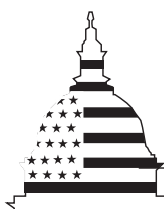


June 2001

FINANCIAL AUDIT

U.S. Senate Gift Shop Revolving Fund's Fiscal Year 2000 Financial Statement



G A O

Accountability * Integrity * Reliability

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

June 22, 2001

The Honorable Gary Sisco
Secretary of the Senate

Dear Mr. Sisco:

In response to your request that we audit the Senate Gift Shop Revolving Fund, enclosed is our report on the Senate Gift Shop Revolving Fund's Statement of Receipts, Disbursements, and Fund Balance for the fiscal year ended September 30, 2000. This report presents our opinion on the financial statement, the effectiveness of the Gift Shop'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.

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,

Jeffery C. Steinhoff
Managing Director
Financial Management and Assurance



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 Gift Shop 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 Gift Shop 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.

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 Gift Shop 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.

Opinion on Internal Control

The Gift Shop 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*.¹

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

Our work did identify the need to improve certain internal controls related to the Gift Shop's disbursements and cash handling. We noted disbursement-related weaknesses associated with the approval and documentation of purchase orders, the receipt and acceptance of goods and services, and the approval of payment vouchers. In addition, our work found weaknesses in the Gift Shop's processing and deposit of cash and check receipts.

- With respect to disbursement-related control weaknesses, purchase orders issued to vendors were routinely approved using rubber-stamp signatures and access to the signature stamps was not tightly controlled. In addition, those making changes to previously approved purchase order amounts (quantities and prices) or to quantities of goods received did not always clearly document who made and authorized each change, when the change was made, or in the case of goods received, why the change was made. Those involved in certifying the receipt of goods and approving vouchers for payment also did not sign the vouchers. Certification and approval of payment vouchers was documented by affixing rubber-stamp signatures to each voucher.
- With respect to weaknesses in cash handling controls, our work found instances of small, unexplained differences between weekly deposits and the amount of cash generated from weekly sales. We also found errors in the recording of daily credit card and check receipts. In addition, we found insufficient segregation of cash handling duties, a lack of review and approval of daily cash handling, and ineffective review and approval of weekly deposit processing.

However, based on the results of our overall tests of disbursements and receipt processing, taken together, these internal control weaknesses did not result in a material misstatement in the Gift Shop's Statement of Receipts, Disbursements, and Fund Balance. Although these weaknesses taken together are not considered a material weakness,² they represent a reportable condition. A reportable condition is a significant deficiency in the design and/or operation of internal control, which could adversely affect the Gift Shop's ability to meet internal control objectives. These

²A 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.

weaknesses increase the Gift Shop'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 Gift Shop management strengthen disbursement and cash handling internal controls by ensuring that

- individuals responsible for approving purchase orders and approving and certifying payment vouchers sign each document to formally evidence their approval and certification;
- those responsible for making changes to previously approved purchase order amounts clearly document who made and authorized each change and when the change was made;
- all changes to records of goods received are documented and explained in writing by those responsible for each change to clearly document who made and authorized the change, and when and why the change was made;
- sufficient staff resources be dedicated to the handling of cash, recording of daily sales activities, and the processing of cash, check, and credit card deposits to provide adequate (1) segregation of duties and (2) review and approval of cash handling and sales/deposit activities; and
- the Gift Shop's financial and compliance activities are monitored for compliance with internal controls.

During our audit, Gift Shop management acknowledged the internal control weaknesses and initiated actions to address the weaknesses and limit the Gift Shop's potential exposure to loss and errors or irregularities. Specifically, Gift Shop management has begun signing purchase orders and vouchers and no longer uses rubber-stamp signatures. In addition, individuals who make changes to purchase, receipt, and payment documents or records are documenting who made and approved each change, when the change was made, and in the case of goods received, why the change was made. Also, to address the need to separate cash handling, recording, and reviewing duties, Gift Shop management obtained approval to hire an office manager and is in the process of filling the new position. In addition, to help ensure effective segregation of cash handling functions, management has established a policy that, when fully implemented, will separate the preparation and review of daily and weekly cash records.

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.

Objectives, Scope, and Methodology

Management of the Gift Shop 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 reasonable assurance that the objectives of internal control³ 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

³Management'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).

-
- testing compliance with selected provisions of laws and regulations that were determined to have a direct and material effect on the Gift Shop'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 internal control, and (6) tested compliance with selected provisions of the following relevant laws and regulations:

- 2 U.S.C. Sec.121d relating to the establishment of the Senate Gift Shop and 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 Gift Shop's operations. We limited our internal control testing to relevant controls over financial reporting 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 Gift Shop. 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.

Management's Comments

We provided copies of our draft report to the management of the Gift Shop and representatives of the Office of the Secretary of the Senate for review and comment. In commenting on the draft report, they agreed with the report's findings, conclusions, and recommendations. With respect to the need to improve internal controls, they noted that the Gift Shop has historically operated with a small staff, making it a challenge to adequately segregate otherwise incompatible duties and responsibilities, which larger organizations can more readily support. In response to the need to improve controls, the Secretary of the Senate has authorized the establishment of a new staff position—office manager for the Gift Shop—which, when filled, will enable adequate segregation of duties.



Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance

May 18, 2001

Financial Statement

Statement of Receipts, Disbursements, and Fund Balance

United States Senate Gift Shop Revolving Fund
Statement of Receipts, Disbursements, and Fund Balance

	Fiscal year ended September 30, <u>2000</u>
Receipts	
Sales (note 3)	<u>\$1,416,354</u>
Total receipts	<u>\$1,416,354</u>
Disbursements (note 4)	
Inventory and supplies	\$1,082,836
Professional and other services	20,390
Equipment	<u>5,425</u>
Total disbursements	<u>\$1,108,651</u>
Net receipts	<u>\$307,703</u>
Beginning fund balance (note 5)	\$824,771
Ending fund balance (note 5)	<u>\$1,132,474</u>

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

Notes to the Statement of Receipts, Disbursements, and Fund Balance

United States Senate Gift Shop Revolving Fund
Notes to the Statement of Receipts, Disbursements, and Fund Balance

Note 1. Description of the Entity

The United States Senate Gift Shop was established to provide for the sale of gift items to Members of the Senate, staff, and the general public. To support the operation of the Senate Gift Shop, the Senate Gift Shop Revolving Fund was established within the contingent fund of the Senate. All amounts collected or received from the sales and services of the Gift Shop are to be deposited into the Fund. The balance of the Fund is available, without fiscal year limitation, for disbursement by the Secretary of the Senate in connection with the operation of the Senate Gift Shop, including supplies, equipment, and other expenses (2 U.S.C. 121d).

Note 2. Basis of Accounting

Amounts received from and used for Gift Shop 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, which is a comprehensive basis of accounting, differs from U.S. generally accepted accounting principles, which recognize revenues when earned and expenses when incurred.

All receipts from the sale of gift items and related services by the Gift Shop are deposited in the Fund. The Fund balance is used to pay for purchases of (1) inventory items available for resale to customers of the Gift Shop and (2) equipment and related services, which directly support Gift Shop operations. The Fund balance was not used to pay for salaries and benefits of Senate employees who work in the Gift Shop, the costs of which are charged to the "Salaries, Officers, and Employee" appropriation account for the Senate. The value of other expenses incidental to Gift Shop 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--consisting of proceeds from cash, checks, and credit card purchase transactions--are deposited into the Gift Shop revolving fund.

Note 4. Disbursements

Disbursements represent amounts paid to purchase gift items for resale and acquire services and equipment needed to support Gift Shop 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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