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REPORT OF THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES

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Audit Of The House Beauty Shop  
Calendar Year 1975

House of Representatives

GAO concludes that the Beauty Shop's financial statements present fairly the financial position, results of operations, and changes in financial position.

GGD-76-88

AUG. 2, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-162878

The Honorable Yvonne Brathwaite Burke  
Chairman, Select Committee on the  
House Beauty Shop  
House of Representatives

Dear Madam Chairman:

We have audited the financial transactions of the House Beauty Shop for calendar year 1975, as required by the Legislative Branch Appropriation Act, 1970 (83 Stat. 347).

GENERAL COMMENTS

The House Beauty Shop provides a convenient beauty facility for Congresswomen, wives of Congressmen, congressional employees, and the general public. House resolution 1000, 90th Congress, placed the House Beauty Shop under the direction of the Select Committee on the House Beauty Shop on December 11, 1967. The Select Committee has entered into a fixed-fee contract with a manager to operate the shop. As of December 31, 1975, the manager employed nine beauticians, four manicurists, and two receptionists on a full-time basis and eight beauticians, two maids, and one electrologist on a part-time basis.

The comparative statement of operations (sch. 2) shows net income of \$6,596 for 1975 after payment of \$2,520 in bonuses compared with net income of \$8,604 for 1974 after payment of \$7,950 in bonuses. The bonuses, which were authorized by the Select Committee, were paid to the manager and employees in 1974 and to the employees and accountant in 1975.

The Legislative Branch Appropriation Act, 1970, requires that the net income, as established by our annual audit, after restoring any impairment of capital and providing for replacement of equipment, be transferred to the general fund of the U.S. Treasury. We computed the net income to be transferred for calendar year 1975, as follows:

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Retained earnings as of December 31, 1975		\$27,894.57
Capital authorized pursuant to H. Res. 1000, 90th Congress	\$15,000.00	
Provision for replacement of equipment (accumulated depreciation as of December 31, 1975)	<u>12,303.63</u>	<u>27,303.63</u>
Net income to be transferred		\$ <u>590.94</u>

Since 1969 the House Beauty Shop has transferred \$35,732 to the U.S. Treasury, including \$6,000 in July 1975.

ACCOUNTING AND ADMINISTRATIVE  
IMPROVEMENTS NEEDED

Recording cash transactions

Inadequate accounting by the shop led to a cash shortage of \$71.00. In preparing a certificate of deposit for 1 day's receipts the shop erroneously listed a check for \$19.02 as \$190.02--an error of \$171. All of the cash in the registers in excess of the change fund was not deposited; only an amount sufficient, when added to the checks listed on the certificate of deposit, to equal the cash register sales total for the day. This should have resulted in undeposited cash of \$171 in excess of the change fund.

When Treasury found the error in the certificate of deposit, it notified the House Finance Office and returned the check for \$19.02. The shop when notified did not adjust its records to correct the error; instead it redeposited the check and added \$100 from the cash overage or \$71 less than the error. The shop manager was unable to explain to us what happened to the remaining \$71. The shop had not reconciled its cash account with the House Finance Office's records, which would have disclosed the shortage of \$71.

To provide better control of its cash, the shop, when notified by the House Finance Office of errors on certificates of deposit, should determine the cause of the error and promptly adjust its records. It should also reconcile its revolving fund cash account with the corresponding House Finance Office account each month.

Managing the Petty Cash Fund

We also found that the stated limit of \$5.00 for each petty cash transaction was being exceeded and that payments for casual labor were being made from this fund. We discussed these practices with a representative of the Select Committee. We were notified that the Select Committee planned to raise the dollar limitation for each petty cash transaction to \$50 and planned to advise the shop manager that no future labor payments were to be made from the Petty Cash Fund.

Accounting for withholding taxes

The shop was not properly accounting for or following proper procedures for withholding income taxes. Some amounts due area taxing authorities had been written off and credited to income instead of being paid. Also, (1) the wrong withholding tables were being used and (2) the exemptions for employees claiming D.C. withholdings were different than those shown on their withholding authorizations. These matters were brought to the manager's attention, and she agreed to instruct her accountant to properly account for the amounts due to area taxing authorities as accounts payable at December 31, 1975. These accounts payable of \$278 are to be paid during calendar year 1976 and are shown in the attached financial statements. Also, she has instructed the accountant to use the proper withholding tables and to honor the employees' withholding authorizations.

Approving shop activities

The shop is required to obtain prior approval from the Select Committee before purchasing equipment costing over \$50 and must consult with the Select Committee before changing prices or employee compensation. However, approval for equipment purchased in November and December 1975 was not obtained until after acquisition and in one case not until March 1976. The shop also did not obtain approval for an increase in one employee's compensation. A representative of the Select Committee informed us that the Committee planned to clarify the shop's operating regulations, including requirements for the Committee's prior written approval for (1) acquisition of equipment in excess of \$50 and (2) changes in employees' compensation or prices.

SCOPE OF AUDIT

Our audit was made in accordance with generally accepted auditing standards and included an examination of the accounting records and such other auditing procedures as we considered necessary.

OPINION ON FINANCIAL STATEMENTS

We prepared the accompanying financial statements for the House Beauty Shop from records furnished by the manager of the shop. In preparing the statements, we adjusted the shop's records, which were maintained on a cash basis, to present the financial position and results of operations of the House Beauty Shop on an accrual basis. These statements do not include the cost of certain benefits and services-- such as space, utilities, and ordinary building repairs and maintenance--that are furnished to the House Beauty Shop without charge.

In our opinion, the accompanying statements (schs. 1, 2, and 3), which were prepared on a basis consistent with that of the preceding year and in accordance with the financial arrangements described above, present fairly the financial position of the House Beauty Shop at December 31, 1975, the results of its operations, and the changes in its financial position for the year then ended.

As required by the Legislative Branch Appropriation Act, 1970, we are sending copies of this report to the Speaker of the House of Representatives and to the Clerk of the House of Representatives.

Sincerely yours,



Comptroller General  
of the United States

## SCHEDULE 1

## SCHEDULE 1

HOUSE BEAUTY SHOP  
COMPARATIVE BALANCE SHEET  
DECEMBER 31, 1975 AND 1974

ASSETS	<u>1975</u>	<u>1974</u>
CURRENT ASSETS:		
Cash in U.S. Treasury	\$12,476	\$12,210
Petty cash and change funds	700	700
Accounts receivable	182	199
Prepaid expenses	490	516
Inventory of merchandise and supplies (note a)	<u>11,528</u>	<u>9,781</u>
Total current assets	<u>25,376</u>	<u>23,406</u>
FIXED ASSETS:		
Equipment (note b)	18,170	17,399
Less: Accumulated depreciation	<u>12,304</u>	<u>10,609</u>
Total fixed assets	<u>5,866</u>	<u>6,790</u>
TOTAL ASSETS	<u>\$31,242</u>	<u>\$30,196</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,070	\$ 1,704
Employees' Federal and State taxes withheld	<u>278</u>	<u>1,194</u>
Total current liabilities	<u>3,348</u>	<u>2,898</u>
EQUITY OF THE HOUSE OF REPRESENTATIVES:		
Balance at beginning of year	27,298	24,559
Less: Amount transferred to U.S. Treasury	<u>6,000</u>	<u>6,000</u>
Balance	21,298	18,559
Add: Net income for the year	6,596	8,604
Prior year adjustments	<u>-</u>	<u>135</u>
Balance at end of year	<u>c/27,894</u>	<u>27,298</u>
TOTAL LIABILITIES AND EQUITY	<u>\$31,242</u>	<u>\$30,196</u>

a/Inventories are stated at cost, using the first-in, first-out method of valuation.

b/Equipment is depreciated over a 10-year life using the straight-line method.

c/As explained on page 2, \$591 is to be transferred to the U.S. Treasury.

## SCHEDULE 2

## SCHEDULE 2

HOUSE BEAUTY SHOPCOMPARATIVE STATEMENT OF OPERATIONSFOR CALENDAR YEARS 1975 AND 1974

	<u>1975</u>	<u>1974</u>
<b>INCOME:</b>		
Beauty services	\$225,325	\$217,872
Retail sales	\$31,960	\$19,841
Less: Cost of retail sales	<u>21,168</u>	<u>12,887</u>
Miscellaneous income	<u>295</u>	<u>131</u>
Total operating income	<u>236,412</u>	<u>224,957</u>
<b>OPERATING EXPENSES:</b>		
Salaries:		
Beauticians	127,348	126,126
Manicurists	17,339	13,426
Receptionists	8,979	8,547
Maids	<u>8,992</u>	<u>7,771</u>
Total salaries	162,658	155,870
Supplies	20,202	18,384
Managerial fee	24,000	15,000
Payroll tax	9,755	9,505
Laundry	835	a/535
Office	2,234	a/2,051
Insurance	1,919	2,064
Depreciation	1,749	1,723
Accounting	2,000	1,890
Medical examinations	604	a/652
Bad debts	209	a/128
Repairs	432	a/152
Telephone	253	a/231
Training	226	a/67
Miscellaneous	109	a/151
Loss of funds	71	-
Loss on disposal of equipment	<u>40</u>	<u>-</u>
Total operating expenses	<u>227,296</u>	<u>208,403</u>
<b>NET INCOME FROM OPERATIONS</b>	9,116	16,554
<b>BONUS PAYMENTS:</b>		
Manager	-	6,000
Employees	<u>2,520</u>	<u>1,950</u>
<b>NET INCOME FOR THE YEAR</b>	<u>\$ 6,596</u>	<u>\$ 8,604</u>

a/Restated to conform with revised expense categories.

HOUSE BEAUTY SHOP  
COMPARATIVE STATEMENT OF CHANGES  
IN FINANCIAL POSITION  
CALENDAR YEARS 1975 AND 1974

	<u>1975</u>	<u>1974</u>
<b>FUNDS PROVIDED:</b>		
Sales	\$257,285	\$237,713
Miscellaneous income	<u>295</u>	<u>131</u>
Total funds provided	<u>\$257,580</u>	<u>\$237,844</u>
<b>FUNDS APPLIED:</b>		
Operating expenses (excluding depreciation and other items not requiring an outlay of funds)	\$225,508	\$206,680
Cost of retail sales	21,168	12,887
Bonus payments	2,520	7,950
Equipment additions	864	171
Amount transferred to U.S. Treasury	6,000	6,000
Increase or decrease(-) in working capital	<u>1,520</u>	<u>4,156</u>
Total funds applied	<u>\$257,580</u>	<u>\$237,844</u>
Analysis of Changes In Working Capital Calendar Years 1975 and 1974		
	<u>Increase or decrease(-) in working capital</u>	
	<u>1975</u>	<u>1974</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 266	\$1,673
Accounts receivable	-17	9
Prepaid expenses	-26	17
Inventories	<u>1,747</u>	<u>2,040</u>
Net change in current assets	<u>1,970</u>	<u>3,739</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	-1,366	654
Employees' Federal and State taxes withheld	916	-102
Prior year adjustments	<u>-</u>	<u>-135</u>
Net change in current liabilities	<u>-450</u>	<u>417</u>
Net increase in working capital	<u>\$ 1,520</u>	<u>\$4,156</u>