

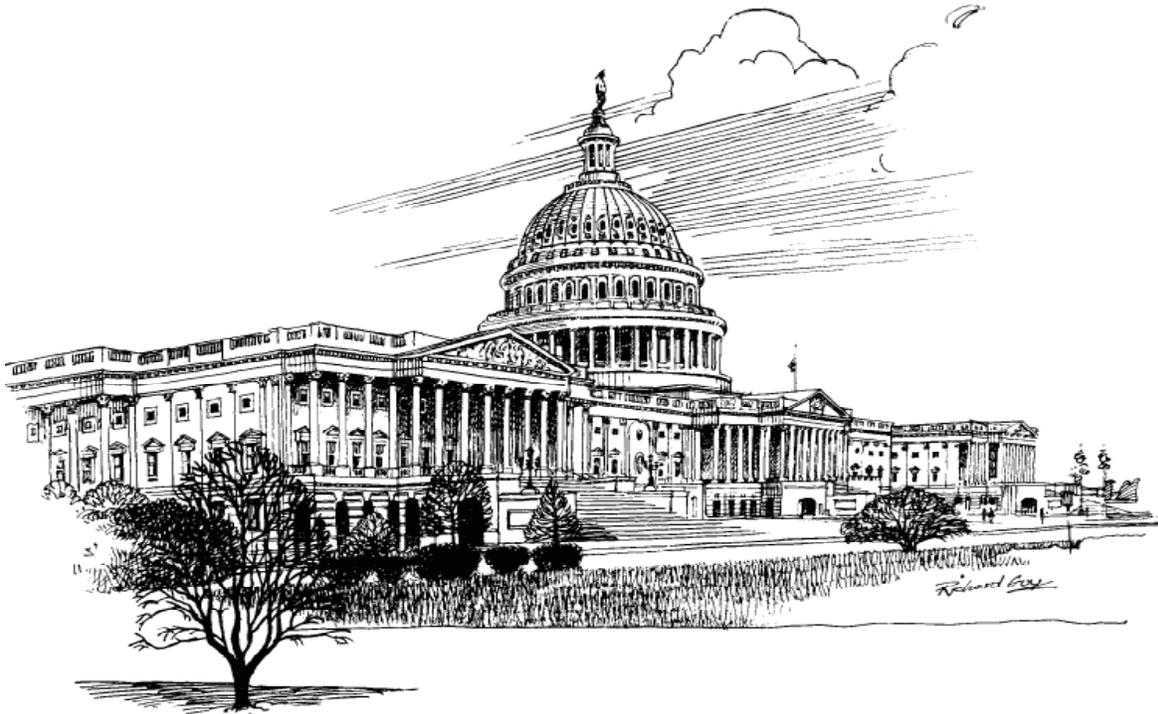


# UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

---

---

**Audit of the Financial Statements  
For the Fiscal Year Ended September 30, 2007  
Report No. 08-HOC-13  
December 8, 2008**





---

# Table of Contents

<b>Executive Summary .....</b>	<b>5</b>
<b>Independent Auditor’s Report.....</b>	<b>9</b>
<b>Fiscal Year 2007 Financial Statements.....</b>	<b>51</b>
Consolidated Statement of Financial Position.....	52
Consolidated Statement of Operations .....	53
Consolidated Statement of Cash Flows .....	54
<b>Notes to the Financial Statements .....</b>	<b>55</b>
<b>Supplemental Financial Schedules .....</b>	<b>69</b>
Consolidating Statement of Financial Position .....	72
Consolidating Statement of Operations .....	74
Consolidating Statement of Cash Flows.....	76
<b>Management Comments.....</b>	<b>79</b>
Management Report .....	81
CAO Response to the 2007 Financial Statement Audit Report.....	89
Supplemental CAO Response to the 2007 Financial Statement Audit Report.....	109

---

This Page Intentionally Left Blank

# Executive Summary



## EXECUTIVE SUMMARY

### **Results Of Audit**

During the past year, the House continued to make progress in improving its financial management and operations. For the tenth year, the independent auditors expressed an “unqualified opinion” on the House’s financial statements and reported that the financial statements fairly present, in all material respects, the financial position of the House and the results of its operations and cash flows in conformity with generally accepted accounting principles. In addition, the *Independent Auditor’s Report* identified no instances of noncompliance with laws and regulations.

In their report, the independent auditors identified three internal control weaknesses, all of which are reportable conditions. The reportable conditions are associated with the internal control framework for the payroll cycle, financial reporting process and financial information system. The only new reportable condition for the current fiscal period is the finding related to the payroll cycle.

During fiscal year 2007, the House implemented or initiated corrective actions to address the 41 prior audit recommendations contained in last year’s report. Due to the House’s progress towards improving financial related activities, we were able to close (i.e., fully implemented or otherwise resolved) 12 of the 41 prior recommendations.

### **Recommendations**

This report contains 45 recommendations consisting of 29 prior recommendations, for which corrective actions are in varying stages of implementation, and 16 new recommendations.

### **Management Response**

The CAO responded to the *Independent Auditor’s Report* on July 8, 2008 as well as a supplemental response on August 8, 2008. In the responses, which are included in their entirety with the Management Comments section of this report, the CAO concurred with the reported internal control weaknesses and recommendations for corrective action.

---

This Page Intentionally Left Blank

# Independent Auditor's Report

This Page Intentionally Left Blank



Cotton & Company LLP  
635 Slaters Lane  
4<sup>th</sup> Floor  
Alexandria, VA 22314

P: 703.836.6701  
F: 703.836.0941  
www.cottoncpa.com

## INDEPENDENT AUDITORS' REPORT

To the Inspector General  
U.S. House of Representatives

In accordance with auditing standards generally accepted in the United States of America (GAAS) and standards applicable to financial statement audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States, we have conducted audits of Fiscal Years (FYs) 2007 and 2006 financial statements of the U.S. House of Representatives and an examination of the effectiveness of the House's internal control over financial reporting for the period ended September 30, 2007, in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), GAS, and the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. As a result of our audits and examinations, we found:

- The financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- The House had effective internal control over financial reporting (including safeguarding assets).
- No reportable noncompliance with laws and regulations that we tested.

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

### CONCLUSIONS

#### Opinion on the Financial Statements

The financial statements including accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Consolidated Statement of Financial Position as of September 30, 2007, and 2006, and the related Consolidated Statements of Operations and Cash Flows for the years then ended.

#### Opinion on Internal Control

The House maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) as of September 30, 2007, that provided reasonable assurance that misstatements or losses material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based upon criteria contained in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

## Compliance with Laws and Regulations

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

## OBJECTIVES, SCOPE, AND METHODOLOGY

Management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the House maintained effective internal control over financial reporting based upon *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, and (3) complying with applicable laws and regulations.

We are responsible for expressing an opinion on these financial statements based on our audits. We are required by GAAS and GAS to plan and perform our audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We believe that our audits provide a reasonable basis for our opinion.

Further, we are responsible for expressing an opinion on the effectiveness of internal control, and are required by AICPA attestation standards and GAS to conduct an examination to include obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As part of obtaining reasonable assurance about whether the financial statements were free of material misstatements, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Finally, we performed limited procedures with respect to certain other information appearing in the FY September 30, 2007, and 2006 consolidated financial statements.

To fulfill these responsibilities, we:

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

We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate as the result of changes in conditions, or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the House. We limited our tests of compliance to those laws and regulations required by Office of Management and Budget audit guidance we deemed applicable to the financial statements for the fiscal years ended September 30, 2007, and 2006. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

#### **OTHER MATTERS RELATED TO INTERNAL CONTROL**

In performing our examination of the effectiveness of internal control over financial reporting of the House as of September 30, 2007, we identified certain deficiencies in internal control that we consider significant deficiencies under standards established by the AICPA.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control

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

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. We did, however, identify deficiencies in internal control that we consider to be significant deficiencies in internal control. We describe these deficiencies in detail in Appendix A to this report.

#### **AGENCY COMMENTS AND OUR EVALUATION**

In commenting on a draft of this report, the House concurred with the facts and conclusions in our report. Management's response to this report can be found on page 91.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA, CISA  
Partner

August 29, 2008  
Alexandria, Virginia

**APPENDIX A**  
**COMMUNICATION OF SIGNIFICANT DEFICIENCIES NOTED DURING**  
**FY 2007 FINANCIAL STATEMENT AUDIT**

In performing our examination of the effectiveness of internal control over financial reporting of the House as of September 30, 2007, we identified certain deficiencies in internal control that we consider significant deficiencies under standards established by the AICPA, as follows:

1. Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.
2. Weaknesses existed in the processing and reporting of payroll data.
3. Weaknesses in the financial information system reduced the integrity of financial data and reporting.

Our criteria for assessing control weaknesses are provided below along with a summary status of control weaknesses and detailed descriptions of these weaknesses.

**CRITERIA**

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

- New Condition**            Newly identified weakness.
- Open (Prior Year)**      The House did not fully implement recommended corrective actions, or changes in House operations have not remedied or eliminated the need for recommended corrective action.
- Closed (Prior Year)**    The House fully implemented recommended corrective actions, or changes in House operations remedied or eliminated the need for recommended corrective action.

**SUMMARY STATUS OF INTERNAL CONTROL WEAKNESSES**

The following matrix provides a summary of new and existing internal control weaknesses:

		Status as of February 29, 2008		
		New Condition	Open	Closed
1.	Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements. <i>(Significant Deficiency)</i>		√	
2.	Weaknesses existed in the processing and reporting of payroll data. <i>(Significant Deficiency)</i>	√		
3.	Weaknesses in the financial information system reduced the integrity of financial data and reporting. <i>(Significant Deficiency)</i>		√	

## DISCUSSION OF INTERNAL CONTROL WEAKNESSES

**Weakness 1:** Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.

**Summary Status:** Significant Deficiency  
**Prior Condition: Financial Reporting Processes Need Improvement**  
**Open**

We identified weaknesses that adversely affect the House's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

Best practices of the federal government contained in OMB Circular A-123, *Management's Responsibility for Internal Control*, state that:

*Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:*

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

We identified weaknesses in three of the eight assertions identified above (Numbers 1, 2, and 4). Our findings and associated recommendation for corrective action are below.

***All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (Assertion No. 1).***

We identified five specific areas that did not meet criteria in Assertion No. 1.

**Procedures were not adequate to ensure all revenue is recognized.** The Office of Financial Solutions (OFS) did not recognize \$17,767 of revenue for services rendered for postal services at one House offsite

facility in November 2006. This occurred because the incorrect Trans Type was used on the standard voucher adjustment document. The result was an understatement of Sales of Services to Federal Agencies.

**Recommendation 1:** We recommend that the Chief Administrative Office (CAO) direct OFS to develop and implement procedures to ensure all revenue is recognized appropriately.

**Quality control procedures did not ensure accurate recording and reporting of Hyperion adjustments.** We identified a duplicate Hyperion Adjustment posted to reverse a prior-year entry. The prior-year reversing entry was initially recorded and posted correctly; the duplicate entry was, however, posted in error. Combined, these two reversing entries caused revenue to be understated by \$1.1 million and expenses to be understated by \$3.1 million.

We also identified Hyperion entry errors related to allowance for doubtful accounts and bad-debt expense. The allowance for doubtful accounts should have been \$894,216, rather than \$827,165, resulting in a \$67,051 understatement. The variance was related to payroll overpayments due to lump-sum bonus and lump-sum annual leave not included in the calculation of the allowance for doubtful accounts. As a result, bad-debt expense was also understated by \$67,051.

**Recommendation 2:** We recommend that CAO direct OFS to revise its procedures related to the processing of reversing entries posted in Hyperion to include proper review and approval prior to posting in Hyperion to include a review of documentation supporting the adjustment and a determination of the correct ending balance, and a review of the ending balance after the adjustment(s) is posted. We also recommend that CAO direct OFS to update its procedures related to calculating the allowance for doubtful accounts to include proper inclusion of payroll overpayments due to lump-sum bonus and lump-sum annual leave.

**Ending balances in Hyperion, which were reported on the Houses' financial statements, were not recorded as beginning balances in FFS.** The FY 2007 beginning balances for the Capital Lease Liability account and Inventory Held for Resale (Cost of Goods Available for Sale) account did not agree with the Fiscal Year (FY) 2006 ending balance as reported on the Houses' financial statements. As a result, FFS balances did not reflect the true balance in underlying accounts and ending and beginning balances did not agree, which required an additional reconciliation between FFS and Hyperion and potentially increase the risk of errors.

**Recommendation 3:** We recommend that CAO direct OFS to ensure that FFS beginning balances be adjusted to agree with prior-year ending balances recorded in Hyperion and reported on House annual financial statements.

**Procedures were not adequate to ensure all expenses are recognized in the proper reporting period.** OFS did not include completion date in its criteria for review of transactions relating goods and services provided during FY 2007. This information is needed to verify that transactions are properly recorded during the reporting period. As a result, one \$301,821 expense transaction for desktop solution service charges showed a service period of July 17 to September 30, 2006. This amount was improperly recognized as a FY 2007 expense, because the in-service date was not properly recorded in FFS.

**Recommendation 4:** We recommend that CAO include receiving report and in-service dates in the liabilities accrual review conducted 60 days following yearend to ensure that all transactions are related to goods or services provided for the relevant fiscal year.

**The methodology used to identify duplicate payments was ineffective.** The methodology (DupFinder program) used to identify potential duplicate payments did include established criteria, such as identical organizations, vendor code, amount, and beginning date of service. Other selection criteria were not, however, considered. These include invoice number, reference transaction number, and receiver number.

We used all selection criteria listed above during our sample testing of 45 potential duplicate payments. We identified 12 instances totaling \$105,507. Of these 12 payments, DupFinder should have identified 7 according to its criteria. Additionally, two duplicate payments were made based on improper supporting documentation, which included an email order confirmation and a renewal notice, and three duplicate payments were made based on processing errors.

**Recommendation 5:** We recommend that CAO improve the process for analyzing potential duplicate payment processed by augmenting the current search criteria used by DupFinder to include invoice number, reference transaction number, and/or receiver documents. Specifically, we recommend that duplicate payment improvements include:

- Revising the methodology for identifying duplicate payments to include using multiple selection criteria to identify potential duplicate payments.
- Using vendor addresses and identical invoice numbers for detecting duplicate payments to enhance DupFinder capabilities.
- Including more historical data for detecting duplicate payments.
- Using commercial software and services to identify duplicate payments if difficulties occur in developing software tools or assigning adequate levels of staffing.

***All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (Assertion No. 2).***

Documented procedures were not in place to ensure that contingent liabilities resulting from claims, litigations, and assessments were identified and properly communicated for purposes of annual financial reporting.

**Recommendation 6:** We recommend that CAO direct OFS, Office of House Employment Counsel and the Office of General Counsel to document communication procedures for ensuring that contingent liabilities resulting from claims, litigations, and assessments are properly recorded and reported.

***All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (Assertion No. 4).***

Procedures for ensuring that the correct amount of deferred revenue is recognized were insufficient. The House received \$2.5 million from the U.S. Army Corp of Engineers (USACE) and classified these funds as deferred revenue. Deferred revenue should be recognized as revenue when the House performs services in return, thus reducing the liability. OFS did not, however, have adequate information to verify how much, if any, of the \$2.5 million should be recognized as revenue. Based on further inquiry, we determined that OFS improperly recognized \$106,811 as revenue and concluded that the House should recognize this amount as expenses, because no services were provided to USACE.

**Recommendation 7:** We recommend that CAO direct OFS to establish and implement procedures for determining and recording correct amounts of revenue with deferred revenue components.

**Weakness 2:** Weaknesses existed in the processing and reporting of payroll data.

**Summary Status:** Significant Deficiency  
New Condition

We identified several instances in which the House system of internal control over payroll processing did not ensure accurate reporting of transactions and balances. We made inquiries and observed controls in place to determine if policies and procedures were adequately documented and implemented. We tested controls over the processing and reporting of payroll data, which included processing Personnel Authorization Forms (PAFs). We performed substantive test of details to validate changes made in the payroll system through the pre-certification and final certification process and we performed test of details related to the disbursement and reporting of payroll and the reconciliation of payroll data.

Federal government best practices in OMB Circular A-123 state:

*Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.*

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

**The House did not document and implement appropriate procedures and controls to ensure accurate and complete recording of payroll transactions.**

We identified two specific instances in which procedures over the processing and reporting of payroll data did not exist or were outdated.

- Policies and procedures over the following significant payroll processes were not documented:
  - Payroll Validation process, which ensures that the payroll register is accurate and complete before disbursements are made.
  - Gross-to-Net Payroll reconciliation process and Tracking Log process for cancelled or stop payments of payroll checks.
- Reconciliation of miscellaneous payroll adjustment (deduction) transactions posted in Lawson.

**Recommendation 1:** We recommend that CAO develop policies and procedures for:

- Performing the Payroll Validation process, to include monthly reconciliation of employing office validation and supervisory review of change requests annotated on final certification reports to ensure accuracy and completeness.
- Reconciling gross-to-net payroll disbursements and maintaining a log to track cancelled and voided checks due to stop payment, to include procedures for supervisory review and approval to ensure accurate and complete reconciliations.

- Reconciling miscellaneous adjustments (deductions) recorded in Lawson monthly to include evidence of supervisory review and approval.

**The House did not properly implement procedures for ensuring completeness and accuracy of financial transactions.**

We identified five areas in which procedures did not ensure that controls were operating effectively.

***Employing offices did not submit and/or process PAFs in a timely manner.*** Employing offices did not consistently comply with existing payroll policies and procedures that require PAFs to be submitted by the 15<sup>th</sup> of each month. Eight of 45 PAFs sampled were not submitted to Office of Payroll and Benefits by the employing authorities as required. We performed recalculations and identified variances in 3 of the 8 samples resulting from late processing of forms by House personnel. As a result, the House was required to make retroactive payments for salary increases in two instances. The third exception involved was a Thrift Savings Plan (TSP) election submitted by one employee in January 2007. The Office of Payroll and Benefits did not, however, process this change request until May 2007. Also, this employee submitted a change to his/her W-4 for state tax withholding, but the House did not deduct state tax for this employee in March or September 2007.

**Recommendation 2:** We recommend that CAO improve communication with employing offices to ensure that they submit PAFs by the 15<sup>th</sup> of each month, which could include email notification. We also recommend that the Office of Payroll and Benefits process PAFs in an accurate and timely manner to ensure the accuracy of employee elections and deductions.

***The House did not accurately pay federal taxes.*** We identified a net variance in House-adjusted gross total wages for the third-quarter tax filing through FEDTAX. This net variance resulted from differences between the Payroll Register and Payment Detail Listing reports. Also, as the result of data entry errors, amounts were incorrectly entered manually from the Lawson Payroll Register report to the FEDTAX form.

**Recommendation 3:** We recommend that CAO update policies and procedures related to the FEDTAX filing to include supervisory review and approval to ensure accuracy and completeness.

***The Office of Payroll and Benefits made incorrect calculations for federal and state tax withholdings and benefits.*** We performed test of controls for March and September to determine if House procedures for calculating personnel federal and state tax withholding amounts and benefit deductions based on employee elections were adequate. We calculated payroll and benefits deductions per documents provided by Office of Payroll and Benefits. We compared our recalculations to House-reported calculations of employee payroll and benefits deductions. We noted the following exceptions:

- One sample showed a variance in the federal tax withholding calculation in both March and September as the result of a W-4 form not processed in Lawson.
- Connecticut, Georgia, Massachusetts, and Arizona have specific filing requirements for tax withholdings. Variances resulted from additional information required for Lawson to properly report an individual's filing status for these states. We noted variances in the state tax withholding calculations for two sampled items. The first variance occurred when a substitute W-4 form in ImageNow was not processed in Lawson. The second occurred when an employee did not submit an updated W-4 form, and Lawson incorrectly deducted the state tax withholding.
- We identified a variance in the Federal Employee Group Life Insurance (FEGLI) deduction for one employee for September. We recalculated the variance based on supporting documentation provided from ImageNow.

- One TSP election form was submitted in January 2007, but not processed until May. As a result, \$20 per month was not deducted from February through May 2007.

**Recommendation 4:** We recommend that CAO ensure compliance and timeliness in processing employee withholding and election forms to prevent improper calculation of federal and state tax deductions, as well as benefit contribution deductions. Additionally, we recommend that procedures be developed and documented to ensure that W-4 forms for employee residents of states with special reporting requirements (such as Connecticut, Georgia, Massachusetts, and Arizona) are processed in accordance with state requirements to ensure accuracy in filing status within Lawson.

***Proper supporting documentation was not always prepared and maintained.*** An employing office is required to prepare and approve Lump Sum Authorization and Personnel Authorization Forms when initiating payroll changes in Lawson. Sufficient supporting documentation could not be provided, as follows:

- Proper Lump Sum Authorization or Personnel Authorization forms were not found in ImageNow (House Personnel folder) for two samples of bonus payments made to House employees.
- During our payroll attribute testing for March and September, we did not receive the PAF for one sampled employee who was a shared employee in two offices. PAFs for position 2 were not provided for March and September.
- We did not receive the required PAFs for 9 of our 45 sampled terminated employees. The documentation could not be located in ImageNow or archived data.
- Incorrect supporting documentation was provided for two sampled items during Payroll Attribute testing:
  - On the first sample, we were provided the substitute W-4 form to calculate federal and state tax. The state calculation for this employee required information that was not available on the substitute W-4 form. Therefore, we were unable to verify the state tax.
  - On the second sample, we were given the incorrect TSP form according to House personnel. The House was unable to find the correct form in ImageNow.

**Recommendation 5:** We recommend that CAO improve its efforts to retain all supporting documentation to support payroll transactions processed in Lawson. PAFs need to be immediately copied or scanned into ImageNow. All information should be held in ImageNow for 2 years before being archived.

***Effective controls were not in place to ensure that employee appointments did not exceed specified rates in accordance with the Member's Congressional Handbook and Committee Congressional Handbook.*** In accordance with these two handbooks, an intern's annual salary may not exceed \$21,600. During our testing, we identified two interns (both now terminated) who were appointed at rates exceeding the specified rate, or \$90,000 and \$36,000.

**Recommendation 6:** We recommend that CAO ensure that employing offices properly document adjustments to stated appointment levels on PAFs to support adjustments to payroll appointments (pay adjustments, title changes, furlough status, and terminations).

**Control deficiencies existed in the design and operation effectiveness of the controls.**

The Pre-Certification and Final Payroll Certification processes did not provide assurance that all changes requested by the PAFs were processed accurately and in a timely manner. Controls related to the payroll validation process were incomplete and ineffective in preventing errors, which led to payroll overpayments. We identified three instances in which employees received overpayments. House management was not aware of these overpayments until we notified them.

- Two terminated employees in our sample received payments in the month subsequent to their termination. Both overpayments resulted when employing offices submitted PAFs late. The terminated employees subsequently repaid the House.
- We received supporting documentation for a third terminated employee showing an annual salary of \$18,000 (\$1,500 monthly). This employee was actually paid a monthly rate of \$1,700, causing a \$200 monthly variance between our calculation of termination pay and the House calculation of termination pay.

**Recommendation 7:** We recommend that CAO:

- Ensure that all required supporting PAFs are scanned into ImageNow to maintain a proper audit trail of payroll transactions.
- Require a Payroll Manager/Supervisor to review and approve all PAF change requests submitted to the Office of Payroll and Benefits for processing in Lawson against the Payroll Register to ensure that all change requests are accounted for and are accurate in Lawson during the Pre-Certification Validation phase.
- Enter all changes annotated by the employing offices into the corrections log during the Final Certification phase. Compare changes recorded on the correction log to the Final Certification report by the Payroll Manager/Supervisor(s) to ensure that changes have been accurately reflected in the correction log. Following Payroll Manager/Supervisor review and approval, the correction log is sent to the Payroll Operations Team for Lawson updates. The Payroll Operations Manager should review correction updates in Lawson against the correction log to ensure that all changes have been properly recorded in Lawson.
- Develop a monthly reconciliation of all final certification to identify those employing offices which have not completed their payroll validation to serve as a mitigating control against unidentified payroll errors, which may lead to overpayments.

**Weakness 3: Weaknesses in the financial information system reduced the integrity of financial data and reporting.**

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

As part of the FY 2007 financial statement audit, we reviewed physical, logical, and management controls over CAO information systems that process and report information on the annual financial statements. We reviewed controls used to secure and safeguard financial information traveling over the CAO network and residing on House financial systems. Our audit was limited to the CAO portion of the House network (general support system) and related financial information systems.

We relied on government best practices developed by the National Institute of Standards and Technology (NIST) for review criteria. NIST was mandated by the Office of Management and Budget (OMB) to develop information technology (IT) audit tests, standards, and procedures to protect sensitive information from unauthorized access or modification for the federal government. NIST guidance is accepted as industry best practice for establishing standards and procedures for securing information technology systems and protecting the integrity, confidentiality, reliability, and availability of information. NIST security guidance focus areas include cryptographic technology and applications, advanced authentication, public key infrastructure, internetworking security, criteria and assurance, and security management and support.

Our review included an examination of internal controls over IT for the general support system and individual financial applications using the *Federal Information System Controls Audit Manual* (FISCAM), an accepted IT audit methodology developed by the Government Accountability Office (GAO). We examined controls in the following six areas:

- **Entity-wide security program planning and management controls** 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.
- **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.
- **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.
- **Application software development and program change controls** to prevent implementation of unauthorized programs or modifications to existing programs.
- **Segregation-of-duty controls** to provide policies, procedures, and 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.

System audits are performed on a multi-year rotational basis. Each year, we conduct a full review of one or more systems to ensure that all system controls are adequately assessed during the audit cycle. The FY 2007 audit included a full review of the CAO Network Active Directory (AD) general support system, limited review of the Hyperion support application, review of CAO entity-wide management controls, and follow-up review of prior-year findings and recommendations to determine if management had taken appropriate action to correct identified weaknesses.

Although CAO made some progress in addressing prior-year weaknesses, 29 of 36 prior-year recommendations remained open. In addition, audit procedures carried out in FY 2007 identified two new weaknesses in three FISCAM control areas. Although none of the new or existing weaknesses discussed in this report by itself represents a significant deficiency, they collectively comprise a significant deficiency.

Weaknesses in each of the six FISCAM areas are discussed below.

### **Entity-Wide Security Program Planning and Management**

The following entity-wide recommendations were made in our prior-year financial statement audit reports. Based on testing conducted during FY 2007, we determined the following weaknesses have not been adequately resolved by management:

**06-HOC-08, 1.01:** Develop, document, and put in place procedures to ensure all new CAO employees and contractors complete security awareness training before being granted access to the network and financial applications.

**06-HOC-08, 1.02:** Develop, document, and implement a formal certification and accreditation program to achieve:

- Certification and accreditation of the general support system and all major financial applications.
- Recertification every 3 years or when major changes occur.
- Development of a SSP for the House general support system (network) to include requirements identified in HISPUB 024.
- Identification of system owners and administrators including security administrators.

**06-HOC-08, 1.03:** Require all CAO employees and contractors who are users of the Network/Financial systems to read and sign expected rules of behavior.

**04-HOC-07, 2.02:** Develop, document, and put in place 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.

**07-HOC-08, 1.01:** Develop, document, and put in place, a process for testing security controls identified as corrected, to ensure actions taken adequately mitigate or correct identified weaknesses.

**04-HOC-07, 2.03:** Develop procedures to ensure that system-specific security plans are developed and updated as needed to reflect changes to software, hardware, and business operations.

**05-HOC-07, 2.02 (House report No. 05-HOC-07):** Modify HISPUB 024 (pending) to require CAO SSPs to identify specific individuals as system and data owners.

**05-HOC-07, 2.03 (House report no. 05-HOC-07):** Modify HISPUB 024 to include guidance on what expected behaviors should be documented within CAO SSPs. CAO should fully implement all requirements identified in HISPUB 024 by updating CAO SSPs to comply with HISPUB 024.

### **Access Controls**

The following access control recommendations were made in our prior-year financial statement audit reports. Based on testing conducted during FY 2007, we determined the following weaknesses have not been adequately resolved by management:

**06-HOC-08, 1.07:** (1) Develop policies and procedures to ensure that standard security configuration baselines are developed, tested, and implemented for all CAO financial applications before placing them into production.

(2) When management must configure a database against industry best practice for functionality reasons, clearly document this in the security baseline.

**06-HOC-08, 1.08:** Update Paylinks SSP to address logging and monitoring at the application and database levels. The SSP should identify what information or activities are to be logged; how long logs are to be retained, who has access to logs, and who should review logs.

**05-HOC-07, 2.04:** Take steps to ensure that all CAO network access requests are documented and retained for future reference.

**05-HOC-07, 2.05:** Modify existing procedures to ensure that CAO system administrators are notified immediately when employees leave or are terminated from employment with the House. Assign responsibility for quarterly review of all CAO network accounts and require all reviews be documented for future reference. Reviewers should look for active accounts that have not been used in a specified period of time. These accounts should be followed up to determine if they are still necessary and disabled or deleted if not.

**05-HOC-07, 2.06:** Identify and document specific activities that security administrators should be logging and reviewing on a weekly basis such as failed logon attempts, changes to security profiles, and unsuccessful attempts to access unauthorized systems or data by users and outsiders.

**05-HOC-07, 2.09:** Document policies and procedures for granting emergency and temporary access. Monitor emergency and temporary access, and automatically terminate access after a predetermined period when possible.

**07-HOC-08, 1.02:** Enforce FAIMS account review policies and procedures to ensure that inactive accounts are disabled when no longer needed. Ensure user access within FAIMS agrees with their authorized access documented on access request forms.

**07-HOC-08, 1.04:** Update House incident response policies to require annual incident response training and conduct the annual training.

### **Systems Software Controls**

The following system software recommendations were made in our prior-year financial statement audit reports. Based on testing conducted during FY 2007, we determined the following weaknesses have not been adequately resolved by management.

**06-HOC-08, 1.09:** Ensure that security audits are performed in accordance with House Information Security Policy 007.

**06-HOC-08, 1.10:** Develop and document standard security configuration baselines for all operating systems supporting CAO financial applications. Standard security configurations should be documented and clearly show how the operating system is intended to be configured. When risky or sensitive settings or processes must be used, management should clearly document reasons in the standard security configuration baseline.

### **Service Continuity**

The following service continuity recommendations were made in prior-year financial statement audit reports. Based on testing conducted during FY 2007, we determined the following weaknesses have not been adequately resolved by management:

**06-HOC-08, 1.11:** Develop, document, and test emergency procedures for the Ford data center. Ensure that procedures include specific steps to take in the data center during an emergency and identify who is responsible for taking such steps. Address activities such as emergency shut down of systems and responding to fires or water leaks.

**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.

### **Application Software Development and Program Change Controls**

#### **1. Controls over Application of Patches and Service Packs**

Controls were inadequate to ensure the application of service packs and patches to the CAO Windows environment were documented, tested, and approved. Specifically, management did not document requests or related approvals for initialization of Windows service packs and patches applied during our audit period. Documented support was not created for the application of patches and service packs until after their implementation in production. In addition, documentation reviewed did not indicate that changes were tested and test results were approved before patches and services packs were moved into production.

NIST Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems*, February 2005, provides the following guidance:

#### **Section CM-3, pg. 58, Configuration Change Control**

*Control: The organization documents and controls changes to the information system. Appropriate organizational officials approve information system changes in accordance with organizational policies and procedures.*

*Supplemental Guidance: Configuration change control involves the systematic proposal, justification, test/evaluation, review, and disposition of proposed changes. The organization includes emergency changes in the configuration change control process.*

#### *Control Enhancements:*

*The organization employs automated mechanisms to: (i) document proposed changes to the information system; (ii) notify appropriate approval authorities; (iii) highlight approvals that have not been received in a timely manner; (iv) inhibit change until necessary approvals are received; and (v) document completed changes to the information system.*

Without adequate controls to ensure that patches and security fixes are properly tested and approved before implementation in production, the risk of network performance problems or malicious changes increases.

## 2. Controls over Use of Personal and Public Domain Software

Controls were inadequate to ensure that clear policies restricting the use of personal and public domain software have been developed and implemented. We identified the following:

- House Information System Policy (HISPOL) 002.0 assigns House offices with responsibility for determining applicable use of shareware or public domain software.
- CAO did not develop policies restricting use of personal and public domain software.
- House desktop and laptop users are granted administrative access to their machines, which allows them to freely install personal and public domain software onto the desktops and laptops.

HISPOL 002.0, The United States House of Representatives Information Security Policy for Protecting Systems from Unauthorized Use, Version: 2.0, Approved: August 2006, provides the following guidance:

### **Section 2.8, pg. 9, Software**

*Use shareware or public domain software only in accordance with office policies.*

NIST SP 800-53 provides the following guidance:

### **Section SA-6, pg. 91, Software Usage Restrictions**

*Control: The organization complies with software usage restrictions.*

*Supplemental Guidance: Software and associated documentation is used in accordance with contract agreements and copyright laws. For software and associated documentation protected by quantity licenses, the organization employs tracking systems to control copying and distribution. The organization controls and documents the use of publicly accessible peer-to-peer file sharing technology to ensure that this capability is not used for the unauthorized distribution, display, performance, or reproduction of copyrighted work.*

### **Section SA-7, pg. 91, User Installed Software**

*Control: The organization enforces explicit rules governing the downloading and installation of software by users.*

*Supplemental Guidance: If provided the necessary privileges, users have the ability to download and install software. The organization identifies what types of software downloads and installations are permitted (e.g., updates and security patches to existing software) and what types of downloads and installations are prohibited (e.g., software that is free only for personal, not government, use). The organization also restricts the use of install-on-demand software.*

Use or application of unapproved software by employees or contractors may have known weaknesses or vulnerabilities, thus increasing the risk of being exploited to gain unauthorized access to alter sensitive House data.

Some common examples of personal use software with known vulnerabilities include software like Lime Wire and America Online's Instant messenger. Lime Wire, which is a commonly used file sharing utility, is susceptible to multiple remote unauthorized access vulnerabilities due to a failure in handling malicious requests. This software can be exploited by an attacker to gain access to sensitive information. America Online's Instant messenger is a commonly downloaded instant messaging tool that attackers regularly exploit. Hackers gain unauthorized access to computers and remotely execute code on a user's computer.

Our recommendations for the Chief Administrative Officer follow:

**Recommendation 1:** Develop, document, and implement configuration management procedures to ensure that requests and related management approvals are documented and maintained for all changes (including emergency changes) related to Active Directory Windows service packs, hot fixes, and patches. Procedures should ensure that all initial requests for changes are documented, even if never implemented; that approvals are documented within requests forms to note management approval of the initial requests, management approval of test plans prior to testing, and management approval prior to change implementation.

**Recommendation 2:** Develop, document, and implement procedures to ensure that personal or public domain software, including shareware and public domain software such as Lime Wire, is not installed on House desktop, laptops, and servers. This may include use of automated tools or other tracking systems to ensure that the existence of any personal or unlicensed software is detected, reported, acted on, and corrected.

The following change control recommendations were made in prior-year financial statement audit reports. Based on testing conducted during FY 2007, we determined the following weaknesses have not been adequately resolved by management:

**06-HOC-08, 1.12:** Require that functional/ technical specification documentation submitted by the developer be attached or included with change request forms and other documentation supporting changes to Paylinks.

**06-HOC-08, 1.13:** Develop procedures to ensure that test plans and results for changes are documented and included with other documentation supporting changes to Paylinks.

**06-HOC-08, 1.15:** Develop, document, and implement controls to ensure that only authorized and approved changes to Paylinks are introduced into production.

**06-HOC-08, 1.16:** Periodically review production program changes to ensure that access and change controls are being followed.

**06-HOC-08, 1.17:** Develop, document, and implement controls over movement of program changes for Paylinks. Controls should be adequate to ensure that only authorized changes are moved into production, and management is notified.

**06-HOC-08, 1.18:** Develop and implement procedures to ensure that systems are developed and tested in accordance with House SDLC requirements and industry best practices, particularly in light of the forthcoming FFS replacement.

### **Segregation-of-Duty Controls**

The following segregation-of-duty recommendations were made in prior-year financial statement audit reports. Based on testing conducted during FY 2007, we determined the following weaknesses have not been adequately resolved by management.

**06-HOC-08, 1.20:** Develop, document, and implement policies and procedures to ensure that CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end user and administrative levels.

**06-HOC-08, 1.21:** Develop and implement procedures to ensure that segregation-of-duty principles are understood by key personnel, such as system and data owners and program managers.

**07-HOC-08, 1.05:** Identify, document, and implement controls for incompatible functions in FAIMS. Specific activities which should be considered include system administration, security administration, and system development. If management determined individuals need access within the system which is traditionally considered excessive or incompatible, management should identify and implement compensating controls to reduce the risk of unauthorized activities occurring.

### **Closed Recommendations**

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

**07-HOC-08, 2.01:** Refine the current accounts payable accrual process by:

- Reviewing transactions recorded in the subsequent period and validating the completion date for all relevant transactions.
- Annually comparing accounts payable accruals to subsequent year cut-off errors to identify variances and refine the accounts payable accrual process as needed.

**07-HOC-08, 2.02:** Perform a statistically valid review of period of performance date fields in FFS to determine if data are reliable for use in prepayment estimates. If error rates are high and thus preclude use of FFS performance date fields, then perform necessary procedures to:

- Correct data entry issues.
- Develop an alternative process to prepare prepaid expense estimates until the performance date data can be relied upon.

**07-HOC-08, 2.03:** Develop and implement a process to reconcile Foreign Currency fund balances to internal documents (e.g. travel authorizations) and Treasury on a monthly basis.

**07-HOC-08, 2.04:** Develop and implement procedures to:

- Identify all temporary adjusting entries.
- Ensure that all temporary adjusting entries are reversed in the subsequent fiscal year.

**05-HOC-07, 3.01:** Review and revise *Accounting Department Policy and Procedures* and *Accounting Department Annual Financial Statement Compilation Procedures*, including qualify control procedures, to ensure that all functions are fully and completely documented.

**03-HOC-05 3.02 House report no. 03-HOC-05:** Establish a compliance program that would monitor and report on CAO business units' compliance with HISPOL and CAO policies for implementing computer security controls at the financial application level.

**07-HOC-08, 1.03:** Implement controls to enforce passwords which comply with House policy.

**06-HOC-08, 1.05:** Develop, document, and put in place policies and procedures to ensure that Paylinks accounts are periodically reviewed and disabled or deleted when no longer needed.

**06-HOC-08, 1.04:**

1. Develop procedures to ensure that access request forms are used for granting access to Paylinks in accordance with procedures documented in the Paylinks SSP.

2. Complete user access request forms for all individuals in Paylinks who do not have an access request form. Access request forms should document the access level each user has been authorized.
3. Update the Paylinks user access request form to include a space for the requesting supervisor and security administrator to sign and clearly show what access in Paylinks the user has been authorized in the system.

**06-HOC-08, 1.22:** Identify and document incompatible administrative and end-user duties in Paylinks.

**06-HOC-08, 1.23:** Assign users in Paylinks to appropriate security classes to enforce proper segregation-of-duty controls. Follow the concept of least-privilege when assigning users to security classes. Provide users with only enough system access to perform their assigned roles or responsibilities.

**06-HOC-08, 1.24:** Remove Paylinks database and operating system administrator's access to the Paylinks application. If removal is not possible, access should be limited to only what is necessary for business purposes. In addition, compensating controls should be put in place to monitor administrator activities in the application.

The table below shows our recommendations and management's response to those recommendations. Additionally, we have attached to this report management's response in its entirety. In general management concurred with our findings and recommendations.

**Weakness 1: Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.**

We recommend that the Chief Administrative Office:

Recommendation	Status of Recommendation	Management Response
<p>1. Direct OFS to develop and implement procedures to ensure all revenue is recognized appropriately.</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO has revised its policies and procedures for postal services to include a matrix that clearly identifies the appropriate transaction type that must be entered on the standard voucher adjustment document to accurately record revenue for services. The CAO believes the appropriate action has been taken to close this recommendation.</p>
<p>2. Direct OFS to revise its procedures related to reversing entries posted in Hyperion to include: (1) proper review and approval prior to posting in Hyperion (2) a review of documentation supporting the adjustment and a determination of the correct ending balance, and (3) a review of the ending balance after the adjustment(s) is posted. We also recommend that CAO direct OFS to update its procedures related to calculating the allowance for doubtful accounts to include proper inclusion of payroll overpayments due to lump-sum bonus and lump-sum annual leave.</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO has revised its policies and procedures related to reversing entries to include a comprehensive review both prior to and after an adjusting entry is posted in the system during preparation of the annual financial statements. Although supporting documentation is under review for every adjusting entry, this revision will further strengthen existing controls by requiring the preparer to attach copies of entries to be modified as a result of the review process. In addition, procedures related to calculating the allowance for doubtful accounts have been modified to include payroll overpayments due to lump-sum bonuses and lump-sum annual leave payouts. This revision will result in a more accurate Accounts Receivable balance presented on the Statements of Financial Position. The CAO believes the appropriate action has been taken to close this recommendation.</p>
<p>3. Direct OFS to ensure that FFS beginning balances be adjusted to agree with prior-year ending balances recorded in Hyperion</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO has adjusted the Federal Financial System (FFS) beginning</p>

Recommendation	Status of Recommendation	Management Response
<p>and reported on House annual financial statements.</p>		<p>balances related to the <i>Capital Lease Liability</i> and <i>Inventory Held for Resale</i> accounts to agree with prior-year ending balances recorded in Hyperion. In addition, policies and procedures have been updated to ensure that ending balances for these accounts will be adjusted to agree with supporting documentation prior to year-end close in the system of record for future periods. The CAO believes the appropriate action has been taken to close this recommendation.</p>
<p>1. Include receiving report and in-service dates in the liabilities accrual review conducted 60 days following yearend to ensure that all transactions are related to goods or services provided for the relevant fiscal year.</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO will change its methodology for calculating Accounts Payable (AP) balances related to referencing documents to a three year averaging method similar to the methodology currently used for calculating AP for non-referencing documents. This change will eliminate the requirement for a comprehensive review for up to 60 days subsequent to year end; and instead, will extend the review period for an entire year by using historical data as a basis for calculating AP. Averaging three years of historical data will allow the House to present a more accurate AP balance by capturing transactions that may have been previously missed due to the mandatory cut-off date. The CAO believes the appropriate action will be taken to close this recommendation by November 30, 2008.</p>
<p>2. Improve the process for analyzing potential duplicate payments processed by augmenting the current search criteria used by DupFinder to include invoice number, reference transaction number, and/or receiver documents. Specifically, we recommend that duplicate payment improvements include:</p> <ul style="list-style-type: none"> <li>• Revising the methodology for identifying duplicate payments to include using multiple selection criteria to identify potential duplicate payments.</li> <li>• Using vendor addresses and identical invoice numbers for</li> </ul>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO has improved the process for analyzing potential duplicate payments processed by augmenting the current search criteria to include the following searches:</p> <ul style="list-style-type: none"> <li>• Search Criteria 1: Same Invoice Number and Invoice Date</li> <li>• Search Criteria 2: Same Vendor ID, Same Organization, Same Amount and Service Date</li> <li>• Search Criteria 3: Same Vendor Name, Same Organization, Invoice Date (within 15 days) and Same Amount</li> </ul>

<b>Recommendation</b>	<b>Status of Recommendation</b>	<b>Management Response</b>
<p>detecting duplicate payments to enhance DupFinder capabilities.</p> <ul style="list-style-type: none"> <li>• Including more historical data for detecting duplicate payments.</li> <li>• Using commercial software and services to identify duplicate payments if difficulties occur in developing software tools or assigning adequate levels of staffing.</li> </ul>		<ul style="list-style-type: none"> <li>• Search Criteria 4: Different Vendor ID, Same Invoice Number, Same Invoice Date and Same Amount</li> <li>• Search Criteria 5: Same Vendor ID, Same Invoice Number, Same Invoice Date and Same Amount</li> </ul> <p>The CAO has expanded the tools used to research duplicate payments to include both DupFinder and ACL software applications. The CAO has updated the <i>Duplicate Payment</i> policies and procedures to include sections on <i>how to search for duplicates</i> and instructions for using all applicable software programs. The CAO believes the appropriate action has been taken to close this recommendation.</p>
<p>6. Direct OFS, Office of House Employment Counsel and the Office of General Counsel to document communication procedures for ensuring that contingent liabilities resulting from claims, litigations, and assessments are properly recorded and reported.</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO will work with the Offices of House Employment Counsel and General Counsel to document communication procedures for ensuring that contingent liabilities resulting from claims, litigations, and assessments are properly recorded and reported on the House's annual financial statements. The CAO believes the appropriate action will be taken to close this recommendation by November 30, 2008.</p>
<p>7. Direct OFS to establish and implement procedures for determining and recording correct amounts of revenue with deferred revenue components.</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO has revised its procedures for determining and recording correct amounts of revenue with deferred revenue components. Emphasis has been placed on analyzing the nature of the transaction to determine whether the House provided a service and therefore should recognize revenue. The CAO believes the appropriate action has been taken to close this recommendation.</p>

**Recommendations**

**Weakness 2: Weaknesses existed in the processing and reporting of payroll data.**

We recommend that the Chief Administrative Officer:

Recommendation	Status of Recommendation	Management Response
<p>1. Develop policies and procedures for:</p> <ul style="list-style-type: none"> <li>• Performing the Payroll Validation process, to include monthly reconciliation of employing office validation and supervisory review of change requests annotated on final certification reports to ensure accuracy and completeness.</li> <li>• Reconciling gross-to-net payroll disbursements and maintaining a log to track cancelled and voided checks due to stop payment, to include procedures for supervisory review and approval to ensure accurate and complete reconciliations.</li> <li>• Reconciling miscellaneous adjustments (deductions) recorded in Lawson monthly to include evidence of supervisory review and approval.</li> </ul>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The Office of Payroll and Benefits has documented the procedure for performing the monthly reconciliation of the employing office validation. The Payroll Manager will ensure change requests annotated on the final certification reports are accurate and complete. The Office of Payroll and Benefits estimates that this process will be deployed by September 30, 2008.</p> <p>The CAO Payroll and Benefits team will perform a pilot reconciliation of the HRPaylinks produced Earnings and Deductions Calculation (PR140) report to source documents submitted by employing offices. Upon successful completion of the pilot, Payroll and Benefits will document the procedures performed including supervisory review and approval of the reconciliation. Additionally, the Payroll and Benefits Compliance Team will create a tracking log for cancelled and voided checks due to stop payment. The Office of Payroll and Benefits estimates that this process will be deployed by October 31, 2008.</p> <p>The CAO concurs and has documented the procedure for performing reconciliation of miscellaneous adjustments recorded in HRPaylinks. Each month’s reconciliation will be forwarded to the Payroll Manager for review, approval, and submission to Accounting. The Office of Payroll and Benefits estimates that this process will be deployed by July 31, 2008.</p>
<p>2. Improve communication with employing offices to ensure that they submit PAFs by the 15<sup>th</sup> of each month, which could include email notification. We also recommend that the Office of Payroll and Benefits process PAFs in an accurate and timely manner to ensure the accuracy of employee elections and</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b></p> <p>The CAO concurs. Payroll counselors email a monthly reminder of the transaction submission deadlines to the employing offices they serve. The Director of Payroll and Benefits will emphasize the importance of this communication to the payroll counseling staff in June 2008. The</p>

Recommendation	Status of Recommendation	Management Response
deductions.		CAO plans to utilize the workflow feature of the Image Now document archive system to ensure that transactions are properly processed. Electronic notification will be sent to the Payroll Operations Team Leader, and ultimately the Payroll Manager, when transactions in the queue have not been processed. Upon successful deployment of workflows, the Payroll Operations Team Leader will document the procedures to be followed. The Office of Payroll and Benefits estimates that this process will be deployed by October 31, 2008.
3. Update policies and procedures related to the FEDTAX filing to include supervisory review and approval to ensure accuracy and completeness.	New Recommendation	<b>CONCUR.</b>  The CAO concurs. The Payroll Manager will assume the responsibility for FEDTAX filing and will provide Accounting the opportunity to verify the accuracy and completeness of the filing prior to submission. The Payroll Manager will document the procedures to be followed once the process has fully transitioned from Accounting to the Office of Payroll and Benefits. The Office of Payroll and Benefits estimates that this process will be deployed by October 31, 2008.
4. Ensure compliance and timeliness in processing employee withholding and election forms to prevent improper calculation of federal and state tax deductions, as well as benefit contribution deductions. Additionally, we recommend that procedures be developed and documented to ensure that W-4 forms for employee residents of states with special reporting requirements (such as Connecticut, Georgia, Massachusetts, and Arizona) are processed in accordance with state requirements to ensure accuracy in filing status within Lawson.	New Recommendation	<b>CONCUR.</b>  The CAO concurs. The CAO plans to utilize the workflow feature of the Image Now document archive system to ensure compliance and timeliness in processing withholding and benefit contribution deductions. The Office of Payroll and Benefits estimates that this task will be completed in October 2008. The Office of Payroll and Benefits will seek approval to use the state-provided W-4 forms for states with unique reporting requirements. The Office of Payroll and Benefits estimates that this process will be deployed by January 31, 2009.
5. Improve its efforts to retain all supporting documentation to support payroll transactions processed in Lawson. PAFs need to be immediately copied or scanned into ImageNow. All information should be held in ImageNow for 2 years before	New Recommendation	<b>CONCUR.</b>  The CAO concurs. In October 2007, the Office of Payroll and Benefits moved the imaging of payroll and benefit source documents to the front of the transaction process. Transactions are now scanned into ImageNow prior

Recommendation	Status of Recommendation	Management Response
being archived.		to processing by the Payroll Operations team. Information is stored indefinitely in Image Now. The Office of Payroll and Benefits believes the intent of this recommendation has been met.
<p>6. Ensure that employing offices properly document adjustments to stated appointment levels on PAFs to support adjustments to payroll appointments (pay adjustments, title changes, furlough status, and terminations).</p>	New Recommendation	<p><b>PARTIALLY CONCUR.</b></p> <p>The Office of Payroll and Benefits will continue to contact employing offices via e-mail or other medium to communicate information needed to be documented on a Personnel Authorization Form (PAF) to support payroll appointments. Training on information required for PAFs will continue to be provided as needed or if requested. The Office of Payroll and Benefits believes the appropriate actions will be taken to close this recommendation by October 21, 2008.</p> <p><i>Cotton &amp; Company response:</i> The CAO's actions taken or planned satisfy the intent of the recommendation.</p>
<p>7. Ensure that all required supporting PAFs are scanned into ImageNow to maintain a proper audit trail of payroll transactions.</p> <ul style="list-style-type: none"> <li>• Require a Payroll Manager/Supervisor to review and approve all PAF change requests submitted to the Office of Payroll and Benefits for processing in Lawson against the Payroll Register to ensure that all change requests are accounted for and are accurate in Lawson during the Pre-Certification Validation phase.</li> <li>• Enter all changes annotated by the employing offices into the corrections log during the Final</li> </ul>	New Recommendation	<p><b>CONCUR.</b></p> <p>The CAO concurs. In October 2007, the Office of Payroll and Benefits moved the imaging of payroll and benefit source documents to the front of the transaction process. The Office of Payroll and Benefits will review document imaging policies to ensure that annotation requirements are documented. The Office of Payroll and Benefits estimates completion of this task by August 31, 2008.</p> <p>The Payroll Manager will lead a pilot reconciliation of the HRPaylinks produced Earnings and Deductions Calculation (PR140) report to source documents submitted by employing offices. Upon successful completion of the pilot, Payroll and Benefits will document the procedures performed including supervisory review and approval of the reconciliation. The Office of Payroll and Benefits estimates completion of this task to occur by October 31, 2008.</p> <p>Due to resource and time constraints, the Office of Payroll and Benefits proposes the Payroll Compliance Team</p>

Recommendation	Status of Recommendation	Management Response
<p>Certification phase. Compare changes recorded on the correction log to the Final Certification report by the Payroll Manager/Supervisor(s) to ensure that changes have been accurately reflected in the correction log. Following Payroll Manager/Supervisor review and approval, the correction log is sent to the Payroll Operations Team for Lawson updates. The Payroll Operations Manager should review correction updates in Lawson against the correction log to ensure that all changes have been properly recorded in Lawson.</p> <ul style="list-style-type: none"> <li>Develop a monthly reconciliation of all final certifications to identify those employing offices which have not completed their payroll validation to serve as a mitigating control against unidentified payroll errors, which may lead to overpayments.</li> </ul>		<p>document requested changes into the corrections log. The Payroll Operations Team will enter the corrections and the Manager or Operations Team Lead will verify that all corrections have been made. The Office of Payroll and Benefits estimate this process will be fully deployed by September 30, 2008.</p> <p>The Office of Payroll and Benefits will review this process in an upcoming Lean Six Sigma Review. The Payroll Operations Team Lead will notify the payroll counselor of missing final certifications. Offices that have not submitted a signed Final Certification will receive a communication reminding them to submit their signed certification. The Office of Payroll and Benefits estimates completion of this task by October 31, 2008.</p>

**Recommendations**

**Weakness 3: Weaknesses in the financial information system reduced the integrity of financial data and reporting.**

Entity-Wide Security Program Planning and Management

Recommendations	Status of Recommendation	Management Response
<p>06-HOC-08, 1.01 Develop, document, and put in place procedures to ensure all new CAO employees and contractors complete security awareness training before being granted access to the network and financial applications.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b> CAO Policy for Security Awareness Training has been revised to include the requirement for all new CAO employees and contractors to complete Security Awareness Training before being granted access to the network and any subsequent applications. Training is provided during in-processing with the Human Resources department. The CAO believes the appropriate action has been taken to close this recommendation.</p>
<p>06-HOC-08, 1.02 Develop, document, and implement a formal certification and accreditation program to achieve:</p> <ul style="list-style-type: none"> <li>• Certification and accreditation of the general support system and all major financial applications.</li> <li>• Recertification every 3 years or when major changes occur.</li> <li>• Development of a SSP for the House general support system (network) to include requirements identified in HISPUB 024.</li> <li>• Identification of system owners and administrators including security administrators.</li> </ul>	<p>Tested Open</p>	<p><b>CONCUR.</b> The CAO concurs with the recommendation to implement a formal certification and accreditation program. The Security Compliance Program has been documented in House Information Security Policy (HISPOL) 007.0, <i>Information Security Policy for the Information Security Compliance Program</i>. All CAO financial systems have completed the security certification process, including risk analyses, Systems Security Plan in accordance with House Information Security Publication (HISPUB) 007.2.1, <i>System Security Plan Template for Major Applications</i> which requires the identification of system owners and administrators, and risk assessments. The Compliance Program requires recertification every two years. The CAO believes appropriate action has been taken to close this part of the recommendation. We will review and validate the supporting documentation and provide revisions as required during the next annual audit. The System Security Plan and certification activities for the House network are in progress and are planned for completion by December 31, 2008.</p>

Recommendations	Status of Recommendation	Management Response
<p>06-HOC-08, 1.03 Require all CAO employees and contractors who are users of the Network/Financial systems to read and sign expected rules of behavior.</p>	<p>“Not Tested” Open</p>	<p><b>CONCUR.</b> All CAO employees and contractors who are users of the network are required to read and sign expected rules of behavior. New employees and contractors read and sign the document during in-processing with Human Resources. Existing employees and contractors electronically sign the document as part of annual Security Awareness Training and the responses are recorded. The CAO believes action will be taken to close this recommendation by September 30, 2008.</p>
<p>04-HOC-07, 2.02 Develop, document, and put in place 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.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b> The CAO concurs with the recommendation to develop, document, and implement procedures to ensure compliance with HISPOL 003.0 <i>Internet/Intranet Security Policy</i>. These procedures are documented in HISPOL 007.0. All CAO financial systems have completed the security certification process, including risk analyses, System Security Plans in accordance with HISPUB 007.2.1 and risk assessments. The financial systems are reviewed and recertified every two years. Any weaknesses identified during the review are tracked to ensure that they are resolved within the agreed-upon timeframe. The CAO believes appropriate action has been taken to complete this recommendation. HIR will review and validate the supporting documentation and provide revisions as required during the next annual audit. The CAO estimates action will be taken to close this recommendation by December 31, 2008.</p>
<p>07-HOC-08, 1.01 Develop, document, and put in place, a process for testing security controls identified as corrected, to ensure actions taken adequately mitigate or correct identified weaknesses.</p>	<p>“Not Tested” Open</p>	<p><b>CONCUR.</b> The CAO concurs with this recommendation. The procedure has been developed and will be implemented when it has been approved by the Office of the CAO management. The Office of the CAO believes appropriate action will be taken to close this recommendation by</p>

Recommendations	Status of Recommendation	Management Response
		November 30, 2008.
<p>04-HOC-07, 2.03 Develop procedures to ensure that system-specific security plans are developed and updated as needed to reflect changes to software, hardware, and business operations.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The CAO concurs with the recommendation regarding system-specific security plans. System Security Plans for all CAO financial applications have been developed in accordance with HISPUB 007.2.1. The System Security Plans are reviewed annually and updated by the system owners to reflect changes to the respective system. The CAO believes appropriate action has been taken to complete this recommendation. HIR will review and validate the supporting documentation and provide revisions as required during the next annual audit. The CAO estimates action will be taken to close this recommendation by December 31, 2008.</p>
<p>05-HOC-07, 2.02 (House report No. 05-HOC-07) Modify HISPUB 024 (pending) to require CAO SSPs to identify specific individuals as system and data owners.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The CAO concurs with the recommendation to identify specific individuals as system and data owners. HISPUB 007.2.1 (formerly HISPUB 024 referenced above) includes the requirement to identify system and data owners. The Systems Security Plan for FFS will not be updated as it will be replaced by Administrative Tools, Links and Solutions (ATLAS) which will be implemented effective October 13, 2008. The Systems Security Plan for Procurement Desktop will also not be updated as its functionality is a part of the ATLAS implementation. Procurement Desktop will be used to only produce a hard copy of complex contracts. The Systems Security Plans for ATLAS and FAIMS identify the data and system owners. The CAO estimates action appropriate to close this recommendation will be taken by September 30, 2008.</p>
<p>05-HOC-07, 2.03 (House report no. 05-HOC-07) Modify HISPUB 024 to include guidance on what expected behaviors should be documented within CAO SSPs. CAO should fully implement all requirements identified in HISPUB</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The CAO concurs with the recommendation regarding the System Security Plan guidance. HISPUB 007.2.1 (formerly HISPUB 024 referenced above) will be revised to</p>

Recommendations	Status of Recommendation	Management Response
024 by updating CAO SSPs to comply with HISPUB 024.		include guidance on expected behaviors. All System Security Plans for CAO financial applications will be updated accordingly. These actions will be completed by August 30, 2008.

Access Control

Recommendation	Status of Recommendation	Management Response
<p>06-HOC-08, 1.07</p> <ol style="list-style-type: none"> <li>1. Develop policies and procedures to ensure that standard security configuration baselines are developed, tested, and implemented for all CAO financial applications before placing them into production.</li> <li>2. When management must configure a database against industry best practice for functionality reasons, clearly document this in the security baseline.</li> </ol>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The CAO concurs with this recommendation. The House's highly decentralized and distributed information technology environment does not lend itself to the traditional definition of "standard configuration baselines" and so we have developed an extensive series of checklists for operating systems that identify appropriate security controls that are feasible here. HIR actively audit systems against those checklists. This year's audit has identified a specific weakness in the area of databases. HIR will review and evaluate those security checklists for databases and revise them as needed, and validate CAO financial systems against them to ensure the appropriate controls are in place. These actions will be completed by September 30, 2008.</p>
<p>06-HOC-08, 1.08</p> <p>Update Paylinks SSP to address logging and monitoring at the application and database levels. The SSP should identify what information or activities are to be logged; how long logs are to be retained, who has access to logs, and who should review logs.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The CAO concurs with the recommendation and has updated the PayLinks System Security Plan to address logging and monitoring of the system at the application and database levels. The System Security Plan is currently compliant with HISPUB 007.2.1. The CAO believes appropriate action has been taken to close this recommendation.</p>
<p>05-HOC-07, 2.04</p> <p>Take steps to ensure that all CAO network access requests are documented and retained for future reference.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>Prior to a request for a user account to be submitted to Technology Infrastructure Solution's Engineer Technology Branch (TIS-ETB), the Technology Call Center (TCC) will require an authorized requestor from the employing office to send an email requesting the account creation. TCC will attach the email to the CTS ticket</p>

Recommendation	Status of Recommendation	Management Response
		before sending it to TIS-ETB. The CAO believes appropriate action has been taken action to close this recommendation.
<p>05-HOC-07, 2.05                      Modify existing procedures to ensure that CAO system administrators are notified immediately when employees leave or are terminated from employment with the House.</p> <p>Assign responsibility for quarterly review of all CAO network accounts and require all reviews be documented for future reference. Reviewers should look for active accounts that have not been used in a specified period of time. These accounts should be followed up to determine if they are still necessary and disabled or deleted if not.</p>	<p>Tested                      Open</p>	<p><b>CONCUR.</b></p> <p>The CAO has developed and documented procedures to delete accounts of individuals who are no longer employed by the House, and to conduct quarterly reviews of all CAO network accounts. These procedures are documented in the CAO Server Farm Policies and Procedures document. The CAO believes appropriate action has been taken to close this recommendation.</p>
<p>05-HOC-07, 2.06                      Identify and document specific activities that security administrators should be logging and reviewing on a weekly basis such as failed logon attempts, changes to security profiles, and unsuccessful attempts to access unauthorized systems or data by users and outsiders.</p>	<p>Tested                      Open</p>	<p><b>CONCUR.</b></p> <p>HISPUB 007.2.1 requires the following to be logged (From Section 11.4):</p> <ul style="list-style-type: none"> <li>• Successful user logon and logoff</li> <li>• Failed user logon attempts</li> <li>• Password changes</li> <li>• Account lockout</li> <li>• Changes in user access permissions</li> </ul> <p>Systems administrators are required to review the audit logs weekly for failed user logon attempts.</p> <p>The FAIMS application has an automated audit trail mechanism that records security-relevant events. The audit data includes failed and successful user logons, failed and successful access and operations on data (by session), changes to a user's security privileges, and changes to the security configuration. As parts of the baseline application, the following audit trail logs and reports are used to monitor user activity (these are executed as concurrent requests):</p> <ul style="list-style-type: none"> <li>• Sign-on Audit Responsibilities - shows who accessed what responsibilities</li> </ul> <p>Sign-on Audit Unsuccessful</p>

Recommendation	Status of Recommendation	Management Response
		<p>Logins - shows who unsuccessfully attempted to sign on as another user</p> <ul style="list-style-type: none"> <li>• Sign-on Audit Users - shows who signed on to Oracle Applications</li> </ul> <p>An automated mechanism creates and maintains an audit trail of the users' and administrators' actions so that security relevant events can be traced to a specific account for accountability. The audit trail mechanism also records failed logon attempts.</p> <p>Once a week the FAIMS Security Administrator runs the Unsuccessful Login Audit Report and contacts listed users by email for status. The weekly review correspondence is filed for audit purposes. This is described in the FAIMS System Security Plan, Section 10. The CAO believes appropriate action has been taken to close this recommendation.</p>
<p>05-HOC-07, 2.09 Document policies and procedures for granting emergency and temporary access. Monitor emergency and temporary access, and automatically terminate access after a predetermined period when possible.</p>	<p>“Not Tested” Open</p>	<p><b>CONCUR.</b></p> <p>The CAO has documented the policy and procedures to grant emergency and temporary access. These policies and procedures are being reviewed by HIR Management. The Office of the CAO will take appropriate action to close this recommendation by October 31, 2008.</p>
<p>07-HOC-08, 1.02 Enforce FAIMS account review policies and procedures to ensure that inactive accounts are disabled when no longer needed. Ensure user access within FAIMS agrees with their authorized access documented on access request forms.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The Fixed Asset Inventory Management System (FAIMS) account review policies were expanded to include Security Request Verification Procedures to ensure inactive accounts are disabled when no longer needed. The FAIMS account review polices actually did successfully identify the accounts to be disabled. In accordance with existing procedures, CAO Advanced Business Solutions (CABS) database administrators (DBAs) requested that the accounts be disabled. The requests were not fulfilled. To avoid recurrence, the policies will be expanded to include follow-up procedures in which requests to disable accounts will be verified by</p>

Recommendation	Status of Recommendation	Management Response
		<p>CABS DBAs.</p> <p>House Support Services Assets and CABS reconciled the existing User Responsibility Matrix with the actual Access Authorization Forms to ensure that user access within FAIMS agrees with access documented on access request forms. The FAIMS Account Review Policies were updated to use the reconciled User Responsibility Matrix as the baseline. The FAIMS account review policies failed to detect accounts which had different access than that documented on the Access Request Forms because CABS DBAs were using a flawed baseline. The procedure requires FAIMS DBAs to run a report, which lists each account's responsibilities. The output of the report is compared to that of the previous quarter. If the unauthorized access appears in the previous quarter's report it goes undetected. Providing an accurate baseline eliminates this deficiency.</p> <p>The CAO believes appropriation action has been taken to close this recommendation.</p>
<p>07-HOC-08, 1.04 Update House incident response policies to require annual incident response training and conduct the annual training.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>House Information Security Policy 004.0 has been updated and approved to require annual Incident Response Training. Training was provided as part of the FY07 Security Awareness Training and will be included annually hereafter. The CAO believes appropriate action has been taken to close this recommendation.</p>

Systems Software Controls

Recommendation	Status of Recommendation	Management Response
<p>06-HOC-08, 1.09 Ensure that security audits are performed in accordance with House Information Security Policy 007.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The CAO concurs with the recommendation to ensure that security audits are performed in accordance with HISPOL 007.0. The Compliance Program has been fully implemented in accordance with HISPOL 007.0. All CAO financial</p>

Recommendation	Status of Recommendation	Management Response
		<p>systems have completed security audits of servers, applications, and databases and have been granted the appropriate level of security certification. The CAO believes appropriate action has been taken to close this recommendation. However, because this year's audit identified a specific weakness in regard to the Paylinks application, the HIR will review and revise the certification documentation as needed. These activities will be completed by September 30, 2008.</p>
<p>06-HOC-08, 1.10 Develop and document standard security configuration baselines for all operating systems supporting CAO financial applications. Standard security configurations should be documented and clearly show how the operating system is intended to be configured. When risky or sensitive settings or processes must be used, management should clearly document reasons in the standard security configuration baseline.</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>The workflow procedures are being finalized for internal review. The process changes need to be approved by the Technology Advisory Board (TAB). The CAO estimates appropriate action will be taken to close this recommendation by August 31, 2008.</p>

Service Continuity

Recommendation	Status of Recommendation	Management Response
<p>06-HOC-08, 1.11 Develop, document, and test emergency procedures for the Ford data center. Ensure that procedures include specific steps to take in the data center during an emergency and identify who is responsible for taking such steps. Address activities such as emergency shut down of systems and responding to fires or water leaks.</p>	<p>"Not Tested" Open</p>	<p><b>CONCUR.</b></p> <p>The CAO has received information from the Architect of the Capital and believe we will commission and test all systems by the end of July. HIR is including the procedures in the Facilities Policy. These procedures need to be finalized and vetted through HIR Directors for approval. We estimate appropriate action will be taken to close this recommendation by September 30, 2008.</p>

Service Continuity

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>Tested                      Open</p>	<p><b>CONCUR.</b>                      An integral part of the validation process has been missing for the past two years with the shutdown and renovation of the Ford Data Center. While HIR has been able to maintain the documentation, the overall process has not been fully tested for an extended period. To remedy this short fall, HIR has asked each system owner to revalidate their disaster recovery processes and procedures as part of the Ford Data Center reconstitution process. This will enable HIR to revalidate these processes holistically and also update the Standard Operating Procedures (SOP) for Site 3. The CAO estimates the majority of this work will be completed by December 31, 2008.</p>

Application Software Development and Program Change Control

Recommendations	Status of Recommendation	Management Response
<p>1. We recommend that the Chief Administrative Officer develop, document, and implement configuration management procedures to ensure that requests and related management approvals are documented and maintained for all changes (including emergency changes) related to Active Directory Windows service packs, hot fixes, and patches. Procedures should ensure that all initial requests for changes are documented, even if never implemented; that approvals are documented within requests forms to note management approval of the initial requests, management approval of test plans prior to testing, and management approval prior to change implementation.</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b>                      The CAO has developed and documented procedures in the Active Directory Configuration Management Plan to ensure requests and the related management approvals are documented and maintained for all changes to Active Directory. These procedures have been implemented and supporting documentation for requests and management approvals are maintained. The CAO believes appropriate action has been taken to close this recommendation.</p>
<p>2. We recommend that the Chief Administrative Officer develop, document, and implement procedures to ensure that personal or public domain software, including shareware and public domain software such as Lime</p>	<p>New Recommendation</p>	<p><b>CONCUR.</b>                      The CAO, on behalf of the Committee on House Administration (CHA) maintains and publishes a House-Supported Software List for all House Offices. The CAO maintains a</p>

<b>Recommendations</b>	<b>Status of Recommendation</b>	<b>Management Response</b>
<p>Wire, is not installed on House desktop, laptops, and servers. This may include use of automated tools or other tracking systems to ensure that the existence of any personal or unlicensed software is detected, reported, acted on, and corrected.</p>		<p>standard desktop image that is deployed to each workstation and laptop. In addition, all House-approved Maintenance Providers are contractually obligated to install a basic image containing House-approved software on all House computers. Third party applications that are not deemed appropriate for work use are not installed by approved Technology Support providers.</p> <p>The CAO agrees to draft a policy recommendation for the CHA to further define the appropriate use of software. Currently, the policy is being drafted, and upon completion will be vetted through the Office of the CAO management for approval by the CHA. After approval by CHA, the policy will be implemented. The Office of the CAO believes appropriate action will be taken to close this recommendation by February 27, 2009.</p>
<p>06-HOC-08, 1.12 Require that functional/ technical specification documentation submitted by the developer be attached or included with change request forms and other documentation supporting changes to Paylinks.</p>	<p>Tested Open</p>	<p><b>PARTIALLY CONCUR.</b></p> <p>The CAO partially concurs with this recommendation. The PayLinks team developed a Change Request (CR) form for internal change controls for software maintenance (see SOP) that warrants no technical/functional specification documentation. For external changes involving software custom code changes (see SOP), an Engineering Request (ER) form will also be utilized. The ER form requires supporting Technical/Functional specification documentation be submitted and attached to the CR form. The ER form is sent to the TAB as an advisory notification. The CAO estimates the appropriate action will be taken to close this recommendation by July 31, 2008.</p> <p><i>Cotton &amp; Company response:</i> The CAO's actions taken or planned satisfy the intent of the recommendation.</p>
<p>06-HOC-08, 1.13 Develop procedures to ensure that test plans and results for changes are documented and included with other documentation supporting changes to</p>	<p>Tested Open</p>	<p><b>CONCUR.</b></p> <p>External Change SOPs have been updated to reference test plan and results. The Internal Change SOP will</p>

Recommendations	Status of Recommendation	Management Response
Paylinks.		reference what unit testing was completed, how it was done, and the results. The CAO believes appropriate action will be taken to close this recommendation by July 31, 2008.
06-HOC-08, 1.15 Develop, document, and implement controls to ensure that only authorized and approved changes to Paylinks are introduced into production.	Tested Open	<b>CONCUR.</b>  The process has been further refined. PayLinks changes are approved by the system owner via the CR form. The move of the change to production is authorized via the same CR form and procedures followed in the PayLinks Change SOPs. The CAO believes action appropriate action to close this recommendation has been taken. Supporting documentation is currently under internal review and will be completed by July, 31, 2008.
06-HOC-08, 1.16 Periodically review production program changes to ensure that access and change controls are being followed.	Tested Open	<b>CONCUR.</b>  Please reference (06-HOC-08, 1.15). The PayLinks system owner will conduct an annual review of the production program changes to ensure that access and change controls are being followed. The CAO believes appropriate action has been taken to close this recommendation. Supporting documentation is currently under internal review and will be completed July 31, 2008.
06-HOC-08, 1.17 Develop, document, and implement controls over movement of program changes for Paylinks. Controls should be adequate to ensure that only authorized changes are moved into production, and management is notified.	Tested Open	<b>CONCUR.</b>  Please reference (06-HOC-08, 1.15). The process has been further refined. PayLinks changes are approved by the system owner via the CR form. The move of the change to production is authorized via the same CR form and procedures followed in the PayLinks Change SOPs. Management is notified via email to confirm that any CR move to production has been completed. The CAO believes action appropriate to close this recommendation has been taken. Supporting documentation is currently under internal review and will be completed by July 31, 2008
06-HOC-08, 1.18 Develop and implement procedures to ensure that systems are developed and tested in accordance with House	"Not Tested" Open	<b>CONCUR.</b>  CAO projects continue to adhere to systems development life cycle policy

Recommendations	Status of Recommendation	Management Response
SDLC requirements and industry best practices, particularly in light of the forthcoming FFS replacement.		and practices. Regarding Atlas specifically, the project has made significant progress in moving through its lifecycle. A majority (67 of 82) of corresponding documents have been delivered and accepted. Thus, the CAO believes the intent of this recommendation has been met and request it be closed.

Segregation-of-Duty Controls

Recommendation	Status of Recommendation	Management Response
06-HOC-08, 1.20 Develop, document, and implement policies and procedures to ensure that CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end user and administrative levels.	Tested Open	<b>CONCUR.</b>  The Office of the CAO is drafting the policies and procedures for segregation-of-duties. Upon completion the policies and procedures will be vetted for approval by CAO management and implemented. The CAO believe appropriate action will be taken to close this recommendation by December 29, 2008.
06-HOC-08, 1.21 Develop and implement procedures to ensure that segregation-of-duty principles are understood by key personnel, such as system and data owners and program managers.	Tested Open	<b>CONCUR.</b>  The Office of the CAO is drafting the policies and procedures for segregation-of-duties. Upon approval and implementation of the policies and procedures for segregation of duties the system owner will develop and implement procedures to ensure that segregation-of-duty principles are in effect by key personnel for each application. The CAO believes appropriate action will be taken to close this recommendation by January 30, 2009.
07-HOC-08, 1.05 Identify, document, and implement controls for incompatible functions in FAIMS. Specific activities which should be considered include system administration, security administration, and system development. If management determined individuals need access within the system which is traditionally considered excessive or incompatible, management should identify and implement compensating controls to reduce the risk of unauthorized activities occurring.	Tested Open	<b>CONCUR.</b>  In addition to previously taken actions, House Information Resources (HIR) will develop and run a weekly UNIX shell script to identify any database objects that were modified. The output will be emailed directly to the FAIMS Security Officer who will retain all emails. Exceptions will be reported to HIR Security. Database objects include: <ul style="list-style-type: none"> <li>• CONSUMER GROUP</li> <li>• FUNCTION</li> <li>• INDEX</li> <li>• INDEXTYPE</li> </ul>

Recommendation	Status of Recommendation	Management Response
		<ul style="list-style-type: none"> <li>• OPERATOR</li> <li>• PACKAGE</li> <li>• PACKAGE BODY</li> <li>• PROCEDURE</li> <li>• SEQUENCE</li> <li>• SYNONYM</li> <li>• TABLE</li> <li>• TRIGGER</li> <li>• TYPE</li> <li>• VIEW</li> </ul> <p>The <i>last_ddl</i> is a timestamp created by the database which identifies the last time Data Definition Language (DDL) was executed against the database object. It would be difficult to do development without some form of DDL. One possible problem with this approach is filtering out Oracle Applications-generated DDL. Oracle Applications is known to execute some DDL in normal operations which may be able to be distinguished. The System Security Plan will be updated to reflect this control. FAIMS will implement this control by August 31, 2008.</p>

---

This Page Intentionally Left Blank

# **Fiscal Year 2007 Financial Statements**

**U.S. House of Representatives**  
**Consolidated Statement of Financial Position**  
**as of September 30, 2007 and September 30, 2006**

	<b>2007</b>	<b>2006</b>
	<b><u>Consolidated</u></b>	<b><u>Consolidated</u></b>
<b>ASSETS</b>		
Fund Balance with U.S. Treasury (Note 4)	\$ 197,273,657	\$ 174,705,449
Cash (Note 4)	1,731	1,673
Fund Balance with U.S. Treasury and Cash	<u>197,275,388</u>	<u>174,707,122</u>
Accounts Receivable, Net (Note 5)	582,090	745,799
Advances and Prepayments (Note 6)	5,415,179	2,707,359
Inventory	1,685,937	1,883,757
Property and Equipment, Net (Note 7)	<u>44,911,359</u>	<u>48,844,205</u>
Total Assets	<u><u>\$ 249,869,953</u></u>	<u><u>\$ 228,888,242</u></u>
<b>LIABILITIES AND NET POSITION</b>		
Accounts Payable (Note 9)	\$ 36,333,389	\$ 31,686,613
Capital Lease Liabilities (Note 8)	1,103,289	1,188,252
Accrued Funded Payroll and Benefits (Note 10)	7,694,679	8,057,874
Accrued Unfunded Annual Leave and Workers' Compensation (Note 10)	8,008,664	10,542,142
Deferred Credits (Note 11)	3,371,955	720,599
Unfunded Workers' Compensation Actuarial Liability (Note 12)	21,416,485	19,610,394
Other Liabilities	<u>280,944</u>	<u>414,878</u>
Total Liabilities	<u>78,209,405</u>	<u>72,220,752</u>
Unexpended Appropriations	130,918,403	121,516,521
Cumulative Results of Operations	<u>40,742,145</u>	<u>35,150,969</u>
Total Net Position (Note 13)	<u>171,660,548</u>	<u>156,667,490</u>
Total Liabilities and Net Position	<u><u>\$ 249,869,953</u></u>	<u><u>\$ 228,888,242</u></u>

**U.S. House of Representatives**  
**Consolidated Statement of Operations**  
**for the Years Ended September 30, 2007 and September 30, 2006**

	<u>2007</u>	<u>2006</u>
	<u>Consolidated</u>	<u>Consolidated</u>
<b>REVENUE AND FINANCING SOURCES</b>		
Revenue from Operations		
Sales of Goods	\$ 2,647,063	\$ 2,817,117
Sales of Services to Federal Agencies	4,604,975	4,772,769
Sales of Services of the Public	924,716	1,025,913
Interoffice Sales (Note 14)	0	0
Other Revenue	600,603	662,440
Total Revenue from Operations	<u>8,777,357</u>	<u>9,278,239</u>
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received (Note 15)	1,239,261,523	1,251,428,239
Appropriations Yet To Be Received (Note 15)	1,137,887	4,055,919
Imputed Financing Source (Note 16)	58,745,201	57,557,337
Total Revenue and Financing Sources	<u>\$ 1,307,921,968</u>	<u>\$ 1,322,319,734</u>
<b>EXPENSES</b>		
Personnel Compensation	\$ 720,303,454	\$ 697,824,676
Benefits (Note 16)	298,666,559	293,609,713
Postage and Delivery	16,350,352	33,964,506
Repairs and Maintenance	53,546,925	53,346,715
Depreciation and Amortization (Note 7)	20,129,990	20,924,290
Rent, Communications, and Utilities	27,652,162	26,465,487
Telecommunications	28,790,797	27,302,317
Supplies and Materials	17,538,259	15,368,008
Travel and Transportation	35,427,049	36,490,909
Contract, Consulting, and Other Services	56,260,737	67,369,517
Printing and Reproduction	14,971,278	28,508,206
Subscriptions and Publications	9,509,895	12,118,166
Cost of Goods Sold	6,779,735	6,235,174
Other Expenses	594,319	511,993
Bad Debts	360,385	367,810
Interest on Capital Leases	216,459	230,927
Total Expenses	<u>\$ 1,307,098,355</u>	<u>\$ 1,320,638,414</u>
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	<u>\$ 823,613</u>	<u>\$ 1,681,320</u>
<b>CHANGE IN NET POSITION</b>		
Net Position, Beginning Balance	\$ 156,667,490	\$ 209,529,520
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	823,613	1,681,320
Plus (Minus) Non-Operating Changes	14,169,445	(54,543,350)
Net Position, Ending Balance	<u>\$ 171,660,548</u>	<u>\$ 156,667,490</u>

**U.S. House of Representatives**  
**Consolidated Statement of Cash Flows**  
**for the Years Ended September 30, 2007 and September 30, 2006**

	2007	2006
	<u>Consolidated</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess / (Deficiency) of Revenue and Financing Sources over Expenses	\$ 823,613	\$ 1,681,320
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(1,242,212,658)	(1,149,082,842)
(Increase) / Decrease in Accounts and Interoffice Receivable	163,709	395,909
(Increase) / Decrease in Advances and Prepayments	(2,707,820)	1,348,612
(Increase) / Decrease in Inventory	197,820	(558,124)
Increase / (Decrease) in Accounts and Interoffice Payables	4,646,776	6,330,243
Increase / (Decrease) in Other Accrued Liabilities	1,426,840	2,369,025
(Gain) / Loss on Disposal of Assets	594,319	494,493
Depreciation and Amortization	20,129,990	20,924,290
	<u>(1,216,937,411)</u>	<u>(1,116,097,074)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(16,055,046)	(14,575,436)
	<u>(16,055,046)</u>	<u>(14,575,436)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Appropriations	1,265,463,431	1,101,125,520
Funds Returned to the U.S. Treasury	(9,817,745)	(7,689,345)
Principal Payment on Capital Lease Liabilities	(84,963)	(70,495)
	<u>1,255,560,723</u>	<u>1,093,365,680</u>
Net Cash Provided / (Used) by Operating, Investing, and Financing Activities	22,568,266	(37,306,830)
Fund Balance with U.S. Treasury and Cash, Beginning	<u>174,707,122</u>	<u>212,013,952</u>
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$ 197,275,388</u>	<u>\$ 174,707,122</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.

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 110<sup>th</sup> Congress. The following is a summary of the entity groupings as they appear in the fiscal year 2007 consolidating 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 110<sup>th</sup> 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 110<sup>th</sup> Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and Labor

- Committee on Energy and Commerce
- Committee on Financial Services
- Committee on Foreign Affairs
- Committee on Homeland Security
- Committee on House Administration
- Committee on the Judiciary
- Committee on Natural Resources
- Committee on Oversight and Government Reform
- Committee on Rules
- Committee on Science and Technology
- Committee on Small Business
- Committee on Standards of Official Conduct
- Committee on Transportation and Infrastructure
- Committee on Veterans' Affairs
- Committee on Voting Irregularities
- Committee on Ways and Means
- Permanent Select Committee on Intelligence
- Select Committee on Energy Independence and Global Warming

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

- Speaker of the House
- Majority and Minority Leaders
- Majority and Minority Whips
- Party Steering Committees, Caucus or Conference, which consist of Representatives of the same political party

The **Officers and Legislative Offices** financial information aggregates transactions of all legislative support and administrative functions provided to Members, Committees, and Leadership offices, including:

- Chaplain
- Chief Administrative Officer
- Office of Emergency Planning, Preparedness and Operations
- Clerk of the House
- Office of the General Counsel
- Office of Inspector General
- Office of the Historian
- 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  
Government Accountability 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 *Office Supply & Gift Shop* 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.

*Furnishings*, 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 *Office Supply and Gift Shop* 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, Communications, and Utilities**

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 *Office Supply and Gift Shop*.

**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 *Office Supply and Gift Shop*, 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 September 30, 2007 is calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 522. 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 16, 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,
- Department of Defense for contractual and maintenance services,
- U.S. Department of Labor (DOL) for unemployment and workers' compensation,
- General Services Administration (GSA) 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, and
- Other Executive Branch agencies for special studies as requested by House Committees.

Significant cash disbursements to Executive Branch agencies during the fiscal years ended September 30, 2007 and 2006 were approximately:

Disbursements to Executive Branch Agencies	2007	2006
U.S. Postal Service	\$ 16,039,000	\$ 32,466,000
Department of Defense	1,870,000	513,000
General Services Administration	4,696,000	4,399,000
U.S. Department of Labor	3,903,000	2,157,000
U.S. Department of Transportation	2,076,000	1,856,000
U.S. Department of the Interior	524,000	519,000
Other Executive Branch Agencies	49,000	93,000

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 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	2007	2006
Beginning Balance	\$ 26,918,332	\$ 21,132,955
Appropriation Received	15,000,000	15,000,000
Travel Expenses:		
Leadership	(2,061,610)	(1,505,669)
Committees	(6,395,153)	(7,708,954)
Ending Balance	<u>\$ 33,461,569</u>	<u>\$ 26,918,332</u>

#### Transactions with Legislative Branch Entities

The House pays for support services provided by other Legislative Branch entities. These entities receive their own appropriations and operate autonomously from the House's administrative functions. The House received support services from the United States Senate in 2007. The House also receives support services from the Government Printing Office and the Architect of the Capitol.

Cash Disbursements to Legislative Branch Entities	2007	2006
Architect of the Capitol	\$ 330,000	\$ 233,000
Government Printing Office	29,000	79,000
United States Senate	988,000	967,000

The House also receives payments for services provided to the Congressional Budget Office and the Architect of the Capitol and for the reimbursement of services shared with other Federal government entities. In 2007 and 2006, the House shared services with the Library of Congress and the United States Senate.

Cash Receipts from Legislative Branch Entities	2007	2006
Library of Congress	\$ 4,388,000	\$ 4,120,000
United States Senate	468,000	315,000
Architect of the Capitol	250,000	294,000
Congressional Budget Office	70,000	93,000

#### 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 September 30, 2007 and 2006 were:

Fund/Cash Accounts Maintained by the House	2007	2006
Fund Balance with Treasury/Cash	\$ 163,813,819	\$ 147,788,790
Congressional Use of Foreign Currency	<u>33,461,569</u>	<u>26,918,332</u>
Total	<u>\$ 197,275,388</u>	<u>\$ 174,707,122</u>

The House usually receives the full amount of its appropriation at the beginning of each fiscal year.

Cash on Hand represents deposits in transit and amounts held in a commercial bank account. Cash on Hand was \$1,731 and \$1,673 as of September 30, 2007 and 2006, respectively.

#### 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 six months. The House is actively pursuing these overpayments.

Accounts Receivable	2007	2006
Accounts Receivable	\$ 1,476,306	\$ 1,367,102
Less: Allowance for Doubtful Accounts	<u>(894,216)</u>	<u>(621,303)</u>
Accounts Receivable, Net	<u>\$ 582,090</u>	<u>\$ 745,799</u>

#### 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:

Advances and Prepayments	2007	2006
Advances	\$ 81,291	\$ 90,878
Prepayments	<u>5,333,888</u>	<u>2,616,481</u>
Total	<u>\$ 5,415,179</u>	<u>\$ 2,707,359</u>

**NOTE 7 – PROPERTY AND EQUIPMENT**

Software, vehicles 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 the fiscal year end. Depreciation and amortization expense is based on

the straight-line method over an asset's estimated useful life. The change in work in process is due to numerous assets placed in service during the fiscal year. Property and equipment as of September 30, 2007 and the related depreciation and amortization expense are:

2007 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	\$ 10,312,531	\$ -	\$ 10,312,531	\$ -
Computer Software and Hardware	3	83,979,429	74,103,583	9,875,846	11,534,626
Computer Software and Hardware	5	790,911	790,911	-	-
Equipment	5	43,511,046	30,228,415	13,282,631	5,470,531
Motor Vehicles	5	10,499,782	5,151,960	5,347,822	2,064,928
Furnishings and Other Equipment	10	1,808,757	1,642,276	166,481	23,070
Assets Under Capital Lease	10	1,354,473	507,926	846,547	135,447
Leasehold Improvements	10	<u>9,085,375</u>	<u>4,005,874</u>	<u>5,079,501</u>	<u>901,388</u>
Total		<u>\$ 161,342,304</u>	<u>\$116,430,945</u>	<u>\$ 44,911,359</u>	<u>\$ 20,129,990</u>

Property and equipment as of September 30, 2006 and the related depreciation and amortization expense are:

2006 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	\$ 2,985,986	\$ -	\$ 2,985,986	\$ -
Computer Software and Hardware	3	88,136,004	69,523,012	18,612,992	12,731,001
Computer Software and Hardware	5	790,911	790,911	-	-
Equipment	5	39,214,760	26,442,339	12,772,421	5,074,480
Motor Vehicles	5	10,474,287	3,087,032	7,387,255	2,094,857
Furnishings and Other Equipment	10	1,816,568	1,626,757	189,811	58,320
Assets Under Capital Lease	10	1,354,473	372,479	981,994	135,447
Leasehold Improvements	10	<u>8,971,191</u>	<u>3,057,445</u>	<u>5,913,746</u>	<u>830,185</u>
Total		<u>\$ 153,744,180</u>	<u>\$104,899,975</u>	<u>\$ 48,844,205</u>	<u>\$ 20,924,290</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  
September 30, 2007:

Year	
2008	\$ 301,423
2009	301,423
2010	301,423
2011	301,423
2012	301,423
Thereafter	<u>376,779</u>
Total Future Capital Lease Payments	\$ 1,883,894
Less: Imputed Interest	<u>(780,605)</u>
Net Capital Lease Liabilities	\$ 1,103,289
Unfunded Liability	\$ 1,103,289

### 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 also leases hardware and software.

Future Operating Lease Payments Due as of September 30, 2007:

Year	Vehicles	Office Space	Parking	Total
2008	\$ 899,107	\$ 9,458,386	\$ 37,659	\$ 10,395,152
2009	<u>312,211</u>	<u>1,074,753</u>	<u>4,443</u>	<u>1,391,407</u>
Total	<u>\$ 1,211,318</u>	<u>\$ 10,533,139</u>	<u>\$ 42,102</u>	<u>\$ 11,786,559</u>

Lease expense for office space was \$23,508,273 and \$22,640,564 for the years ended September 30, 2007 and 2006, respectively. Lease expense for vehicles was \$1,752,992 and \$1,661,266 for the years ended September 30, 2007 and 2006, respectively.

## NOTE 9 - ACCOUNTS PAYABLE

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

Accounts Payable	2007	2006
Vendor Payables	\$ 35,977,983	\$ 31,526,737
Unemployment Compensation	<u>355,406</u>	<u>159,876</u>
Total	<u>\$ 36,333,389</u>	<u>\$ 31,686,613</u>

## NOTE 10 - ACCRUED PAYROLL AND BENEFITS AND LEAVE

The House has both funded and unfunded payroll, benefits and leave. A funded liability has a corresponding appropriation to liquidate it. An unfunded liability is a liability that is incurred during the current or prior year but is not payable until a future fiscal year for which an appropriation has not yet been received.

The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, Sec. 109 Stat. 522 (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). Sick and other types of paid leave are expensed as they are taken. Accrued payroll and benefits include salaries and associated benefits earned in September and paid in October.

The Members' and Committees' Congressional Handbooks allow offices to adopt personnel policies that provide for the accrual of annual leave and use of such leave. Leadership offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by

these entities regarding the accrual and payment of leave time. Therefore, an accrued leave liability for Members, Committees, and Leadership offices is estimated on the financial statements. In 2007, the estimate was based on a three-year average of actual annual leave paid. Accrued Workers' Compensation is the amount billed by Department of Labor that will be paid in subsequent fiscal years. Accrued annual leave and accrued payroll and benefits as of September 30, 2007 and 2006 were:

Accrued Leave, Payroll and Benefits, and Workers' Compensation	2007	2006
<b>Funded</b>		
Accrued Payroll and Benefits	\$ 7,694,679	\$ 8,057,874
<b>Unfunded</b>		
Accrued Annual Leave	5,428,091	8,225,229
Accrued Workers' Compensation	<u>2,580,573</u>	<u>2,316,913</u>
Total Unfunded	<u>\$ 8,008,664</u>	<u>\$ 10,542,142</u>

## NOTE 11 - DEFERRED CREDITS

The House received payments in advance of receipt of shared services from the Library of Congress, the Senate, Department of Defense and the Department of State. The

deferred credit balance as of September 30, 2007 and 2006 was \$3,371,955 and \$720,599, respectively.

## 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. The House calculated the actuarial liability based on a model developed by DOL. The projected Unfunded Workers' Compensation Actuarial Liabilities as of September 30, 2007 and 2006 were \$21,416,485 and \$19,610,394, 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, vehicle+s, 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 fiscal years 2007 and 2006 are:

Appropriations	2007	2006
2005	\$ 9,817,745	\$ -
2004	-	7,689,345
Total	\$ 9,817,745	\$ 7,689,345

**Net Position** as of September 30, 2007 and 2006 for Appropriated Funds and Revolving Funds, including the House Recording Studio, Net Expenses of Equipment, Page School, House Services, Net Expenses of Telecommunications, and Office Supply Service revolving funds are shown in the following table:

Net Position	Net Position September 30, 2007 Totals		Net Position September 30, 2006 Totals	
Unexpended Appropriations		\$ 130,918,403		\$ 121,516,521
Cumulative Results of Operations:				
Cumulative Results of Operations	\$ 24,673,286		\$ 5,208,811	
Invested Capital	45,494,008		50,112,194	
Future Funding Requirements	(29,425,149)		(30,170,036)	
Total Cumulative Results of Operations		40,742,145		35,150,969
Total Net Position		\$ 171,660,548		\$ 156,667,490

Changes in net position may include prior period adjustments, excesses or shortages of revenue and financing sources over expenses, and non-operating changes, such as investments in capital assets and inventory. Increases (or decreases) in non-operating changes result when amounts invested in capital assets

and inventory exceed (or are less than) the amounts of liabilities to be funded by future appropriations.

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

## NOTE 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:

- Customer Solutions, which transfers costs of equipment to the Members and Committees,
- House Information Resources, which transfers telecommunication charges, and
- Office Supply and Gift Shop, 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 2007, the House operated revolving fund type activities for the House Recording Studio, Page School, Office Supply and Gift Shop, Child Care Center, and House Services.

## 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 liabilities, annual leave and workers' compensation expenses.

## 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) up to the IRS limit. FERS employees also receive an automatic one percent House-paid contribution, as well as an additional House matching TSP contribution up to five percent of their basic pay. CSRS employee contributions to TSP do not receive matching House contributions. FERS employees could receive benefits from FERS, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP.

Member and Employee Expenses	2007	2006
Retirement Plan Contributions	\$134,238,538	\$130,955,863
Federal Employee and Veterans' Benefits	58,745,201	57,557,337
Social Security	47,562,097	45,906,604
Health Insurance	42,384,648	42,311,529
Student Loan/Fitness Center Programs	8,777,136	8,821,612
Unemployment and Workers' Compensation	3,783,124	1,580,366
Annual Leave	(2,797,139)	682,079
Death Benefits	975,421	1,303,657
Transit Benefits	2,072,218	2,030,798
Life Insurance	1,119,224	1,074,826
Workers' Compensation Actuarial Adjustment	<u>1,806,091</u>	<u>1,385,042</u>
Total	<u>\$298,666,559</u>	<u>\$293,609,713</u>

Benefits costs for the past 3 years have averaged approximately \$290 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. 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 \$11,226,160 in 2007 and \$12,163,174 in 2006.

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 \$47,519,041 in 2007 and \$45,394,163 in 2006.

Federal Employee and Veterans' Benefits (Imputed Financing Source)	2007	2006
Current Service Cost - Federal Employees Health Benefits	\$47,409,363	\$45,288,369
Current Service Cost - Federal Pensions	11,226,160	12,163,174
Current Service Cost - Federal Employees Group Life Insurance	<u>109,678</u>	<u>105,794</u>
Total	<u>\$58,745,201</u>	<u>\$57,557,337</u>

## 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.

Approximately \$16 million and \$30 million were expended in 2007 and 2006, respectively.

## NOTE 18 - CONTINGENCIES

The House is currently involved in a lawsuit, the probable outcome of which is unfavorable. The precise amount for the lawsuit is unknown based on the best information

available as of the reporting date and is not reflected in the financial statements.

---

This Page Intentionally Left Blank

# Supplemental Financial Schedules

This Page Intentionally Left Blank

## Consolidating Statements

**U.S. House of Representatives**  
**Consolidating Statement of Financial Position**  
**as of September 30, 2007**

	<b>Members</b>	<b>Committees</b>
<b>ASSETS</b>		
Fund Balance with U.S. Treasury	\$ 27,699,899	\$ 11,124,419
Cash	0	0
Fund Balance with U.S. Treasury and Cash	27,699,899	11,124,419
Accounts Receivable, Net	116,081	3,129
Interoffice Receivable	0	0
Advances and Prepayments	3,085,503	642,554
Inventory	0	0
Property and Equipment, Net	281,603	4,222,842
Total Assets	\$ 31,183,086	\$ 15,992,944
<b>LIABILITIES AND NET POSITION</b>		
Accounts Payable	\$ 10,251,850	\$ 1,291,882
Interoffice Payable	1,480,936	417,815
Capital Lease Liabilities	0	0
Accrued Funded Payroll and Benefits	7,577,941	1,371
Accrued Unfunded Annual Leave and Workers' Compensation	2,596,174	1,224,163
Deferred Credits	0	0
Unfunded Workers' Compensation Actuarial Liability	0	0
Other Liabilities	0	0
Total Liabilities	21,906,901	2,935,231
Unexpended Appropriations	11,613,569	10,125,901
Cumulative Results of Operations	(2,337,384)	2,931,812
Total Net Position	9,276,185	13,057,713
Total Liabilities and Net Position	\$ 31,183,086	\$ 15,992,944

<b>Leadership Offices</b>	<b>Officers and Legislative Offices</b>	<b>Joint Functions</b>	<b>Eliminations</b>	<b>Combined</b>
\$ 5,339,362	\$ 148,533,999	\$ 4,575,978	\$ 0	\$ 197,273,657
0	1,731	0	0	1,731
<u>5,339,362</u>	<u>148,535,730</u>	<u>4,575,978</u>	<u>0</u>	<u>197,275,388</u>
100,929	361,861	90	0	582,090
0	2,077,854	0	(2,077,854)	0
127,244	1,431,672	128,206	0	5,415,179
0	1,685,937	0	0	1,685,937
<u>93,644</u>	<u>39,839,322</u>	<u>473,948</u>	<u>0</u>	<u>44,911,359</u>
<u>\$ 5,661,179</u>	<u>\$ 193,932,376</u>	<u>\$ 5,178,222</u>	<u>\$ (2,077,854)</u>	<u>\$ 249,869,953</u>
\$ 374,208	\$ 22,589,681	\$ 1,825,768	\$ 0	\$ 36,333,389
54,142	116,695	8,266	(2,077,854)	0
0	1,103,289	0	0	1,103,289
167	114,837	363	0	7,694,679
128,097	4,029,928	30,302	0	8,008,664
0	3,371,955	0	0	3,371,955
0	21,416,485	0	0	21,416,485
<u>0</u>	<u>280,944</u>	<u>0</u>	<u>0</u>	<u>280,944</u>
<u>556,614</u>	<u>53,023,814</u>	<u>1,864,699</u>	<u>(2,077,854)</u>	<u>78,209,405</u>
5,139,018	101,274,232	2,765,683	0	130,918,403
(34,453)	39,634,330	547,840	0	40,742,145
<u>5,104,565</u>	<u>140,908,562</u>	<u>3,313,523</u>	<u>0</u>	<u>171,660,548</u>
<u>\$ 5,661,179</u>	<u>\$ 193,932,376</u>	<u>\$ 5,178,222</u>	<u>\$ (2,077,854)</u>	<u>\$ 249,869,953</u>

**U.S. House of Representatives**  
**Consolidating Statement of Operations**  
**for the Year Ended September 30, 2007**

	Members	Committees
<b>REVENUE AND FINANCING SOURCES</b>		
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	0	0
Financing Sources		
Appropriations to Cover Expenses:		
Appropriations Received	777,429,846	200,672,210
Appropriations Yet To Be Received	(888,534)	(42,242)
Imputed Financing Source	37,420,715	11,585,481
Total Revenue and Financing Sources	\$ 813,962,027	\$ 212,215,449
<b>EXPENSES</b>		
Personnel Compensation	\$ 473,064,328	\$ 134,342,631
Benefits	193,525,873	56,265,732
Postage and Delivery	16,106,013	34,855
Repairs and Maintenance	24,620,285	4,980,208
Depreciation and Amortization	159,053	1,673,699
Rent, Communications, and Utilities	25,941,241	42,141
Telecommunications	14,850,030	1,951,532
Supplies and Materials	9,583,789	1,612,720
Travel and Transportation	24,416,446	7,566,329
Contract, Consulting, and Other Services	9,241,426	2,094,749
Printing and Reproduction	14,670,410	99,262
Subscriptions and Publications	7,444,672	1,157,439
Cost of Goods Sold	0	0
Other Expenses	53,076	374,759
Bad Debts	285,385	19,393
Interest on Capital Leases	0	0
Total Expenses	\$ 813,962,027	\$ 212,215,449
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	\$ 0	\$ 0
<b>CHANGE IN NET POSITION</b>		
Net Position, Beginning Balance	\$ (3,197,941)	\$ 7,105,691
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	0	0
Plus (Minus) Non-Operating Changes	12,474,126	5,952,022
Net Position, Ending Balance	\$ 9,276,185	\$ 13,057,713

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ 0	\$ 2,647,063	\$ 0	\$ 0	\$ 2,647,063
0	4,604,975	0	0	4,604,975
0	820,521	104,195	0	924,716
0	33,475,476	0	(33,475,476)	0
0	600,603	0	0	600,603
0	42,148,638	104,195	(33,475,476)	8,777,357
29,413,230	219,327,157	12,419,080	0	1,239,261,523
11,704	2,031,555	25,404	0	1,137,887
1,502,785	7,630,362	605,858	0	58,745,201
\$ 30,927,719	\$ 271,137,712	\$ 13,154,537	\$ (33,475,476)	\$ 1,307,921,968
\$ 17,389,070	\$ 88,481,041	\$ 7,026,384	\$ 0	\$ 720,303,454
7,312,443	38,625,116	2,937,395	0	298,666,559
17,996	186,375	5,113	0	16,350,352
1,008,422	22,632,916	305,094	0	53,546,925
68,507	17,754,922	473,809	0	20,129,990
84,561	1,584,039	180	0	27,652,162
654,903	11,189,873	144,459	0	28,790,797
924,139	5,011,827	405,784	0	17,538,259
2,285,678	1,080,252	78,344	0	35,427,049
739,261	42,708,102	1,477,199	0	56,260,737
117,440	79,876	4,290	0	14,971,278
287,316	428,729	191,739	0	9,509,895
0	40,255,211	0	(33,475,476)	6,779,735
10,665	155,819	0	0	594,319
27,318	27,737	552	0	360,385
0	216,459	0	0	216,459
\$ 30,927,719	\$ 270,418,294	\$ 13,050,342	\$ (33,475,476)	\$ 1,307,098,355
\$ 0	\$ 719,418	\$ 104,195	\$ 0	\$ 823,613
\$ 3,019,477	\$ 147,634,558	\$ 2,105,705	\$ 0	\$ 156,667,490
0	719,418	104,195	0	823,613
2,085,088	(7,445,414)	1,103,623	0	14,169,445
\$ 5,104,565	\$ 140,908,562	\$ 3,313,523	\$ 0	\$ 171,660,548

**U.S. House of Representatives**  
**Consolidating Statement of Cash Flows**  
**for the Year Ended September 30, 2007**

	<u>Members</u>	<u>Committees</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess / (Deficiency) of Revenue and Financing Sources over Expenses	\$ 0	\$ 0
Adjustments affecting Cash Flow		
Appropriations Affecting Cash	(667,487,822)	(154,985,654)
(Increase) / Decrease in Accounts and Interoffice Receivable	173,017	5,991
(Increase) / Decrease in Advances and Prepayments	(2,068,844)	(386,607)
(Increase) / Decrease in Inventory	0	0
Increase / (Decrease) in Accounts and Interoffice Payables	371,092	(151,463)
Increase / (Decrease) in Other Accrued Liabilities	(2,140,815)	(372,359)
(Gain) / Loss on Disposal of Assets	53,076	374,759
Depreciation and Amortization	159,053	1,673,699
Net Cash Provided / (Used) by Operating Activities	<u>(670,941,243)</u>	<u>(153,841,634)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	<u>(157,466)</u>	<u>(1,388,183)</u>
Net Cash Provided / (Used) by Investing Activities	<u>(157,466)</u>	<u>(1,388,183)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Appropriations	655,942,712	155,282,696
Funds Returned to the U.S. Treasury	(3,024,698)	(1,297,977)
Appropriated Funds Allocated	26,980,202	5,644,902
Principal Payment on Capital Lease Liabilities	0	0
Net Cash Provided / (Used) by Financing Activities	<u>679,898,216</u>	<u>159,629,621</u>
Net Cash Provided/(Used) by Operating, Investing and Financing Activities	8,799,507	4,399,804
Fund Balance with U.S. Treasury and Cash, Beginning	<u>18,900,392</u>	<u>6,724,615</u>
Fund Balance with U.S. Treasury and Cash, Ending	<u>\$ 27,699,899</u>	<u>\$ 11,124,419</u>

<u>Leadership Offices</u>	<u>Officers and Legislative Offices</u>	<u>Joint Functions</u>	<u>Eliminations</u>	<u>Combined</u>
\$ 0	\$ 719,418	\$ 104,195	\$ 0	\$ 823,613
(39,521,225)	(369,221,365)	(10,996,592)	0	(1,242,212,658)
(85,615)	(272,368)	36	342,648	163,709
(70,451)	(124,330)	(57,588)	0	(2,707,820)
0	197,820	0	0	197,820
(48,679)	3,784,500	1,033,974	(342,648)	4,646,776
(30,580)	3,963,148	7,446	0	1,426,840
10,665	155,819	0	0	594,319
68,507	17,754,922	473,809	0	20,129,990
<u>(39,677,378)</u>	<u>(343,042,436)</u>	<u>(9,434,720)</u>	<u>0</u>	<u>(1,216,937,411)</u>
<u>(17,570)</u>	<u>(14,336,001)</u>	<u>(155,826)</u>	<u>0</u>	<u>(16,055,046)</u>
<u>(17,570)</u>	<u>(14,336,001)</u>	<u>(155,826)</u>	<u>0</u>	<u>(16,055,046)</u>
22,822,184	420,108,538	11,307,301	0	1,265,463,431
(1,639,311)	(3,727,042)	(128,717)	0	(9,817,745)
20,477,514	(54,009,966)	907,348	0	0
0	(84,963)	0	0	(84,963)
<u>41,660,387</u>	<u>362,286,567</u>	<u>12,085,932</u>	<u>0</u>	<u>1,255,560,723</u>
1,965,439	4,908,130	2,495,386	0	22,568,266
<u>3,373,923</u>	<u>143,627,600</u>	<u>2,080,592</u>	<u>0</u>	<u>174,707,122</u>
<u>\$ 5,339,362</u>	<u>\$ 148,535,730</u>	<u>\$ 4,575,978</u>	<u>\$ 0</u>	<u>\$ 197,275,388</u>

---

This Page Intentionally Left Blank

# Management Comments

This Page Intentionally Left Blank

## Management Report

This Page Intentionally Left Blank

Daniel P. Beard  
Chief Administrative Officer

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

February 29, 2008

Cotton & Company LLP  
Attention: Matthew Johnson  
635 Slaters Lane, 4<sup>th</sup> Floor  
Alexandria, VA 22314

Dear Mr. Johnson:

This letter is in connection with your audit of the Financial Statements of the U.S. House of Representatives which consist of the Statement of Financial Position as of September 30, 2007 and 2006 and the Statement of Operations and the Statement of Cash Flows for the years then ended (hereinafter referred to as the "financial statements"). The purpose of your audit is (1) express an opinion as to whether the Financial Statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, (2) express an opinion on the entity's internal control over financial reporting and (3) report on compliance with applicable laws and regulations as of September 30, 2007. We confirm that we are responsible for the fair presentation of the Financial Statements and Supplemental Statements in conformity with U.S. generally accepted accounting principles and for establishing and maintaining effective internal control.

Certain representations in this letter are described as being related to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit, that these representations are as of the date of your auditor's report, and pertain to the period covered by the financial statements:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We have made available to you, all financial records and related data.
3. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
4. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule, if applicable, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have knowledge of an isolated incident of fraud or suspected fraud affecting the entity involving:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.

In the isolated incident there was opportunity for a shared employee to submit vouchers for the same or similar items. Financial Counseling consistently analyzes the Members Representational Accounts and reports. However, the controls did not identify the fraud. This incident was not material to the U.S. House of Representative's financial statements. The Department of Justice prosecuted a case involving the shared employee and the case was heard in Federal Court Alexandria, VA at which time the shared employee plead guilty.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, or others.
8. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
9. We have satisfactory title to all owned assets; such assets have no liens or encumbrances, nor have any assets been pledged.
10. Related party transactions and related accounts receivable or payable, including assessments, loans, and guarantees have been properly recorded and disclosed.
11. We have no guarantees under which we are contingently liable.
12. Provision, where material, has been made to reduce notes and accounts receivable to their estimated net realizable value.
13. All intra-agency transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted.
14. There are no:
  - a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;
  - b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed, that have not been accrued or disclosed; or
  - c. unasserted claims or assessments that are probable of assertion and that must be disclosed, that have not been disclosed.
15. No material events or transactions have occurred subsequent to September 30, 2007, that have not been properly recorded in the Financial Statements and Supplemental Statements or disclosed in the notes thereto.
16. With respect to internal control over financial reporting, we assert that the House maintained effective internal control over financial reporting as of September 30, 2007, as prescribed by the Government Accountability Office in *Standards for Internal Control in the Federal Government*.
17. With respect to internal control over compliance with applicable laws and regulations, those controls in place on September 30, 2007 provided reasonable assurance that the above objectives are met.
18. We have disclosed to you all significant deficiencies in the design or operation of internal control which could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses.

19. There are no significant deficiencies in the design or operation of internal control except for the following significant deficiencies identified in the Independent Auditor's Report on Internal Control. We do not consider any of these significant deficiencies to be material weaknesses:
- a. weaknesses in the financial information system reduce the integrity of financial data and reporting;
  - b. procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in the year-end financial statements were inadequate; and
  - c. payroll.
20. We have disclosed to you all events subsequent to September 30, 2007, that might significantly affect internal control, including any corrective actions taken by management regarding significant deficiencies and material weaknesses.
21. We have made available to you all records relevant to the effectiveness of the entity's internal control.
22. We are responsible for compliance with applicable laws and regulations for the House of Representatives.
23. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
24. We have disclosed to you all known instances of noncompliance with laws and regulations.
25. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
26. We have informed you of all transactions received by the offices of the Chief Administrative Officer not entered into FFS, which could increase or decrease a Member's legislative year (LY) 2007 total authorized Representational Allowance and of any transactions which, if not reported, would cause a Member to overspend his/her LY 2007 Representational Allowance.

Kathy J. Perdue   
Assistant Chief Administrative Officer

Steen Hambric   
Assistant Chief Administrative Officer

Daniel Doody   
Deputy Chief Administrative Officer

Daniel P. Beard   
Chief Administrative Officer

Daniel P. Beard  
Chief Administrative Officer

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

August 29, 2008

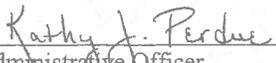
Cotton & Company LLP  
Attention: Matthew Johnson  
635 Slaters Lane, 4<sup>th</sup> Floor  
Alexandria, VA 22314

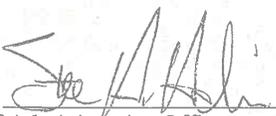
Dear Mr. Johnson:

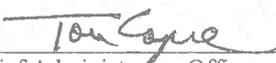
This letter is an update to the Management Representation Letter, dated February 29, 2008, which we provided in connection with your audit of the Financial Statements of the U.S. House of Representatives as of September 30, 2007 and 2006. Overall the representations we made in February 2008 have not changed.

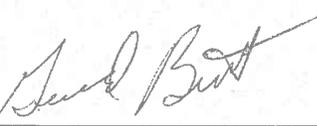
1. We have performed an evaluation of the effectiveness of the House's internal control over financial reporting in accordance with standards prescribed by the Government Accountability Office in *Standards for Internal Control in the Federal Government*, dated November 1999. We have assessed the effectiveness of the U.S. House of Representatives' internal control in achieving the following objectives:
  - Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Financial Statements and Supplemental Statements in accordance with generally accepted accounting principles, and that assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
  - Compliance with applicable laws and regulations - transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and policies of the U.S. House of Representatives.
2. We have described any material fraud and any other fraud that, although not material, involve management or other employees who have a significant role in the entity's internal control.
3. There were no subsequent events to the date being reported on, any changes in internal control or other factors that might significantly affect internal control, including any corrective actions taken by the responsible party with regard to significant deficiencies and material weaknesses.

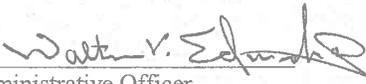
Cotton & Company LLP  
August 29, 2008  
Page 2

Kathy J. Perdue   
Assistant Chief Administrative Officer

Steen Hambric   
Assistant Chief Administrative Officer

Tom Coyne   
Assistant Chief Administrative Officer  
Customer Solutions Delivery

Jerry Bennett   
Assistant Chief Administrative Officer  
Assets, Furnishings and Logistics

Walt Edwards   
Deputy Chief Administrative Officer

Ali Qureshi   
Deputy Chief Administrative Officer

Daniel P. Beard   
Chief Administrative Officer

This Page Intentionally Left Blank

CAO Response to the 2007 Financial  
Statement Audit Report

This Page Intentionally Left Blank

Daniel P. Beard  
Chief Administrative Officer

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

MEMORANDUM

**To:** James J. Cornell  
Inspector General

**From:** Daniel P. Beard  
Chief Administrative Officer

**Subject:** CAO responses to *Independent Auditor's Report on Internal Control* related to the House of Representatives Fiscal Year 2007 Annual Financial Statement Audit

**Date:** JUL 08 2008

Thank you for the opportunity to comment on the subject 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:** Weaknesses existed in procedures used to ensure the completeness and accuracy of estimates, accruals, and other adjustments included in yearend financial statements.

**Recommendation 1:** We recommend that the Chief Administrative Office (CAO) direct OFS to develop and implement procedures to ensure all revenue is recognized appropriately.

**CONCUR.**

The CAO has revised its policies and procedures for postal services to include a matrix that clearly identifies the appropriate transaction type that must be entered on the standard voucher adjustment document to accurately record revenue for services. The CAO believes the appropriate action has been taken to close this recommendation.

**Recommendation 2:** We recommend that CAO direct OFS to revise its procedures related to reversing entries posted in Hyperion to include proper review and approval prior to posting in Hyperion to include a review of documentation supporting the adjustment and a determination of the correct ending balance, and a review of the ending balance after the adjustment(s) is posted. We also recommend that CAO direct OFS to update its procedures related to calculating the allowance for doubtful accounts to include proper inclusion of payroll overpayments due to lump-sum bonus and lump-sum annual leave.

**CONCUR.**

The CAO has revised its policies and procedures related to reversing entries to include a comprehensive review both prior to and after an adjusting entry is posted in the system during preparation of the annual financial statements. Although supporting documentation is under review for every adjusting entry, this revision will further strengthen existing controls by requiring the preparer to attach copies of entries to be modified as a result of the review process. In addition, procedures related to calculating the allowance for doubtful accounts have been modified to include payroll overpayments due to lump-sum bonuses and lump-sum annual leave payouts. This revision will result in a more accurate Accounts Receivable balance presented on the Statements of Financial Position. The CAO believes the appropriate action has been taken to close this recommendation.

**Recommendation 3:** We recommend that FFS beginning balances be adjusted to agree with prior-year ending balances recorded in Hyperion and reported on House annual financial statements.

**CONCUR.**

The CAO has adjusted the Federal Financial System (FFS) beginning balances related to the *Capital Lease Liability* and *Inventory Held for Resale* accounts to agree with prior-year ending balances recorded in Hyperion. In addition, policies and procedures have been updated to ensure that ending balances for these accounts will be adjusted to agree with supporting documentation prior to year-end close in the system of record for future periods. The CAO believes the appropriate action has been taken to close this recommendation.

**Recommendation 4:** We recommend that CAO include receiving report and in-service dates in the liabilities accrual review conducted 60 days following yearend to ensure that all transactions are related to goods or services provided for the relevant fiscal year.

**CONCUR.**

The CAO will change its methodology for calculating Accounts Payable (AP) balances related to referencing documents to a three year averaging method similar to the methodology currently used for calculating AP for non-referencing documents. This change will eliminate the requirement for a comprehensive review for up to 60 days subsequent to year end; and instead, will extend the review period for an entire year by using historical data as a basis for calculating AP. Averaging three years of historical data will allow the House to present a more accurate AP balance by capturing transactions that may have been previously missed due to the mandatory cut-off date. The CAO believes the appropriate action will be taken to close this recommendation by November 30, 2008.

**Recommendation 5:** We recommend that CAO improve the process for analyzing potential duplicate payment processed by augmenting the current search criteria used by DupFinder to include invoice number, reference transaction

number, and/or receiver documents. Specifically, we recommend that duplicate payment improvements include:

- Revising the methodology for identifying duplicate payments to include using multiple selection criteria to identify potential duplicate payments.
- Using vendor addresses and identical invoice numbers for detecting duplicate payments to enhance DupFinder capabilities.
- Including more historical data for detecting duplicate payments.
- Using commercial software and services to identify duplicate payments if difficulties occur in developing software tools or assigning adequate levels of staffing.

**CONCUR.**

The CAO has improved the process for analyzing potential duplicate payments processed by augmenting the current search criteria to include the following searches:

- Search Criteria 1: Same Invoice Number and Invoice Date
- Search Criteria 2: Same Vendor ID, Same Organization, Same Amount and Service Date
- Search Criteria 3: Same Vendor Name, Same Organization, Invoice Date (within 15 days) and Same Amount
- Search Criteria 4: Different Vendor ID, Same Invoice Number, Same Invoice Date and Same Amount
- Search Criteria 5: Same Vendor ID, Same Invoice Number, Same Invoice Date and Same Amount

The CAO has expanded the tools used to research duplicate payments to include both DupFinder and ACL software applications. The CAO has updated the *Duplicate Payment* policies and procedures to include sections on *how to search for duplicates* and instructions for using all applicable software programs. The CAO believes the appropriate action has been taken to close this recommendation.

**Recommendation 6:** We recommend that CAO direct OFS, Office of House Employment Counsel and the Office of General Counsel to document communication procedures for ensuring that contingent liabilities resulting from claims, litigations, and assessments are properly recorded and reported.

**CONCUR.**

The CAO will work with the Offices of House Employment Counsel and General Counsel to document communication procedures for ensuring that contingent liabilities resulting from claims, litigations, and assessments are properly recorded and reported on the House's annual financial statements. The CAO believes the appropriate action will be taken to close this

recommendation by November 30, 2008.

**Recommendation 7:** We recommend that CAO direct OFS to establish and implement procedures for determining and recording correct amounts of revenue with deferred revenue components.

**CONCUR.**

The CAO has revised its procedures for determining and recording correct amounts of revenue with deferred revenue components. Emphasis has been placed on analyzing the nature of the transaction to determine whether the House provided a service and therefore should recognize revenue. The CAO believes the appropriate action has been taken to close this recommendation.

**Weakness 2: Weaknesses existed in the processing and reporting of payroll data.**

**Recommendation 1:** We recommend that CAO develop policies and procedures for:

- Performing the Payroll Validation process, to include monthly reconciliation of employing office validation and supervisory review of change requests annotated on final certification reports to ensure accuracy and completeness.

**CONCUR.**

The Office of Payroll and Benefits has documented the procedure for performing the monthly reconciliation of the employing office validation. The Payroll Manager will ensure change requests annotated on the final certification reports are accurate and complete. The Office of Payroll and Benefits estimates that this process will be deployed by September 30, 2008.

- Reconciling gross-to-net payroll disbursements and maintaining a log to track cancelled and voided checks due to stop payment, to include procedures for supervisory review and approval to ensure accurate and complete reconciliations.

**CONCUR.**

The CAO Payroll and Benefits team will perform a pilot reconciliation of the HRPaylinks produced Earnings and Deductions Calculation (PR140) report to source documents submitted by employing offices. Upon successful completion of the pilot, Payroll and Benefits will document the procedures performed including supervisory review and approval of the reconciliation. Additionally, the Payroll and Benefits Compliance Team will create a tracking log for cancelled and voided checks due to stop payment. The Office of Payroll and Benefits estimates that this process will be deployed by October 31, 2008.

- Reconciling miscellaneous adjustments (deductions) recorded in Lawson monthly to include evidence of supervisory review and approval.

**CONCUR.**

The CAO concurs and has documented the procedure for performing reconciliation of miscellaneous adjustments recorded in HRPaylinks. Each month's reconciliation will be forwarded to the Payroll Manager for review, approval, and submission to Accounting. The Office of Payroll and Benefits estimates that this process will be deployed by July 31, 2008.

**Recommendation 2:** We recommend that CAO improve communication with employing offices to ensure that they submit PAFs by the 15<sup>th</sup> of each month, which could include email notification. We also recommend that the Office of Payroll and Benefits process PAFs in an accurate and timely manner to ensure the accuracy of employee elections and deductions.

**CONCUR.**

The CAO concurs. Payroll counselors email a monthly reminder of the transaction submission deadlines to the employing offices they serve. The Director of Payroll and Benefits will emphasize the importance of this communication to the payroll counseling staff in June 2008. The CAO plans to utilize the workflow feature of the Image Now document archive system to ensure that transactions are properly processed. Electronic notification will be sent to the Payroll Operations Team Leader, and ultimately the Payroll Manager, when transactions in the queue have not been processed. Upon successful deployment of workflows, the Payroll Operations Team Leader will document the procedures to be followed. The Office of Payroll and Benefits estimates that this process will be deployed by October 31, 2008.

**Recommendation 3:** We recommend that CAO update policies and procedures related to the FEDTAX filing to include supervisory review and approval to ensure accuracy and completeness.

**CONCUR.**

The CAO concurs. The Payroll Manager will assume the responsibility for FEDTAX filing and will provide Accounting the opportunity to verify the accuracy and completeness of the filing prior to submission. The Payroll Manager will document the procedures to be followed once the process has fully transitioned from Accounting to the Office of Payroll and Benefits. The Office of Payroll and Benefits estimates that this process will be deployed by October 31, 2008.

**Recommendation 4:** We recommend that CAO ensure compliance and timeliness in processing employee withholding and election forms to prevent improper calculation of federal and state tax deductions, as well as benefit contribution deductions. Additionally, we recommend that procedures be developed and documented to ensure that W-4 forms for employee residents of states with special reporting requirements (such as Connecticut, Georgia, Massachusetts, and Arizona) are processed in accordance with state requirements to ensure accuracy in filing status within Lawson.

**CONCUR.**

The CAO concurs. The CAO plans to utilize the workflow feature of the Image Now document archive system to ensure compliance and timeliness in processing withholding and benefit contribution deductions. The Office of Payroll and Benefits estimates that this task will be completed in October 2008. The Office of Payroll and Benefits will seek approval to use the state-provided W-4 forms for states with unique reporting requirements. The Office of Payroll and Benefits estimates that this process will be deployed by January 31, 2009.

**Recommendation 5:** We recommend that CAO improve its efforts to retain all supporting documentation to support payroll transactions processed in Lawson. PAFs need to be immediately copied or scanned into ImageNow. All information should be held in ImageNow for 2 years before being archived.

**CONCUR.**

The CAO concurs. In October 2007, the Office of Payroll and Benefits moved the imaging of payroll and benefit source documents to the front of the transaction process. Transactions are now scanned into ImageNow prior to processing by the Payroll Operations team. Information is stored indefinitely in Image Now. The Office of Payroll and Benefits believes the intent of this recommendation has been met.

**Recommendation 6:** We recommend that CAO ensure that employing offices properly document adjustments to stated appointment levels on PAFs to support adjustments to payroll appointments (pay adjustments, title changes, furlough status, and terminations).

We recommend that CAO:

- Ensure that all required supporting PAFs are scanned into ImageNow to maintain a proper audit trail of payroll transactions.

**CONCUR.**

The CAO concurs. In October 2007, the Office of Payroll and Benefits moved the imaging of payroll and benefit source documents to the front of the transaction process. The Office of Payroll and Benefits will review document imaging policies to ensure that annotation requirements are documented. The Office of Payroll and Benefits estimates completion of this task by August 31, 2008.

- Require a Payroll Manager/Supervisor to review and approve all PAF change requests submitted to the Office of Payroll and Benefits for processing in Lawson against the Payroll Register to ensure that all change requests are accounted for and are accurate in Lawson during the Pre-Certification Validation phase.

**CONCUR.**

The Payroll Manager will lead a pilot reconciliation of the HRPaylinks produced Earnings and Deductions Calculation (PR140) report to source documents submitted by employing offices. Upon successful completion of the pilot, Payroll and Benefits will document the procedures performed including supervisory review and approval of the reconciliation. The Office of Payroll and Benefits estimates completion of this task to occur by October 31, 2008.

- Enter all changes annotated by the employing offices into the corrections log during the Final Certification phase. Compare changes recorded on the correction log to the Final Certification report by the Payroll Manager/Supervisor(s) to ensure that changes have been accurately reflected in the correction log. Following Payroll Manager/Supervisor review and approval, the correction log is sent to the Payroll Operations Team for Lawson updates. The Payroll Operations Manager should review correction updates in Lawson against the correction log to ensure that all changes have been properly recorded in Lawson.

**CONCUR.**

Due to resource and time constraints, the Office of Payroll and Benefits proposes the Payroll Compliance Team document requested changes into the corrections log. The Payroll Operations Team will enter the corrections and the Manager or Operations Team Lead will verify that all corrections have been made. The Office of Payroll and Benefits estimate this process will be fully deployed by September 30, 2008.

- Develop a monthly reconciliation of all final certification to identify those employing offices which have not completed their payroll validation to serve as a mitigating control against unidentified payroll errors, which may lead to overpayments.

**CONCUR.**

The Office of Payroll and Benefits will review this process in an upcoming Lean Six Sigma Review. The Payroll Operations Team Lead will notify the payroll counselor of missing final certifications. Offices that have not submitted a signed Final Certification will receive a communication reminding them to submit their signed certification. The Office of Payroll and Benefits estimates completion of this task by October 31, 2008.

**Weakness 3:**                    **Weaknesses in the financial information system reduced the integrity of financial data and reporting.**

**Recommendation 1:** Develop, document, and implement configuration management procedures to ensure that requests and related management approvals are documented and maintained for all changes (including emergency changes) related to Active Directory Windows service packs, hot fixes, and patches. Procedures should ensure that all initial requests for

changes are documented, even if never implemented; that approvals are documented within requests forms to note management approval of the initial requests, management approval of test plans prior to testing, and management approval prior to change implementation.

**CONCUR.**

The CAO has developed and documented procedures in the Active Directory Configuration Management Plan to ensure requests and the related management approvals are documented and maintained for all changes to Active Directory. These procedures have been implemented and supporting documentation for requests and management approvals are maintained. The CAO believes appropriate action has been taken to close this recommendation.

**Recommendation 2:** Develop, document, and implement procedures to ensure that personal or public domain software, including shareware and public domain software such as Lime Wire, is not installed on House desktop, laptops, and servers. This may include use of automated tools or other tracking systems to ensure that the existence of any personal or unlicensed software is detected, reported, acted on, and corrected.

**CONCUR.**

The CAO, on behalf of the Committee on House Administration (CHA) maintains and publishes a House-Supported Software List for all House Offices. The CAO maintains a standard desktop image that is deployed to each workstation and laptop. In addition, all House-approved Maintenance Providers are contractually obligated to install a basic image containing House-approved software on all House computers. Third party applications that are not deemed appropriate for work use are not installed by approved Technology Support providers.

The CAO agrees to draft a policy recommendation for the CHA to further define the appropriate use of software. Currently, the policy is being drafted, and upon completion will be vetted through the Office of the CAO management for approval by the CHA. After approval by CHA, the policy will be implemented. The Office of the CAO believes appropriate action will be taken to close this recommendation by February 27, 2009.

**STATUS OF PRIOR-YEAR RECOMMENDATIONS**

**Recommendation:** *(07-HOC-08, 1.01)* Develop, document, and put in place, a process for testing security controls identified as corrected, to ensure actions taken adequately mitigate or correct identified weaknesses.

**CONCUR.**

The CAO concurs with this recommendation. The procedure has been developed and will be implemented when it has been approved by the Office of the CAO management and implemented. The Office of the CAO believes appropriate action will be taken to close this

recommendation by November 30, 2008.

**Recommendation:** (07-HOC-08, 1.02) Enforce FAIMS account review policies and procedures to ensure that inactive accounts are disabled when no longer needed. Ensure user access within FAIMS agrees with their authorized access documented on access request forms.

**CONCUR.**

The Fixed Asset Inventory Management System (FAIMS) account review policies were expanded to include Security Request Verification Procedures to ensure inactive accounts are disabled when no longer needed. The FAIMS account review policies actually did successfully identify the accounts to be disabled. In accordance with existing procedures, CAO Advanced Business Solutions (CABS) database administrators (DBAs) requested that the accounts be disabled. The requests were not fulfilled. To avoid recurrence, the policies will be expanded to include follow-up procedures in which requests to disable accounts will be verified by CABS DBAs.

House Support Services Assets and CABS reconciled the existing User Responsibility Matrix with the actual Access Authorization Forms to ensure that user access within FAIMS agrees with access documented on access request forms. The FAIMS Account Review Policies were updated to use the reconciled User Responsibility Matrix as the baseline. The FAIMS account review policies failed to detect accounts which had different access than that documented on the Access Request Forms because CABS DBAs were using a flawed baseline. The procedure requires FAIMS DBAs to run a report, which lists each account's responsibilities. The output of the report is compared to that of the previous quarter. If the unauthorized access appears in the previous quarter's report it goes undetected. Providing an accurate baseline eliminates this deficiency.

The CAO believes appropriation action has been taken to close this recommendation.

**Recommendation:** (07-HOC-08, 1.04) Update House incident response policies to require annual incident response training and conduct the annual training.

**CONCUR.**

House Information Security Policy 004.0 has been updated and approved to require annual Incident Response Training. Training was provided as part of the FY07 Security Awareness Training and will be included annually hereafter. The CAO believes appropriate action has been taken to close this recommendation.

**Recommendation:** (07-HOC-08, 1.05) Identify, document, and implement controls for incompatible functions in FAIMS. Specific activities which should be considered include system administration, security administration, and system development. If management determined individuals need access within the system which is traditionally considered excessive or

incompatible, management should identify and implement compensating controls to reduce the risk of unauthorized activities occurring.

**CONCUR.**

In addition to previously taken actions, House Information Resources (HIR) will develop and run a weekly UNIX shell script to identify any database objects that were modified. The output will be emailed directly to the FAIMS Security Officer who will retain all emails. Exceptions will be reported to HIR Security. Database objects include:

- CONSUMER GROUP
- FUNCTION
- INDEX
- INDEXTYPE
- OPERATOR
- PACKAGE
- PACKAGE BODY
- PROCEDURE
- SEQUENCE
- SYNONYM
- TABLE
- TRIGGER
- TYPE
- VIEW

The *last\_ddl* is a timestamp created by the database which identifies the last time Data Definition Language (DDL) was executed against the database object. It would be difficult to do development without some form of DDL. One possible problem with this approach is filtering out Oracle Applications-generated DDL. Oracle Applications is known to execute some DDL in normal operations which may be able to be distinguished. The System Security Plan will be updated to reflect this control. FAIMS will implement this control by August 31, 2008.

**Recommendation:** (06-HOC-08, 1.01) Develop, document, and put in place procedures to ensure all new CAO employees and contractors complete security awareness training before being granted access to the network and financial applications.

**CONCUR.**

CAO Policy for Security Awareness Training has been revised to include the requirement for all new CAO employees and contractors to complete Security Awareness Training before being granted access to the network and any subsequent applications. Training is provided during in-processing with the Human Resources department. The CAO believes the appropriate action has been taken to close this recommendation.

- Recommendation:** (06-HOC-08, 1.02) Develop, document, and implement a formal certification and accreditation program to achieve:
- Certification and accreditation of the general support system and all major financial applications.
  - Recertification every 3 years or when major changes occur.
  - Development of a SSP for the House general support system (network) to include requirements identified in House Information Security Publication (HISPUB) 024.
  - Identification of system owners and administrators including security administrators.

**CONCUR.**

The CAO concurs with the recommendation to implement a formal certification and accreditation program. The Security Compliance Program has been documented in House Information Security Policy (HISPOL) 007.0, *Information Security Policy for the Information Security Compliance Program*. All CAO financial systems have completed the security certification process, including risk analyses, Systems Security Plan in accordance with House Information Security Publication (HISPUB) 007.2.1, *System Security Plan Template for Major Applications* which requires the identification of system owners and administrators, and risk assessments. The Compliance Program requires recertification every two years. The CAO believes appropriate action has been taken to close this part of the recommendation. We will review and validate the supporting documentation and provide revisions as required during the next annual audit. The System Security Plan and certification activities for the House network are in progress and are planned for completion by December 31, 2008.

- Recommendation:** (06-HOC-08, 1.03) Require all CAO employees and contractors who are users of the Network/Financial systems to read and sign expected rules of behavior.

**CONCUR.**

All CAO employees and contractors who are users of the network are required to read and sign expected rules of behavior. New employees and contractors read and sign the document during in-processing with Human Resources. Existing employees and contractors electronically sign the document as part of annual Security Awareness Training and the responses are recorded. The CAO believes action will be taken to close this recommendation by September 30, 2008.

- Recommendation:** (04-HOC-07, 2.02) Develop, document, and put in place 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.**

The CAO concurs with the recommendation to develop, document, and implement procedures to ensure compliance with HISPOL 003.0 *Internet/Intranet Security Policy*. These procedures are documented in HISPOL 007.0. All CAO financial systems have completed the security certification process, including risk analyses, System Security Plans in accordance with HISPUB 007.2.1 and risk assessments. The financial systems are reviewed and recertified every two years. Any weaknesses identified during the review are tracked to ensure that they are resolved within the agreed-upon timeframe. The CAO believes appropriate action has been taken to complete this recommendation. HIR will review and validate the supporting documentation and provide revisions as required during the next annual audit. The CAO estimates action will be taken to close this recommendation by December 31, 2008.

**Recommendation:** (04-HOC-07, 2.03) 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.**

The CAO concurs with the recommendation regarding system-specific security plans. System Security Plans for all CAO financial applications have been developed in accordance with HISPUB 007.2.1. The System Security Plans are reviewed annually and updated by the system owners to reflect changes to the respective system. The CAO believes appropriate action has been taken to complete this recommendation. HIR will review and validate the supporting documentation and provide revisions as required during the next annual audit. The CAO estimates action will be taken to close this recommendation by December 31, 2008.

**Recommendation:** (05-HOC-07, 2.02) (House report no. 05-HOC-07) Modify HISPUB 024 (pending) to require CAO SSPs to identify specific individuals as system and data owners.

**CONCUR.**

The CAO concurs with the recommendation to identify specific individuals as system and data owners. HISPUB 007.2.1 (formerly HISPUB 024 referenced above) includes the requirement to identify system and data owners. The Systems Security Plan for FFS will not be updated as it will be replaced by Administrative Tools, Links and Solutions (ATLAS) which will be implemented effective October 13, 2008. The Systems Security Plan for Procurement Desktop will also not be updated as its functionality is a part of the ATLAS implementation. Procurement Desktop will be used to only produce a hard copy of complex contracts. The Systems Security Plans for ATLAS and FAIMS identify the data and system owners. The CAO estimates action appropriate to close this recommendation will be taken by September 30, 2008.

**Recommendation:** (05-HOC-07, 2.03) (House report no. 05-HOC-07) Modify HISPUB 024 to include guidance on what expected behaviors should be documented

within CAO SSPs. CAO should fully implement all requirements identified in HISPUB 024 by updating CAO SSPs to comply with HISPUB 024.

**CONCUR.**

The CAO concurs with the recommendation regarding the System Security Plan guidance. HISPUB 007.2.1 (formerly HISPUB 024 referenced above) will be revised to include guidance on expected behaviors. All System Security Plans for CAO financial applications will be updated accordingly. These actions will be completed by August 30, 2008.

**Recommendation:** (06-HOC-08, 1.07)

1. Develop policies and procedures to ensure that standard security configuration baselines are developed, tested, and implemented for all CAO financial applications before placing them into production.
2. When management must configure a database against industry best practice for functionality reasons, clearly document this in the security baseline.

**CONCUR.**

The CAO concurs with this recommendation. The House's highly decentralized and distributed information technology environment does not lend itself to the traditional definition of "standard configuration baselines" and so we have developed an extensive series of checklists for operating systems that identify appropriate security controls that are feasible here. HIR actively audit systems against those checklists. This year's audit has identified a specific weakness in the area of databases. HIR will review and evaluate those security checklists for databases and revise them as needed, and validate CAO financial systems against them to ensure the appropriate controls are in place. These actions will be completed by September 30, 2008.

**Recommendation:** (06-HOC-08, 1.08) Update Paylinks SSP to address logging and monitoring at the application and database levels. The SSP should identify what information or activities are to be logged; how long logs are to be retained, who has access to logs, and who should review logs.

**CONCUR.**

The CAO concurs with the recommendation and has updated the PayLinks System Security Plan to address logging and monitoring of the system at the application and database levels. The System Security Plan is currently compliant with HISPUB 007.2.1. The CAO believes appropriate action has been taken to close this recommendation.

**Recommendation:** (05-HOC-07, 2.04) Take steps to ensure that all CAO network access requests are documented and retained for future reference.

**CONCUR.**

Prior to a request for a user account to be submitted to Technology Infrastructure Solution's Engineer Technology Branch (TIS-ETB), the Technology Call Center (TCC) will require an authorized requestor from the employing office to send an email requesting the account creation. TCC will attach the email to the CTS ticket before sending it to TIS-ETB. The CAO believes appropriate action has been taken to close this recommendation.

**Recommendation:** (05-HOC-07, 2.05) Modify existing procedures to ensure that CAO system administrators are notified immediately when employees leave or are terminated from House employment. Assign responsibility for quarterly review of all CAO network accounts and require all reviews be documented for future reference. Reviewers should look for active accounts that have not been used in a specified period of time. These accounts should be followed up to determine if they are still necessary and disabled or deleted if not.

**CONCUR.**

The CAO has developed and documented procedures to delete accounts of individuals who are no longer employed by the House, and to conduct quarterly reviews of all CAO network accounts. These procedures are documented in the CAO Server Farm Policies and Procedures document. The CAO believes appropriate action has been taken to close this recommendation.

**Recommendation:** (05-HOC-07, 2.06) Identify and document specific activities that security administrators should be logging and reviewing on a weekly basis such as failed logon attempts, changes to security profiles, and unsuccessful attempts to access unauthorized systems or data by users and outsiders.

**CONCUR.**

HIS PUB 007.2.1 requires the following to be logged (From Section 11.4):

- Successful user logon and logoff
- Failed user logon attempts
- Password changes
- Account lockout
- Changes in user access permissions

Systems administrators are required to review the audit logs weekly for failed user logon attempts.

**CONCUR.**

The FAIMS application has an automated audit trail mechanism that records security-relevant events. The audit data includes failed and successful user logons, failed and successful access and operations on data (by session), changes to a user's security privileges, and changes to the security configuration. As parts of the baseline application, the following audit trail logs and reports are used to monitor user activity (these are executed as concurrent requests):

- Sign-on Audit Responsibilities - shows who accessed what responsibilities

- Sign-on Audit Unsuccessful Logins - shows who unsuccessfully attempted to sign on as another user
- Sign-on Audit Users - shows who signed on to Oracle Applications

An automated mechanism creates and maintains an audit trail of the users' and administrators' actions so that security relevant events can be traced to a specific account for accountability. The audit trail mechanism also records failed logon attempts.

Once a week the FAIMS Security Administrator runs the Unsuccessful Login Audit Report and contacts listed users by email for status. The weekly review correspondence is filed for audit purposes. This is described in the FAIMS System Security Plan, Section 10. The CAO believes appropriate action has been taken to close this recommendation.

**Recommendation:** (05-HOC-07, 2.09) Document policies and procedures for granting emergency and temporary access. Monitor emergency and temporary access, and automatically terminate access after a predetermined period when possible.

**CONCUR.**

The CAO has documented the policy and procedures to grant emergency and temporary access. These policies and procedures are being reviewed by HIR Management. The Office of the CAO will take appropriate action to close this recommendation by October 31, 2008.

**Recommendation:** (06-HOC-08, 1.09) Ensure that security audits are performed in accordance with House Information Security Policy 007.0.

**CONCUR.**

The CAO concurs with the recommendation to ensure that security audits are performed in accordance with HISPOL 007.0. The Compliance Program has been fully implemented in accordance with HISPOL 007.0. All CAO financial systems have completed security audits of servers, applications, and databases and have been granted the appropriate level of security certification. The CAO believes appropriate action has been taken to close this recommendation. However, because this year's audit identified a specific weakness in regard to the Paylinks application, the HIR will review and revise the certification documentation as needed. These activities will be completed by September 30, 2008.

**Recommendation:** (06-HOC-08, 1.10) Develop and document standard security configuration baselines for all operating systems supporting CAO financial applications. Standard security configurations should be documented and clearly show how the operating system is intended to be configured. When risky or sensitive settings or processes must be used, management should clearly document reasons in the standard security configuration baseline.

**CONCUR.**

The workflow procedures are being finalized for internal review. The process changes need to be approved by the Technology Advisory Board (TAB). The CAO estimates appropriate action will be taken to close this recommendation by August 31, 2008.

**Recommendation:** (06-HOC-08, 1.11) Develop, document, and test emergency procedures for the Ford data center. Ensure that procedures include specific steps to take in the data center during an emergency and identify who is responsible for taking such steps. Address activities such as emergency shut down of systems and responding to fires or water leaks.

**CONCUR.**

The CAO has received information from the Architect of the Capital and believe we will commission and test all systems by the end of July. HIR is including the procedures in the Facilities Policy. These procedures need to be finalized and vetted through HIR Directors for approval. We estimate appropriate action will be taken to close this recommendation by September 30, 2008.

**Recommendation:** (02-HOC-06, 4.05) 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.**

An integral part of the validation process has been missing for the past two years with the shutdown and renovation of the Ford Data Center and while HIR has have been able to maintain the documentation the overall process has not been fully tested for an extended period. To remedy this short fall, HIR has asked each system owner to revalidate their disaster recovery processes and procedures as part of the Ford Data Center reconstitution process. This will enable HIR to revalidate these processes holistically and also update the Standard Operating Procedures (SOP) for Site 3. The CAO estimates the majority of this work will be completed by December 31, 2008.

**Recommendation:** (06-HOC-08, 1.12) Require that functional/ technical specification documentation submitted by the developer be attached or included with change request forms and other documentation supporting changes to Paylinks.

**CONCUR.**

The CAO partially concurs with this recommendation. The PayLinks team developed a Change Request (CR) form for internal change controls for software maintenance (see SOP) that warrants no technical/functional specification documentation. For external changes involving software custom code changes (see SOP), an Engineering Request (ER) form will also be utilized. The ER form requires supporting Technical/Functional specification documentation be submitted and attached to the CR form. The ER form is sent to the TAB as an advisory

notification. The CAO estimates the appropriate action will be taken to close this recommendation by July 31, 2008.

**Recommendation:** (06-HOC-08, 1.13) Develop procedures to ensure that test plans and results for changes are documented and included with other documentation supporting changes to Paylinks.

**CONCUR.**

External Change SOPs have been updated to reference test plan and results. The Internal Change SOP will reference what unit testing was completed, how it was done, and the results. The CAO believes appropriate action will be taken to close this recommendation by July 31, 2008.

**Recommendation:** (06-HOC-08, 1.15) Develop, document, and implement controls to ensure that only authorized and approved changes to Paylinks are introduced into production.

**CONCUR.**

The process has been further refined. PayLinks changes are approved by the system owner via the CR form. The move of the change to production is authorized via the same CR form and procedures followed in the PayLinks Change SOPs. The CAO believes action appropriate action to close this recommendation has been taken. Supporting documentation is currently under internal review and will be completed by July, 31, 2008.

**Recommendation:** (06-HOC-08, 1.16) Periodically review production program changes to ensure that access and change controls are being followed.

**CONCUR.**

Please reference (06-HOC-08, 1.15). The PayLinks system owner will conduct an annual review of the production program changes to ensure that access and change controls are being followed. The CAO believes appropriate action has been taken to close this recommendation. Supporting documentation is currently under internal review and will be completed July 31, 2008.

**Recommendation:** (06-HOC-08, 1.17) Develop, document, and implement controls over movement of program changes for Paylinks. Controls should be adequate to ensure that only authorized changes are moved into production, and management is notified.

**CONCUR.**

Please reference (06-HOC-08, 1.15). The process has been further refined. PayLinks changes are approved by the system owner via the CR form. The move of the change to production is authorized via the same CR form and procedures followed in the PayLinks Change SOPs.

Management is notified via email to confirm that any CR move to production has been completed. The CAO believes action appropriate to close this recommendation has been taken. Supporting documentation is currently under internal review and will be completed by July 31, 2008.

**Recommendation:** *(06-HOC-08, 1.18)* Develop and implement procedures to ensure that systems are developed and tested in accordance with House SDLC requirements and industry best practices, particularly in light of the forthcoming FFS replacement.

**CONCUR.**

CAO projects continue to adhere to systems development life cycle policy and practices. Regarding Atlas specifically, the project has made significant progress in moving through its lifecycle. A majority (67 of 82) of corresponding documents have been delivered and accepted. Thus, the CAO believes the intent of this recommendation has been met and request it be closed.

**Recommendation:** *(06-HOC-08, 1.20)* Develop, document, and implement policies and procedures to ensure that CAO financial systems identify incompatible duties and enforce segregation-of-duty controls both at the end user and administrative levels.

**CONCUR.**

The Office of the CAO is drafting the policies and procedures for segregation-of-duties. Upon completion the policies and procedures will be vetted for approval by CAO management and implemented. The CAO believe appropriate action will be taken to close this recommendation by December 29, 2008.

**Recommendation:** *(06-HOC-08, 1.21)* Develop and implement procedures to ensure that segregation-of-duty principles are understood by key personnel, such as system and data owners and program managers.

**CONCUR.**

The Office of the CAO is drafting the policies and procedures for segregation-of-duties. Upon approval and implementation of the policies and procedures for segregation of duties the system owner will develop and implement procedures to ensure that segregation-of-duty principles are in effect by key personnel for each application. The CAO believes appropriate action will be taken to close this recommendation by January 30, 2009.

Supplemental CAO Response to the  
2007 Financial Statement Audit Report

This Page Intentionally Left Blank

Daniel P. Beard  
Chief Administrative Officer

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

MEMORANDUM

**To:** James J. Cornell  
Inspector General

**From:** Ali Qureshi  
Deputy Chief Administrative Officer 

**Subject:** CAO response to *Independent Auditor's Report on Internal Control* related to the House of Representatives' Fiscal Year 2007 Annual Financial Statement Audit

**Date:** AUG 8 2008

Thank you for the opportunity to comment on the subject audit report. We have carefully reviewed the report's findings and recommendations. The following is a brief supplemental response to one recommendation in the audit report:

**Weakness 2:** Weaknesses existed in the processing and reporting of payroll data.

**Recommendation 6:** We recommend that CAO ensure that employing offices properly document adjustments to stated appointment levels on PAFs to support adjustments to payroll appointments (pay adjustments, title changes, furlough status, and terminations).

**PARTIALLY CONCUR.**

The Office of Payroll and Benefits will continue to contact employing offices via e-mail or other medium to communicate information needed to be documented on a Personnel Authorization Form (PAF) to support payroll appointments. Training on information required for PAFs will continue to be provided as needed or if requested. The Office of Payroll and Benefits believes the appropriate actions will be taken to close this recommendation by October 31, 2008.

---

This Page Intentionally Left Blank

