

GAO

Report to the Co-Chairmen, Northeast-  
Midwest Congressional Coalition, U.S.  
Congress

February 1990

# FINANCIAL AUDIT

## Northeast-Midwest Congressional Coalition Financial Statements for 1988



**Accounting and Financial  
Management Division**

B-233862

February 15, 1990

The Honorable Frank Horton, Co-Chairman  
The Honorable Howard Wolpe, Co-Chairman  
Northeast-Midwest Congressional Coalition

Pursuant to your request for an audit of the Northeast-Midwest Congressional Coalition, which was transmitted to us by an April 12, 1989, letter from the Chairman, Committee on House Administration, House of Representatives, we have audited the balance sheet of the Coalition as of December 31, 1988, and the related statements of operations and fund balance and of cash flows for the year then ended. We completed our audit work on September 22, 1989. These financial statements are the responsibility of the Coalition's management. Our responsibility is to express an opinion on these financial statements based on our audit.

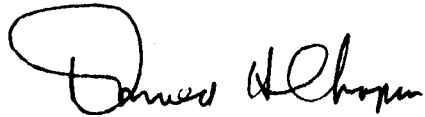
We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, 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 audit provides 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 Coalition as of December 31, 1988, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in note 5 to the financial statements, the District of Columbia claims that the Coalition may owe it unemployment compensation taxes. The Coalition plans to contest this claim. At present, the outcome of this dispute cannot be projected. Accordingly, no provision for any liability that may result upon settlement has been made in the accompanying financial statements.

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Our report on internal accounting controls and compliance with laws and regulations, together with the Coalition's financial statements and accompanying notes for the year ended December 31, 1988, is included in this report.



Donald H. Chapin  
Assistant Comptroller General



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# Report on Internal Accounting Controls and Compliance With Laws and Regulations

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We have audited the financial statements of the Northeast-Midwest Congressional Coalition for the year ended December 31, 1988, and have issued our opinion thereon. Our audit was 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 year ended December 31, 1988.

We did not complete a study and evaluation of the Coalition's internal accounting control system for the purpose of determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Coalition'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 year ended December 31, 1988.

While we did not perform a complete study and evaluation of the Coalition's internal accounting control system, we did not become aware of any condition during our expanded substantive audit tests which we believe to be a material weakness.

As part of our audit work, we also tested the Coalition's compliance with terms and provisions of the regulations established by the Committee on House Administration and the Internal Revenue Service regulations on income tax withholdings. In our opinion, the Northeast-Midwest Congressional Coalition complied with the terms and provisions of the regulations for the transactions tested that could have materially affected its financial statements. Nothing came to our attention in connection with our audit that caused us to believe that the Coalition was not in compliance with the terms and provisions of the regulations for those transactions not tested.

# Balance Sheet

		December 31, 1988
<b>Assets</b>		
Cash		
Operating accounts		\$8,118
Special assessment account (note 3)		4,005
Prepaid publications		358
<b>Total Assets</b>		<b>\$12,481</b>
<b>Liabilities and Fund Balance</b>		
Liabilities		
Accounts payable		\$4,763
Accrued liabilities		3,041
Special tax assessment payable (note 3)		9,818
Prepaid members' dues		12,000
<b>Total liabilities</b>		<b>29,622</b>
Fund balance (deficit)		(17,141)
<b>Total Liabilities and Fund Balance</b>		<b>\$12,481</b>

The accompanying notes are an integral part of this statement.



# Statement of Operations and Fund Balance

	Year ended December 31, 1988
<b>Revenues (note 2)</b>	
Members' dues	\$146,200
Clerk-hire funds	21,825
Special assessments—taxes	10,111
Special assessments—expenses	8,359
<b>Total revenues</b>	<b>186,495</b>
<b>Expenses (notes 2 and 4)</b>	
Salaries and benefits	145,162
Payroll taxes	12,695
Equipment rental	10,085
Telephone	2,220
Office supplies	1,410
Subscriptions	1,376
Printing	926
Meetings and official functions	529
Professional fees	80
Miscellaneous	494
<b>Total expenses</b>	<b>174,977</b>
<b>Income before extraordinary item</b>	<b>11,518</b>
Extraordinary item:	
Write-off of tax debt (note 5)	6,973
<b>Net income</b>	<b>18,491</b>
Fund balance, beginning of year (deficit)	(35,632)
<b>Fund Balance, End of Year (deficit)</b>	<b>\$(17,141)</b>

The accompanying notes are an integral part of this statement.

# Statement of Cash Flows

	Year ended December 31, 1988
<b>Cash Flows From Operating Activities</b>	
Income before extraordinary item	\$11,518
Adjustments to reconcile income before extraordinary item to net cash provided by (used in) operating activities:	
Decrease in accounts receivable	862
Decrease in prepaid expenses	22
Decrease in accounts payable	(11,522)
Decrease in special tax assessment payable	(39,221)
Increase in prepaid members' dues	10,000
Increase in accrued liabilities	2,839
<b>Net cash used in operating activities</b>	<b>(25,502)</b>
Extraordinary income from write-off of tax debt	6,973
<b>Net decrease in cash</b>	<b>(18,529)</b>
Cash at beginning of year	30,652
<b>Cash Balance at End of Year</b>	<b>\$12,123</b>

The accompanying notes are an integral part of this statement.

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# Notes to Financial Statements

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## Note 1. Organization

The Northeast-Midwest Congressional Coalition is a legislative service organization sponsored by a group of Members of Congress who pool their resources to pursue a common legislative goal. It operates as an extension of the participating Members' individual offices and coordinates their efforts for reasons of efficiency and effectiveness. Its purpose is to (1) inform its members about regional implications of national policies and proposals and (2) influence congressional decisions regarding those issues of greatest importance to northeastern and midwestern states.

On October 21, 1981, the Committee on House Administration adopted regulations and rules pertaining to legislative service organizations. These regulations provide the following.

- Effective January 1, 1983, a legislative service organization may not use funds received as dues or through assessments to generate additional income, including income from interest-bearing accounts or time deposits.
- Effective January 1, 1983, a legislative service organization may not receive income or contributions from any source other than the Congress or its Members.

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## Note 2. Accounting Policies

There are four main sources of revenue from the Coalition's members. They are

- dues, which are recognized for the year to which they are applied;
- clerk-hire funds, which are recognized when staff members receive salary payments from Coalition members;
- special assessments—taxes, which are recognized when received for payment of the pre-1987 payroll tax liability from members' prior-year funds; and
- special assessments—expenses, which are recognized when an expense voucher is sent to a member for payment.

Expenses are recognized when incurred during the year. At year-end, expenses and revenues are accrued.

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## Note 3. Special Tax Assessment

In August 1987, the Chairman of the Committee on House Administration granted approval for the Co-Chairmen of the Coalition to collect special assessment funds from the Coalition's membership to be used exclusively to pay off payroll tax obligations for prior years. Members

of the Coalition were authorized to use unobligated, unexpended prior-year funds from their "Allowance for Official Expenses" to pay the special assessments. The funds collected are deposited in the special assessment account and then transferred to the operating account for payment of the tax debt. The special tax assessment payable account discloses the tax debt balance at year end.

**Note 4. Appropriated Fund Support**

Costs for office space and utilities are paid from legislative branch appropriations. Since it is difficult to determine the Coalition's share of expenses for office space and utilities, these amounts are not shown in the Coalition's financial statements.

**Note 5. Write-Off of Taxes Payable**

In 1988, the Coalition wrote off a \$6,973 debt for pre-1987 unemployment compensation taxes payable to the District of Columbia. The debt was written off because District Department of Employment Services officials informed the Coalition that no tax liability remained after the Coalition's attorneys argued that certain Coalition employees' salaries were not subject to the District's unemployment compensation tax. These employees had been paid partially with Coalition funds and partially with federal funds. In 1988, the District considered them to be federal employees, whose salaries are not subject to the District's unemployment compensation tax. Also, the District's Department of Employment Services refunded \$1,166 to the Coalition in January 1989 for three prior quarterly unemployment compensation tax payments made by the Coalition in July and October 1987 and April 1988.

In September 1989, the District's Department of Employment Services informed the Coalition that it was re-examining its earlier position that certain Coalition employees' salaries were exempt from the District's unemployment compensation tax. The District stated that for employee salaries paid partially with Coalition funds and partially with federal funds, unemployment taxes must be paid on that share of the salaries funded by the Coalition. The Coalition plans to contest the District's claim that unemployment compensation taxes are due by maintaining its position that the employees in question are federal employees and, therefore, their salaries are not subject to the District's unemployment compensation tax. At present, it is not known whether the Coalition will ultimately be liable for the \$6,973 tax debt previously written off in the 1988 Statement of Operations and Fund Balance and/or the \$314 in taxes for 1988 that would be payable on these same employees' salaries.

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If the Coalition is deemed liable for unpaid District unemployment compensation taxes, the estimated tax debt at December 31, 1988, could amount to \$7,287. In addition, the District could require that the \$1,166 that was refunded in January 1989 be returned.

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