owed to DOL for unemployment compensation.

Accounts Payable	2003	2002
Vendor Payables	\$ 26,271,907	\$ 18,416,415
Unemployment Compensation	211,059	131,992
Total	\$ 26,482,966	\$ 18,548,407

NOTE 10 - ACCRUED PAYROLL AND BENEFITS AND LEAVE

The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 514 (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. Accrued payroll and benefits include salaries and associated benefits earned in December 2003 and payable in January 2004.

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. Accrued annual leave and accrued payroll and benefits as of December 31, 2003 and 2002 were:

Accrued Leave, Payroll and Benefits, and Workers' Compensation	2003	2002
Funded		
Accrued Payroll and Benefits	\$ 7,536,519	\$ 7,118,755
Unfunded		
Accrued Annual Leave	6,073,027	5,181,695
Accrued Workers' Compensation	<u>2,085,217</u>	<u>2,024,661</u>
Total Unfunded	<u>\$ 8,158,244</u>	<u>\$ 7,206,356</u>

NOTE 11 - DEFERRED CREDITS

The House received payments in advance of receipt of shared services from the Library of Congress (LOC), the Senate and the General Accounting Office. The deferred credit

balance as of December 31, 2003 was \$1,074,911. In 2002, LOC and Senate owed the House \$1,979,218 for services shared.

NOTE 12 - UNFUNDED WORKERS' COMPENSATION ACTUARIAL LIABILITY

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. The unfunded workers' compensation actuarial liability is 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. In 2003, the actuarial liability was calculated by the House based on a model developed by DOL. The projected Unfunded Workers' Compensation Actuarial Liabilities were \$16,964,325 and \$17,468,342 as of December 31, 2003 and 2002, respectively.

NOTE 13 - 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.
- 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.

Unexpended appropriations cancel at the end of the second fiscal year following the year in which appropriated. As required by law, these funds must be returned to the U.S. Treasury general account. Funds that were canceled and returned to the U.S. Treasury during calendar years 2003 and 2002 are:

Appropriations	2003	2002
2001	\$ 6,398,843	\$ -
2000	-	6,347,524
Total	<u>\$ 6,398,843</u>	<u>\$ 6,347,524</u>

Net Position as of December 31, 2003 and 2002 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Net Expenses of Equipment, Page School, Restaurant, Barber and Beauty Shops, and Office Supply Service revolving funds is shown in the following table:

Net Position	Net Position December 31, 2003 Totals		Net Position December 31, 2002 Totals	
Unexpended Appropriations		\$ 997,911,063		\$ 296,177,991
Cumulative Results of Operations:				
Cumulative Results of Operations	\$ 15,662,232		\$ 5,921,604	
Invested Capital	55,235,712		41,304,966	
Future Funding Requirements	<u>(25,122,569)</u>		<u>(24,674,698)</u>	
Total Cumulative Results of Operations		<u>45,775,375</u>		<u>22,551,872</u>
Total Net Position		<u>\$ 1,043,686,438</u>		<u>\$ 318,729,863</u>

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 increase in Cumulative Results of Operations is primarily the result of purchases of Property, Plant and Equipment.

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 14 - REVOLVING FUNDS, INTEROFFICE SALES, AND TRANSFERS

Some House entities transfer costs to Members, Committees, and other House offices for goods and services provided. These entities are primarily:

- House Support Services, which transfers costs of equipment to the Members and Committees,
- House Information Resources, which transfers telecommunication charges, and
- Office Supply Service, which transfers office supply purchases and flag sales.

Some House business-like entities operate as revolving funds. A revolving fund is a budgetary structure established by statute that authorizes certain government agencies to collect user fees or revenue to finance operating expenses. In 2003, the House operated revolving fund type activities for the House Recording Studio, Net Expenses of Equipment, Page School, Office Supply Service, Child Care Center, Restaurant, and Beauty and Barber Shops.

NOTE 15 - APPROPRIATIONS TO COVER EXPENSES

Appropriations Received include current and prior year funds necessary to finance House operating expenses such as personnel and benefits costs, contract services, and travel expenses. The House recognizes appropriations to cover expenses in the same period in which the associated expense is incurred. Appropriations to cover investments in capital assets and inventory are recognized in the same period in which they are received.

Appropriations Yet To Be Received consist of expenses that are incurred in the current period, but will be funded by future appropriations. Such amounts include accrued actuarial, annual leave and workers' compensation expenses. This amount decreased significantly from 2002 to 2003 because of a reduction in expenses for workers' compensation actuarial and annual leave.

NOTE 16 - BENEFITS

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). Effective July 2001, both FERS and CSRS employees' TSP contribution limits increase by one percent each year for five years to a maximum of 15% and 10% of the base pay of FERS and CSRS employees respectively, but not to exceed 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.

Member and Employee Expenses	2003	Restated 2002
Retirement Plan Contributions	\$ 109,590,782	\$ 102,871,287
Federal Employee and Veterans' Benefits	48,172,434	40,195,515
Social Security	39,929,537	37,187,573
Health Insurance	33,290,441	29,474,627
Student Loan/Fitness Center Programs	3,474,446	-
Unemployment and Workers' Compensation	3,398,102	1,491,296
Annual Leave	891,331	2,716,663
Death Benefits	1,567,659	741,169
Transit Benefits	1,140,252	771,460
Life Insurance	926,076	900,136
Workers' Compensation Actuarial Adjustment	(504,017)	6,009,751
Federal Tort Claims	-	3,269
Total	\$ 241,877,043	\$ 222,362,746

Benefits costs for the past 3 years have averaged approximately \$220 million per year.

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. This cost is included in Federal Employee and Veterans' Benefits expense. The pension expense recognized in the Statement of Operations 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.

NOTE 17 - EMERGENCY PREPAREDNESS

The House continues to develop contingency plans to ensure the continuation of all House Operations in the event of an emergency evacuation.

The House does not receive an appropriation to fund this expense. Therefore, this portion of the pension expense is considered an imputed financing source to the House, and is included in the Imputed Financing Sources on the Statement of Operations. This amount was \$17,727,744 in 2003 and \$12,410,254 in 2002.

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 Federal Employee and Veterans' Benefits expense in the Statement of Operations. 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 Sources on the Statement of Operations. This amount was \$30,444,690 in 2003 and \$27,785,261 in 2002.

In 2003, the Department of Labor changed its model for calculating Workers' Compensation actuarial liability thereby causing the related expense to go down.

The House implemented both the Student Loan Repayment and Fitness Center Benefit Programs in 2003 as an additional employee fringe benefit

Employee related tort claims are not being reported in 2003 due to its immaterial amount and the nature of the claims, which are not employee benefit related.

Federal Employee and Veterans' Benefits (Imputed Financing Source)	2003	2002
Current Service Cost - Federal Employees Health Benefits	\$ 30,354,902	\$ 27,697,445
Current Service Cost - Federal Pensions	17,727,744	12,410,254
Current Service Cost - Federal Employees Group Life Insurance	89,788	87,816
Total	\$ 48,172,434	\$ 40,195,515

Approximately \$23.5 million and 27.1 million were expended in 2003 and 2002, respectively.

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Supplemental Financial Schedules

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Organization and Composition of Financial Statements

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**U.S. House of Representatives
Organization and Composition of
Consolidating Financial Statements**

Members

Representatives, Delegates and Resident
Commissioner
Members' Allowances and Expenses

Office of the House Employment Counsel
Page Program
Office of Printing Services

Committees

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and the Workforce
Committee on Energy and Commerce
Committee on Financial Services
Committee on Government Reform
Committee on House Administration
Committee on International Relations
Committee on the Judiciary
Committee on Resources
Committee on Rules
Committee on Science
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 Homeland Security

Sergeant at Arms

Immediate Office
Office of Chamber Security
Office of House Garages and Parking Security

Chief Administrative Officer (CAO)

CAO Immediate Office
Office of Americans with Disabilities Act
Services
House Press Gallery
Periodical Press Gallery
Radio/TV Correspondents' Gallery
Finance - Immediate Office
Budget and Planning
Financial Counseling
Accounting
Financial Systems
House Support Services-Immediate Office
House Beauty Shop & Barber Shop Revolving
Fund
House Restaurant Revolving Fund
Stationery Revolving Fund
Office of Photography
House Recording Studio
House Recording Studio Revolving Fund
Operations Support Center
Textile Services
Furniture Support Services
Furniture Services
Customer Services
Contractor Management
House Office Service Center
Office Services
Customer Management
Resource Management
Acquisition and Account Management
Vendor Management
Central Receiving and Warehousing
Logistics and Distribution
Human Resources-Immediate Office
Office of Member Services
Office of Employee Assistance

Leadership Offices

Office of the Speaker
Office of the Majority Leader
House Majority Whip
Office of the Democratic Leader
Democratic Whip
House Republican Conference
House Republican Policy Committee
Democratic Caucus

Officers and Legislative Offices**Clerk**

Immediate Office
Office of Official Reporters
Office of Legislative Operations
Legislative Resource Center Service Group
Legislative Computer Systems

Office of Personnel and Benefits
Office of Training
Office of Payroll
Placement Office
Office of Policy and Administration
Office of Fair Employment
Child Care Center
Office of Procurement
Immediate Office of the House Information
Resources
Communications
Client Services
Information Management

Page School Revolving Fund

Office of the Chaplain

Parliamentarian

Office of the Parliamentarian
Compilation of Precedents

Office of the Legislative Counsel

Office of Correction Calendar

Office of the General Counsel

Office of the Law Revision Counsel

Office of Inspector General

**Office of Emergency Planning, Preparedness
and Operations**

**Congressional Executive Commission on the
People's Republic of China**

**Commission on Security and Cooperation in
Europe**

Joint Functions

Office of the Attending Physician
Joint Committee on Taxation

Consolidating Statements

U.S. House of Representatives
Consolidating Statement of Financial Position
as of December 31, 2003

	Members	Committees
ASSETS		
Fund Balance with U.S. Treasury	\$ 466,818,652	\$ 119,741,259
Cash	0	0
Fund Balance with U.S. Treasury and Cash	466,818,652	119,741,259
Accounts Receivable, Net	83,041	12,879
Interoffice Receivable	0	0
Advances and Prepayments	3,256,621	550,709
Inventory	0	0
Property and Equipment, Net	940,724	3,291,811
Total Assets	\$ 471,099,038	\$ 123,596,658
LIABILITIES AND NET POSITION		
Accounts Payable	\$ 14,573,168	\$ 1,278,819
Interoffice Payable	2,315,911	150,844
Capital Lease Liabilities	0	0
Accrued Funded Payroll and Benefits	7,356,779	490
Accrued Unfunded Annual Leave and Workers' Compensation	3,515,282	1,057,334
Deferred Credits	0	0
Unfunded Workers' Compensation Actuarial Liability	0	0
Other Liabilities	0	0
Total Liabilities	27,761,140	2,487,487
Unexpended Appropriations	446,067,299	118,887,534
Cumulative Results of Operations	(2,729,401)	2,221,637
Total Net Position	443,337,898	121,109,171
Total Liabilities and Net Position	\$ 471,099,038	\$ 123,596,658

Leadership Offices	Officers and Legislative Offices	Joint Functions	Eliminations	Combined
\$ 16,333,426	\$ 431,301,231	\$ 9,872,358	\$ 0	\$ 1,044,066,926
0	1,200	0	0	1,200
<u>16,333,426</u>	<u>431,302,431</u>	<u>9,872,358</u>	<u>0</u>	<u>1,044,068,126</u>
5,561	98,784	263	0	200,528
0	2,569,116	0	(2,569,116)	0
167,583	457,045	74,761	0	4,506,719
0	1,436,537	0	0	1,436,537
<u>626,676</u>	<u>49,581,241</u>	<u>1,206,205</u>	<u>0</u>	<u>55,646,657</u>
<u>\$ 17,133,246</u>	<u>\$ 485,445,154</u>	<u>\$ 11,153,587</u>	<u>\$ (2,569,116)</u>	<u>\$ 1,105,858,567</u>
\$ 314,139	\$ 10,223,029	\$ 93,811	\$ 0	\$ 26,482,966
68,131	30,723	3,507	(2,569,116)	0
0	1,847,483	0	0	1,847,483
0	179,250	0	0	7,536,519
156,107	3,407,393	22,128	0	8,158,244
0	1,074,911	0	0	1,074,911
0	16,964,325	0	0	16,964,325
<u>0</u>	<u>107,681</u>	<u>0</u>	<u>0</u>	<u>107,681</u>
<u>538,377</u>	<u>33,834,795</u>	<u>119,446</u>	<u>(2,569,116)</u>	<u>62,172,129</u>
16,124,300	407,123,096	9,708,834	0	997,911,063
<u>470,569</u>	<u>44,487,263</u>	<u>1,325,307</u>	<u>0</u>	<u>45,775,375</u>
<u>16,594,869</u>	<u>451,610,359</u>	<u>11,034,141</u>	<u>0</u>	<u>1,043,686,438</u>
<u>\$ 17,133,246</u>	<u>\$ 485,445,154</u>	<u>\$ 11,153,587</u>	<u>\$ (2,569,116)</u>	<u>\$ 1,105,858,567</u>

U.S. House of Representatives
Consolidating Statement of Operations
for the Year Ended December 31, 2003

	<u>Members</u>	<u>Committees</u>
REVENUE AND FINANCING SOURCES		
Revenue from Operations		
Sales of Goods	\$ 0	\$ 0
Sales of Services to Federal Entities	0	0
Sales of Services to the Public	0	0
Interoffice Sales	0	0
Other Revenue	0	0
Total Revenue from Operations	<u>0</u>	<u>0</u>
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received	690,256,811	168,660,310
Appropriations Yet To Be Received	1,187,207	389,371
Imputed Financing Source	<u>31,354,069</u>	<u>9,173,355</u>
Total Revenue and Financing Sources	<u>\$ 722,798,087</u>	<u>\$ 178,223,036</u>
EXPENSES		
Personnel Compensation	\$ 415,610,022	\$ 112,037,277
Benefits	160,296,885	44,390,697
Postage and Delivery	21,566,579	78,113
Repairs and Maintenance	28,383,983	4,089,921
Depreciation and Amortization	986,397	1,025,132
Rent, Utilities, and Communications	21,744,593	29,456
Telecommunications	13,847,693	1,164,705
Supplies and Materials	11,156,197	1,386,752
Travel and Transportation	19,438,392	6,713,127
Contract, Consulting, and Other Services	6,867,152	5,875,185
Printing and Reproduction	15,949,165	164,410
Subscriptions and Publications	6,925,386	939,664
Cost of Goods Sold	0	0
(Gain)/Loss on Disposal of Assets	25,643	328,597
Bad Debts	0	0
Interest on Capital Leases	0	0
Total Expenses	<u>\$ 722,798,087</u>	<u>\$ 178,223,036</u>
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	<u>\$ 0</u>	<u>\$ 0</u>
CHANGE IN NET POSITION		
Net Position, Beginning Balance	\$ 118,772,497	\$ 17,916,477
Adjustments	0	0
Net Position, Beginning Balance	118,772,497	17,916,477
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	0	0
Plus (Minus) Non-Operating Changes	<u>324,565,401</u>	<u>103,192,694</u>
Net Position, Ending Balance	<u>\$ 443,337,898</u>	<u>\$ 121,109,171</u>

Leadership Offices	Officers and Legislative Offices	Joint Functions	Eliminations	Combined
\$ 0	\$ 3,210,216	\$ 0	\$ 0	\$ 3,210,216
0	4,879,655	0	0	4,879,655
0	616,542	80,973	0	697,515
0	33,294,430	0	(33,294,430)	0
0	549,003	0	0	549,003
<u>0</u>	<u>42,549,846</u>	<u>80,973</u>	<u>(33,294,430)</u>	<u>9,336,389</u>
24,193,520	171,065,124	12,036,227	0	1,066,211,992
127,868	28,714	14,435	0	1,747,595
1,142,957	5,962,699	539,354	0	48,172,434
<u>\$ 25,464,345</u>	<u>\$ 219,606,383</u>	<u>\$ 12,670,989</u>	<u>\$ (33,294,430)</u>	<u>\$ 1,125,468,410</u>
\$ 13,959,424	\$ 72,788,661	\$ 6,587,352	\$ 0	\$ 620,982,736
5,658,711	28,777,744	2,753,006	0	241,877,043
7,767	508,157	3,267	0	22,163,883
1,261,928	20,453,160	610,982	0	54,799,974
156,363	11,174,035	269,072	0	13,610,999
50,571	1,219,134	118	0	23,043,872
694,412	6,193,650	90,408	0	21,990,868
668,787	3,676,559	562,378	0	17,450,673
1,259,089	3,295,423	28,265	0	30,734,296
1,271,271	30,134,480	1,519,959	0	45,668,047
112,705	116,333	6,723	0	16,349,336
282,255	396,355	156,625	0	8,700,285
0	40,170,788	0	(33,294,430)	6,876,358
81,062	14,097	1,861	0	451,260
0	2,509	0	0	2,509
0	103,962	0	0	103,962
<u>\$ 25,464,345</u>	<u>219,025,047</u>	<u>\$ 12,590,016</u>	<u>\$ (33,294,430)</u>	<u>\$ 1,124,806,101</u>
<u>\$ 0</u>	<u>\$ 581,336</u>	<u>\$ 80,973</u>	<u>\$ 0</u>	<u>\$ 662,309</u>
\$ 2,514,123	\$ 176,908,551	\$ 2,618,215	\$ 0	\$ 318,729,863
0	0	0	0	0
2,514,123	176,908,551	2,618,215	0	318,679,863
0	581,336	80,973	0	662,309
14,080,746	274,120,472	8,334,953	0	724,294,266
<u>\$ 16,594,869</u>	<u>\$ 451,610,359</u>	<u>\$ 11,034,141</u>	<u>\$ 0</u>	<u>\$ 1,043,686,438</u>

U.S. House of Representatives
Consolidating Statement of Cash Flows
for the Year Ended December 31, 2003

	Members	Committees
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess/(Deficiency) of Revenue and Financing Sources over Expenses	\$ 0	\$ 0
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(584,723,673)	(129,118,880)
(Increase)/Decrease in Accounts and Interoffice Receivable	20,381	21,483
(Increase)/Decrease in Advances and Prepayments	(655,276)	(25,914)
(Increase)/Decrease in Inventory	0	0
Increase/(Decrease) in Accounts and Interoffice Payable	7,850,621	443,585
Increase/(Decrease) in Other Accrued Liabilities	(295,442)	(77,275)
(Gain)/Loss on Disposal of Assets	25,643	328,597
Depreciation and Amortization	986,397	1,025,132
Net Cash Provided/(Used) by Operating Activities	(576,791,349)	(127,403,272)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(594,828)	(911,383)
Net Cash Provided/(Used) by Investing Activities	(594,828)	(911,383)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	908,134,929	232,182,047
Funds Returned to the U.S. Treasury	(2,161,637)	(1,355,696)
Appropriated Funds Allocated	3,219,367	766,327
Principal Payment on Capital Lease Liabilities	0	0
Net Cash Provided/(Used) by Financing Activities	909,192,659	231,592,678
Net Cash Provided/(Used) by Operating, Investing, and Financing Activities	331,806,482	103,278,023
Fund Balance with U.S. Treasury and Cash, Beginning	135,012,170	16,463,236
Fund Balance with U.S. Treasury and Cash, Ending	\$ 466,818,652	\$ 119,741,259

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ 0	\$ 581,336	\$ 80,973	\$ 0	\$ 662,309
(26,099,753)	(320,689,627)	(10,425,630)	0	(1,071,057,563)
4,401	2,365,903	(263)	(329,010)	2,082,895
(85,342)	56,258	(32,545)	0	(742,819)
0	192,609	0	0	192,609
259,852	(1,011,226)	62,717	329,010	7,934,559
62,673	2,275,762	(13,776)	0	1,951,942
81,062	14,097	1,861	0	451,260
156,363	11,174,035	269,072	0	13,610,999
<u>(25,620,744)</u>	<u>(305,040,853)</u>	<u>(10,057,591)</u>	<u>0</u>	<u>(1,044,913,809)</u>
<u>(574,747)</u>	<u>(23,921,366)</u>	<u>(832,746)</u>	<u>0</u>	<u>(26,835,070)</u>
<u>(574,747)</u>	<u>(23,921,366)</u>	<u>(832,746)</u>	<u>0</u>	<u>(26,835,070)</u>
29,839,035	611,972,026	18,490,854	0	1,800,618,891
(460,144)	(2,212,973)	(208,393)	0	(6,398,843)
10,850,459	(15,374,275)	538,122	0	0
0	(179,826)	0	0	(179,826)
<u>40,229,350</u>	<u>594,204,952</u>	<u>18,820,583</u>	<u>0</u>	<u>1,794,040,222</u>
14,033,859	265,242,733	7,930,246	0	722,291,343
<u>2,299,567</u>	<u>166,059,698</u>	<u>1,942,112</u>	<u>0</u>	<u>321,776,783</u>
<u>\$ 16,333,426</u>	<u>\$ 431,302,431</u>	<u>\$ 9,872,358</u>	<u>\$ 0</u>	<u>\$1,044,068,126</u>

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Independent Auditor's Report on Compliance with Laws and Regulations

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COTTON & COMPANY LLP

auditors ♦ advisors

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the Consolidated Statement of Financial Position of the U.S. House of Representatives as of December 31, 2003, and 2002, and the related Consolidated Statements of Operations and Cash Flows for the years then ended. We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, rules, and regulations is the responsibility of the Members and administrative management of the House. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of House compliance with certain provisions of laws and House rules and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Compliance with laws, rules, and regulations for the House is significantly different than for Executive Branch departments and agencies. First, many of the laws that apply to the Executive Branch, such as the Federal Managers' Financial Integrity Act of 1982, Government Management Reform Act of 1994, and Chief Financial Officers Act of 1990, do not apply to the House. Second, Executive Branch departments and agencies are subject to regulations that implement their authorizing statutes and to regulations imposed by other agencies, such as the Office of Management and Budget and Office of Personnel Management. The House is subject to specific laws and its own rules and to regulations contained in its *Members' Congressional Handbook and Committees' Congressional Handbook*.

The sole, official purpose of this report is for informational use by Members of the U.S. House of Representatives, Office of the Chief Administrative Officer, and Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an official capacity. This report is, however, available to the public for informational purposes only.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA, CISA

May 15, 2004
Alexandria, Virginia

Independent Auditor's Report on Internal Control

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COTTON & COMPANY LLP

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has examined the effectiveness of the U.S. House of Representatives' internal control over financial reporting as of December 31, 2003, based on the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, obtained an understanding of internal control over financial reporting, testing, and evaluating design and operating effectiveness of the internal control and performing such other procedures as considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, the House of Representatives maintained, in all material respects, effective internal control over financial reporting as of December 31, 2003, based on *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

We did note certain matters involving internal control and its operations that we consider reportable conditions under standards issued by AICPA. Reportable conditions are matters coming to our attention related to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the House's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements. These conditions are:

- ? The Staff Payroll System Is Obsolete And Needs To Be Replaced.
- ? Improvements Are Needed In The Financial Systems Security Environment.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in an amount that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider neither of these reportable conditions to be a material weakness. Additional details on the reportable conditions noted above are attached to this report.

The sole, official purpose for this report is for informational use by Members of the U.S. House of Representatives, Office of the Chief Administrative Officer, and Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an official capacity. This report is, however, available to the public for informational purposes only.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read 'Matthew H. Johnson', with a stylized flourish at the end.

Matthew H. Johnson, CPA, CISA

May 15, 2004
Alexandria, Virginia

**STATUS OF INTERNAL CONTROL WEAKNESSES
CALENDAR YEAR 2003 FINANCIAL STATEMENT AUDIT**

Cotton & Company LLP assessed the current status of weaknesses identified in the Calendar Year (CY) 2002 Independent Auditor's Report on Internal Control. The House continues to make progress toward implementing recommendations for both conditions. Certain weaknesses still exist; therefore, we recommend that the Chief Administrative Officer (CAO) continue to implement past recommendations. The remainder of this report presents a summary of the status of internal control weaknesses and detailed discussions and recommendations for each.

CRITERIA

In determining the status of these internal control weaknesses, we applied the following criteria:

- | | |
|-----------------------------|--|
| Substantial Progress | New financial system and/or new policies and procedures put in place <i>substantially</i> address the <i>more significant</i> recommendations made in the prior audit. |
| Some Progress | New financial system and/or new policies and procedures put in place <i>partially</i> address the <i>more significant</i> recommendations made in the prior audit. |
| Limited Progress | Steps taken to address <i>less significant</i> recommendations; more significant recommendations addressed only with <i>proposals</i> or <i>remain open</i> . |
| New Condition | No action has been taken; newly identified weakness. |

We based our assessment of the status of prior recommendations on a review of the House's progress toward implementing the recommendations. The following criteria were used to assess that progress:

- | | |
|-----------------------------|---|
| Closed | The House fully implemented recommended corrective actions, or changes in House operations remedied or eliminated the need for recommended corrective action. |
| Substantial Progress | The House has <i>substantially</i> addressed the <i>more significant</i> aspects of the recommendation. |
| Some Progress | The House has <i>partially</i> addressed the <i>more significant</i> aspects of the recommendation. |
| Limited Progress | The House has made progress on the <i>less significant</i> aspects of the recommendation. |
| Not Started | The House has taken <i>no action</i> to implement the recommendation. |

STATUS OF EXISTING INTERNAL CONTROL WEAKNESSES

The status of the two existing weaknesses is shown on Figure 1; a detailed discussion of each follows. The House resolved one weakness reported in past audits during CY 2003 (Figure 2).

Figure 1: Status of Internal Control Weaknesses				
Weakness	Status as of May 15, 2004			
	Substantial Progress	Some Progress	Limited Progress	New Condition
The staff payroll system is obsolete and needs to be replaced. <i>(Reportable Condition)</i>		X		
Improvements Are Needed In The Financial Systems Security Environment. <i>(Reportable Condition)</i>		X		

Figure 2: Summary of Closed Internal Control Weakness and Associated Recommendation
<p>Weakness: Year-end review procedures can be strengthened.</p> <p>Recommendations:</p> <p>03-HOC-04, 2.1. Require all CAO paying offices (Office of Finance, House Support Services, and House Information Resources) to develop employee performance measures to: (1) ensure compliance with established procedures that require invoices to be processed in a timely manner and (2) upon completion of services and the receipt of goods, pursue receipt of invoices from vendors if not submitted to the House in a timely manner.</p> <p>03-HOC-04, 2.2. Establish Office of Finance procedures to notify all paying offices at year-end that payable information is required and due for financial statement preparation.</p> <p>03-HOC-04, 2.3. Strengthen year-end quality assurance controls over preparing and recording adjusting entries and property and equipment reconciliations. Establish and implement procedures for reviewing account line item fluctuations.</p>

DISCUSSION OF INTERNAL CONTROL WEAKNESSES**Weakness 1: The Staff Payroll System is Obsolete and Needs To Be Replaced**

Summary Status: Reportable Condition
Prior Condition
Some Progress

The House implemented a new Members' payroll system and accepted proposals to replace its non-Member payroll system in 1999. Phase 1 of the new non-Member payroll system implementation was completed in CY 2002, and Phase 2 received Committee on House Administration (CHA) approval on July 26, 2002. Full implementation was anticipated for April 2004. Delays were experienced in CY 2003, and full implementation is now targeted for October 2004.

The current non-Member payroll system remains inefficient and technologically obsolete. This system requires Office of Human Resources staff to regularly make manual calculations and adjustments to process staff payroll. Furthermore, system inadequacies result in numerous supplemental payments and overpayments throughout the year.

We noted the following weaknesses in prior-year audit reports and found that they continue to exist in CY 2003:

- When an employee changes from non-permanent to permanent status in any given month, the staff payroll system automatically calculates the Federal Employees' Retirement System (FERS) deduction for the entire month, including the portion of the month in which the individual was a non-permanent employee. This necessitates a manual adjustment to the system to reverse the incorrect FERS deduction.
- The staff payroll system does not perform all necessary payroll calculations; therefore, manual calculations are needed for certain actions, such as earned income credits, garnishments, deductions for retroactive adjustments, multiple annuitants, part-time child care employees, retirement contributions, and the government portion of FERS.
- After adjustments to the staff payroll system have been made (handwritten checks, voids, adjustments, and suspense items), a second report is run. Payroll counselors manually compare the report to an Excel spreadsheet and make adjustments before the payroll summary is provided to Office of Finance.
- Legislation requires the House payroll to be paid on the last working day of the month. To pay staff on the last working day of the month, Human Resources personnel must prepare staff payroll check requests before the end of the month for work completed during that month. Salary changes and notices of new employees are often submitted to Human Resources after the published payroll deadline.

Payroll adjustments occurring in CY 2003 resulted in 3,635 supplemental paychecks for \$3,402,383.48 in underpayments to staff. In addition, overpayments made in CY 2003 totaled \$104,918.01; \$44,419.11 of this amount remained outstanding as of May 7, 2004. Of the \$104,918.01 overpayment, \$77,115.52 was the result of terminations not submitted for payroll processing in a timely manner.

We noted during CY 2003 audit testing that the House payroll office incorrectly calculated agency contributions owed to the Office of Personnel Management (OPM) for the Civil Service Retirement System (CSRS) offset employees. CSRS offset retirement applies to employees who had a break in service that exceeded 1 year and ended after 1983, and had 5 years of creditable civilian service on January 1, 1987. CSRS offset retirement coverage also applies to employees hired before January 1, 1984, who acquired CSRS coverage for the first time after that date, and had at least 5 years of creditable service by January 1, 1987. The retirement benefits for these employees are modified based upon their salary. The House payroll office manually calculates the CSRS offset government contribution for those employees who have exceeded the Social Security wage base of \$87,000 using an Excel worksheet. In conducting our audit, we found the following errors in the Excel worksheet:

- ? Incorrect rates were used to calculate government contributions owed to OPM from August to December 2003.
- ? Two of 29 gross pay amounts subject to the 7.5-percent deduction for the employee's contribution were incorrectly calculated on the August 2003 worksheet.
- ? A portion of the government contribution was omitted from the total amount reported and paid to OPM in August 2003.
- ? A formula error occurred in the calculation of the government's contribution.

CY 2003 audit testing also revealed that the House Office of Personnel and Benefits (OPB) incorrectly withheld CSRS contributions from non-Member employees. Testing of CSRS offset employee contributions during August 2003 revealed that OPB was deducting excess contributions on behalf of 17 of 29 eligible employees. These deductions continued throughout the remainder of the calendar year.

Recommendations

This recommendation was made in a past Office of Inspector General (OIG) audit report. Based on test results from our audit, we conclude that the weakness underlying this recommendation still exists, and we recommend that CAO continue to implement policies and procedures necessary to resolve it.

Recommendation	Status of Recommendation	Management Response
99-HOC-07 1.1 Replace the staff payroll and Human Resources systems ensuring that (1) system inefficiencies are addressed and (2) adequate controls are established to manage and account for annual	Status: Substantial Progress The House is moving forward with implementing the new system for processing staff payroll. During the year, the CAO has: ? hired a systems integrator; ? finished defining their	CONCUR. Implementation of the new House payroll system is currently underway. The planned target date for the system to become operational is October 2004. Initial functionality of the new payroll

<p>and sick leave for applicable employees.</p>	<p>requirements; ? almost completed the design phase; and ? trained key staff.</p> <p>Implementation is scheduled for October 2004.</p>	<p>system will address the present system's inefficiencies and will provide automated support for many processes that are presently being accomplished with little or no automated support.</p> <p>One of the inefficiencies to be eliminated by the new system is the need for a monthly supplemental payroll. Current legislation, business processes, and supporting systems necessitate issuance of a supplemental payroll disbursement after each monthly payroll has been run. The new system will have the flexibility to accommodate an intermediate payroll disbursement should critical events occur that demand such an action.</p> <p>Following October 2004 in the post-implementation period, functionality of the system will continue to be expanded to include annual and sick leave balances for applicable employees. Additionally, to significantly decrease the need for retroactive pay adjustments, the disbursement of each monthly payroll will continue to occur at month end but the compensation pay cycle will end approximately 10 calendar days prior to the end of the month.</p>
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The CAO already has begun corrective actions on the CSRS offset issue; however we recommend that the Chief Administrative Officer:

Recommendation	Status of Recommendation	Management Response
<p>1. Review the methodology used to calculate employee withholdings and government contributions and correct errant calculations.</p>	<p>New Recommendation</p>	<p>CONCUR.</p> <p>The Office of Personnel and Benefits (OPB) has reviewed the methodology used to calculate government contributions and employee withholdings. As a result, the House's current payroll system has been reprogrammed to correctly calculate employee withholdings and government contributions owed to the Office of Personnel Management (OPM) for the Civil Service Retirement System (CSRS)</p>

		<p>offset. In addition, OPB has recalculated employee withholdings and government contributions that were incorrect in the month in which the employee reached the maximum taxable wage base (MTWB). OPB will ensure that the new payroll system, scheduled to be implemented in October 2004, will be programmed with the correct formula. The CAO believes we have taken appropriate steps to close this recommendation.</p>
<p>2. Perform reconciliation between amounts previously submitted to OPM and correct amounts owed to OPM and submit any additional payments, as necessary.</p>	<p>New Recommendation</p>	<p>CONCUR.</p> <p>OPB has reconciled amounts previously submitted to OPM with amounts owed to OPM. When necessary, additional payments have been submitted either to employees or OPM. The CAO believes we have taken appropriate steps to close this recommendation.</p>
<p>3. Establish policies and procedures to ensure that calculations used to determine CSRS offset payments to OPM are accurate and that sufficient management review is performed to verify amounts owed.</p>	<p>New Recommendation</p>	<p>CONCUR.</p> <p>OPB has developed procedures that provide for an internal semi-annual audit to verify that calculations for employees who have exceeded the MTWB are accurate and that government contributions are correctly submitted to OPM. The procedures include a methodology whereby amounts owed to OPM are verified by management. The CAO believes we have taken appropriate steps to close this recommendation.</p>

Weakness 2: Improvements Are Needed In The Financial Systems Security Environment**Summary Status: Reportable Condition**
Prior Condition
Some Progress

As part of the CY 2003 audit, we reviewed controls over CAO information systems that process and report information on the annual financial statements. Specifically, we reviewed controls used to secure and safeguard financial information traveling over the CAO network. The review was limited to the CAO portion of the House network (general support system) and to financial and related information systems.

We relied upon CobiT (Control Objectives for Information and Related Technology) for review criteria. CobiT provides a framework to help meet multiple needs of management by bridging gaps between business risks, control needs, and technical issues. It provides a framework of generally accepted information system management and automated control practices and procedures that can be applied across a variety of domains and systems.

The CobiT mission is to research, develop, publicize, and promote an authoritative, up-to-date, international set of generally accepted information technology (IT) control objectives for daily use by business managers and auditors. CAO has accepted CobiT as an authoritative source of IT control and guidance.

In conducting our review of the CAO internal control over IT for both the general support system and individual financial applications, we reviewed controls in the following categories:

- **Entity-wide security program planning and management** to provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related controls.
- **Access controls** to limit or detect access to computer resources (data, program, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure.
- **Application software development and program change controls** to prevent implementation of unauthorized programs or modifications to existing programs.
- **System software controls** to limit and monitor access to powerful programs and sensitive files that control computer hardware and secure applications supported by the system.
- **Segregation-of-duty controls** to provide policies, procedures, and an organizational structure to prevent one individual from controlling key aspects of computer-related operations and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. These controls must be applied within an application and at the mainframe and network system level.

-
- **Service continuity controls** to ensure that when unexpected events occur, critical operations continue without interruption or are promptly resumed, and critical and sensitive data are protected from destruction.

We included the following financial and related information systems in our audit:

- Federal Financial System (FFS)
- Procurement Desktop (PD)
- Fixed Asset and Inventory Management System (FAIMS)
- Financial Management System (Staff Payroll Module)
- Human Resources (personnel payroll listings, Excel spreadsheets)
- House CAO Network

We reviewed management actions to address prior-year recommendations. CAO improved information system controls, taking sufficient action to close four of seven prior-year recommendations. We noted additional improvements needed in the areas of:

- Establishing a compliance program to monitor and report on compliance of CAO business units with HISPOL and CAO policies for implementing computer security controls at the financial application level. (03-HOC-05 3.02)
- Requiring all CAO business units to install security software at the server or work-station-level to impose an automatic deactivation of a terminal or user session for inactivity. (03-HOC-05 3.04)
- Coordinating contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, mainframe, FFS, PD, and all critical financial systems. (02-HOC-06, 4.5)

Our audit identified weaknesses in three of the six control areas described above; we did not identify new weaknesses in the area of system software and service continuity controls. As part of our overall risk assessment, we also considered risks and vulnerabilities identified in the report of OIG's post-implementation review of FAIMS, which identified inadequate controls in the areas of:

- User account administration
- System development and program change controls
- Access to Oracle database and Unix operating system
- Data transfer between PD and FAIMS
- Programmer and database administrator unrestricted access to the production environment
- Contingency planning

Entity-Wide Security Program Planning and Management

CAO's information system security program policies and procedures covering its network and financial applications could be improved. We discuss the weaknesses we identified in the following sections.

Training. Security awareness training was not attended by all personnel with access to the CAO network and financial applications in CY 2003. Although management intended to fully implement the security awareness training program in CY 2003, the program was not fully implemented. CAO approved House Information Resources's (HIR) security awareness training policy in February 2003. Security awareness training was offered to employees, but not required. HIR security is implementing a web-based security awareness training program and anticipates full participation by all employees in CY 2004.

As noted in our CY 2002 audit report, the security awareness training policy did not explicitly require contractor personnel to obtain this training, although HIR strongly encouraged contractor personnel and other CAO system users to do so. CobiT suggests that all personnel granted access to systems should be provided security awareness and rules-of-behavior training.

Risk Assessments. Periodic risk assessments of House financial applications were not being performed as required by House policy. HIR security did not conduct risk assessments at the application level for financial applications such as FFS, PD, and FAIMS. It did perform risk assessments at the database and server levels. HISPOL 003.0 requires HIR to perform bi-annual risk assessments of all CAO systems. In addition to reviewing the database and server, HIR should perform risk assessments of applications.

Security Plans. CAO business units had not updated or maintained application-specific security plans for FMS, FAIMS, and PD. HIR stated that FMS originally included a security plan, but plan maintenance was halted when it was determined that FMS would be upgraded; this planned upgrade has been ongoing for several years. A draft application-specific security plan was developed for FAIMS before FAIMS was placed into production; this plan was not, however, updated or implemented when FAIMS went live. A security plan has been developed and put in place for PD; however, this plan does not address all areas or information required to be in a security plan by industry best practice.

House policy states:

Prior to authorization for connection to networks or operation of major applications, each system's security policy and procedural rules should be developed and documented. The security policy and procedural rules should be implemented, and processes defined to monitor security to ensure reasonable and effective management of the system and compliance with the system security plan.

In addition, industry best practices suggest that security plans be kept current through periodic review and update of the security plan.

Recommendations

We recommend that the Chief Administrative Officer:

Recommendation	Status of Recommendation	Management Response
1. Ensure full attendance of annual security awareness training by all CAO employees and develop and implement procedures to track attendance of the training program.	New Recommendation	<p>CONCUR.</p> <p>House Information Resources (HIR) will employ its web-based training application to notify all CAO employees of their obligation to obtain annual security awareness training, provide that training, and track attendance. HIR will establish procedures to ensure CAO employees fulfill this training obligation. The CAO will take the necessary actions to initiate this process and operate it for one calendar quarter, and close this recommendation by February 28, 2005.</p>
2. Develop procedures to ensure compliance with HISPOL 003.0. These procedures should include risk assessments performed at all levels (application, database, and server) before new systems are installed and when enhancements are made to existing systems. In addition, this would include developing a schedule of risk assessments for existing and new financial systems and developing procedures to identify, implement, and track corrective actions designed to resolve weaknesses identified in the risk assessment.	New Recommendation	<p>CONCUR.</p> <p>HIR has implemented a compliance program. This program is designed to ensure all systems at the application, database and server level are compliant with House security policy and guidelines, and track corrective action. The procedures for this program are documented and HIR has developed a schedule for assessing security risks in all financial systems using these procedures. The CAO believes we have taken appropriate steps to close this recommendation.</p>
3. Develop procedures to ensure that system-specific security plans are developed and updated as needed to reflect changes to software, hardware, and business operations.	New Recommendation	<p>CONCUR.</p> <p>HIR has implemented a compliance program. This program is designed to ensure all systems at the application, database and server level are compliant with House security policy and guidelines, including the documentation of system-specific security plans. The Security Office has accepted the security plan for the Federal Financial System (FFS), and documentation is being developed for the Fixed Asset Inventory Management System (FAIMS), Momentum Acquisition (MA), and Staff Payroll. The CAO believes we have taken appropriate steps to close this recommendation.</p>

The following audit recommendation was made in a past OIG audit report. Based on tests conducted during CY 2003, the underlying weakness of this recommendation still exists, and to resolve it, the CAO should continue to implement the partially resolved recommendation.

Recommendation	Status of Recommendation	Management Response
<p>03-HOC-05 3.02 Establish a compliance program that would monitor and report on compliance of CAO business units with HISPOL and CAO policies for implementing computer security controls at the financial application level.</p>	<p>Status: Partial Progress Management established a three-phased approach to the recommendation. Phase 1 of the CAO compliance program was funded and ended on January 31, 2004. The second phase has started and will be completed in CY 2005.</p>	<p>CONCUR HIR has established a compliance program to ensure that all CAO financial systems are reasonably secure by standards of industry best practice. HIR developed this program after conducting an assessment of the current computer security controls environment, designing an appropriate and sustainable compliance program, and developing policies and procedures to support the compliance program approach. The CAO believes we have taken appropriate steps to close this recommendation.</p>

Access Controls

User Activity Monitoring. Logging and monitoring of user activity in PD was inadequate. User activities such as failed logon attempts were not logged for review by administrators. Industry best practices state that management controls should guarantee that sufficient chronological information is being stored in the operation's logs to enable reconstruction, review, and examination of time sequences of processing and other activities surrounding or supporting processing.

We recommend that the Chief Administrative Officer:

Recommendation	Status of Recommendation	Management Response
<p>4. Develop procedures and assign responsibilities to periodically review PD security logs.</p>	<p>New Recommendation</p>	<p>CONCUR. The CAO has implemented a new procedure requiring periodic review of MA (the successor to PD) password security logs. This responsibility has been assigned to Electronic Procurement team staff. The CAO believes we have taken appropriate steps to close this recommendation.</p>

Service Continuity Controls

Off-site Facility Location. CAO business units improved backup and off-site storage procedures for financial data to ensure that required financial data are available for recovery purposes. The current off-site storage facility is, however, located too close to House operations to adequately achieve its purpose in the event of a physical disaster affecting the Capitol area.

This audit recommendation was made in a past OIG audit report. Based on the CY 2003 review, the underlying weakness of this recommendation still exists, and the CAO should continue to implement the partially resolved recommendation.

Recommendation	Status of Recommendation	Management Response
<p>02-HOC-06, 4.5 Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, mainframe computer, FFS, PD, and all critical financial systems.</p>	<p>Status: Limited Progress HIR is developing a new alternative recovery site and new recovery procedures and processes. HIR anticipates new plans to be developed by the end of CY 2004.</p>	<p>CONCUR Due to the complexities of establishing and testing a House-wide facility of this sort, the time required to fully implement the facility is longer than originally expected. The CAO has made progress toward documenting recovery policies and procedures for the financial systems failure over at the Alternate Computing Facility (ACF) and has drafted a contingency plan defining business continuity utilizing the ACF. However, additional time is required to complete and test the procedures. The CAO estimates that finalizing and fully implementing financial systems and related contingency planning and recovery policies and procedures will be completed by September 30, 2004. On June 30, 2004 the CAO submitted a request to extend the completion of this recommendation from June 30, 2004 to September 30, 2004.</p>

The following prior-year recommendations were closed when changes in House operations remedied the associated underlying weaknesses.

<p>03-HOC-05 3.01 Develop and maintain a current list of contractors granted access to the network.</p>
<p>03-HOC-05 3.03 Require HIR and House Support Services (HSS) to enhance FAIMS security by modifying the password configuration to require 8 characters.</p>
<p>03-HOC-05 3.04 Require all CAO business units to install security software at the work-station-level or server to impose an automatic deactivation of the terminal or the user's session for user inactivity.</p>
<p>03-HOC-05, 3.05 Provide server administrators with appropriate technical training to allow them to perform their assigned responsibilities.</p>
<p>02-HOC-06, 4.7 Develop and implement policies and procedures to test restore procedures consistently to ensure data backed up on tape are accurate.</p>

Management Comments

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Management Report on Internal Control

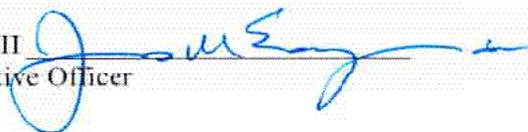
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The U.S. House of Representatives Management Report on Internal Control

In connection with your examination of our assertion that the U.S. House of Representatives (House) maintained effective internal control over financial reporting as of December 31, 2003, for the purpose of expressing an opinion as to whether the assertion is fairly stated, in all material respects in accordance with standards prescribed by the General Accounting Office in *Standards for Internal Control in the Federal Government*, dated November 1999, we confirm to the best of our knowledge and belief, the following representations made to you during your examination:

- We are responsible for establishing and maintaining effective internal control over financial reporting.
- We have performed an evaluation of the effectiveness of the House's internal control over financial reporting in accordance with standards prescribed by the General Accounting Office in *Standards for Internal Control in the Federal Government*, dated November 1999, the objectives of which include:
 - Effectiveness and efficiency of operations,
 - Reliability of financial reporting, and
 - Compliance with applicable laws and regulations.
- Based on our evaluation, we assert that the House maintained effective internal control over financial reporting as of December 31, 2003, based on the above-specified control criteria.
- We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with our assertions in the financial statements.
- We have identified all deficiencies in internal control we believe to be material weaknesses.
- We have not encountered any instances of fraud by either:
 - Management or employees who have significant roles in internal control, or
 - Other employees that could have a material effect on the financial statements.
- Subsequent to the date of our management report, there have been no significant changes to internal control and no other factors have arisen that might significantly affect internal control, including any corrective action taken by the House with regard to significant deficiencies and material weaknesses.

James M. Eagen III
Chief Administrative Officer



Bernice Brosious
Associate Administrator, Office of Finance



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**CAO Response to the 2003 Financial
Statement Audit Report**

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James M. Eagen III
Chief Administrative Officer

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

MEMORANDUM

To: Steve McNamara
Inspector General

From: Jay Eagen
Chief Administrative Officer (CAO)

Subject: Response to the 2003 Financial Statements Audit Report

Date: JUL 30 2004

Thank you for the opportunity to comment on the 2003 Financial Statements Audit Report. We have carefully reviewed the report's findings and recommendations and concur with each of them.

The following is a brief response to each of the audit recommendations made in the audit report:

Weakness 1: The Staff Payroll System Is Obsolete And Needs To Be Replaced

Recommendation 1: Review the methodology used to calculate employee withholdings and government contributions and correct errant calculations.

CONCUR.

The Office of Personnel and Benefits (OPB) has reviewed the methodology used to calculate government contributions and employee withholdings. As a result, the House's current payroll system has been reprogrammed to correctly calculate employee withholdings and government contributions owed to the Office of Personnel Management (OPM) for the Civil Service Retirement System (CSRS) offset. In addition, OPB has recalculated employee withholdings and government contributions that were incorrect in the month in which the employee reached the maximum taxable wage base (MTWB). OPB will ensure that the new payroll system, scheduled to be implemented in October 2004, will be programmed with the correct formula. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 2: Perform reconciliation between amounts previously submitted to OPM and correct amounts owed to OPM and submit any additional payments, as necessary.

CONCUR.

OPB has reconciled amounts previously submitted to OPM with amounts owed to OPM. When necessary, additional payments have been submitted either to employees or OPM. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 3: Establish policies and procedures to ensure that calculations used to determine CSRS offset payments to OPM are accurate and that sufficient management review is performed to verify amounts owed.

CONCUR.

OPB has developed procedures that provide for an internal semi-annual audit to verify that calculations for employees who have exceeded the MTWB are accurate and that government contributions are correctly submitted to OPM. The procedures include a methodology whereby amounts owed to OPM are verified by management. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation: *(99-HOC-07, 1.1)* Replace the staff payroll and human resources systems ensuring that: (1) system inefficiencies are addressed, and (2) adequate controls are established to manage and account for annual and sick leave for applicable employees.

CONCUR.

Implementation of the new House payroll system is currently underway. The planned target date for the system to become operational is October 2004. Initial functionality of the new payroll system will address the present system's inefficiencies and will provide automated support for many processes that are presently being accomplished with little or no automated support.

One of the inefficiencies to be eliminated by the new system is the need for a monthly supplemental payroll. Current legislation, business processes, and supporting systems necessitate issuance of a supplemental payroll disbursement after each monthly payroll has been run. The new system will have the flexibility to accommodate an intermediate payroll disbursement should critical events occur that demand such an action.

Following October 2004 in the post-implementation period, functionality of the system will continue to be expanded to include annual and sick leave balances for applicable employees. Additionally, to significantly decrease the need for retroactive pay adjustments, the disbursement of each monthly payroll will continue to occur at month end but the compensation pay cycle will end approximately 10 calendar days prior to the end of the month.

Weakness 2: Improvement Are Needed In The Financial Systems Security Environment

Recommendation 1: Ensure full attendance of annual security awareness training by all CAO employees and develop and implement procedures to track attendance of the training program.

CONCUR.

House Information Resources (HIR) will employ its web-based training application to notify all CAO employees of their obligation to obtain annual security awareness training, provide that training, and track attendance. HIR will establish procedures to ensure CAO employees fulfill this training obligation. The CAO will take the necessary actions to initiate this process and operate it for one calendar quarter, and close this recommendation by February 28, 2005.

Recommendation 2: Develop procedures to ensure compliance with HISPOL 003.0. These procedures should include risk assessments performed at all levels (application, database, and server) before new systems are installed and when enhancements are made to existing systems. In addition, this would include developing a schedule of risk assessments for existing and new financial systems and developing procedures to identify, implement, and track corrective actions designed to resolve weaknesses identified in the risk assessment.

CONCUR.

HIR has implemented a compliance program. This program is designed to ensure all systems at the application, database and server level are compliant with House security policy and guidelines, and track corrective action. The procedures for this program are documented and HIR has developed a schedule for assessing security risks in all financial systems using these procedures. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 3: Develop procedures to ensure that system-specific security plans are developed and updated as needed to reflect changes to software, hardware, and business operations.

CONCUR.

HIR has implemented a compliance program. This program is designed to ensure all systems at the application, database and server level are compliant with House security policy and guidelines, including the documentation of system-specific security plans. The Security Office has accepted the security plan for the Federal Financial System (FFS), and documentation is being developed for the Fixed Asset Inventory Management System (FAIMS), Momentum Acquisition (MA), and Staff Payroll. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation 4: Develop procedures and assign responsibilities to periodically review PD security logs.

CONCUR.

The CAO has implemented a new procedure requiring periodic review of MA (the successor to PD) password security logs. This responsibility has been assigned to Electronic Procurement team staff. The CAO believes we have taken appropriate steps to close this recommendation.

Recommendation: (02-HOC-06, 4.5) Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, mainframe computer, FFS, PD, and all critical financial systems.

CONCUR.

Due to the complexities of establishing and testing a House-wide facility of this sort, the time required to fully implement the facility is longer than originally expected. The CAO has made progress toward documenting recovery policies and procedures for the financial systems fail over at the Alternate Computing Facility (ACF) and has drafted a contingency plan defining business continuity utilizing the ACF. However, additional time is required to complete and test the procedures. The CAO estimates that finalizing and fully implementing financial systems and related contingency planning and recovery policies and procedures will be completed by September 30, 2004. On June 30, 2004 the CAO submitted a request to extend the completion of this recommendation from June 30, 2004 to September 30, 2004.

Recommendation: (03-HOC-05, 3.02) Establish a compliance program that would monitor and report on compliance of CAO business units with HISPOL and CAO policies for implementing computer security controls at the financial application level.

CONCUR.

HIR has established a compliance program to ensure that all CAO financial systems are reasonably secure by standards of industry best practice. HIR developed this program after conducting an assessment of the current computer security controls environment, designing an appropriate and sustainable compliance program, and developing policies and procedures to support the compliance program approach. The CAO believes we have taken appropriate steps to close this recommendation.

Table of Contents

Independent Auditor's Report	1
Financial Statements	5
Statement of Financial Position	6
Statement of Operations	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
Supplemental Financial Schedules	23
Independent Auditor's Report on Compliance with Laws and Regulations	37
Independent Auditor's Report on Internal Control	41
Management Comments	57
Management Report on Internal Control	
CAO Response to the 2003 Financial Statement Audit Report	

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