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United States General Accounting Office

Report to the Co-Chairmen, Northeast-
Midwest Congressional Coalition

November 1990

FINANCIAL AUDIT

Northeast-Midwest Congressional Coalition Financial Statements for 1989 and 1988



**Accounting and Financial
Management Division**

B-233862

November 7, 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 a March 14, 1990, letter from the Chairman, Committee on House Administration, House of Representatives, we have audited the balance sheets of the Coalition as of December 31, 1989 and 1988, and the related statements of operations and fund balance and of cash flows for the years then ended. We completed our audit work on August 10, 1990. 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 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 Coalition as of December 31, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note 4 to the financial statements, the District of Columbia is re-examining its earlier position that certain Coalition employees' salaries were exempt from the District's unemployment compensation taxes. The Coalition does not believe that it is liable for these taxes. At present, the outcome of this dispute cannot be projected because the District has not made a final decision regarding the Coalition's liability. Accordingly, no provision for any liability that may result upon settlement has been made in the accompanying financial statements.

This report contains our report on internal control structure and compliance with laws and regulations for the year ended December 31, 1989. It also includes the Coalition's financial statements and accompanying notes for the years ended December 31, 1989 and 1988.



Donald H. Chapin
Assistant Comptroller General

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Report on Internal Control Structure and Compliance With Laws and Regulations

We have audited the financial statements of the Northeast-Midwest Congressional Coalition for the years ended December 31, 1989 and 1988 and have issued our opinion thereon. 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 internal control structure and our review of compliance with laws and regulations for the year ended December 31, 1989. Our report on internal accounting controls and compliance with laws and regulations for the year ended December 31, 1988, is presented in GAO/AFMD-90-38, dated February 15, 1990.

We did not complete a study and evaluation of the Coalition's internal control structure 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, 1989.

While we did not perform a complete study and evaluation of the Coalition's internal control structure, 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 federal regulations on the withholding and payment of income and social security taxes. 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 Sheets

	December 31,	
	1989	1988
Assets		
Cash		
Operating accounts	\$8,784	\$8,118
Special assessment account (note 2)	0	4,005
Prepaid publications	397	358
Accounts receivable—dues	2,000	0
Total Assets	\$11,181	\$12,481
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$6,191	\$4,763
Accrued liabilities	2,148	3,041
Special tax assessment payable (note 2)	0	9,818
Prepaid members' dues	11,500	12,000
Total liabilities	19,839	29,622
Fund balance (deficit)	(8,658)	(17,141)
Total Liabilities and Fund Balance	\$11,181	\$12,481

The accompanying notes are an integral part of these statements.

Statements of Operations and Fund Balance

	Years ended December 31,	
	1989	1988
Revenues (note 2)		
Members' dues	\$160,000	\$146,200
Clerk-hire funds	12,947	21,825
Special assessments—taxes	0	10,111
Special assessments—expenses	6,996	8,359
Tax refunds (note 5)	6,910	0
Total revenues	186,853	186,495
Expenses (notes 2 and 3)		
Salaries and benefits	145,585	145,162
Payroll taxes	10,626	12,695
Equipment rental	12,193	10,085
Telephone	1,293	2,220
Office supplies	2,719	1,410
Subscriptions	2,416	1,376
Printing	1,087	926
Meetings and official functions	506	529
Professional fees	0	80
Miscellaneous	1,945	494
Total expenses	178,370	174,977
Income before extraordinary item	8,483	11,518
Extraordinary item:		
Write-off of tax debt (note 4)	0	6,973
Net income	8,483	18,491
Fund balance, beginning of year (deficit)	(17,141)	(35,632)
Fund Balance, End of Year (deficit)	\$(8,658)	\$(17,141)

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	Years ended December 31,	
	1989	1988
Cash Flows From Operating Activities		
Income before extraordinary item	\$8,483	\$11,518
Adjustments to reconcile income before extraordinary item to net cash provided by (used in) operating activities:		
(Increase) Decrease in accounts receivable	(2,000)	862
(Increase) Decrease in prepaid expenses	(39)	22
Increase (Decrease) in accounts payable	1,428	(11,522)
Increase (Decrease) in special tax assessment payable	(9,818)	(39,221)
(Decrease) Increase in prepaid members' dues	(500)	10,000
(Decrease) Increase in accrued liabilities	(893)	2,839
Net cash used in operating activities	(3,339)	(25,502)
Extraordinary income from write-off of tax debt	0	6,973
Net decrease in cash	(3,339)	(18,529)
Cash at beginning of year	12,123	30,652
Cash Balance at End of Year	\$8,784	\$12,123

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

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 purposes are 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 mid-western 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.

Note 2. Accounting Policies

There are three 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; and
- special assessments—expenses, which are recognized when an expense voucher is sent to a member for payment.

In 1988, another revenue source was a special member assessment for pre-1987 payroll tax liabilities. This member assessment was authorized in August 1987 by the Chairman of the Committee on House Administration to be used exclusively for payroll tax obligations for prior years. The liability was paid off in January 1989, which eliminated the need for this revenue source. Separate cash and payable accounts were established to record the special tax assessments.

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

Note 3. 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 4. Contingency—Taxes Payable to the District of Columbia

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 does not agree with the District's claim that unemployment compensation taxes are due because it maintains that the employees in question are federal employees and, therefore, their salaries are not subject to the District's unemployment compensation tax. These differing views remain unresolved since the District has not made a final decision regarding the Coalition's liability.

At present, it is not known whether the Coalition will ultimately be liable to the District for unemployment compensation taxes. If the Coalition is deemed liable for unpaid District unemployment compensation taxes, the estimated tax debt at December 31, 1989, could amount to \$9,751. This estimate includes the estimated liability at December 31, 1988, of \$7,287, the refund received in January 1989 of \$1,166, and the estimated taxes payable for 1989 of \$1,298.

Note 5. Tax Refunds

In 1989, the Coalition received tax refunds totaling \$6,910. The refunds consisted of the \$1,166 discussed in note 4 from the District of Columbia and \$5,744 from the Internal Revenue Service for payroll tax overpayments and interest on the overpayments. The Internal Revenue Service refund related to the Coalition's pre-1987 payroll tax liability, which it settled in January 1989. The refund resulted from the Service's decision to abate interest and penalties on the pre-1987 payroll tax liability.

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