

United States General Accounting Office

GAO

Report to the Clerk of the House of
Representatives and the Acting Director
of the House Office of Non-Legislative
and Financial Services

October 1994

FINANCIAL AUDIT

House Child Care
Center—Fiscal Years
Ended 9-30-93, 9-30-92,
and Month Ended
9-30-91



Comptroller General
of the United States

B-234458

October 14, 1994

The Honorable Donald K. Anderson
Clerk of the House of Representatives

Mr. Randall B. Medlock
Acting Director, House Office of
Non-Legislative and Financial Services

As you requested, we audited the balance sheets of the House of Representatives Child Care Center (the Center) as of September 30, 1993 and 1992, and the related statements of revenues, expenses, and fund balance and statements of cash flows for the years then ended. In addition, as required by section 2(d) of H. Res. 21, 99th Congress, 1st Session (1985), we audited the balance sheet of the House of Representatives Child Care Center, Inc. (the Corporation), as of September 30, 1991, and the related statement of revenues, expenses, and fund balance and statement of cash flows for the month then ended. As of the beginning of fiscal year 1992, the Corporation's activities, except for its fund-raising activities, were transferred to the Center (see note 1). We found

- the financial statements were reliable in all material respects;
- internal controls in effect on September 30, 1993, 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.

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

Opinion on the Financial Statements

The financial statements and the accompanying notes of the Center as of September 30, 1993 and 1992, and the Corporation as of September 30, 1991, present fairly, in conformity with generally accepted accounting principles, the Center's and the Corporation's

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

As discussed in note 10, the financial statements present only the activities funded from tuition and related revenues. The statements also include appropriations received by the Center and the Corporation to cover the costs of employee benefits and employment taxes. They do not include costs relating to office space, building operations, and office furniture and equipment, which are financed by other legislative appropriations and are not readily identifiable.

Internal Controls

The internal controls we considered 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 maintain accountability for assets.

Those controls in effect for the Center on September 30, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected.

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred.

Objectives, Scope, and Methodology

Management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles,
- establishing and maintaining internal control systems to provide reasonable assurance that the 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 misstatements 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 the entity's management;
- evaluated and tested relevant internal controls, including those over revenues, expenditures, and payroll; and
- tested compliance with selected provisions of section 312 of Public Law No. 102-90, as amended, 40 U.S.C. section 184g (Supp. IV 1992), and H. Res. 423, 102d Cong., 2d Sess., agreed to April 9, 1992, with respect to the Center; H. Res. 21, 99th Cong., 1st Sess., agreed to December 11, 1985, as enacted into permanent law and amended, 40 U.S.C. sections 184b-184f (1988 and Supp. II 1990), with respect to the Corporation; and federal, state, and District of Columbia regulations on withholding and payment of income and social security taxes.

We limited our work to accounting and other controls necessary to achieve the objectives outlined in the section 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 audits in accordance with generally accepted government auditing standards. We completed our audit work on June 18, 1994.



Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements of the Center

Balance Sheets

	<u>September 30,</u>	
	<u>1993</u>	<u>1992</u>
Assets		
Current assets		
Cash	\$ 27,506	\$ 103
Accounts receivable	494	0
Due from Foundation	1,309	2,648
Due from appropriations (note 10)	<u>118</u>	<u>0</u>
Total Current Assets	<u>\$ 29,427</u>	<u>\$ 2,751</u>
Fixed assets		
Equipment (note 3)	30,239	30,239
Less accumulated depreciation	<u>(22,705)</u>	<u>(18,740)</u>
Total Fixed Assets	<u>7,534</u>	<u>11,499</u>
Total Assets	<u>\$ 36,961</u>	<u>\$ 14,250</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	315	41
Tuition deposits (note 4)	9,900	9,900
Accrued leave (note 4)	6,528	2,804
Accrued payroll (note 2)	<u>2,506</u>	<u>1,228</u>
Total liabilities	<u>19,249</u>	<u>13,973</u>
Fund balance	<u>17,712</u>	<u>277</u>
Total Liabilities and Fund Balance	<u>\$ 36,961</u>	<u>\$ 14,250</u>

The accompanying notes are an integral part of these statements.

Statements of Revenues, Expenses, and Fund Balance

	<u>Fiscal year ended September 30,</u>	
	<u>1993</u>	<u>1992</u>
Revenues		
Operating		
Tuition	\$437,402	\$440,331
Scholarships (note 5)	29,893	32,677
Application fees	1,575	1,550
Late fees	<u>220</u>	<u>225</u>
	<u>469,090</u>	<u>474,783</u>
Nonoperating		
Appropriations (note 10)	146,979	45,000
Tax refunds (note 6)	5,528	1,156
Contributions (note 2)	2,304	3,073
Miscellaneous income	<u>1,328</u>	<u>1,084</u>
	<u>156,139</u>	<u>50,313</u>
Total Revenues	<u>625,229</u>	<u>525,096</u>
Expenses		
Classroom		
Salaries (note 2)	431,149	408,479
Employee benefits (note 8)	114,341	102,769
Employment taxes (note 7)	32,589	31,513
Classroom supplies	20,999	22,958
Classroom activities	1,300	1,100
Staff development	<u>2,390</u>	<u>1,861</u>
	<u>602,768</u>	<u>568,680</u>
General and administrative		
Depreciation	3,965	4,959
Miscellaneous expenses (note 2)	<u>1,061</u>	<u>1,804</u>
	<u>5,026</u>	<u>6,763</u>
Total Expenses	<u>607,794</u>	<u>575,443</u>
Excess of Revenues over		
Expenses (Expenses over		
Revenues) (note 10)	17,435	(50,347)
Fund balance, beginning of year	<u>277</u>	<u>50,624</u>
Fund Balance, End of Year	<u>\$ 17,712</u>	<u>\$ 277</u>

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	<u>Fiscal year ended September 30,</u>	
	<u>1993</u>	<u>1992</u>
Cash Flows From Operating Activities		
Cash received for child care	\$ 469,089	\$ 503,316
Contributions received	2,304	2,392
Cash from tax refunds	5,528	1,156
Cash received from Foundation	1,339	0
Cash deposits from parents	0	11,250
Cash from prepaid insurance	0	5,694
Cash from appropriated funds	146,860	45,000
Cash from miscellaneous sources	1,328	1,125
Cash paid to suppliers and employees	<u>(599,045)</u>	<u>(569,930)</u>
Net cash provided by operating activities	<u>27,403</u>	<u>3</u>
Net Increase in Cash	27,403	3
Cash at beginning of year	<u>103</u>	<u>100</u>
Cash at End of Year	\$ 27,506	\$ 103
Reconciliation of Excess of Revenues over Expenses (Expenses over Revenues) to Net Cash Provided by Operating Activities		
Excess of Revenues over Expenses (Expenses over Revenues)	<u>\$ 17,435</u>	<u>\$ (50,347)</u>
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities		
Depreciation	3,965	4,959
Decrease (increase) in assets		
Prepaid insurance	0	6,204
Accounts receivable	(494)	0
Due from Foundation	1,339	38,633
Donated equipment	0	(640)
Due from appropriations	(118)	0
Increase (decrease) in liabilities		
Accounts payable	274	(182)
Accrued payroll	1,278	1,228
Accrued leave	3,724	(452)
Tuition deposits	<u>0</u>	<u>600</u>
Total adjustments	<u>9,968</u>	<u>50,350</u>
Net Cash Provided by Operating Activities	\$ 27,403	\$ 3

The accompanying notes are an integral part of these statements.

Financial Statements of the Corporation

Balance Sheet

	<u>September 30, 1991</u>
Assets	
Current assets	
Cash	\$ 72,091
Investment in 6-month Treasury Bills	48,638
Prepaid insurance expense	6,204
Accrued interest on investments	<u>764</u>
Total current assets	<u>127,697</u>
Fixed assets	
Equipment (note 3)	29,599
Less accumulated depreciation	<u>13,781</u>
Total fixed assets	<u>15,818</u>
Total Assets	<u>\$143,515</u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 223
Tuition deposits (note 4)	12,415
Accrued leave (note 4)	<u>3,256</u>
Total liabilities	<u>15,894</u>
Fund balance	<u>127,621</u>
Total Liabilities and Fund Balance	<u>\$143,515</u>

The accompanying notes are an integral part of these statements.

Statement of Revenues, Expenses, and Fund Balance

Month ended September 30, 1991

Revenues	
Operating	
Tuition	\$ 34,264
Application fees	175
Miscellaneous	250
	<u>34,689</u>
Nonoperating	
Contributions (note 5)	2,168
Interest (note 6)	621
	<u>2,789</u>
Total revenues	<u>37,478</u>
Expenses	
Classroom	
Salaries	32,195
Employment taxes (note 7)	2,400
Classroom supplies	2,049
Staff development	1,062
Employee benefits (note 8)	1,018
Classroom activities	150
	<u>38,874</u>
General and administrative	
Insurance	1,966
Depreciation	408
Professional services	109
Utilities--telephone	39
Office supplies	38
Miscellaneous	8
	<u>2,568</u>
Total expenses	<u>41,442</u>
Excess of Expenses Over Revenues	(3,964)
Fund balance, beginning of month (note 9)	<u>131,585</u>
Fund Balance, End of Month	<u>\$127,621</u>

The accompanying notes are an integral part of these statements.

Statement of Cash Flows

Month ended September 30, 1991

Cash Flows From Operating Activities

Cash received from child care	\$ 34,439
Contributions received	2,168
Interest received	451
Miscellaneous cash received	4,515
Cash paid to suppliers and employees	(39,358)
Other operating cash payments	<u>(3,352)</u>
Net cash used by operating activities	<u>(1,137)</u>

Cash at beginning of month 73,228**Cash at End of Month** **\$ 72,091****Reconciliation of Excess of Expenses Over
Revenues to Net Cash Used by Operating
Activities**

Excess of expenses over revenues	\$ (3,964)
Adjustments to reconcile excess of expenses over revenues to net cash used by operating activities	
Depreciation	408
Decrease (increase) in assets	
Prepaid insurance expense	1,880
Accrued interest on investments	(169)
Increase (decrease) in liabilities	
Accounts payable	(13)
Deposits held for parents	915
Accrued leave	<u>(194)</u>
Total adjustments	<u>2,827</u>
Net Cash Used by Operating Activities	<u>\$ (1,137)</u>

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Background

Organization

The House of Representatives Child Care Center is a federal entity that provides preschool child care for children of Members, officers, employees, and support personnel of the House of Representatives. From September 1, 1987, to October 1, 1991, the activities of the Center were performed by a private, nonprofit corporation, incorporated under the laws of the District of Columbia, known as the House of Representatives Child Care Center, Inc.

Effective October 1, 1991, Public Law 102-90 created the House of Representatives Child Care Center and placed it under the Clerk of the House of Representatives. The law also transferred the Corporation's child care operations and all of its employees to the Center. On May 1, 1993, the Director, House Non-Legislative and Financial Services, assumed responsibility for operating the Center pursuant to H. Res. 423, 102d Cong., 2d Sess., agreed to April 9, 1992.

The fund-raising activities remained with the Corporation, which later changed its name to the House of Representatives Child Care Center Foundation, a private organization that makes its own arrangements for financial statement audits.

The following balance sheets for the Center and the Foundation as of October 1, 1991, illustrate how the Corporation's assets and liabilities were divided at the beginning of fiscal year 1992 and present each entity's opening balances.

Balance Sheets at Beginning of Fiscal Year 1992
for House Child Care Center
and House Child Care Center Foundation

	<u>October 1, 1991</u>	
	<u>Center</u>	<u>Foundation</u>
Assets		
Current assets		
Cash	\$ 100	\$ 71,991
Due from Foundation	41,281	0
Investment in Treasury Bills	0	48,638
Prepaid insurance	6,204	0
Accrued interest receivable	0	764
Total current assets	<u>47,585</u>	<u>121,393</u>
Fixed assets		
Equipment	29,599	0
Less accumulated depreciation	<u>13,781</u>	<u>0</u>
Total fixed assets	<u>15,818</u>	<u>0</u>
Total Assets	<u>\$63,403</u>	<u>\$121,393</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 223	\$ 0
Tuition deposits	9,300	0
Amounts held for Parents Association	0	3,115
Accrued leave	3,256	0
Due to Center	0	41,281
Total Liabilities	<u>12,779</u>	<u>44,396</u>
Fund balance	<u>50,624</u>	<u>76,997</u>
Total Liabilities and Fund Balance	<u>\$63,403</u>	<u>\$121,393</u>

Note 2. Significant Accounting Policies

Basis of Accounting

Assets, liabilities, and expenses are recognized on the accrual basis of accounting in accordance with generally accepted accounting principles.

Change in Fiscal Year

Prior to becoming a federal entity on October 1, 1991, the House Child Care Center operated on a September 1 through August 31 fiscal year basis. After becoming a federal entity, the Center converted to a September 30 fiscal year-end.

Contributions and Donations

The Center receives donations from the Foundation, corporations, individuals, and the United Way. Contributions included cash and goods and services. Donated goods were received at fair market value; however, no value was assigned to donated services. The Foundation receives its contributions from corporations and individuals.

Depreciation

Donated and purchased equipment is depreciated over a 5-year or 10-year period using the straight-line method.

Expense Account Classification

The salaries of the Center Director and Administrative Assistant are included in classroom expenses rather than administrative expenses because these individuals are directly involved in the daily operation of the Center.

Miscellaneous expenses include office supplies, telephone, printing, professional services, employee gifts, and other miscellaneous costs.

Accrued Payroll

The undistributed portion of employees' earnings and related payroll taxes and employer contributions for employee benefits are accrued at the end of the fiscal year. At the end of fiscal year 1993, accrued payroll consisted of \$2,388 of salaries payable, \$81 of payroll taxes payable, and \$37 of benefits payable. At the end of fiscal year 1992, accrued payroll consisted of \$1,179 of salaries payable and \$49 of payroll taxes payable.

Note 3. Equipment

Equipment previously purchased or donated to the Corporation is listed in the following table.

Schedule of Purchased and Donated Equipment

	<u>As of September 30, 1991</u>		
	<u>Cost or fair market value</u>	<u>Accumulated depreciation</u>	<u>Net value</u>
Purchased equipment	\$12,579	\$ 7,431	\$ 5,148
Donated equipment	<u>17,020</u>	<u>6,350</u>	<u>10,670</u>
Total	<u>\$29,599</u>	<u>\$13,781</u>	<u>\$15,818</u>

	<u>As of September 30, 1992</u>		
	<u>Cost or fair market value</u>	<u>Accumulated depreciation</u>	<u>Net value</u>
Purchased equipment	\$12,579	\$ 10,389	\$ 2,190
Donated equipment	<u>17,660</u>	<u>8,351</u>	<u>9,309</u>
Total	<u>\$30,239</u>	<u>\$18,740</u>	<u>\$11,499</u>

The property listed as of September 30, 1992, was transferred from the Corporation to the Center in fiscal year 1992, except for equipment valued at \$640, which was donated to the Center in fiscal year 1992.

	<u>As of September 30, 1993</u>		
	<u>Cost or fair market value</u>	<u>Accumulated depreciation</u>	<u>Net value</u>
Purchased equipment	\$12,579	\$ 12,540	\$ 39
Donated equipment	<u>17,660</u>	<u>10,165</u>	<u>7,495</u>
Total	<u>\$30,239</u>	<u>\$22,705</u>	<u>\$ 7,534</u>

The Center did not acquire or dispose of any equipment during fiscal year 1993.

Note 4. Outstanding Current Liabilities

The Center held \$9,900 in refundable tuition deposits as of September 30, 1993 and 1992. The deposits are used to offset any unpaid charges when a parent withdraws a child from the Center's program. Tuition deposits are refundable if timely notice of withdrawal is given. The Corporation held \$9,300 in tuition deposits and \$3,115 of funds belonging to the Parents Association at September 30, 1991.

In addition, full-time Center employees were entitled to accrued vacation and personal leave benefits. The liability for such benefits was \$6,528, \$2,804, and \$3,256 as of September 30, 1993, 1992, and 1991, respectively. Accrued leave increased in fiscal year 1993 primarily because of salary increases and a change in the computation of vacation balances from daily to hourly rates.

Note 5. Scholarships

The Center has a policy of providing child care services to qualified parents at all income levels. Tuition assistance scholarships, which are based on need, are awarded through the Foundation to accomplish this objective. The Child Care Center Parents Association also awards scholarships to children of Center employees currently enrolled in the Center. The Parents Association submits the funds raised for such purposes to the Scholarship Committee of the Foundation which determines the amount to be awarded. The Foundation and Parents Association provided \$29,893 and \$32,677 in tuition assistance during fiscal years 1993 and 1992, respectively. The Center recognizes the above tuition assistance as scholarship revenue.

The Corporation used contributions it received to provide tuition assistance to students of the Center. During the month ended September 30, 1991, the Corporation provided \$2,734 in tuition assistance. In addition, contributions collected for the month of September amounted to \$2,168.

Note 6. Tax Refunds and Interest

The Center received \$5,528 and \$1,156 of tax refunds in fiscal years 1993 and 1992, respectively. These refunds were for overpayment of payroll taxes in prior periods. The Center also received \$1,297 and \$272 in interest on the principle amounts refunded from the Internal Revenue Service in fiscal years 1993 and 1992, respectively. The Center classified this interest as miscellaneous revenues. The Corporation earned interest of \$402 from its credit union accounts and \$219 from its Treasury Bill holdings in September 1991.

Note 7. Employment Taxes

Employment taxes are comprised of amounts contributed to the Social Security Administration for social security and Medicare taxes on behalf of Center employees as well as amounts reimbursed to the District of Columbia for unemployment benefits paid to former employees. In fiscal year 1993, \$32,589 was contributed to the Social Security Administration on behalf of Center employees (see note 10). In fiscal year 1992 and the month ended September 30, 1991, the Center and Corporation contributed \$31,513 and \$2,400, respectively. Because it was a nonprofit organization, the Corporation was not required to pay unemployment taxes; however, if an employee claimed unemployment compensation based on a period of time worked with the Corporation, the Corporation was required to repay the unemployment benefits to the District on behalf of the employee. During fiscal year 1992, the Center reimbursed the District \$271 on behalf of former employees.

Note 8. Employee Benefits

Full-time Center employees are eligible to receive the same benefits as other federal employees, including life and health insurance, retirement benefits, and tax deferred savings.

The Center's total contributions for employee benefits programs during fiscal years 1993 and 1992 were as follows:

<u>Benefits program</u>	<u>Fiscal years ended September 30,</u>	
	<u>1993</u>	<u>1992</u>
Civil Service		
Retirement System	\$ 1,517	\$ 1,457
Federal Employees		
Retirement System	71,602	68,224
Health Benefits	33,160	30,811
Life Insurance	714	693
Thrift Savings Plan	<u>7,348</u>	<u>1,584</u>
	<u>\$114,341</u>	<u>\$102,769</u>

While the Center has no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through various agencies administering the programs. In fiscal year 1993, the Center's employee benefits were paid with appropriated funds.

The Corporation allowed employees to select the types of benefits to which they wished to have the Corporation contribute (up to a maximum of \$85 per month) on their behalf. These benefits included contributions to health insurance coverage, tuition payments, or deposits into individual retirement accounts. During the month of September 1991, the Corporation's total contribution for employee benefits was \$1,018. The Corporation has no future benefits liability for individuals who ceased to be employed by the Corporation.

Note 9. Prior Period Adjustment

The fund balance at the beginning of September 1991, has been restated to correct an error reported in a prior period. This error involved a \$1,000 deposit the Corporation received on behalf of parents that was improperly classified as revenue in the fiscal year ended August 31, 1991. This error resulted in an overstatement of revenues and a related understatement of tuition deposits of \$1,000 in fiscal year 1991. Had this error not been made, the net loss for fiscal year 1991 would have increased by \$1,000 to \$7,030 (from the \$6,030 net loss previously reported). The effect of the error correction on the fund balance previously reported for fiscal year 1991 follows.

	<u>Month ended September 30, 1991</u>
Fund balance beginning of the month	\$132,585
Prior period adjustment to fund balance	<u>(1,000)</u>
Restated fund balance, beginning of the month	<u>\$131,585</u>

Note 10. Costs Paid From Appropriated Funds

The Legislative Branch Appropriations Act for 1992, Public Law No. 102-90, section 312(d)(2), appropriated \$45,000 to the House of Representatives for the Center. These funds were provided to the Center to help fund the cost of employee benefits, which was expected to increase significantly when the Center converted from a private to a federal entity.

Section 319(a) of the Legislative Branch Appropriations Act, 1993, amended section 312(d)(2) of the Legislative Branch Appropriations Act, 1992, (40 U.S.C. sections 184g(d)(2) (Supp. IV 1992)), to authorize the House of Representatives, commencing with fiscal year 1993, to make government contributions and payments for health insurance, retirement, employment taxes, and similar benefits and programs in the same manner as

such contributions and payments are made for other employees of the House. Thus, during the year, appropriations totaling \$145,379 were expended on behalf of the Center. Of that amount, \$114,341 was expended for employee benefits and \$32,638 for employment taxes (\$49 of which was incurred in the last month of fiscal year 1992). Included in the above amounts are payroll taxes and employee benefits totaling \$118 which were accrued in fiscal year 1993 but remained to be paid from appropriations at fiscal year-end.

Certain other costs were paid on behalf of the Center and the Corporation from appropriated funds available to the House of Representatives or the Architect of the Capitol and were not included in these financial statements. Some of these costs cannot be readily determined, such as facilities, improvements, utilities, some office furniture and equipment, repairs and maintenance, and costs for assets not owned or controlled by the Center or Corporation.

Identifiable costs paid with appropriations to the Architect of the Capitol were \$18,458 to resurface the Center's playground in fiscal year 1991. Also, the Clerk of the House elected not to charge the Center for 1993 telephone expenses totaling \$564 which were paid on behalf of the Center.

Operating Expenses in Excess of Revenues

The Center incurred operating expenses in excess of available revenues during fiscal year 1992, resulting in net operating losses. A major contributor to the Center's losses was the increased costs for employee benefits that occurred after its employees were converted to federal employees at the beginning of the year. The Center received a \$45,000 appropriation to help offset the expected increase in the cost of employee benefits for fiscal year 1992. However, this was not enough to cover the actual cost increase, which was absorbed by the Center's reserve funds. Also, the Center's fiscal year 1993 payroll taxes and benefits expenses were paid with appropriated funds.

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