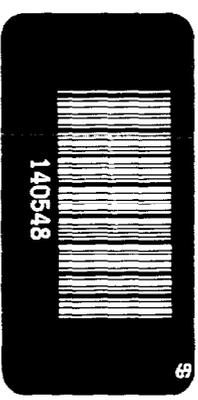


GAO

United States General Accounting Office
Report to the Speaker and the Sergeant
at Arms of the House of
Representatives

February 1990

FINANCIAL AUDIT
House Office of the
Sergeant at Arms—
Periods Ended 6-30-89
and 12-31-88



**Comptroller General
of the United States**

B-114854

February 7, 1990

**To the Speaker and the Sergeant at Arms
of the House of Representatives**

In accordance with the act of July 26, 1949 (2 U.S.C. 81a), we have audited the balance sheets of the Office of the Sergeant at Arms, House of Representatives, as of June 30, 1989, and December 31, 1988, and the related statements of operations and cash flows for each of the 6-month periods then ended. We completed our audit work on August 11, 1989. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audits.

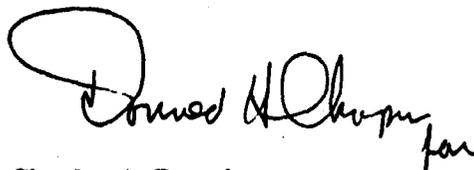
We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of the Sergeant at Arms as of June 30, 1989, and December 31, 1988, and the results of its operations and its cash flows for the 6-month periods then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Supporting information on financial transactions of appropriated funds is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our report on internal accounting controls and compliance with laws and regulations, together with the Office's financial statements, schedules of financial transactions, and accompanying notes for the 6-month

periods ended June 30, 1989, and December 31, 1988, is included in this report.

A handwritten signature in black ink, appearing to read "Charles A. Bowsher". The signature is written in a cursive style with a large initial "C".

Charles A. Bowsher
Comptroller General
of the United States

Contents

Opinion Letter		1
Report on Internal Accounting Controls and Compliance With Laws and Regulations	Internal Controls Compliance With Laws and Regulations House Sergeant at Arms' Comments and Our Evaluation	6 6 7 8
Balance Sheets		9
Statements of Operations		10
Statements of Cash Flows		12
Schedules of Financial Transactions—Appropriated Funds		13
Notes to Financial Statements and Schedules		15
Appendix I Comments From the House Sergeant at Arms		18
Table	Table 1: Check-Cashing Transactions	16

Report on Internal Accounting Controls and Compliance With Laws and Regulations

We have audited the financial statements of the Office of the Sergeant at Arms, House of Representatives, for the 6-month periods ended June 30, 1989, and December 31, 1988. Our audits were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our preliminary review of the system of internal accounting controls and our review of compliance with laws and regulations for the 6-month periods ended June 30, 1989, and December 31, 1988.

Internal Controls

We did not complete a study and evaluation of the Office of the Sergeant at Arms' system of internal accounting controls for the purpose of determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Office's financial statements. Based on our preliminary review, we concluded that it was more efficient to expand our substantive audit tests in auditing the financial statements for the 6-month periods ended June 30, 1989, and December 31, 1988.

Our preliminary review disclosed the following internal accounting control weakness.

Check-Cashing Procedures

The House bank is a private operation subject only to regulations established by the House of Representatives. Funds used to cash checks at the bank are provided from deposits made by Members. We found that there are no written check-cashing procedures for the tellers at the House bank to follow. Although our audit did not detect any significant loss of cash, we did find actions occurring which could lead to material losses in the future. For example, during the 12 months covered by this report, we found that about 330 checks, totaling over \$232,000, which were not written on House bank accounts were returned to the House bank primarily because of insufficient funds. Of the 165 individuals or firms on whose accounts the checks were drawn, 24 had checks returned for this reason on 3 or more occasions. Individuals in this latter category include a Member of the House, the House Sergeant at Arms, and a former teller at the bank.

We found that if a check is written on a House bank account which does not have sufficient funds to cover the check, the bank makes the check good and then notifies the account holder to deposit funds to cover the

check. We tested transactions for 12 days during the 12-month period covered by our audit and found that a daily average of 30 checks totaling nearly \$18,900 were being held due to insufficient funds. These checks had been written by more than 90 Members of the House.

We also noted instances where individuals who were not Members, officers, or staff of the House of Representatives cashed checks at the bank, although there was no authorization for them to use the bank's facilities. In some cases, these checks were returned due to insufficient funds and were difficult to collect on. Since tellers do not have any written procedures to guide them in dealing with individuals who repeatedly have checks returned because of insufficient funds, they lack a clear basis for refusing to serve such individuals. Without guidelines to direct them, tellers are left to their own discretion or to the oral guidance of the bank's director or the Sergeant at Arms regarding whether a particular check should be cashed.

We first brought the lack of check-cashing procedures to the Sergeant at Arms' attention in August 1988. At that time, we were assured that procedures would be established. Although procedures were drafted, they were not implemented. Sound internal accounting controls would require that written procedures be instituted which would instruct the bank's tellers about matters such as who can cash checks at the bank, what limits are placed on those with check-cashing privileges, and how to handle persons who repeatedly write checks returned due to insufficient funds.

Compliance With Laws and Regulations

As part of our audits, we also tested the Office's compliance with terms and provisions of 2 U.S.C. 31 and 43 and Department of the Treasury regulations on cash, Office of Personnel Management regulations on employee benefits and employer costs, and Internal Revenue Service regulations on income tax withholdings. In our opinion, the Office of the Sergeant at Arms complied with the terms and provisions of the just mentioned laws and regulations for the transactions tested that could have materially affected its financial statements. Nothing came to our attention, in connection with our audits, that caused us to believe that the Office was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

House Sergeant at Arms' Comments and Our Evaluation

In a December 21, 1989, letter, the House Sergeant at Arms stated that he was committed to correcting the check-cashing deficiencies cited in our draft report and was implementing corrective measures. He reported that he is instituting interim written check-cashing procedures which will be distributed to and discussed with all bank employees. He also plans to engage a banking professional to review the bank's operations and formulate permanent procedures that would be presented to the Speaker of the House during January 1990. The House Sergeant at Arms also advised us that he would refrain from personal banking transactions at the House bank.

We believe that when written operating procedures for the bank are developed, implemented, and enforced by the Sergeant at Arms, they should improve operation of the House bank and reduce the frequency of checks being returned because of insufficient funds. The Sergeant at Arms' letter is presented in appendix I.

Balance Sheets

	June 30, 1989	December 31, 1988
Assets		
Appropriated Funds		
Funds with U.S. Treasury	\$23,351,236	\$47,800,327
Accounts receivable—other	0	1,200
Total appropriated funds	23,351,236	47,801,527
Deposit Fund		
Deposit fund cash		
Funds with U.S. Treasury	1,006,147	949,746
Cash on hand	191,425	188,607
Checks on hand (note 2)	332,166	84,072
	1,529,738	1,222,425
Accounts receivable		
From Members (note 3)	155,949	250,946
Other (note 4)	179	126,269
Total deposit fund	1,685,866	1,599,640
Total Assets	\$25,037,102	\$49,401,167
Liabilities and Government Equity		
Appropriated Funds		
Liabilities		
Salaries payable	\$3,943,569	\$4,036,963
Other	1,068	107
Government equity		
Unobligated appropriations	19,406,599	43,764,457
Total appropriated funds	23,351,236	47,801,527
Deposit Fund		
Liabilities		
Accounts payable		
Members' deposits	1,685,866	1,599,640
Total deposit fund	1,685,866	1,599,640
Total Liabilities and Government Equity	\$25,037,102	\$49,401,167

The accompanying notes are an integral part of these statements.

Statements of Operations

Appropriated Funds

	6-month periods ended	
	June 30, 1989	December 31, 1988
Funding Sources		
Appropriations expended	\$24,449,091	\$23,490,708
Collections and refunds	12,253	6,359
Total Funding Sources	\$24,461,344	\$23,497,067
Expenditures		
Salaries of Members	\$19,638,903	\$19,570,287
Government contributions		
Retirement	2,481,681	2,404,538
Social Security	1,473,904	17,635
Health insurance	435,062	361,277
Life insurance	41,460	41,055
Thrift savings plan	315,774	331,578
Total government contributions	4,747,881	3,156,083
Mileage of Members	64,617	37,223
Payments to widows, widowers, or heirs of deceased Members	0	358,000
Miscellaneous (note 5)	9,943	2,993
Unexpended appropriations returned to U.S. Treasury	0	372,481
Total Expenditures	\$24,461,344	\$23,497,067

Statements of Operations

Deposit Fund

	6-month periods ended	
	June 30, 1989	December 31, 1988
Receipts		
Transfers from appropriated funds (Members' salaries, mileage, and state income tax)	\$10,552,716	\$11,100,455
Members' deposits	11,908,184	9,686,308
Sale of traveler's checks	162,636	226,352
Total Receipts	22,623,536	21,013,115
Disbursements		
Net payments to or for accounts of Members	21,690,260	20,029,330
State income tax withheld remitted to states	684,235	690,697
Payment for traveler's checks sold	162,636	226,352
Miscellaneous	179	126,269
Total Disbursements	22,537,310	21,072,648
Excess receipts (disbursements)	86,226	(59,533)
Deposit fund balance, beginning of period	1,599,640	1,659,173
Deposit Fund Balance, End of Period	\$1,685,866	\$1,599,640

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	6-month periods ended	
	June 30, 1989	December 31, 1988
Appropriated Funds		
Cash Flows From Operating Activities		
Appropriations provided	\$91,233	\$50,574,075
Collections from Members and others	14,414	6,466
Cash paid to Members' beneficiaries and benefit providers	(24,554,738)	(22,880,768)
Unexpended appropriations returned to Treasury	0	(372,481)
Net cash provided by (used in) operating activities	(24,449,091)	27,327,292
Cash at beginning of period	47,800,327	20,473,035
Cash balance at end of period	\$23,351,236	\$47,800,327
Deposit Fund		
Cash Flows From Operating Activities		
Collections from appropriated funds	\$10,552,716	\$11,100,455
Collections from Members and others	12,291,907	9,673,958
Cash paid, for Members, to taxing authorities and others	(22,537,310)	(21,072,648)
Net cash provided by (used in) operating activities	307,313	(298,235)
Cash at beginning of period	1,222,425	1,520,660
Cash balance at end of period	\$1,529,738	\$1,222,425

The accompanying notes are an integral part of these statements.

Schedules of Financial Transactions— Appropriated Funds

	6-month periods ended	
	June 30, 1989	December 31, 1988
Appropriations		
Salaries	\$0	\$50,250,000
Mileage	0	210,000
Payments to widows, widowers, or heirs of deceased Members	0	358,000
Total appropriations	0	50,818,000
Collections and Refunds		
Miscellaneous (note 5)	12,253	6,359
Total appropriations, collections, and refunds	12,253	50,824,359
Expenditures		
Salaries		
Paid to Members		
By check	1,780,898	1,897,889
Transferred to Deposit Fund	9,812,513	10,376,135
Deductions from salaries		
Federal income tax	3,960,962	4,013,271
Social Security tax	1,473,904	17,635
State income tax	684,235	690,697
Retirement	364,800	1,037,008
Life insurance	82,921	82,110
Optional life insurance	127,863	123,037
Health insurance	219,798	213,188
U.S. Savings Bonds	18,200	17,400
Transfers to other organizations	498,031	459,094
Thrift savings plan	614,778	642,823
Total salaries	19,638,903	19,570,287
Government contributions		
Retirement	2,481,681	2,404,538
Social Security	1,473,904	17,635
Health insurance	435,062	361,277
Life insurance	41,460	41,055
Thrift savings plan	315,774	331,578
Total government contributions	4,747,881	3,156,083

(continued)

**Schedules of Financial Transactions—
Appropriated Funds**

	6-month periods ended	
	June 30, 1989	December 31, 1988
Mileage of Members		
Paid by check	8,776	3,600
Transferred to Deposit Fund	55,841	33,623
Total mileage	64,617	37,223
Payments to widows, widowers, or heirs of deceased Members	0	358,000
Miscellaneous (note 5)	9,943	2,993
Unexpended appropriations returned to the U.S. Treasury	0	372,481
Total expenditures	24,461,344	23,497,067
Excess of appropriations, collections, and refunds over expenditures (expenditures over appropriations, collections, and refunds)	(24,449,091)	27,327,292
Appropriated funds balance, beginning of period	47,800,327	20,473,035
Appropriated Funds Balance, End of Period	\$23,351,236	\$47,800,327

The accompanying notes are an integral part of these schedules.

Notes to Financial Statements and Schedules

Note 1. Significant Accounting Policies

The Sergeant at Arms, as a fiscal officer of the House of Representatives, disburses funds appropriated for (1) salaries of Members and related administrative expenses, (2) mileage of Members to and from each session of the Congress, and (3) payments to widows, widowers, or heirs of deceased Members. The Sergeant at Arms also operates for Members a deposit and checking function, commonly referred to as the "House bank," and is accountable for Members' funds on deposit in the bank.

Operating costs of the Office of the Sergeant at Arms, including salaries and related administrative expenses, equipment, space, building repairs and maintenance, utilities, and certain miscellaneous expenses, are paid from funds appropriated for salaries and expenses of the House of Representatives.

Appropriated funds are disbursed on the basis of monthly payroll vouchers covering salaries, related administrative expenses, and mileage of Members. The amounts due Members are either paid by check or, if Members request it, transferred to their credit in the Deposit Fund account established in the U.S. Treasury for this purpose. Members are paid on the first workday after the month in which the salary is earned. Accordingly, salaries payable represent Members' salaries and related administrative expenses for the last month of the period.

The Deposit Fund consists of the total of the individual accounts for the various Members who use the House bank facility. Members withdraw money from their accounts by presenting written orders for payment either directly to the Sergeant at Arms or through regular banking channels. Money in the Deposit Fund is used to cash checks for Members and employees of the House. Checks cashed which were drawn on other banks are deposited in the U.S. Treasury through a local bank on the next business day.

Other House bank operations consist of selling traveler's checks and assisting Members in making wire transfers and purchasing foreign currency, savings bonds, and cashier's checks.

Note 2. Checks on Hand

Checks on hand amounting to \$332,166 at June 30, 1989, and \$84,072 at December 31, 1988, represent checks drawn on other banks and cashed for Members and employees of the House on the last business day of the 6-month period, but not yet deposited with the U.S. Treasury. The

check-cashing transactions for the 6-month periods ended June 30, 1989, and December 31, 1988, are summarized below.

Table 1: Check-Cashing Transactions

	6-month periods ended	
	June 30, 1989	December 31, 1988
Checks on hand at beginning of period	\$84,072	\$245,808
Checks cashed	15,059,136	13,158,089
	15,143,208	13,403,897
Checks deposited with U.S. Treasury	14,811,042	13,319,825
Checks on hand at end of period	\$332,166	\$84,072

Note 3. Accounts Receivable From Members

Amounts due from Members represent checks drawn on and cashed or paid by the Sergeant at Arms but not charged to the Members' accounts. Checks are held for reasons such as insufficient funds, missing signature, incorrect date, or a stop-payment order. The Sergeant at Arms monitors all such items daily and no financial losses have occurred under these procedures.

Note 4. Accounts Receivable—Other

The other accounts receivable at June 30, 1989, consisted of the cashiers' net shortage of \$179. At December 31, 1988, this account consisted of the cashiers' net shortage of \$278 and \$125,991 due from the U.S. Treasury as a result of both a lost check and the replacement check being charged against the bank's account. In March 1989, the U.S. Treasury credited the bank's account for the overcharge.

Note 5. Miscellaneous Receipts and Expenditures

Miscellaneous receipts and expenditures consist of two categories. The first category includes receipts from Members for their contributions to the retirement fund for military service after 1956 and the subsequent disbursement to the retirement fund. The second category includes expenditures for amounts for the replacement of checks reported as lost or stolen and the subsequent receipts for amounts credited by the U.S. Treasury when it has been determined that only one check will be cashed in each instance where a replacement check has been issued.

Comments From the House Sergeant at Arms

Jack Hines
Sergeant at Arms

Office of the Sergeant at Arms
U.S. House of Representatives
Washington, DC 20515

December 21, 1989

Mr. Donald H. Chapin
Assistant Comptroller General
U.S. General Accounting Office
Accounting and Financial Management Division
Washington, D.C. 20548

Attention: Matthew Solomon

Dear Mr. Chapin:

I welcome your regular biannual report of the financial statement of the Office of the Sergeant at Arms of the United States House of Representatives. While your report concludes that applicable statutes and regulations were complied with, several deficiencies existed with regard to check cashing procedures. I am fully committed to correcting the deficiencies which the General Accounting Office described.

At the direction of the Speaker I am implementing several interim measures to address these problems. I have also in consultation with the Speaker arranged with an outside banking professional to conduct a complete procedural review of the bank's operation. This review will result in the formulation and implementation of permanent procedural safeguards.

The interim procedures that I am presently instituting include:

- 1.) No checks will be cashed except for Members of Congress, Officers of the House, current employees of the House and former Members of Congress.
- 2.) A limit of \$75 will be imposed on non-account holders' personal checks.
- 3.) Non-account holders lose check cashing privileges if two checks are returned for insufficient funds within a calendar year. Staff checks returned for insufficient funds must be redeemed with cash.
- 4.) No bank employee will be allowed to cash a check in the bank unless it has been signed by the bank manager. No teller will be permitted to cash his or her own check.

Furthermore, I, as Sergeant at Arms, will refrain from all banking transactions in the bank.

Appendix I
Comments From the House Sergeant at Arms

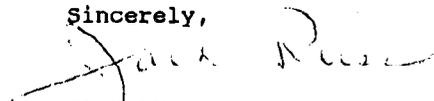
2.

Copies of these interim procedures will be distributed to all employees of the bank. The bank manager and I will personally brief all bank employees on these procedures. In addition, the bank manager and I, along with all employees of the bank, are prepared to render the fullest cooperation to the outside banking consultant.

We intend to present to the Speaker, prior to the convening of the Second Session of the Congress, the proposed procedures reflecting the recommendations of the outside consultant.

Again, I appreciate the work and advice provided by the General Accounting Office and believe that we will be able to correct all procedural deficiencies identified in this audit.

Sincerely,



JACK RUSS
Sergeant at Arms

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877
Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100