

December 2001

FINANCIAL AUDIT

U.S. Senate Stationery  
Room Revolving  
Fund's Fiscal Year  
2000 Financial  
Statement





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

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December 21, 2001

The Honorable Jeri Thomson  
Secretary of the Senate

Dear Ms. Thomson:

At the request of the former Secretary of the Senate, we conducted a financial audit of the Senate Stationery Room Revolving Fund's Statement of Receipts, Disbursements, and Fund Balance for the fiscal year ended September 30, 2000. The enclosed report presents our opinion on the financial statement, the effectiveness of the Stationery Room's related internal controls, and our conclusion on compliance with selected provisions of laws and regulations we tested.

We are sending copies of this report to the Majority and Minority Leaders of the Senate and the Chairmen and Ranking Minority Members of the Senate Committee on Rules and Administration and the Subcommittee on Legislative Branch, Senate Committee on Appropriations. We will send copies to other interested parties upon request. The report will also be available on GAO's home page at <http://www.gao.gov>.

This report was prepared under the direction of Jeanette M. Franzel, Acting Director, Financial Management and Assurance, who can be reached at (202) 512-9406. If I can be of further assistance, please call me at (202) 512-2600.

Sincerely yours,

Jeffrey C. Steinhoff  
Managing Director  
Financial Management and Assurance

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

To the Secretary of the Senate

We have audited the accompanying Statement of Receipts, Disbursements, and Fund Balance for the Senate Stationery Room Revolving Fund for the fiscal year ended September 30, 2000. We found

- the statement is presented fairly in all material respects;
- although internal control should be improved, the Stationery Room had effective internal controls over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- no reportable noncompliance with selected provisions of laws and regulations we tested.

The following sections present each conclusion in more detail and discuss the scope of our audit.

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## Opinion on the Financial Statement

The Statement of Receipts, Disbursements, and Fund Balance and the accompanying notes present fairly, in conformity with the cash basis of accounting, the receipts, disbursements, and fund balance of the Stationery Room Revolving Fund for the fiscal year ended September 30, 2000. As described in note 2 of the accompanying statement, the cash basis of accounting is a comprehensive basis of accounting that recognizes transactions when cash is received and disbursed. This basis of accounting differs from U.S. generally accepted accounting principles, which recognize revenue when earned and expenses when incurred.

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## Opinion on Internal Control

The Stationery Room maintained in all material respects effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2000, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statement would be prevented or detected promptly. Management asserted that its internal control is effective based on the Comptroller General's *Standards for Internal Control in the Federal Government*.<sup>1</sup>

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<sup>1</sup>*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

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Our work did identify the need to improve certain internal controls. We noted weaknesses related to the Stationery Room's disbursements, cash handling, and reconciliation of its transactions and fund balance with records maintained by the Senate Disbursing Office.

- With respect to disbursement-related controls, the approval of purchase orders and disbursement vouchers and the associated certification of the receipt of goods were routinely documented with signature stamps. However, access to the signature stamps was not tightly controlled. Also, stamped copies of purchase orders were not retained as evidence of their approval. In addition, individuals who received goods and recorded the receipt of goods in the Stationery Room inventory records were not identified in the receiving records.
- With respect to cash handling controls, the Stationery Room did not adequately segregate cash counting and handling duties from the recording of certain cash-related transactions. One way to compensate for inadequate segregation of cash handling and recording duties is to conduct meaningful reviews of cash-related activities by individuals not directly involved in the activities. However, the Stationery Room's records of daily cash handling did not contain evidence (such as a dated signature) that reviews of cash counting and recording were performed.
- With respect to the use of reconciliation as a control, the Stationery Room did not perform timely reconciliations of its records of disbursements and revolving fund balance with the records of the revolving fund's disbursements and fund balance maintained by the Senate Disbursing Office. Managers for the Stationery Room told us that the Stationery Room's having not performed timely reconciliations for fiscal year 2000 activity resulted in part from the Disbursing Office's installation of a new financial management system in fiscal year 1999. Because of the volume of its disbursement transactions the Stationery Room has utilized a process of electronically matching its transaction records with records of transactions processed by the Senate Disbursing Office to facilitate its reconciliation process. Implementation changes and related priority issues associated with the new system reduced the Stationery Room's ability to efficiently match its disbursement transactions to those recorded in the new system. In response, staff of the Stationery Room and Senate Disbursing Office instituted alternative electronic matching procedures to facilitate timely reconciliations of transactions. These procedures enabled the

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Stationery Room to complete its matching and reconciliation of fiscal year 2000 activity during our audit. The completed reconciliation did not identify any material errors either individually or in total.<sup>2</sup>

Based on the results of the Stationery Room's reconciliations and our overall tests of disbursement and receipt processing, we found that these internal control weaknesses did not result in a material misstatement in the Stationery Room's Statement of Receipts, Disbursements, and Fund Balance. Also, these weaknesses taken together are not considered a material weakness.<sup>3</sup> They do, however, represent a reportable condition. A reportable condition is a significant deficiency in the design and/or operation of internal control that could adversely affect the Stationery Room's ability to meet internal control objectives. These weaknesses increase the Stationery Room's potential exposure to loss and errors or irregularities that may occur and not be detected.

In light of the internal control weaknesses identified during our audit, we recommended that Stationery Room management strengthen disbursement, cash handling, and reconciliation controls by ensuring that

- individuals responsible for approving purchase orders, vouchers, and certifications of the receipt of goods and services either sign each document to formally evidence their actions or ensure that the signature stamps are adequately controlled;
- copies of authorized purchase orders are retained and the individuals who received the goods are identified on the receiving records;
- its daily records of cash received and processed are independently reviewed and those performing the review clearly document (with name and date) their review;

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<sup>2</sup>The fact that the Stationery Room reconciliation of fiscal year 2000 transactions did not identify material errors reflected, in part, the fact that the Senate Gift Shop, which has fewer transactions to reconcile, completed its reconciliations for fiscal year 2000 activity on a timely basis. In completing its reconciliations, the Senate Gift Shop identified and corrected various posting errors that also involved errors in the recording of Senate Stationery Room transactions.

<sup>3</sup>A material weakness is a reportable condition that does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

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- reconciliations of Stationery Room disbursement transactions and fund balance with amounts recorded by the Senate Disbursing Office are routinely completed in a timely manner; and
  - the Stationery Room's financial and compliance activities are monitored for compliance with internal controls.

During our audit, Stationery Room management acknowledged these internal control weaknesses and has either completed or initiated actions to address our recommendations. Specifically, Stationery Room management has established controls over physical access to signature stamps to help ensure that only persons acting within the scope of their authority authorize transactions. In addition, those individuals who receive goods are signing their initials on the receiving documents in addition to documenting the date and quantities of goods received. Also, copies of purchase orders with stamped signatures are being retained. To provide compensating controls for the cash handling and recording duties, Stationery Room management has implemented procedures for the independent review of daily cash-related records. In addition, those performing the independent reviews are required to document these records with their dated initials. The Stationery Room is also in the process of reconciling its fiscal year 2001 records with the Senate Disbursing Office's records, and it plans to continue this process quarterly as the Senate Disbursing Office reports on the activity of the revolving fund.

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## Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance reportable under U.S. generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

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## Objectives, Scope, and Methodology

Management of the Stationery Room is responsible for

- preparing the Statement of Receipts, Disbursements, and Fund Balance in conformity with the cash basis of accounting;
- establishing, maintaining, and assessing internal control to provide

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reasonable assurance that the objectives of internal control<sup>4</sup> are met; and

- complying with applicable laws and regulations.

We are responsible for

- obtaining reasonable assurance about whether the Statement of Receipts, Disbursements, and Fund Balance is presented fairly in all material respects, in conformity with the cash basis of accounting;
- obtaining reasonable assurance about whether management maintained effective internal control over financial reporting and compliance, the objectives of which are the following:
  - financial reporting: transactions are properly recorded, processed, and summarized to permit the preparation of the Statement of Receipts, Disbursements, and Fund Balance in conformity with the cash basis of accounting, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and
  - compliance with laws and regulations: transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statement; and
- testing compliance with selected provisions of laws and regulations that were determined to have a direct and material effect on the Stationery Room's financial statement for the fiscal year ended September 30, 2000.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the Statement of Receipts, Disbursements, and Fund Balance, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the Statement of Receipts, Disbursements, and Fund Balance, (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations, (5) tested relevant internal controls over financial reporting (including safeguarding of assets) and compliance and evaluated the design and operational effectiveness of

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<sup>4</sup>Management's internal control responsibility encompasses controls related to (1) the effectiveness and efficiency of operations, including the use of resources, (2) the reliability of financial reporting, including internal and external reports on the use of resources and financial statements, and (3) compliance with laws and regulations. Within each of these categories, management is responsible for establishing controls to prevent or promptly detect unauthorized acquisition, use, or disposition of assets (safeguarding assets).

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internal control, and (6) tested compliance with selected provisions of the following relevant laws and regulations:

- 2 U.S.C. Sec. 46a-1 relating to the establishment of the Stationery Room Revolving Fund including deposit of sales receipts and disbursements from the fund,
- 2 U.S.C. Sec. 109 relating to preference to purchase American goods,
- 2 U.S.C. Sec. 68 relating to the approval of disbursements, and
- the Antideficiency Act relating to the disbursement of revolving fund assets.

We also reviewed evidence of actions taken by management in response to the reportable condition identified during the audit.

We did not evaluate internal controls relevant to the effectiveness and efficiency of the Stationery Room's operations. We limited our internal control testing to relevant controls over financial reporting (including safeguarding of assets) and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance 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 the compliance with controls may deteriorate.

With respect to our tests of selected provisions of laws and regulations, we did not test compliance with all laws and regulations applicable to the Stationery Room. We caution that noncompliance may have occurred and not been detected by the tests we performed. Accordingly, the scope of our tests of noncompliance may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards.

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## Management's Comments

We provided copies of our draft report to the management of the Stationery Room and representatives of the Office of the Secretary of the Senate for review and comment and met with them to discuss the draft report. In commenting on the draft, they agreed with the revised report's findings, conclusions, and recommendations. With respect to the need to improve internal controls, they noted that the Stationery Room has initiated a series of actions intended to strengthen controls including tighter controls over access to signature stamps, approval of purchase and receiving documents,

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and cash handling procedures. In addition, new procedures have been developed to facilitate more timely reconciliation of Stationery Room transactions with transactions processed by the Senate Disbursing Office. They also provided comments for clarification, which we have included in the report where appropriate.

A handwritten signature in black ink, appearing to read "Jeffrey C. Steinhoff". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Jeffrey C. Steinhoff  
Managing Director  
Financial Management and Assurance

September 21, 2001

# Financial Statement

## Statement of Receipts, Disbursements, and Fund Balance

### United States Senate Stationery Room Revolving Fund Statement of Receipts, Disbursements, and Fund Balance

	Fiscal year ended September 30, <u>2000</u>
<b>Receipts</b>	
Sales (note 3)	<u>\$3,991,210</u>
<b>Total receipts</b>	<b>3,991,210</b>
<b>Disbursements</b> (note 4)	
Inventory and supplies	2,804,333
Professional and other services	639,633
Equipment	<u>91,538</u>
<b>Total disbursements</b>	<b>3,535,504</b>
<b>Net receipts</b>	<b><u>455,706</u></b>
<b>Beginning fund balance</b> (note 5)	<b>932,087</b>
<b>Ending fund balance</b> (note 5)	<b><u>\$1,387,793</u></b>

The accompanying notes are an integral part of this financial statement.

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**Notes to the Statement of Receipts, Disbursements, and Fund Balance****Note 1. Description of Entity**

The United States Senate Stationery Room was established to provide stationery and office supplies to Members of the Senate, Senate Offices, and other authorized legislative organizations. The Stationery Room revolving fund was established within the contingent fund of the Senate to support the activities of the Stationery Room. Any amounts received as proceeds from the sales of the Stationery Room are to be deposited into the revolving fund and are available until expended for the purpose for which the fund was established. (2 U.S.C. Sec. 46a-1)

**Note 2. Basis of Accounting**

Amounts received from and used for Stationery Room operations are accounted for and reported by the fund on the cash basis. The cash basis of accounting recognizes transactions when the cash is received and disbursed. The cash basis is a comprehensive basis of accounting that differs from U.S. generally accepted accounting principles, which recognize revenues when earned and expenses when incurred.

All receipts from the sale of stationery items are deposited into the fund. The fund balance is used to pay for purchases of (1) inventory items available for resale to customers of the Stationery Room and (2) equipment and related services that directly support Stationery Room operations. The fund balance was not used to pay for salaries and benefits of Senate employees who work in the Stationery Room, the costs of which are charged to the "Salaries, Officers, and Employee" appropriation account for the Senate. The value of other expenses incidental to the Stationery Room operations, including space and utilities, is not readily identifiable. Any costs associated with these expenses are charged to other applicable appropriations.

**Note 3. Sales Receipts**

Sales receipts consist of cash sales and collections for sales made on account. The various Senate offices purchase their stationery and office supplies from the Stationery Room on account. Monthly, following review and approval of these transactions, the Senate Disbursing Office makes an adjusting entry, which records the receipts in the revolving fund and the disbursements in the various Senate Office accounts, thus paying each account in full monthly.

**Note 4. Disbursements**

Disbursements represent amounts paid to purchase stock for resale, special orders, and other goods and services needed to support Stationery Room operations.

**Note 5. Fund Balance**

The Beginning Fund Balance represents the balance at October 1, 1999, carried over from the prior period. The Ending Fund Balance represents the balance at September 30, 2000, and is the amount of funds available for disbursement in a subsequent period.

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**Financial Statement**

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