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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-199745

OCTOBER 23, 1984

The Honorable Larry E. Smith
Sergeant at Arms
United States Senate



125438

Dear Mr. Smith:

Subject: Examination of the Senate Recording and Photographic Studios Revolving Fund's Financial Statements for the Fiscal Years Ended March 31, 1984 and 1983 (GAO/AFMD-85-7)

Pursuant to your February 24, 1984, request, we have examined the balance sheets of the Senate Recording and Photographic Studios Revolving Fund as of March 31, 1984 and 1983, and the related statements of operations and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Senate Recording and Photographic Studios Revolving Fund as of March 31, 1984 and 1983, and the results of its operations and the changes in its financial position for the fiscal years then ended, in conformity with generally accepted accounting principles and the financial accounting policies described in note 1 to the financial statements applied on a consistent basis.

Enclosure I contains our report on internal accounting controls and compliance with laws and regulations. Enclosure II contains our comments on the Senate Recording and Photographic Studios Revolving Fund's operations. Enclosures III through VI present the revolving fund's financial statements and accompanying notes for the fiscal years ended March 31, 1984 and 1983.

Sincerely yours,

for Henry E. Schwegel
Comptroller General
of the United States

Enclosures

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REPORT ON INTERNAL ACCOUNTING CONTROLS
AND COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Senate Recording and Photographic Studios Revolving Fund for the fiscal years ended March 31, 1984 and 1983. Our examinations 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 study and evaluation of the system of internal accounting control and to our review of compliance with laws and regulations for the fiscal year ended March 31, 1984.

As part of our examination, we made a study and evaluation of the Senate Recording and Photographic Studios Revolving Fund's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Senate Recording and Photographic Studios Revolving Fund's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified below.

For the purpose of this report, we have classified the significant internal accounting controls into the following categories:

- receipts,
- disbursements,
- equipment, and
- materials and supplies.

Our study included all of the control categories listed above.

The management of the Senate Recording and Photographic Studios Revolving Fund is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of

financial statements in accordance with generally accepted accounting principles and the financial accounting policies described in note 1 to the financial statements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the second paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Senate Recording and Photographic Studios Revolving Fund taken as a whole or on any of the categories of controls identified in the third paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

As part of our examination we also tested the Senate Recording and Photographic Studios Revolving Fund's compliance with applicable laws and regulations. In our opinion, the Senate Recording and Photographic Studios Revolving Fund complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. Nothing came to our attention, in connection with our examination, that caused us to believe that the Senate Recording and Photographic Studios Revolving Fund was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

COMMENTS ON OPERATIONS OF THE
SENATE RECORDING AND PHOTOGRAPHIC STUDIOS
REVOLVING FUND

The Senate Recording Studio was established pursuant to section 105 of the Legislative Branch Appropriation Act, 1957 (2 U.S.C. 123b). The studio, operated by the Sergeant at Arms and Doorkeeper of the Senate under the direction and control of the Senate Committee on Rules and Administration, provides radio and television taping services to the vice president, senators, and Senate committees. The charges for these services are set by the Committee on Rules and Administration.

The Senate Photographic Studio was established pursuant to section 108 of the Supplemental Appropriations and Rescission Act, 1980 (2 U.S.C. 123b-1). The studio, operated by the Sergeant at Arms and Doorkeeper of the Senate subject to the approval of the majority and minority leaders, provides photographic services to Senate members and committees. The majority and minority leaders have approved a fee schedule for these services.

The studios' operations are financed from a revolving fund and from funds appropriated to the Secretary of the Senate. All moneys received from operations are deposited in the revolving fund and are available for the operation of the studios. Employee salaries and benefits and certain other operating expenses, such as utilities, are paid from appropriated funds. These expenses are neither recorded in the studios' accounting records nor included in determining the results of the studios' operations.

For the fiscal year ended March 31, 1984, the revolving fund's net income was \$75,692 for the combined operation compared to a net income of \$28,496 for the fiscal year ended March 31, 1983.

The 1984 net income consisted of a profit of \$96,980 from recording studio activities--\$33,156 more than the 1983 profit--and a loss of \$21,288 from photographic studio activities--\$14,040 less than the 1983 loss.

For the recording studio, profits from radio activities increased 55 percent--from \$18,444 in 1983 to \$28,579 in 1984. The profit from video activities was \$68,401 in 1984 compared to a profit of \$45,380 in 1983, a rise of about 51 percent. The changes resulted primarily from increased sales, with costs remaining relatively constant.

The \$21,288 loss from photographic studio activities in 1984 was somewhat lower than the \$35,328 loss in 1983.

SENATE RECORDING AND PHOTOGRAPHIC STUDIOSREVOLVING FUNDBALANCE SHEET

Fiscal years ended March 31,
1984 1983

A S S E T S

| | | |
|---|--------------------|--------------------|
| CURRENT ASSETS: | | |
| Cash in U.S. Treasury | \$ 821,423 | \$ 717,138 |
| Accounts receivable (note 2) | 64,801 | 59,843 |
| Inventory of materials and supplies, at cost | <u>37,608</u> | <u>29,780</u> |
| Total current assets | <u>923,832</u> | <u>806,761</u> |
| FIXED ASSETS: | | |
| Equipment (notes 3 and 4) | 1,431,898 | 1,377,555 |
| Less accumulated depreciation | <u>913,800</u> | <u>845,206</u> |
| Total | <u>518,098</u> | <u>532,349</u> |
| Recording studio facilities | 531,896 | 531,896 |
| Less accumulated depreciation | <u>362,800</u> | <u>336,206</u> |
| Total | <u>169,096</u> | <u>195,690</u> |
| Tools and minor equipment | <u>750</u> | <u>750</u> |
| Total fixed assets | <u>687,944</u> | <u>728,789</u> |
| TOTAL ASSETS | <u>\$1,611,776</u> | <u>\$1,535,550</u> |

L I A B I L I T I E S A N D
G O V E R N M E N T E Q U I T Y

| | | |
|--|--------------------|--------------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ <u>6,321</u> | \$ <u>5,769</u> |
| GOVERNMENT EQUITY: | | |
| Capital contributed | 183,619 | 183,619 |
| Donated equipment (note 3) | <u>-</u> | <u>18</u> |
| Total capital | <u>183,619</u> | <u>183,637</u> |
| FUND BALANCE: | | |
| Balance prior years | 1,346,144 | 1,317,648 |
| Fiscal year income | <u>75,692</u> | <u>28,496</u> |
| Total fund balance | <u>1,421,836</u> | <u>1,346,144</u> |
| Total government equity | <u>1,605,455</u> | <u>1,529,781</u> |
| TOTAL LIABILITIES AND GOVERNMENT EQUITY | <u>\$1,611,776</u> | <u>\$1,535,550</u> |

The accompanying notes are an integral part of this statement.

SENATE RECORDING AND PHOTOGRAPHIC STUDIOSREVOLVING FUNDSTATEMENT OF OPERATIONSFISCAL YEARS ENDED MARCH 31, 1984 AND 1983

| | <u>Total</u> | | <u>Recording Studio</u> | | | | <u>Photographic Studio</u> | |
|---|------------------|------------------|-------------------------|-----------------|-----------------|------------------|----------------------------|-------------------|
| | <u>FY 1984</u> | <u>FY 1983</u> | <u>Radio</u> | | <u>Video</u> | | <u>FY 1984</u> | <u>FY 1983</u> |
| | | | <u>FY 1984</u> | <u>FY 1983</u> | <u>FY 1984</u> | <u>FY 1983</u> | | |
| REVENUE: | | | | | | | | |
| Sales | \$342,720 | \$281,814 | \$ 81,745 | \$65,246 | \$174,259 | \$148,519 | \$ 86,716 | 68,049 |
| EXPENSES: | | | | | | | | |
| Radio, video, and photo- graphic materials | 124,788 | 104,053 | 31,636 | 24,095 | 28,269 | 23,344 | 64,883 | 56,614 |
| Maintenance and repairs | 19,094 | 23,975 | 603 | 1,682 | 5,716 | 17,344 | 12,775 | 4,949 |
| Maintenance supplies | 402 | 770 | 201 | 385 | 201 | 385 | - | - |
| Office sup- plies and miscellaneous expenses | 1,790 | 2,352 | 358 | 738 | 358 | 738 | 1,074 | 876 |
| Outside pro- cessing of film | 79 | 2,264 | - | - | - | 25 | 79 | 2,239 |
| Depreciation of equipment | 96,074 | 105,753 | 7,245 | 6,605 | 58,712 | 60,329 | 30,117 | 38,819 |
| Depreciation of recording studio facilities | 26,595 | 26,594 | 13,298 | 13,297 | 13,297 | 13,297 | - | - |
| Total expenses | 268,822 | 265,761 | 53,341 | 46,802 | 106,553 | 115,462 | 108,928 | 103,497 |
| Net income (loss) from operations | 73,898 | 16,053 | 28,404 | 18,444 | 67,706 | 33,057 | (22,212) | (35,448) |
| Other Income | 924 | 120 | - | - | - | - | 924 | 120 |
| Gain on dis- posal of equipment | 870 | 12,323 | 175 | - | 695 | 12,323 | - | - |
| NET INCOME (LOSS) | \$ 75,692 | \$ 28,496 | \$28,579 | \$18,444 | \$68,401 | \$ 45,380 | \$(21,288) | \$(35,328) |

The accompanying notes are an integral part of this statement.

SENATE RECORDING AND PHOTOGRAPHIC STUDIOSREVOLVING FUNDSTATEMENT OF CHANGES IN FINANCIAL POSITION

| | <u>Fiscal years ended March 31,</u> | |
|--|-------------------------------------|------------------|
| | <u>1984</u> | <u>1983</u> |
| FUNDS PROVIDED: | | |
| Net income | \$ 75,692 | \$ 28,496 |
| Depreciation--not requiring outlay of working capital | <u>122,669</u> | <u>132,347</u> |
| Total funds provided | <u>198,361</u> | <u>160,843</u> |
| FUNDS APPLIED: | | |
| Net equipment additions | <u>81,842</u> | <u>48,737</u> |
| Total funds applied | <u>81,842</u> | <u>48,737</u> |
| INCREASE IN WORKING CAPITAL: | <u>\$116,519</u> | <u>\$112,106</u> |

ANALYSIS OF WORKING CAPITAL INCREASES
(AND DECREASES)

| | <u>Fiscal years ended March 31,</u> | |
|--|-------------------------------------|------------------|
| | <u>1984</u> | <u>1983</u> |
| WORKING CAPITAL CHANGES: | | |
| Cash | \$104,285 | \$119,005 |
| Accounts receivable | 4,958 | (11,224) |
| Inventory of materials and supplies | 7,828 | (1,608) |
| Accounts payable | <u>(552)</u> | <u>5,933</u> |
| INCREASE IN WORKING CAPITAL: | <u>\$116,519</u> | <u>\$112,106</u> |

The accompanying notes are an integral part of this statement.

SENATE RECORDING AND PHOTOGRAPHIC STUDIOSREVOLVING FUNDNOTES TO FINANCIAL STATEMENTSFISCAL YEARS ENDED MARCH 31, 1984 AND 19831. Significant Accounting Policies

The Senate Recording and Photographic Studios are financed from a revolving fund and from funds appropriated to the Secretary of the Senate. All moneys received from operations are deposited in a revolving fund in the U.S. Treasury and are available for the operation of the studios.

The Senate Recording Studio was changed to the Senate Recording and Photographic Studios pursuant to section 108 of the Supplemental Appropriations and Rescission Act, 1980 (2 U.S.C. 123b-1). The photographic studio began operating as a part of the revolving fund in October 1980.

The Statement of Operations does not include employee salaries, which were \$574,299 for the recording studio (\$560,185 for the fiscal year ended March 31, 1983) and \$310,523 for the photographic studio (\$311,283 for the fiscal year ended March 31, 1983), employee benefits, or certain other benefits or services, such as space, building repairs and maintenance, and utilities. All these expenses are paid from appropriated funds and are neither recorded in the studios' accounting records nor charged to the revolving fund.

Inventories are stated at cost and are charged to operations using the first-in, first-out method of cost flow.

Equipment in the recording studio is depreciated over a 10-year life, and equipment in the photographic studio is depreciated over a 5-year life. Recording studio facilities are depreciated over a 20-year life. Both studios use the straight-line method.

2. Accounts Receivable

Accounts receivable from senators, committees, and the Keeper of Stationery amounted to \$64,801 (recording studio, \$41,827; photographic studio, \$22,974) on March 31, 1984--an increase of \$4,958 from the amount receivable on March 31, 1983. An analysis of the ages of the accounts receivable on March 31, 1984 and 1983, follows.

Recording Studio

| <u>Days outstanding</u> | <u>March 31, 1984</u> | | <u>March 31, 1983</u> | |
|-----------------------------|-----------------------|----------------|-----------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| 1 through 59 | \$34,901 | 83.5 | \$37,186 | 87.8 |
| 60 through 89 | 3,940 | 9.4 | 2,934 | 6.9 |
| 90 through 119 | 1,092 | 2.6 | 436 | 1.0 |
| 120 or more | <u>1,894</u> | <u>4.5</u> | <u>1,797</u> | <u>4.3</u> |
| Total | <u>\$41,827</u> | 100.0 | <u>\$42,353</u> | 100.0 |

Photographic Studio

| <u>Days outstanding</u> | <u>March 31, 1984</u> | | <u>March 31, 1983</u> | |
|-----------------------------|-----------------------|----------------|-----------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| 1 through 59 | \$15,598 | 67.9 | \$13,227 | 75.6 |
| 60 through 89 | 1,390 | 6.1 | 1,005 | 5.8 |
| 90 through 119 | 1,745 | 7.6 | 906 | 5.2 |
| 120 or more | <u>4,241</u> | <u>18.4</u> | <u>2,352</u> | <u>13.4</u> |
| Total | <u>\$22,974</u> | 100.0 | <u>\$17,490</u> | 100.0 |

As of June 1, 1984, \$31,090, or 74 percent, of the recording studio's accounts receivable balance had been paid, and \$15,361, or 67 percent, of the photographic studio's accounts receivable balance had been paid.

The recording studio writes a monthly letter to the Senate Sergeant at Arms listing all senators with outstanding accounts of \$1,000 or more. This is in accord with the policy established by the Senate Committee on Rules and Administration.

3. Donated Equipment

The estimated value of video equipment obtained from the General Services Administration at no cost is included at a value of \$18 on March 31, 1983. The equipment was disposed of in 1984.

4. Equipment

A summary of the changes in the equipment account for the 12 months ended March 31, 1984, follows.

| <u>Equipment</u> | Balance March 31, 1983 | <u>Additions</u> | <u>Disposals</u> | Balance March 31, 1984 |
|------------------------|------------------------------|------------------|------------------|------------------------------|
| Recording Studio: | | | | |
| Radio | \$ 70,757 | \$ 4,328 | \$ 1,754 | \$ 73,331 |
| Video | 1,113,050 | 76,309 | 25,593 | 1,163,766 |
| Office | <u>20,839</u> | <u>616</u> | <u>-</u> | <u>21,455</u> |
| Total | \$1,204,646 | \$81,253 | \$27,347 | \$1,258,552 |
| Photographic Studio | <u>172,909</u> | <u>589</u> | <u>152</u> | <u>173,346</u> |
| Total | <u>\$1,377,555</u> | <u>\$81,842</u> | <u>\$27,499</u> | <u>\$1,431,898</u> |