

GAO

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

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November 1993

**FINANCIAL AUDIT**

**Northeast-Midwest  
Congressional  
Coalition Financial  
Statements for 1992  
and 1991**



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

Comptroller General  
of the United States

B-233862

November 8, 1993

The Honorable Dean A. Gallo, Co-Chair  
The Honorable Marcy Kaptur, Co-Chair  
Northeast-Midwest Congressional Coalition

Pursuant to your request, we audited the accompanying statements of financial position of the Northeast-Midwest Congressional Coalition as of December 31, 1992 and 1991, and the related statements of revenues and expenses and of cash flows for the years then ended. We found

- the financial statements were reliable in all material respects;
- internal controls in effect on December 31, 1992, provided reasonable assurance that losses, noncompliance with laws and regulations, and misstatements material to the financial statements would be prevented or detected; and
- no material noncompliance with laws and regulations we tested for 1992.

The following sections outline each conclusion in more detail and discuss the scope of our audits.

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## Opinion on the Financial Statements

The financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, the Coalition's

- assets, liabilities, and fund balance;
- revenues and expenses; and
- cash flows.

As discussed in note 4, the financial statements present the activities financed by Members of the Coalition and the identifiable portion of employee benefits paid with appropriated funds. These financial statements do not include those items related to office space, utilities, and furnishings financed by funds appropriated to the Architect of the Capitol or the U.S. House of Representatives.

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## Opinion on Internal Controls

The internal controls we evaluated were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with laws and regulations; and

- properly record, process, and summarize transactions to permit the preparation of financial statements, and to maintain accountability for assets.

Those controls in effect on December 31, 1992, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected. Our report on the Coalition's internal control structure for 1991 is in GAO/AIMD-93-27, dated August 13, 1993.

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## Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance for 1992. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred. Our report on compliance with laws and regulations for 1991 is also in GAO/AIMD-93-27, dated August 13, 1993.

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## Objectives, Scope, and Methodology

Management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles,
- establishing and maintaining internal controls to provide reasonable assurance that the internal control objectives mentioned above are met, and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly in conformity with generally accepted accounting principles) and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with selected provisions of laws and regulations.

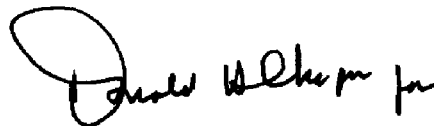
In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;

- evaluated and tested relevant internal controls which encompassed the following areas: receipts, disbursements, and financial reporting; and
- tested compliance with regulations established by the Committee on House Administration and governmental regulations related to payroll. (See note 2.)

We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements 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 because of changes in conditions or that the degree of compliance with controls may deteriorate.

We performed our work in accordance with generally accepted government auditing standards. We completed our audit work on June 11, 1993.



Charles A. Bowshe  
Comptroller General  
of the United States

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# Financial Statements

## Statements of Financial Position

	<u>December 31,</u>	
	<u>1992</u>	<u>1991</u>
<b>Assets</b>		
Cash	\$113,325	\$46,799
Accounts receivable--dues	1,500	0
Accounts receivable--other	384	820
Prepaid computer rental	2,582	5,163
Prepaid publications	<u>403</u>	<u>449</u>
<b>Total Assets</b>	<b><u>\$118,194</u></b>	<b><u>\$53,231</u></b>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable--trade	\$ 1,145	\$ 329
Accrued liabilities	4,572	788
Dues prepaid by Members	<u>56,500</u>	<u>35,750</u>
<b>Total liabilities</b>	<b>62,217</b>	<b>36,867</b>
Fund balance	<u>55,977</u>	<u>16,364</u>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$118,194</u></b>	<b><u>\$53,231</u></b>

The accompanying notes are an integral part of these statements.



Financial Statements

Statements of Revenues and Expenses

	<u>Year ended December 31,</u>	
	<u>1992</u>	<u>1991</u>
<b>Revenues (note 3)</b>		
Members' dues	\$205,250	\$180,000
Clerk-hire funds	9,450	17,355
Government contributions for payroll expenses	7,701	8,939
Special assessments for expenses	5,166	3,531
Travel funds provided by others	435	1,300
Tax refund	<u>716</u>	<u>702</u>
<b>Total revenues</b>	<b><u>228,718</u></b>	<b><u>211,827</u></b>
<b>Expenses (notes 3 and 4)</b>		
Salaries and benefits	158,927	163,877
Payroll taxes	12,223	12,288
Equipment rental	7,412	8,950
Subscriptions	4,464	4,474
Office supplies	1,811	1,234
Telephone	1,581	1,509
Printing	1,070	2,080
Travel and meetings	540	1,900
Bad debt expense	0	4,500
Miscellaneous	<u>1,077</u>	<u>525</u>
<b>Total expenses</b>	<b><u>189,105</u></b>	<b><u>201,337</u></b>
<b>Excess of Revenues Over Expenses</b>	<b><u>\$ 39,613</u></b>	<b><u>\$ 10,490</u></b>

The accompanying notes are an integral part of these statements.

**Financial Statements**

**Statements of Cash Flows**

	<u>Year ended December 31,</u>	
	<u>1992</u>	<u>1991</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from Members (note 3)	\$ 224,500	\$ 189,680
Cash received for tax refunds	716	702
Cash paid to employees and service providers	<u>(158,690)</u>	<u>(171,937)</u>
<b>Net cash provided by operating activities</b>	<b>66,526</b>	<b>18,445</b>
Cash at beginning of year	<u>46,799</u>	<u>28,354</u>
<b>Cash Balance at End of Year</b>	<b>\$ <u>113,325</u></b>	<b>\$ <u>46,799</u></b>
<b>Reconciliations of Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities</b>		
Excess of revenues over expenses	<u>\$ 39,613</u>	<u>\$ 10,490</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Decrease (increase) in assets		
Accounts receivable	(1,064)	6,680
Prepaid expenses	2,627	2,563
Increase (decrease) in liabilities		
Accounts payable	816	(285)
Accrued liabilities	3,784	(4,003)
Prepaid Members' dues	<u>20,750</u>	<u>3,000</u>
Total adjustments	<u>26,913</u>	<u>7,955</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ <u>66,526</u></b>	<b>\$ <u>18,445</u></b>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

**Note 1. Description of the Coalition**

The Northeast-Midwest Congressional Coalition is a legislative service organization (LSO) sponsored by Members of Congress who pool their resources to pursue common legislative goals. Legislative service organizations are unincorporated associations of Members that assist in carrying out activities of mutual interest and coordinate their efforts for reasons of efficiency and effectiveness. The Coalition's 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 the northeastern and midwestern states.

**Note 2. Regulations and Rules Pertaining to the Coalition**

On October 21, 1981, the Committee on House Administration adopted regulations and rules pertaining to legislative service organizations. Effective January 1, 1983, these regulations require the following:

- A legislative service organization may not use dues or assessments to generate additional income, including income from interest-bearing accounts or time deposits.
- A legislative service organization generally may not receive income or contributions from any source other than the Congress or its Members.
- Each legislative service organization shall submit a quarterly report of its receipts and disbursements to the Clerk of the House not later than 30 days after the end of the reporting period.
- At establishment and by May 1 of each even-numbered year thereafter, 30 Members of each legislative service organization, or two-thirds of the total membership, whichever is less, shall attest, in a statement filed with the Committee on House Administration, that the organization is to provide bona fide legislative services or assistance which supports them in the performance of their official duties.

The Committee on House Administration permits legislative service organizations, such as the Coalition, to carry over unexpended funds into the following year. The Coalition's fund balance represents amounts received in earlier years as Members' dues which have not yet been expended and which will remain available to cover operating costs of future periods.

Also, certain House regulations applicable to Members have not been applied to legislative service organizations. For example, rules prohibiting purchases of food and beverages, unless they are part of an event to discuss matters related to the Members' official and representational duties with persons, other than Members or staff, who have a legitimate interest therein, do not apply to legislative service organizations.

On August 5, 1993, the Committee on House Administration adopted new regulations and rules to govern the operation of legislative service organizations. The effective date of these regulations and rules is January 1, 1994.

**Note 3. Significant Accounting Policies**

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles.

The Coalition receives the following forms of revenues: (1) Member dues, which the Coalition recognizes as revenues for the year to which they are applied and (2) payments of expenses on behalf of the Coalition. The Coalition recognizes the revenues and the expenses in the amount of these payments but does not receive or disburse cash. Such payments include the following:

- Clerk-hire funds are salaries paid to Coalition staff by the Clerk of the House on behalf of Members. These revenues and expenses are recognized as the staff earn salary.
- Government contributions for payroll expenses are benefits such as retirement and health and life insurance, and payroll taxes paid for employees who receive clerk-hire salary payments.
- Special assessments for expenses are bills paid directly by Coalition Members on behalf of the Coalition rather than from dues paid to the Coalition. These revenues are recognized when an expense voucher is sent to a Member for payment.

The Coalition leases equipment through the House Office Systems Management. Equipment usage fees are shown as equipment rental expense.

The Coalition does not estimate an allowance for uncollectible receivables because bad debts are infrequent. Bad debts are written off when determined to be uncollectible.

No annual leave or sick leave is accrued at year-end because the staff cannot carry over vacation leave or sick leave from year to year, but must use it within the calendar year.

**Note 4. Appropriated Funds Support**

Certain costs of operating the Coalition are financed by funds appropriated to the Architect of the Capitol and Clerk of the House of Representatives rather than through the Coalition's financial statements. Some of those costs cannot be readily determined, such as office space, utilities (except telephone), furniture, repairs, maintenance, and other services.

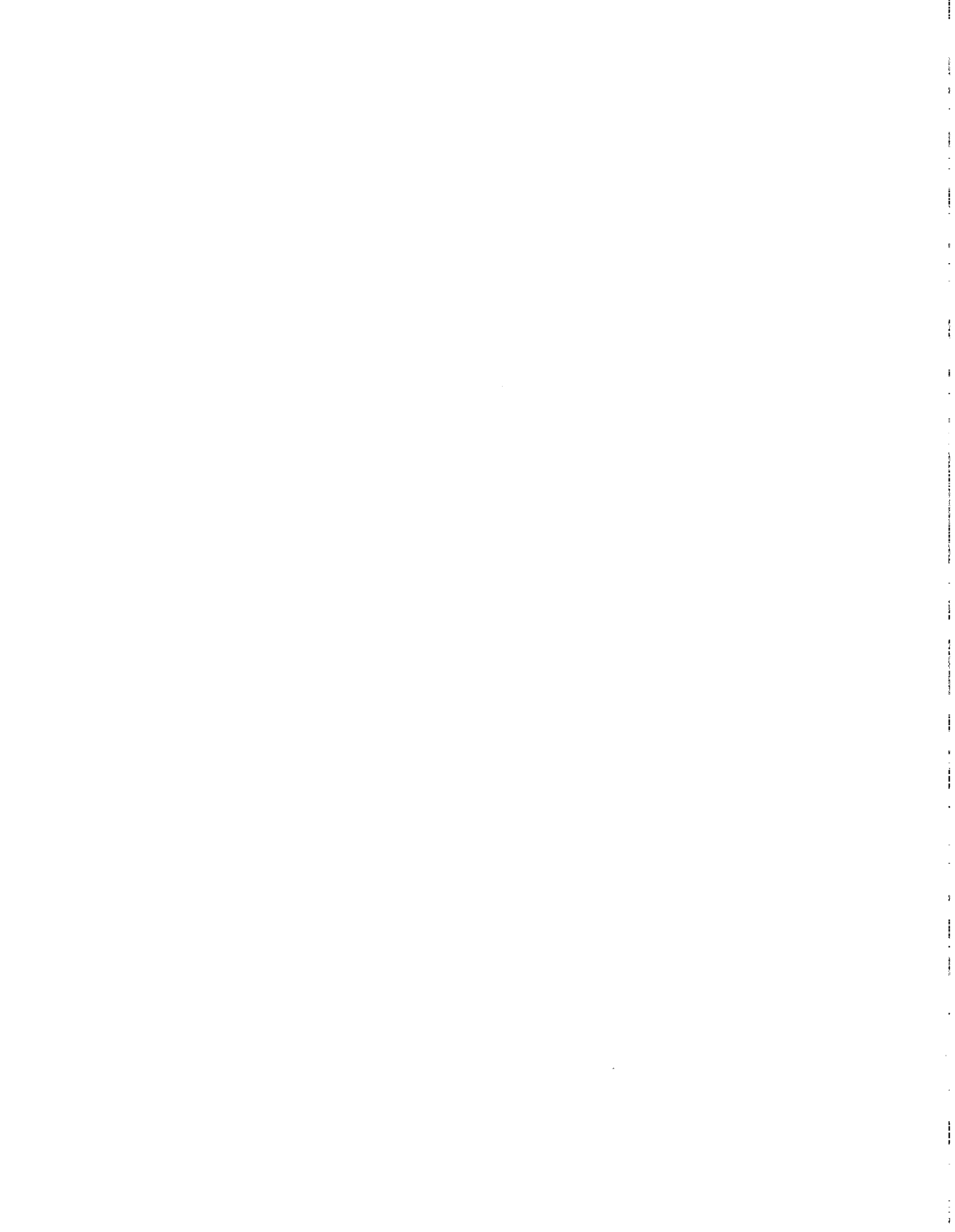
**Note 5. Contingency--Taxes Payable to the District of Columbia**

The District's Department of Employment Services informed the Coalition in September 1989 that it was reexamining its earlier position that certain Coalition employee 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 clerk-hire funds, unemployment taxes must be paid on the share funded by the Coalition. The Coalition disagrees with the District's claim that unemployment compensation taxes are due for these employees. These differing views remain unresolved, because the District has not made a final decision. The Coalition has had no further correspondence from the District's Department of Employment Services. Accordingly, no amounts have been accrued for these taxes. However, the Coalition does pay taxes for employees financed solely with Coalition funds.

**Note 6. Related Parties**

The Northeast-Midwest Congressional Coalition shares its executive director and accountant with other organizations. The executive director is shared with the Northeast-Midwest Senate Coalition and the Northeast-Midwest Institute, although he is not compensated by the Northeast-Midwest Senate Coalition. The Coalition's accountant is shared with the Institute. However, these organizations have separate Boards of Directors and no common Members.

The Northeast-Midwest Congressional Coalition has no other financial relationship with these organizations. The two Coalitions share common objectives related to informing their members about the regional implications of federal policies and legislation. The Institute is a privately funded, nonprofit, independent research organization, created in 1978 at the request of the Northeast-Midwest Congressional Coalition to provide in-depth research and analyses on the regional implications of federal policies and legislation.



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