

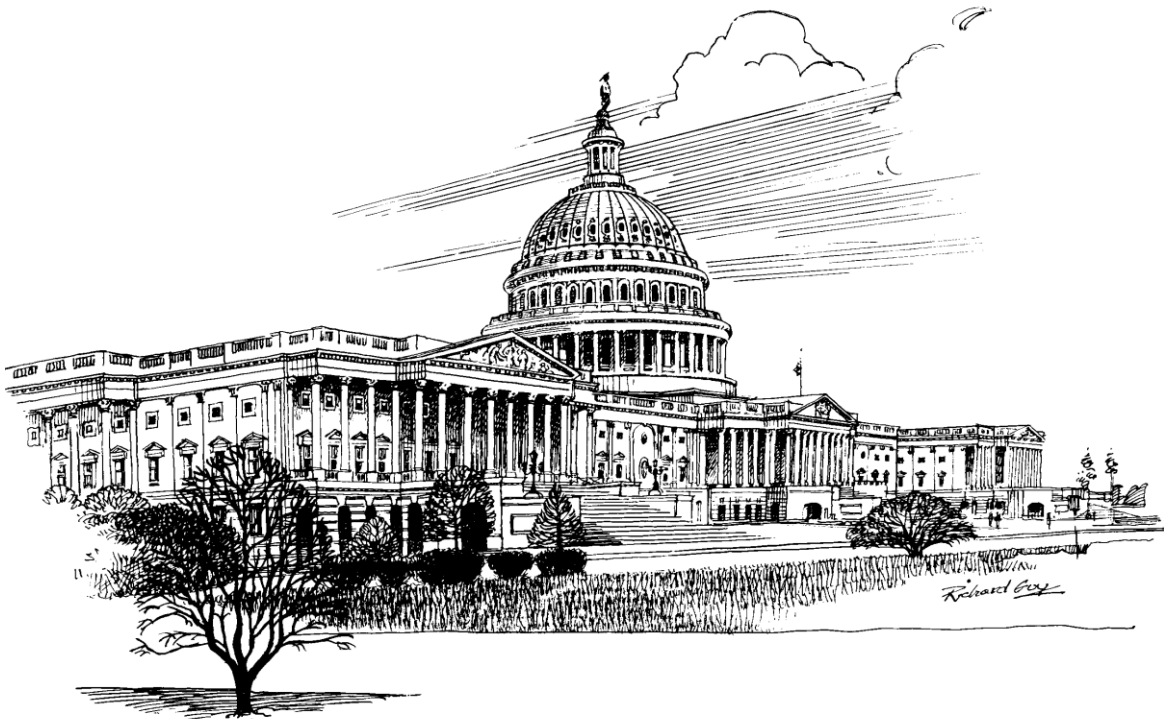


# UNITED STATES HOUSE OF REPRESENTATIVES AUDIT REPORT

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**Audit of the Financial Statements  
For the Fiscal Year Ended September 30, 2011  
Report No. 12-HSW-05  
March 27, 2012**





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**Office of Inspector General  
Audit Report Summary**



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## **ANNUAL FINANCIAL STATEMENTS** **FISCAL YEAR 2011**

### ***SUMMARY***

This audit report presents the audited Annual Financial Statements of the U.S. House of Representatives (House) for the fiscal year ended September 30, 2011. We contracted with the independent certified public accounting firm, Cotton and Company LLP, to audit the House financial statements, to provide opinion on the effectiveness of internal control over financial reporting, and to report any reportable noncompliance with laws and regulations they tested. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards.

For fiscal year 2011, the House successfully transitioned to a new financial management system while maintaining an unqualified opinion on the House's financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. This is the fourteenth consecutive year the independent auditors have expressed an unqualified opinion, a noteworthy accomplishment for the House, particularly in a year of a major financial system conversion. The new financial management system has significantly improved the processes and controls over financial management of the House.

The audit found the House has effective internal control over financial reporting for the period ending September 30, 2011. As a result of significant effort, the House successfully implemented a comprehensive internal controls program. This program evaluated the design and operating effectiveness of House internal controls over financial reporting and helped to remediate the two material weaknesses reported in the prior two fiscal year financial statement audits. However, the auditors identified two significant deficiencies in internal control over financial reporting. The two significant deficiencies relate to controls over financial reporting processes and information technology. Management concurred with the auditor's report and has a planned date for taking corrective actions by September 30, 2012.

The auditors identified no instances of non-compliance with applicable laws and regulations.

Cotton and Company LLP is responsible for the attached auditor's report dated January 17, 2012 and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the House's financial statements or internal control over financial reporting or conclusions on compliance with laws and regulations.

We would like to thank House management and staff for their assistance and cooperation during the course of this audit.

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## **Management's Discussion & Analysis**



## **Management's Discussion and Analysis Fiscal Year 2011**

### **Introduction**

Management's Discussion and Analysis (MDA) provides a high level overview of the origin and mission of the U.S. House of Representatives. Fiscal Year 2011 (October 1, 2010 – September 30, 2011) coincided with sessions of the 111<sup>th</sup> and 112<sup>th</sup> U.S. Congress. The 20<sup>th</sup> Amendment to the U.S. Constitution establishes that the terms of Representatives end on noon of the 3<sup>rd</sup> day of January, and "The Congress shall assemble at least once every year, and such meeting shall begin on the 3<sup>rd</sup> day of January." Accordingly, the 111<sup>th</sup> Congress ended and the 112<sup>th</sup> Congress began on January 3, 2011.

### **Origin, History, and Mission**

The U. S. House of Representatives (the House) is one of two legislative chambers that comprise the Congress of the United States (the other is the U.S. Senate). Article I, Section 1 of the Constitution, adopted by the Constitutional Convention on September 17, 1787, created and vested all legislative powers to the Congress.

### **Location, Size, and Organization**

The House chamber is located in the U.S. Capitol in Washington, DC. Other House administrative buildings in Washington, DC include the Cannon, Longworth, Rayburn and Ford House Office Buildings.

Law fixes the number of voting representatives in the House at no more than 435, proportionally representing the population of the 50 states. Also referred to as a congressman or congresswoman, each representative is elected to a two-year term serving the people of a specific congressional district. Among other duties, representatives introduce bills and resolutions, offer amendments and serve on committees. To be elected, a representative must be at least 25 years old, a United States citizen for at least seven years and an inhabitant of the state he or she represents.

Article 1, Section 2 of the Constitution provides for both the minimum and maximum sizes for the House of Representatives. Currently, there are five delegates representing the District of Columbia, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands. A resident commissioner represents Puerto Rico. The delegates and resident commissioner possess the same powers as other members of the House, except that they may not vote when the House is meeting as the House of Representatives.

The Rules of the House, adopted at the beginning of each new Congress, allow for the creation of standing, select and joint committees. During the 111th Congress there were 20 standing committees of the House: Agriculture; Appropriations; Armed Services; Budget; Education and Labor; Energy and Commerce; Financial Services; Foreign Affairs; Homeland Security; House

Administration; Judiciary; Natural Resources; Oversight and Government Reform; Rules; Science and Technology; Small Business; Standards of Official Conduct; Transportation and Infrastructure; Veterans' Affairs; and Ways and Means. There were two select committees: the Permanent Select Committee on Intelligence, and the Committee on Energy Independence and Global Warming. There were four joint committees with the Senate: Joint Economic Committee, Joint Committee on Taxation, Joint Committee on the Library, and Joint Committee on Printing.

The 112<sup>th</sup> Congress has 20 standing committees: Agriculture; Appropriations; Armed Services; Budget; Education and the Workforce; Energy and Commerce; Ethics; Financial Services; Foreign Affairs; Homeland Security; House Administration; Judiciary; Natural Resources; Oversight and Government Reform; Rules; Science, Space, and Technology; Small Business; Transportation and Infrastructure; Veterans' Affairs; and Ways and Means. There is a Permanent Select Committee on Intelligence, and five joint committees: The Joint Economic Committee, The Joint Committee on Taxation, the Joint Committee on the Library, the Joint Committee on Printing and the Joint Select Committee on Deficit Reduction.

### **House Leadership**

Article I, Section 2 of the Constitution states, "The House of Representatives shall chuse their Speaker and other officers." In addition to the Speaker, each political party in the House has a leadership hierarchy, typically including a Majority Leader, Minority Leader, Majority Whip, and Minority Whip.

### **House Officers and Organizations**

Rule II of the Rules of the House for both the 111<sup>th</sup> and 112<sup>th</sup> Congress provided for the election of four officers to support House operations: a Clerk, a Sergeant-at-Arms, a Chief Administrative Officer and a Chaplain. The Rules of the House also established the Offices of Inspector General, Historian and General Counsel.

Under House Rule II, the Chief Administrative Officer has "operational and financial responsibility for functions as assigned by the Committee on House Administration and shall be subject to the oversight of the Committee on House Administration." According to Committee on House Administration records, the Chief Administrative Office has been designated as the disbursing officer for the House of Representatives since July 1, 1995. Additionally, House Rule II requires the Chief Administrative Officer to "fully cooperate with the appropriate offices and persons in the performance of reviews and audits of financial records and administrative operations." Accordingly, an audit of the financial statements of the House, as prepared by the Chief Administrative Officer, is performed annually.

## **FINANCIAL STATEMENT HIGHLIGHTS**

### **Basis of Accounting and Presentation**

The consolidated financial statements for fiscal years (FYs) 2010 and 2011 present the financial position, net cost of operations, changes in net position and budgetary resources of the House. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, "Financial Reporting Requirements."

The House's accounting structure, in accordance with GAAP, utilizes both accrual and budgetary accounting. Under accrual accounting, events are recognized as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting, on the other hand, facilitates compliance with legal constraints on, and controls over, the use of Federal funds.

### **Budgetary Resources**

The House finances most of its operations through congressional appropriations of budget authority. To the extent that revenue generated by some House entities does not cover expenses, appropriations are required. The House receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation. The House usually receives the full amount of its appropriation at the beginning of each fiscal year. The House reported total budgetary resources for FY 2011 of \$1.5 billion, down 6 percent from FY 2010. The House reported \$130 million of total unpaid obligated balances as of fiscal year end (FYE) 2011.

### **Balance Sheet**

**Total Assets** – The House reported total assets of \$325 million as of FYE 2011, a 4 percent increase from prior year total assets of \$312 million. The Fund Balance with Treasury of \$265 million represents the primary asset on the Balance Sheet of the House (82 percent of total assets), followed by Property and Equipment with a net balance of \$51 million.

**Total Liabilities** – The House reported total liabilities of \$74 million as of FYE 2011, a 5 percent decrease from the prior year total of \$78 million. The primary categories include Accounts Payable of \$32 million (43 percent of total liabilities) and Actuarial Federal Employees' Compensation Act Liabilities of \$21 million (28 percent of total liabilities).

Total Net Position - The Net Position as of FYE 2011 was \$250 million, an increase of \$15 million (6 percent) from the prior fiscal year. The balance was primarily comprised of Unexpended Appropriations of \$202 million.

**Statement of Net Cost**

Net Cost of Operations – The Net Cost of Operations for FY 2011 was \$1.6 billion, a slight decrease from \$1.7 billion reported for FY 2010, primarily comprised of Legislative Activities.

**Limitations of the Financial Statements**

The principal financial statements have been prepared to report the financial position and results of operations of the entity.

While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and in the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

## MANAGEMENT ASSURANCES



### CAO FY 2011 Federal Managers' Financial Integrity Act Statement of Assurance

Under Rule II of the Rules of the U.S. House of Representatives (the House) for the 111<sup>th</sup> and 112<sup>th</sup> Congresses, the Chief Administrative Officer (CAO), has “operational and financial responsibility for functions as assigned by the Committee on House Administration.” The Rule further requires the CAO to “fully cooperate with the appropriate offices and persons in performance of reviews and audits of financial records...”

During Fiscal Year 2011, as part of these responsibilities, the CAO implemented an Internal Controls Program (the Program) that made significant progress improving internal controls over financial reporting. The Program conforms with the intent of the criteria established by Section 3512(c) of Title 31, United States Code, the Federal Manager's Financial Integrity Act of 1982 (FMFIA), and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for Internal Control. The CAO recognizes that guidance provided by the Office of Management and Budget's (OMB) Circular A-123, Management's Responsibility for Internal Control (A-123), is based on criteria established under FMFIA, and that the COSO framework and A-123 represent industry leading practices for establishing a successful management control program.

The CAO Internal Controls Team (the Team) is the functional lead for the Program. In the past year, the Team has taken significant steps to document CAO's business processes for material Balance Sheet line items, to identify key controls for each process, test the design and operating effectiveness of these key controls and test the operating effectiveness of Information Technology General Controls (ITGC). The Team has also focused on the remediation of deficiencies previously identified by the external auditors, the Office of the Inspector General (OIG), and an internal information technology review. The implementation of the Program and an assessment of ITGCs over Financial Reporting addresses the recommendations resulting from the external auditors' findings. Based on the results of this assessment, the CAO can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the CAO conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this assessment, the CAO can provide reasonable assurance that its internal control over financial reporting as of September 30, 2011 was operating effectively and no material weaknesses were noted in the design or operation of the internal controls over financial reporting.

A handwritten signature in blue ink, appearing to read "D. Strodel", written over a horizontal line.

Daniel J. Strodel  
Chief Administrative Officer

## **Internal Control Assessment**

### **OMB Circular A-123 Review**

The Internal Control Assessment is a review of the design and operating effectiveness of key internal control activities for the CAO's business processes, for safeguarding of assets, and for compliance with applicable laws and regulations. The Team follows a risk-based approach in determining the key controls to be assessed during the current year.

A Senior Assessment Team (SAT) was established to provide senior management oversight for assessment of internal controls over financial reporting as they relate to budgetary and financial policies, standard operating procedures and business systems. On September 14, 2011, the Chief Administrative Officer approved an amended SAT charter clarifying the mission, purpose, function, membership, frequency of meetings and information to guide the Team. The Team and the SAT conduct monthly meetings to report on findings and status to date, and discuss remediation efforts.

The Team assessed and evaluated the CAO's compliance with OMB Circular A-123 requirements as of June 30, 2011, and determined that, of the significant deficiencies identified, one was determined to be at the material weakness level. The Team considered the nature of each deficiency, the existence of a compensating control, the dollar value of transactions potentially affected by the deficiency, the level of risk, and the likelihood that an error may not be prevented or detected. The material weakness identified in this interim review did not provide assurance that subledger activity was completely and accurately recorded in the General Ledger. Subsequently, the CAO implemented corrective actions and has remediated the material weakness as of September 30, 2011. As a result, the CAO is able to provide reasonable assurance that its internal controls over financial reporting were operating effectively, and no other material weaknesses were found in the design or operation of the internal controls over financial reporting.

## **Information Technology Assessment**

### **Information Technology General Controls Review**

The Team tested the operational effectiveness of ITGC of a select number of House information systems using the Federal Information System Controls Audit Manual (FISCAM) methodology. FISCAM describes the computer-related controls that management should consider when assessing the integrity, confidentiality, and availability of computerized data. It covers five domains:

1. Access Control (AC)
2. Contingency Planning (CP)
3. Configuration Management (CM)
4. Segregation of Duties (SD)
5. Security Management (SM)



The Team reviewed the structure, policies, and procedures that apply to the CAO's overall computer operations, creating the environment in which significant financial systems and controls operate.

**Office of the Inspector General (OIG) Assessment for Previous Fiscal Year**

Under House Rule II of the 111<sup>th</sup> and 112<sup>th</sup> Congresses, the Office of the Inspector General (OIG) provides “audit, investigative, and advisory services to the House and joint entities in a manner consistent with government-wide standards.” For FY 2010, the previous fiscal year, the OIG engaged Cotton & Company to perform the external audit of the House’s financial statements. For FY 2010, the House received an unqualified audit opinion. The audit report noted three significant deficiencies, two of which represented material weaknesses in internal controls over financial reporting. The two material weaknesses identified the lack of a management control program and ineffective controls over information technology. The remaining significant deficiency related to ineffective financial reporting controls and general ledger system reporting limitations.

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# **Independent Auditors' Report**

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## INDEPENDENT AUDITORS' REPORT

To the Inspector General  
U.S. House of Representatives

Cotton & Company LLP conducted the fiscal years (FYs) 2011 and 2010 financial statement audits of the U.S. House of Representatives (House) in accordance with generally accepted auditing standards in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In our audits of House FYs 2011 and 2010 financial statements, we found:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- Although internal controls could be improved, the House maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2011.
- No reportable noncompliance in FY 2011 with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our conclusions on Management's Discussion and Analysis and required supplementary information; (3) our audit objectives, scope, and methodology; and (4) the House's comments on a draft of this report.

### OPINION ON THE FINANCIAL STATEMENTS

The financial statements, including accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the House's assets, liabilities, and net position as of September 30, 2011 and 2010, and net costs, changes in net position, and budgetary resources for the fiscal years then ended.

### OPINION ON INTERNAL CONTROL

Although internal controls could be improved, the House maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) as of September 30, 2011, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and in the Committee of Sponsoring Organizations of the Treadway Commission

(COSO) framework for Internal Control. As discussed below, our FY 2011 audit identified two significant deficiencies<sup>1</sup> in the House's internal control over financial reporting. Our opinion is consistent with the House's assertion that its internal controls over financial reporting were operating effectively as of September 30, 2011, and that no material weaknesses<sup>2</sup> were found in the design or operation of the controls. The House's assertion is contained in its Management's Discussion and Analysis included in this report.

In our FY 2010 audit report, we concluded that the House did not maintain effective internal control over financial reporting as of September 30, 2010, because of material weaknesses due to the House's lack of a management control program and the House's ineffective controls over information technology. During FY 2011, the House successfully implemented a management control program that fully remediated the material weakness reported in our FY 2010 audit report. Based on the House's efforts to address prior year information technology (IT) controls deficiencies, we concluded that the remaining deficiencies in IT controls no longer constitute a material weakness, but could adversely affect the House's information technology and its financial reporting relevant to information technology. Therefore, we considered the House's controls over IT to be a significant deficiency in FY 2011. This significant deficiency is discussed in more detail in Appendix A to this report.

We found a significant deficiency in controls over the financial reporting process. This deficiency was also reported in FY 2010, and although the House made progress in some areas, improvements are still needed. During FY 2011, the House implemented a new financial management system, requiring changes in its financial reporting processes. Our work in FY 2011 showed continuing deficiencies in the design and/or implementation of effective internal control in this area.

For all significant errors and issues identified, the House made necessary adjustments to the financial statements, the notes accompanying the financial statements, and other required supplementary information as appropriate, and was therefore able to prepare financial statements that were fairly presented in all material respects for FYs 2011 and 2010. Although the significant deficiencies in internal control did not materially affect the House's FY 2011 financial statements, misstatements may occur in other financial information reported by the House and not be prevented or detected because of these significant deficiencies.

The two significant deficiencies as of September 30, 2011, although not considered to be material weaknesses, are important enough to merit the attention of those charged with governance of the House. We report additional details concerning these significant deficiencies in Appendix A of this report. We also identified other deficiencies in the House's system of internal control that we do not consider to be material weaknesses or significant deficiencies. We have communicated these matters to House management.

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<sup>1</sup> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>2</sup> A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

### **COMPLIANCE WITH LAWS AND REGULATIONS**

Our tests of the House's compliance with selected provisions of laws and regulations for FY 2011 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or Office of Management and Budget (OMB) audit guidance. The objective of our audit was not, however, to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

### **CONSISTENCY OF OTHER INFORMATION**

The House's Management's Discussion and Analysis and required supplementary information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information; however, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with House officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

House management is responsible for:

1. Preparing financial statements in conformity with U.S. generally accepted accounting principles.
2. Establishing and maintaining effective internal control over financial reporting and evaluating its effectiveness.
3. Complying with applicable laws and regulations.

House management evaluated the effectiveness of internal control over financial reporting as of September 30, 2011, based on the criteria established under FMFIA, as well as the COSO framework for internal controls.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether the House financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and whether House management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011. We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and performing limited procedures with respect to certain other information accompanying the financial statements.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting amounts and disclosures in the financial statements.
- Assessed accounting principles used and significant estimates made by management.
- Evaluated overall presentation of the financial statements.

- Obtained an understanding of the House and its operations, including its internal control over financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority).
- Assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting.
- Evaluated the design and operating effectiveness of internal control over financial reporting based on assessed risk.
- Tested relevant internal controls over financial reporting and compliance and evaluated design and operating effectiveness of internal control.
- Tested compliance with selected provisions of the following laws and regulations: the provisions of the Antideficiency Act applicable to the House; laws governing the pay and allowance system for House employees; the Federal Employees' Retirement System Act of 1986; and the House Rules for the 111<sup>th</sup> and 112<sup>th</sup> Congress.

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- **Compliance with laws and regulations:** Transactions are executed in accordance with selected provision of laws and regulations that have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness. Because of inherent limitations in internal control, misstatements due to error or fraud, loss, or noncompliance may nevertheless occur and not be detected. We caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate as the result of changes in conditions, or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the House. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the House's financial statements for the fiscal year ended September 30, 2011. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.



We performed our audit in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. We believe our audit provides a reasonable basis for our opinions and other conclusions.

**HOUSE COMMENTS AND OUR EVALUATION**

In commenting on the draft of this report, House management concurred with the facts and conclusions in our report. Management's comments are in Appendix B. We did not audit management's response, and accordingly, we express no opinion on it.

COTTON & COMPANY LLP



Matthew H. Johnson, CPA  
Partner

January 17, 2012  
Alexandria, Virginia

**APPENDIX A**  
**SIGNIFICANT DEFICIENCIES**  
**NOTED DURING THE FY 2011 FINANCIAL STATEMENT AUDIT**

**APPENDIX A**  
**SIGNIFICANT DEFICIENCIES**  
**NOTED DURING THE FY 2011 FINANCIAL STATEMENT AUDIT**

During our audit of the House's FY 2011 financial statements, we identified two significant deficiencies in internal control over financial reporting described in this appendix. We do not consider these to be material weaknesses.

**Weakness 1:**                    **Ineffective Controls over the Financial Reporting Process**  
**Summary Status:**        **Significant Deficiency**  
                                      **Prior-Year Condition**  
                                      **Open**

As we have reported in prior audits, the House does not have effective financial reporting controls. In 2011, the House implemented a new financial management system, PeopleSoft. Although this implementation enabled the House to make some progress on previously identified control deficiencies over the financial reporting process, it exacerbated other previously identified control deficiencies, and we identified new deficiencies as well. We identified the following four areas within financial reporting where internal controls were not effective and improvements are needed, resulting in a significant deficiency.

1. Budgetary Accounting and Reporting
2. Accounts Payable Accrual Process
3. Quality Control Procedures
4. Reconciliation of Sub-Ledgers to the General Ledger

We discuss each of these areas below and provide our recommendations for improvement.

**1. BUDGETARY ACCOUNTING AND REPORTING**

During our audit, we found numerous errors in the processes and controls the House has in place to ensure that proper budgetary general ledger (GL) accounts are used and that budgetary amounts are reported correctly in the financial reporting process. Specifically, we found the following:

**Recording of Budgetary Transactions**

During the FY 2011 audit, we noted several deficiencies related to the manner in which the House recorded and reported budgetary transactions. Specifically, we noted the following issues:

- **Unobligated balances:** The House recorded unobligated balances in GL accounts 4510 (Apportionments) and 4610 (Allotments). These GL accounts should be used to track unobligated balances apportioned by OMB. The House's resources do not require OMB apportionment prior to obligation, and in accordance with the U.S. Standard General Ledger (USSGL), the House should record unobligated balances available for obligation in GL account 4620 (Unobligated Funds Exempt from Apportionment). Although the balances were not correct in the House's general ledger, the House correctly reported unobligated balances on the

Statement of Budgetary Resources (SBR) through the use of worksheet adjustments, adjusting entries outside of the general ledger. These entries are more susceptible to error and increase the risk of a financial statement misstatement.

- **Rescissions:** The House did not record its rescission properly in the general ledger. The House recorded the rescission as a reduction to appropriations received in both the budgetary and proprietary GL accounts. Per USSGL guidance, an entity recording a rescission should use GL 4392 (Permanent Reduction – New Budget Authority) for its budgetary GL account and GL 3106 (Unexpended Appropriations – Adjustments) for its proprietary GL account. As a result, the draft statements contained the following \$2,655,966 understatements in the Statement of Changes in Net Position (SCNP) and the SBR:
  - Unexpended Appropriations – Appropriations Received (SCNP)
  - Unexpended Appropriations – Other Adjustments (SCNP)
  - Appropriations Received (SBR)
  - Permanently Not Available (SBR)
- **Undelivered Orders (UDO):** The House provided an extract from the Procurement Module of all UDO balances. The population contained errors, and as a result did not agree to the general ledger. The House was able to identify the errors and provide us with corrected amounts. The errors totaled \$123,890.

Additionally, the population contained 15 UDOs with abnormal balances, totaling \$112,130. Based on a sample of these documents, we determined that each had been either canceled or closed. As a result of the abnormal balances in both the sub-ledger and general ledger, UDOs were understated by \$112,130 as of September 30, 2011. The following lines in the SBR were understated by the same amount:

- Obligations Incurred, Direct
  - Obligations Incurred, Net
  - Unpaid Obligations, Net, End of Year
- **Upward Adjustments:** An upward adjustment is an increase to a prior year obligation. We observed an upward adjustment that processed an expired fund and was duplicated in the general ledger. The duplicate entry was detected and corrected, however, the correcting entry used a posting logic (debit/credit pair) appropriate for an appropriation in an unexpired period rather than an expired period. As a result, the duplicate entry posted to GL 4650 (Allotments – Expired Authority) was not corrected, and an improper entry was recorded in GL 4610 (Allotments – Realized Resources). After we discussed the error with the House, they identified 11 additional instances in which a similar error occurred, resulting in a total of 12 instances. As a result, the following financial statement line items on the SBR were overstated by \$1,520,973:
    - Unobligated Balances – Available: Exempt from Apportionment
    - Unobligated Balance – Not Available

Upon notification and discussion with the auditors, the House made the necessary corrections for the above-noted errors on the final FY 2011 financial statements.

U.S. Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government: Accurate and Timely Recording of Transactions and Events*, states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

OMB Circular A-123, *Management Accountability and Control*, states that management should have internal controls that "reasonably ensure that...reliable and timely information is obtained, maintained, reported and used for decision making."

OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, states that the following should be included on the Permanently Not Available line item of the SBR: "The amount of enacted rescissions, including rescissions of new appropriations, borrowing authority, contract authority, and prior year unobligated balances."

The USSGL contains a chart of accounts that provides the basic accounting structure for the federal government and includes both proprietary and budgetary accounts. In addition, the USSGL contains accounting transactions (debits/credits) for events that occur in the federal government.

We recommend that the Office of the Chief Administrative Officer (CAO):

- Correct the PeopleSoft posting logic to ensure unobligated balances are recorded in GL account 4620, Unobligated Balances Exempt from Apportionment.
- Ensure that appropriations received and rescissions are recorded in the proper PeopleSoft GL account.
- Post adjustments to correct known system errors due to PeopleSoft processing issues and continue to work to correct all PeopleSoft processing issues.
- Identify the root cause of all known processing errors and make the necessary modifications to PeopleSoft.
- Implement a quarterly review of budgetary balances to ensure that budgetary activity is properly recorded in unexpired and expired funds.

### **Recording of Unauthorized Transfers**

The Compensation of Members and Related Administrative Expenses Fund (Members Compensation Fund) was established as a permanent and indefinite appropriation in 1981 by Public Law 97-51, Sec. 130 (c). Permanent appropriations do not require annual action by Congress to authorize their use. Indefinite funds are for an unspecified amount. Since the length of availability for the appropriation was not specified by the law, in accordance with OMB Circular A-11, Section 20, it should be treated as a single-year fund.

In our testing, we observed that during FY 2011, the House reported a \$43,369 outlay in the FY 2010 Members Compensation Fund account and a \$43,369 offsetting collection in the FY 2011 fund account to the U.S. Treasury. In effect, the House transferred authority between the fund accounts. Annual

appropriations are only available for obligation for one year, and transfers between fund accounts must be authorized by law. The House was not able to provide evidence that the transfer was authorized or that the period of availability for obligation is greater than one year, and as a result likely made an unauthorized transfer between appropriation fund accounts. In addition, there is an increased risk that the House could violate the Antideficiency Act.

GAO's *Federal Budget Process Glossary* provides terms, definitions, and classifications related to the budget process and defines a transfer as "Shifting of all or part of the budget authority in one appropriation or fund account to another. Agencies may transfer budget authority only as specifically authorized by law." In addition, an outlay is defined as "The issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. Outlays during a fiscal year may be for payment of obligations incurred in prior years (prior-year obligations) or in the same year."

We recommend that the CAO implement controls to ensure all transfers between appropriation fund accounts are properly authorized.

## **2. ACCOUNTS PAYABLE ACCRUAL PROCESS**

The House records an estimated amount for goods and services received before year-end but not yet recorded in its system of record, PeopleSoft. This estimate is necessary so that the year-end financial statements accurately reflect all expenses incurred and payables due at year-end. The House estimates the accrual based upon an average of the previous three years actuals. Though we concluded that the FY 2011 accrual was reasonable, we found that the House had not validated its estimation methodology to determine if the methodology is sufficient to provide a reliable and accurate accrual.

The accounting entries for the accrual did not accurately record the budgetary impact of the accrual in the proper GL accounts. Specifically, the House recorded the accrual as a reduction of unobligated balances available and an increase in delivered orders unpaid. We found, however, that for about two-thirds of the accrual amount, the House had already obligated the funds and therefore should have reduced undelivered orders and not unobligated amounts. As a result, the House understated unobligated balances and overstated obligations incurred by approximately \$19,717,082 on the SBR. The House corrected these errors upon notification by the auditors.

GAO's *Standards for Internal Control in the Federal Government* states that "internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations...it includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

We recommend that the CAO:

- Implement an annual process for analyzing past accounts-payable accruals to determine if the methodology used to calculate the estimated accrual is reasonable and appropriate.
- Develop a methodology to allocate the estimated accrual amount between previously obligated and unobligated accounts, and change the posting logic to accurately reflect the required general ledger entries for the budgetary accounts based on the allocation determined.

### 3. QUALITY CONTROL PROCEDURES

During our FY 2011 audit, we noted the following areas in which the quality control process can be improved to ensure the accuracy of processing and recording transactions related to financial reporting.

- **Adjusting journal entries (AJE):** AJEs are not always reviewed by an individual other than the preparer to ensure accuracy and appropriateness of the entry. We found that of the 36 AJEs tested the following entries lacked evidence of review and approval:
  - 14 AJEs prepared by the Budget, Policy, and Planning Office to record appropriations received and resource allocations.
  - 5 AJEs prepared by the Accounting Department to record activity related to Members' compensation and related expenses.

Without proper review and approval of AJEs, the risk is increased that an error would not be prevented or detected and corrected in a timely manner. In addition, House management is unable to determine appropriateness of transactions posted to the general ledger without proper review and approval.

- **Federal receivables:** At year-end, the House recorded four AJEs to accrue accounts receivable due from other federal agencies. The adjusting entries did not include budgetary entries to increase resources for services performed. In addition, the entries did not accrue earned revenue for services provided; rather, the receivables were matched against decreases in unfunded expenses. As a result, the total Gross Costs and Earned Revenue amounts reported on the Statement of Net Cost (SNC) were understated by \$516,680. In addition, the following lines on the SBR contained errors:
  - Budgetary Authority – Earned: Change in Receivable from Federal Sources was understated by \$536,418.
  - Unobligated Balance: Exempt from Apportionment was understated by \$536,418.
  - Change in Uncollected Customer Payments from Federal Sources was overstated by \$536,418.
  - Uncollected Payments from Federal Sources was overstated by \$536,418.
- **The Federal Employees' Compensation Act (FECA):** FECA provides workers' compensation benefits for federal employees injured in the performance of duty. The Department of Labor (DOL) administers and pays claims for House employees covered under FECA; the House then reimburses DOL for paid claims. The House accrues a liability for workers' compensation claims based on DOL bills. Though amounts are not due to DOL until subsequent periods, the House funds the liability with resources that are available during the current period. During our testing, we noted the Accounting Department:
  - Did not record the budgetary impact of the workers' compensation liability.

- Presented the workers' compensation liability as "Liability Not Covered by Budgetary Resources" rather than "Liability Covered by Budgetary Resources" in Note 8 – Liabilities. In addition, the current portion of the liability was not presented.

As a result, Unexpended Appropriations were overstated and Cumulative Results of Operations understated by \$2,810,308 in both the SCNPN and Balance Sheet. In addition, the following lines were misstated on the SBR:

- Unobligated Balances – Available: Exempt from Apportionment was overstated by \$849,611.
  - Unobligated Balances – Unavailable was overstated by \$1,960,697.
  - Obligations Incurred was understated by \$2,810,308.
  - Obligated Balance, Net, End of Period: Unpaid Obligations was understated by \$2,810,308.
- **USSGL accounts 3100 and 3310:** The House recorded activity directly to GL accounts 3100 (Unexpended Appropriations-Cumulative) and 3310 (Cumulative Results of Operations). These are year-end closing accounts, and balances should not be adjusted during the year. The activity posted to GL 3100 should have been recorded in the nominal unexpended appropriations accounts. The activity posted to GL 3310 should have been recorded as expenses, losses, or financing sources. As a result of the improper activity, the House was required to make a worksheet adjustment in the SCNPN to ensure that the reported ending net position tied to the adjusted trial balance as well as to the Balance Sheet.

As a result of the improper activity recorded in GLs 3100 and 3310, worksheet adjustments totaling \$2,471,325 were required in the SCNPN. The use of worksheet adjustments increases the risk of misstatement in the financial statements. In addition, the Gross Costs line on the SNC was understated by \$575,740.

- **Reconciliation of Net Cost of Operations to the Budget:** In testing amounts reported in the House's financial statement notes, we identified the following errors on the Reconciliation of Net Costs of Operation to the Budget (Note 19) that were not identified during the Office of Finance's review process:
  - The Resources that Fund Expenses Recognized in Prior Periods line item was not supported. The supporting schedules used by the House to prepare this note did not agree to the underlying supporting documentation.
  - The (Increase)/Decrease in Exchange Revenue Receivable line did not agree to supporting schedules due to a transposition error in the beginning balance of the GL account.
  - The Other line under Components Not Requiring or Generating Resources contained an unsupported amount totaling \$540,475. This amount was required to ensure the schedule balanced.

Upon notification and discussion with the auditors, the House made the necessary corrections for the above noted errors on the final FY 2011 financial statements.



GAO's *Standards for Internal Control in the Federal Government* states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. In addition, control activities help to ensure that all transactions are completely and accurately recorded." It also states that "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

OMB Circular A-123, *Management Accountability and Control*, states that management should have internal controls that "reasonably ensure that...reliable and timely information is obtained, maintained, reported and used for decision making."

The USSGL contains a chart of accounts that provides the basic accounting structure for the federal government and includes both proprietary and budgetary accounts. In addition, the USSGL contains accounting transactions (debits/credits) for events that occur in the federal government.

We recommend that the CAO:

- Implement policies and procedures to ensure that supervisors are performing sufficient reviews of AJEs and related documentation before the entries are posted to the general ledger and that evidence of the review is maintained. In addition, we recommend that PeopleSoft controls are put in place that ensure the same individual cannot enter and post AJEs.
- Ensure that account 4251, Reimbursements and Other Income Earned - Receivable, is added to the chart of accounts in PeopleSoft and that PeopleSoft posting logic includes entries to properly record federal receivable accounting events.
- Ensure the workers' compensation liability is properly recorded in PeopleSoft. In addition, we recommend that the CAO improve controls surrounding the financial reporting review process to ensure all amounts are reported properly.
- Require that the Accounting Department perform a quarterly review of GLs 3100 and 3310 to ensure that any activity posted to these accounts is detected and promptly reclassified to the proper GL account.
- Improve controls surrounding the financial reporting review process to include a supervisory review that ensures all amounts reported tie to the general ledger and/or supporting schedules.

#### **4. RECONCILIATION OF SUB-LEDGERS TO GENERAL LEDGER**

During FY 2011, the House did not complete a reconciliation of the PeopleSoft sub-ledgers to the general ledger. Although the House was able to provide a reconciliation as of September 30, 2011, on November 8, 2011, it did not have a process in place during the year to ensure the sub-ledgers in the House's financial management system agreed to the amounts reported in the general ledger.

Though the reconciliation performed subsequent to September 30, 2011, did not identify material discrepancies, failure to perform this reconciliation increases the risk that errors may not be detected in a timely manner, resulting in a general ledger that may not be complete or accurate. This also increases the risk that the system may not provide users with timely information. OMB Circular A-123 states that

management should have internal controls that “reasonably ensure that...reliable and timely information is obtained, maintained, reported and used for decision making.”

We recommend that the CAO develop and implement policies and procedures for ensuring that a reconciliation of the PeopleSoft sub-ledgers and general ledger be completed on a monthly basis, no more than 20 days after the end of the previous month, and require that the reconciliation be reviewed by the CFO or one of her designees.

**Weakness 2: Ineffective Controls over Information Technology**  
**Summary Status: Significant Deficiency**  
**Prior-Year Condition**  
**Open**

During FY 2011, the House implemented an internal controls program that included the identification of key financial systems and assessments of key financial IT controls, in addition to its continued efforts to implement a risk management framework for its major financial systems. We noted that while the House has made significant improvements in FY 2011, there are still areas for improvement to strengthen controls surrounding the completeness, accuracy, and reliability of financial data. We noted the following 13 conditions related to internal controls over information systems, which collectively represent a significant deficiency in the control environment. We discuss each of these areas below and provide our recommendations for improvement.

**1. A PROCESS HAS NOT BEEN FULLY IMPLEMENTED TO ENSURE THAT ALL MAJOR SYSTEMS WITHIN THE HOUSE IT ENVIRONMENT HAVE UNDERGONE A RISK MANAGEMENT PROCESS AS DEFINED BY NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY (NIST).**

Risk assessments were not completed in accordance with NIST guidance for the House network and financial applications. House Information Security Policy (HISPOL) for the Information Security Compliance Program 007.0 requires that all major systems, support systems, and applications undergo a certification and accreditation (C&A) process before implementation, and at least every 2 years thereafter.

The CAO has not updated HISPOL 007.0, or issued new guidance, to include policy and procedures guiding the implementation of NIST risk management framework methodology and the performance of risk assessments in accordance with NIST guidance. As a result, management cannot obtain adequate assurance that all information systems and the general IT environment are operating with an acceptable amount of risk.

NIST Special Publication (SP) 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, requires that organizational officials, in collaboration with the senior information security officer, assess the information provided by the system owner or common control provider regarding the current security state of the system and the recommendations for addressing any residual risks. Risk assessments are employed at the discretion of the organization to provide needed information on threats, vulnerabilities, and potential impacts, as well as the analyses for risk mitigation recommendations.

We recommend that the CAO implement and enforce a risk management framework to ensure that all systems are identified and undergo a security assessment process, to include risk assessments, in accordance with House policy and industry best practices for federal information systems, to ensure that management's authorizing officials are provided with adequate information to make system authorization decisions.

**2. SYSTEM SECURITY PLANS (SSPs) FOR MAJOR FINANCIAL SYSTEMS HAVE NOT BEEN FULLY DEVELOPED AND MAINTAINED IN ACCORDANCE WITH HOUSE POLICY AND INDUSTRY BEST PRACTICES.**

SSPs were inadequate for the House network, Active Directory, Lawson, and PeopleSoft. The SSPs for major financial systems did not document all minimum security controls based on system criticality and data. CAO management has not adequately developed policies and procedures that provide guidance regarding the implementation of a risk management framework as outlined by NIST SP 800-37, Revision 1, including minimum security control selection, scoping, and tailoring. As a result, there is an increased risk that potential threats and vulnerabilities will not be mitigated due to lack of security controls commensurate with the risk of the system security categorization.

In accordance with NIST SP 800-18, Revision 1, *Guide for Developing Security Plans for Federal Information Systems*, agencies must meet the minimum security requirements of Federal Information Processing Standard (FIPS) 200, which represent a broad-based, balanced information security program that addresses the management, operational, and technical aspects of protecting the confidentiality, integrity, and availability of federal information and information systems. Agencies meet the minimum security requirements in FIPS 200 by applying security controls selected in accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, and the designated impact levels of the information systems.

We recommend that the CAO document and implement policy and procedures that provide guidance regarding the implementation of a risk management framework, as outlined by NIST SP 800-37, Revision 1, including system security categorization, minimum security control selection, scoping, and tailoring.

**3. SECURITY CONTROL ASSESSMENTS WERE NOT CONDUCTED TO TEST THE DESIGN AND OPERATING EFFECTIVENESS OF ALL REQUIRED CONTROLS FOR THE HOUSE NETWORK AND FINANCIAL SYSTEMS.**

While security control assessments were conducted for the House network, Active Directory, and PeopleSoft in FY 2011, they did not test the design and operating effectiveness of all required controls. A security control assessment was not performed for Lawson in FY 2011 due to an impending major upgrade to the application.

CAO management has not adequately developed policies and procedures that provide guidance regarding the implementation of a risk management framework, including the establishment of minimum security controls in accordance with FIPS 200 and NIST SP 800-53, Revision 3, and performing security control assessments commensurate with the risk and criticality of the system, causing the noted issue with security control assessments. As a result, the risk is increased that CAO management does not have a complete understanding of the risk to systems and the IT environment.

NIST SP 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach*, requires that the organizations assess the security controls in accordance with the assessment procedures defined in the security assessment plan. Security control assessments determine the extent to which the controls are implemented correctly, operating as intended, and producing the desired outcome with respect to meeting the security requirements for the information system.

We recommend that the CAO conduct and document security control assessments for the House network and financial systems to test the design and operating effectiveness of all required controls. For each control tested, we recommend that documentation include the description of the implemented

control, test steps to be conducted, expected test results, and actual test results. Evidence from testing should be obtained and documented to allow CAO management to make objective determinations about the effectiveness of the security controls and security of the information system.

**4. A PROCESS HAS NOT BEEN DEVELOPED OR IMPLEMENTED FOR IDENTIFYING AND TRACKING ALL KNOWN SECURITY WEAKNESSES AND INCIDENTS ACROSS THE AGENCY AND ENSURING THAT APPROPRIATE CORRECTIVE ACTION IS TAKEN.**

While policy has been developed guiding the plan of action and management (POA&M) and computer incident response team (CIRT) processes, they are not in accordance with industry best practice and no detailed procedures guiding either process have been developed. HISPUB 004.1 defines a security incident as a computer security event impacting a minimum of 50 systems at once, which does not provide adequate coverage for all possible serious security incidents. Additionally, a process to document, track, and test corrective actions related to audit recommendations and ensure that identified weaknesses are corrected was not in place. A POA&M has not been fully developed or maintained for financial systems and applications.

CAO management has not documented a process to ensure that all security weaknesses and security incidents throughout the IT environment are tracked and managed from an entity-wide perspective, which is the overall cause behind the identified security incident issues. By not identifying and tracking all security weaknesses, CAO management cannot ensure that appropriate and timely corrective action is taken to address all known issues and weaknesses. As a result, the risk is increased that a significant security weakness will remain vulnerable for an extended period of time.

*The United States House of Representatives Information Security Policy for the Information Security Compliance Program (HISPOL 007.0)* requires that vulnerabilities identified during the review process of a major or support application, device, or the House network be documented and tracked throughout the remediation process. Identified vulnerabilities are prioritized based on the risk each poses. Once a vulnerability is identified, a corrective action should be formulated and a timeframe established for its implementation.

Additionally, in accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should track and document information system security incidents. Documenting information system security incidents includes, for example, maintaining records about each incident, the status of the incident, and other pertinent information necessary for forensics, evaluating incident details, trends, and handling.

We recommend that the CAO modify the definition of a security incident in HISPUB 004.1 to be risk-based instead of relying solely on the volume of hosts affected. We also recommend that the CAO develop, document, and implement a process to identify and track all security weaknesses and incidents identified throughout the environment and ensure that appropriate corrective action is taken, to include the following:

- Develop a procedure to test security controls identified as corrected to ensure that actions taken adequately mitigate or correct identified weaknesses.
- Develop and maintain a POA&M, or equivalent documentation, in accordance with NIST guidance, for all House systems and applications to track security weaknesses and issues noted as a result of audits.

- Maintain documentation for all identified security incidents throughout the House and ensure that appropriate follow-up investigations are performed.

**5. ACCOUNT MANAGEMENT CONTROLS WERE NOT ADEQUATELY MANAGED AND ENFORCED THROUGHOUT CAO.**

The CAO made significant progress in FY 2011 in the area of network account management. We noted, however, that inactive network accounts were not removed in a timely manner, passwords for network accounts were not changed in accordance with House policy, the periodic recertification of the House network was not completed in accordance with industry best practices, and assigned PeopleSoft roles were not always requested and authorized via the Application Security Form. Specifically, we noted the following:

- The quarterly network access recertification is completed based on the login activity of the network account, not on the continued appropriateness of access.
- For 6 of the 45 sampled PeopleSoft users, we noted that while PeopleSoft Application Security Forms were completed, not all of the users' roles in the system were requested and authorized via the forms. Of these 6 users, 4 requested that their roles emulate those of another user rather than specifically requesting all of their assigned roles on the PeopleSoft Application Security Form.
- Testing over Active Directory performed by management's internal controls program noted a significant deficiency for password expirations. Specifically:
  - Of the 955 unlocked system accounts from the CAO domain for which passwords should expire after 90 days, 6 accounts had passwords that had not been changed for a period ranging from 106 to 133 days.
  - Of the 194 unlocked system accounts from the Enterprise Services domain for which passwords should expire after 90 days, 10 accounts had passwords that had not been changed for a period ranging from 91 to 2,509 days.
- For 1,251 total CAO Active Directory accounts:
  - Nine active accounts were previously logged in but had been inactive longer than 180 days.
  - Six active accounts had never been logged in and were created more than 180 days before the date of the access listing.

The issues noted with account management exist because CAO management has not adequately implemented a process to ensure that accounts for inactive users, both employees and contractors, are disabled and removed in a timely manner and that expired passwords are changed every 90 days for system accounts; and has not consistently implemented established PeopleSoft account management control policies and procedures. This increases the risk that accounts may be used by unauthorized individuals to conduct inappropriate or malicious acts due to the failure to remove inactive users in a timely manner, change passwords on a periodic basis, complete network access recertifications appropriately, and appropriately assign and authorize roles in PeopleSoft.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations are to manage information system accounts, including establishing, activating, modifying, disabling, and removing accounts, reviewing accounts at an

organization-defined frequency, and granting access to the system based on: (i) a valid access authorization; (ii) intended system usage; and (iii) other attributes as required by the organization or associated missions/business functions.

We recommend that the CAO develop and implement an account management process to ensure the following:

- Inactive accounts are disabled and removed in a timely manner. This process should be enforced at the network level and at the financial application levels.
- Passwords are changed every 90 days for system accounts.
- Periodic user access recertifications are performed that also include a review of users' access requirements and continued appropriateness.
- PeopleSoft users have only the minimum roles required to perform their duties.

**6. CONTINGENCY PLANNING AND RECOVERY POLICIES AND PROCEDURES HAVE NOT BEEN ADEQUATELY DEVELOPED AND IMPLEMENTED TO ENSURE A COMPREHENSIVE APPROACH THAT INCLUDES THE HOUSE NETWORK, ACTIVE DIRECTORY, AND LAWSON.**

We noted significant progress in the area of contingency plan testing in FY 2011. Contingency plan testing was adequately conducted for the House GSS (the network and Active Directory) and Lawson. In addition, we noted some improvement in contingency plan documentation. The CAO has also implemented a business continuity/disaster recovery (BC/DR) framework, including information technology contingency plans that cover broad areas as well as more focused recovery procedure annexes (RPAs) that serve to provide detailed recovery and reconstitution procedures for specific systems.

We noted, however, that contingency plans to coordinate recovery activities between the House network, Active Directory, and Lawson have not been adequately developed. RPAs for data network systems, Active Directory, and Lawson were still in draft at the time of our testing, and multiple components of each RPA were not fully documented. The noted issues with incomplete contingency plan development were due to the recent and continued implementation of the BC/DR framework. As a result, there is an increased risk that House financial operations, data, or systems may become unavailable for an extended period of time without sufficient alternate operating procedures in place to carry out core requirements.

In accordance with NIST SP 800-34, Revision 1, *Contingency Planning Guide for Federal Information Systems*, information system contingency planning represents a broad scope of activities designed to sustain and recover critical system services following an emergency event. An information system contingency plan (ISCP) provides established procedures for the assessment and recovery of a system following a system disruption. The ISCP provides key information needed for system recovery, including roles and responsibilities, inventory information, assessment procedures, detailed recovery procedures, and testing of a system.

We recommend that the CAO coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the House network, Active Directory, and all critical financial systems.

**7. POLICIES AND PROCEDURES FOR SEPARATION OF DUTIES HAVE NOT BEEN FULLY DEVELOPED.**

Lawson system administrators are also the operating system administrators for the servers onto which the application logs are written. These administrators have elevated access that would allow them to access the logs in both a read and write capacity. Additionally, House internal controls testing identified a significant deficiency due to the lack of a formal separation of duties policy for the House network.

The noted separation of duties issue can be attributed to the fact that policies and procedures have not been developed, documented, and implemented for Lawson and the House network to identify incompatible duties and enforce separation of duty controls both at the end-user and administrative levels. As a result, there is an increased risk that financial data may be manipulated by unauthorized individuals. Subsequently, this increases the risk that fraudulent acts may go undetected and financial data may become inaccurate and unreliable.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should separate duties of individuals as necessary to prevent malevolent activity without collusion, document separation of duties, and implement separation of duties through assigned information system access authorizations.

We recommend that the CAO develop, document, and implement policies and procedures to ensure that separation of duties is defined and implemented at the end-user and administrative levels for Lawson and the Network.

**8. PHYSICAL ACCESS CONTROLS HAVE NOT BEEN ADEQUATELY DESIGNED, MANAGED, AND ENFORCED FOR THE HOUSE DATACENTER AT SITE 3.**

Servers supporting the House financial applications are not physically separated from other datacenter tenants. The datacenter is a co-located facility supporting other legislative branch organizations in addition to the House. Personnel with access permissions to the datacenter therefore have physical access to the financial application servers. Overall, access to the House datacenter and servers is permitted to more individuals than are needed for House business requirements, including some supporting other organizations.

The physical access issues at Site 3 are caused by CAO management not appropriately identifying controls restricting the number of individuals with physical access to sensitive information resources. The lack of proper physical controls over critical servers and infrastructure increases the risk that an unauthorized individual will be able to gain access to financial systems and compromise the confidentiality, integrity, and availability of the financial applications.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should enforce physical access authorizations for all physical access points to the facility where the information system resides and control physical access to the information system independent of the physical access controls for the facility.

We recommend that the CAO secure the infrastructure of the financial applications located at Site 3 and limit physical access to only appropriate House personnel.



**9. CHANGE MANAGEMENT CONTROLS WERE NOT ADEQUATELY DESIGNED FOR PEOPLESOFT.**

Before April 1, 2011, PeopleSoft change documentation did not contain the appropriate testing and validation documentation. The CAO internal controls program noted that 6 of 45 changes did not have proper testing documentation. This was caused by a lack of policy and procedures requiring that PeopleSoft change control testing and validation documentation be retained. This lack increases the risk that a change implemented prior to April 1, 2011, that was not properly tested could fail to meet its intended purpose, disrupt existing functionality, or create a security flaw.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should document approved configuration-controlled changes to the system and retain and review records of these changes. Configuration change control for the information system involves the systematic proposal, justification, implementation, test/evaluation, review, and disposition of changes to the system, including upgrades and modifications.

The internal controls program determined the condition to be remediated as of April 1, 2011, and our audit test work subsequent to April 1, 2011, noted no issues in the PeopleSoft change management process. As such, we do not have a recommendation.

**10. AUDIT LOGGING AND MONITORING CONTROLS HAVE NOT BEEN ADEQUATELY DESIGNED AND IMPLEMENTED FOR PEOPLESOFT.**

We noted inadequate active monitoring of sensitive application transactions/table edits and inappropriate separation of duties for security personnel reviewing system/application logs for PeopleSoft. Specifically, we noted the following issues:

- PeopleSoft security administrators are responsible for both security log monitoring/review and user maintenance at the application level. This represents a separation of duties conflict, as the administrators are reviewing their own actions.
- At an application level, failed logon attempts are the only auditable events that are actively monitored. While management has established key fields and tables for trigger-based auditing, active monitoring and review of these logs is not performed.
- The UNIX administrators supporting PeopleSoft, all of whom have SUDO access to root on the production application, web, and database Solaris servers, are responsible for the administration of the operating system as well as the monitoring of operating system security logs. This represents a separation of duties conflict, as the administrators are potentially reviewing their own actions.

CAO management has not developed policies and procedures documenting all aspects of PeopleSoft audit logging and monitoring. As a result, there is an increased risk that suspicious activity, whether intentional or unintentional, affecting key financial data will not be detected in a timely manner, and that a single individual could engage in malicious activity which could remain undetected.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should determine, based on a risk assessment and mission/business needs, that the information system must be capable of auditing organizationally-defined auditable events. The organization should review and analyze information system audit records for indications of inappropriate or unusual activity and report findings to designated organizational

officials. Additionally, NIST SP 800-53, Revision 3, states that organizations should separate duties of individuals as necessary, to prevent malevolent activity without collusion. For example, security personnel who administer access control functions should not administer audit functions.

We recommend that the CAO develop and implement audit logging and monitoring policies for PeopleSoft to ensure the following:

- Audit logs for sensitive financial records and tables and key security activities are actively monitored, and all reviews and any follow-up actions taken are documented.
- Proper separation of duties is enforced for all personnel with responsibility for monitoring PeopleSoft security logs, at both an application and operating system level.

**11. ORACLE PATCH MANAGEMENT CONTROLS HAVE NOT BEEN ADEQUATELY IMPLEMENTED FOR THE INFRASTRUCTURE SUPPORTING PEOPLESOFT.**

The production Oracle 11gR1 database supporting PeopleSoft was missing five applicable critical patch updates (CPUs) as of the time of our testing. The root cause of this issue is that CAO management has not consistently implemented the Standard Operating Procedure for Applying Oracle Security Patches, which requires the installation of applicable Oracle CPUs within the month that the alert is issued. Due to the threat posed by a successful attack, the vendor, Oracle, strongly recommends that customers apply CPU fixes as soon as possible. Not applying CPUs to the production database supporting PeopleSoft in a timely manner increases the risk that the confidentiality, integrity, and/or availability of financial data may be compromised through an attack on the supporting database.

In accordance with CAO *Standard Operating Procedure for Applying Oracle Security Patches*, the Oracle Corporation has enacted a policy whereby they send Security Alerts on a quarterly basis with patches to correct any known/identified security issues. CAO database administration staff receive these notifications and are responsible for applying the patches to the affected Oracle databases and/or applications. Applicable patches are to be applied within the month that the alert is issued.

We recommend that the CAO ensure that the process for applying Oracle critical patch updates, as established in the Standard Operating Procedure for Applying Oracle Security Patches, is consistently implemented.

**12. SECURITY CONFIGURATION BASELINES HAVE NOT BEEN ADEQUATELY CONFIGURED AND MONITORED.**

We noted the following security configuration baseline deficiencies:

- HISPUB 007.1.60, Microsoft Windows 2008 Server Security Standards, is either missing or deviates from 103 of the 241 security configuration standards (42%) identified in the Center for Internet Security (CIS) Security Configuration Benchmark for Microsoft Windows Server 2008. No justification was provided in HISPUB 007.1.60 for the noted deviations.
- HISPUB 007.2.20, *Oracle for UNIX Security Checklist*, is either missing or deviates from 136 of the 290 security configuration standards (47%) identified in the Center for Internet Security (CIS) Security Configuration Benchmark for Oracle Database Server 11g. No justification was provided in HISPUB 007.2.20 for the noted deviations.

- No process is in place to continuously monitor security configurations against approved baselines. Compliance reviews are only conducted once every three years per HISPOL 007.0.

CAO management has not implemented a process to ensure that security configuration baselines are configured and monitored in accordance with industry best practices. As a result, settings deployed to House operating systems and database management systems may not provide adequate security and protection. This increases the risk that the integrity, confidentiality, and availability of House data could be compromised.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, organizations should establish configuration settings for information technology products employed within the information system that reflect the most restrictive mode consistent with operational requirements and monitor changes to the configuration settings in accordance with organizational policies and procedures.

We recommend that the CAO implement a process to ensure that security configuration baselines are appropriately configured and monitored for all platforms, in accordance with industry best practice.

**13. PEOPLESOFT SHARED GROUP ACCOUNT ACCESS IS NOT ACTIVELY MONITORED AND REVIEWED.**

Shared group accounts, including privileged administrator accounts, are not actively monitored and reviewed. We noted three group accounts, two with administrative access and one used by the accounting department for accounts payable, and are used by multiple individuals. These issues are caused by CAO management not establishing policies and procedures guiding the usage, maintenance, and monitoring of shared group accounts, including privileged administrator accounts, for PeopleSoft. This increases the risk that inappropriate actions may be performed with a privileged account within the financial system and go undetected, and accountability for those actions cannot be determined.

In accordance with NIST SP 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, the information system should uniquely identify and authenticate organizational users or processes acting on behalf of organizational users. Unique identification of individuals in group accounts (e.g., shared privilege accounts) may need to be considered for detailed accountability of activity.

We recommend that the CAO evaluate and justify the need for any shared group accounts, including privileged administrator accounts, and uniquely identify and authenticate users to the degree possible. If the accounts are deemed necessary, the CAO should establish and implement policies and procedures concerning audit logging and monitoring, separation of duties, and recertification of shared group accounts, including privileged administrator accounts.

**Status of Prior-Year Findings**

In the audit report on the House's FY 2010 financial statements, several issues were noted related to internal controls over financial reporting. The table below presents a summary of our of internal control findings.

<b>Control Deficiency</b>	<b>2010 Status</b>	<b>2011 Status</b>
Lack of a Management Control Program	Material Weakness	Closed
Ineffective Controls over Information Technology	Material Weakness	Significant Deficiency
Ineffective Financial Reporting Controls and General Ledger System Reporting Limitations	Significant Deficiency	Significant Deficiency

**APPENDIX B**  
**MANAGEMENT'S RESPONSE TO THE**  
**FY 2011 FINANCIAL STATEMENT AUDIT REPORT**

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**Chief Administrative Officer's  
Audit Report Response**





Daniel J. Strodel  
Chief Administrative Officer

Office of the  
Chief Administrative Officer  
U.S. House of Representatives  
Washington, DC 20515-6860

MEMORANDUM

**To:** Theresa M. Grafenstine  
Inspector General

**From:** Daniel J. Strodel  
Chief Administrative Officer

**Subject:** Chief Administrative Officer Response to the *Fiscal Year 2011 Financial Statement Audit Report*

**Date:** January 18, 2012

Thank you for the opportunity to comment on the U.S. House of Representatives Financial Statement Audit for fiscal year 2011. We have reviewed and concur with the two significant deficiencies and the corresponding recommendations contained in the report. Brief summaries of our planned actions related to these issues are outlined below.

**Weakness 1 – Ineffective Controls over the Financial Reporting Process:** The CAO implemented enterprise application software (PeopleSoft) in October, 2010. Additional enhancements to the control environment will be implemented during FY 2012 to address the weaknesses noted in the report. The CAO expects to complete remediation, to the extent practical, of the noted issues during fiscal year 2012.

**Weakness 2 – Ineffective Controls over Information Technology:** As noted, the House has adopted and is currently implementing an information technology (IT) controls framework based on industry best practices that will help ensure a strong general controls environment for information systems and data processing. Additional actions are required to implement and remediate the noted items. Specific action plans will be developed to address the noted items. The actions, to the extent practical, will be completed during FY 2012.

We recognize that the achievement of an unqualified financial statement and internal controls opinion were accomplished through the joint efforts of your staff, contract auditors, and the House staff. I would like to express my appreciation for the cooperation and professionalism displayed by your staff and contract auditors during the course of the engagement.

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# **Fiscal Year 2011 Financial Statements**

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## Financial Statements Included in This Report

The U.S. House of Representatives (House) has prepared financial statements for fiscal year (FY) 2011 in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*. The responsibility for the integrity of the financial information included in these statements rests with management of the House. The audit of the House's financial statements was performed by Cotton & Company LLP. The auditors' report accompanies the financial statements.

The House's financial statements for FY 2011 consisted of the following:

- The **Balance Sheet**, which presents as of September 30, 2011 and 2010 those resources owned or managed by the House that are available to provide future economic benefits (assets); amounts owed by the House that will require payments from those resources or future resources (liabilities); and residual amounts retained by the House comprising the difference (net position).
- The **Statement of Net Cost**, which presents the net cost of the House's operations for the years ended September 30, 2011 and 2010. The House's net cost of operations includes the gross costs incurred by the House less any exchange revenue earned from House activities.
- The **Statement of Changes in Net Position**, which presents the change in the House's net position resulting from the net cost of the House's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2011 and 2010.
- The **Statement of Budgetary Resources**, which presents the budgetary resources available to the House during FY 2011 and FY 2010, the status of these resources at September 30, 2011 and 2010, the change in obligated balances during FY 2011 and FY 2010, and net outlays of budgetary resources for the years ended September 30, 2011 and 2010.

**U.S. HOUSE OF REPRESENTATIVES**  
**Consolidated Balance Sheet**  
**As of September 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Intergovernmental:		
Fund Balance with U.S. Treasury (Note 2)	\$ 264,591,955	\$ 239,582,640
Accounts Receivable, Net (Note 3)	536,949	78,437
Advances and Prepayments (Note 7)	11,359	13,776
<b>Total Intragovernmental</b>	<b>265,140,263</b>	<b>239,674,853</b>
Cash and Other Monetary Assets (Note 2)	520	1,092
Accounts Receivable, Net (Note 3)	472,324	138,469
Inventory and Operating Materials and Supplies (Note 4)	1,370,614	1,342,359
Property and Equipment, Net (Note 5)	51,177,082	67,323,285
Advances and Prepayments (Note 7)	6,537,610	4,011,514
<b>Total Assets</b>	<b>\$ 324,698,413</b>	<b>\$ 312,491,572</b>
Stewardship Property and Equipment (Note 6)		
<b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable	\$ 4,879,398	\$ 1,481,153
Advances from Others	55,167	1,578,859
Capital Lease Liabilities (Note 9)	549,371	728,659
Other Liabilities	5,033,931	2,412,889
<b>Total Intragovernmental</b>	<b>10,517,867</b>	<b>6,201,560</b>
Accounts Payable	27,391,752	33,784,385
Actuarial Federal Employees' Compensation Act Liabilities	21,290,084	20,120,574
Accrued Payroll and Benefits	7,150,990	9,042,252
Accrued Annual Leave	7,823,711	6,692,287
Capital Lease Liabilities (Note 9)	-	1,588,093
Other Liabilities	174,548	179,021
<b>Total Liabilities (Note 8)</b>	<b>\$ 74,348,952</b>	<b>\$ 77,608,172</b>
<b>NET POSITION</b>		
Unexpended Appropriations	\$ 201,799,706	\$ 179,390,239
Cumulative Results of Operations	48,549,755	55,493,161
<b>Total Net Position</b>	<b>\$ 250,349,461</b>	<b>\$ 234,883,400</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 324,698,413</b>	<b>\$ 312,491,572</b>

**U.S. HOUSE OF REPRESENTATIVES**  
**Consolidated Statement of Net Cost**  
**For the Years Ended September 30, 2011 and 2010**

	2011	2010
<b>NET COST OF OPERATIONS</b> (Note 11)		
<b>Net Costs by Program Area</b>		
<b>Legislative Activities</b>		
Gross Costs	\$ 1,627,233,695	\$ 1,699,580,701
Less: Earned Revenue	(4,793,398)	(11,411,145)
Net Program Costs	<b>1,622,440,297</b>	<b>1,688,169,556</b>
<b>Revolving Funds</b>		
Gross Costs	1,062,654	2,588,160
Less: Earned Revenue	(6,226,386)	(4,156,296)
Net Program Costs	<b>(5,163,732)</b>	<b>(1,568,136)</b>
<b>Net Cost of Operations</b>	<b>\$ 1,617,276,565</b>	<b>\$ 1,686,601,420</b>

**U.S. HOUSE OF REPRESENTATIVES**  
**Consolidated Statement of Changes in Net Position**  
**For the Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Unexpended Appropriations</b>		
Beginning Balance	\$ 179,390,239	\$ 155,434,854
Budgetary Financing Sources		
Appropriations Received	1,430,483,150	1,494,157,000
Appropriations Used	(1,373,260,349)	(1,456,300,736)
Other Adjustments	(34,813,334)	(13,900,879)
Total Budgetary Financing Sources	22,409,467	23,955,385
<b>Total Unexpended Appropriations</b>	<b>\$ 201,799,706</b>	<b>\$ 179,390,239</b>
 <b>Cumulative Results of Operations</b>		
Beginning Balance	\$ 55,493,161	\$ 39,852,462
Budgetary Financing Sources		
Appropriations Used	1,373,260,349	1,456,300,736
Other Adjustments	1,326,770	7,010,612
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 15)	235,680,888	239,350,821
Other Adjustments	65,152	(420,050)
Total Financing Sources	1,610,333,159	1,702,242,119
Net Cost of Operations	(1,617,276,565)	(1,686,601,420)
Net Change	(6,943,406)	15,640,699
<b>Total Cumulative Results of Operations</b>	<b>\$ 48,549,755</b>	<b>\$ 55,493,161</b>
 <b>Net Position</b>	<b>\$ 250,349,461</b>	<b>\$ 234,883,400</b>



**U.S. HOUSE OF REPRESENTATIVES**  
**Statement of Budgetary Resources**  
**For the Years Ended September 30, 2011 and 2010**

	2011	2010
<b>Budgetary Resources</b>		
Unobligated Balance, Brought Forward, October 1	\$ 98,588,145	\$ 101,003,290
Recoveries of Prior Year Unpaid Obligations	1,471,605	4,057,123
Budget Authority:		
Appropriations Received	1,430,483,150	1,494,157,000
Borrowing Authority	-	-
Contract Authority	-	-
Spending Authority from Offsetting Collections:		
Earned:		
Collected	30,061,843	28,517,145
Change in Receivable from Federal Sources	536,418	-
Change in Unfilled Customer Orders:		
Advances Received	(1,523,691)	1,498,029
Without Advance from Federal Sources	-	-
Anticipated for Rest of Year, Without Advances	-	-
Previously Unavailable	-	-
Expenditure Transfers from Trust Funds	-	-
Subtotal Budget Authority	<u>\$ 1,459,557,720</u>	<u>\$ 1,524,172,174</u>
Nonexpenditure Transfers, Net, Anticipated and Actual	-	-
Temporarily Not Available Pursuant to Public Law	-	-
Permanently Not Available (Cancelled)	(34,084,970)	(4,930,523)
<b>Total Budgetary Resources</b>	<u><b>\$ 1,525,532,500</b></u>	<u><b>\$ 1,624,302,064</b></u>
<b>Status of Budgetary Resources</b>		
Obligations Incurred:		
Direct	\$ 1,363,907,195	\$ 1,498,490,639
Reimbursable	26,059,558	27,223,280
Total Obligations Incurred	<u>1,389,966,753</u>	<u>1,525,713,919</u>
Unobligated Balances - Available:		
Apportioned	-	-
Exempt from Apportionment	72,061,195	39,575,858
Total Unobligated Balance - Available	<u>72,061,195</u>	<u>39,575,858</u>
Unobligated Balance - Not Available	63,504,552	59,012,287
<b>Total Status of Budgetary Resources</b>	<u><b>\$ 1,525,532,500</b></u>	<u><b>\$ 1,624,302,064</b></u>
<b>Change in Obligated Balance</b>		
Obligated Balance, Brought Forward, October 1		
Unpaid Obligations	\$ 141,186,698	\$ 111,821,812
Less: Uncollected Customer Payments from Federal Sources	-	-
Total Unpaid Obligated Balance, Brought Forward, October 1	<u>141,186,698</u>	<u>111,821,812</u>
Obligations Incurred, Net	1,389,966,753	1,525,713,919
Less: Gross Outlays	(1,399,255,608)	(1,492,291,910)
Obligated Balance Transferred, Net:		
Actual Transfers, Unpaid Obligations	-	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-	-
Total Unpaid Obligated Balance Transferred, Net	<u>-</u>	<u>-</u>
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(1,471,605)	(4,057,123)
Change in Uncollected Customer Payments from Federal Sources	(536,418)	-
Obligated Balance, Net, End of Period:		
Unpaid Obligations	130,426,238	141,186,698
Less: Uncollected Payments from Federal Sources	(536,418)	-
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<u><b>\$ 129,889,820</b></u>	<u><b>\$ 141,186,698</b></u>
<b>Net Outlays</b>		
Gross Outlays	\$ 1,399,255,608	\$ 1,492,291,910
Less: Offsetting Collections	(28,538,152)	(30,015,174)
<b>Total Net Outlays</b>	<u><b>\$ 1,370,717,456</b></u>	<u><b>\$ 1,462,276,736</b></u>

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## **Notes to the Financial Statements**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES****A. Description of the Reporting Entity**

The U.S. House of Representatives (House) is one of two separate legislative chambers that comprise the Congress of the United States. The other is the U.S. Senate (Senate). All lawmaking powers of the Federal government are given to the Congress under Article I of the Constitution of the United States. The House and Senate jointly agree on a budget for the Legislative Branch and submit it to the President of the United States. The Members of the House serve two-year terms of office, which coincide with the sequential numbering of the entire Congress.

To help carry out its constitutional duties, the House creates committees of Members and assigns them responsibility for gathering information, identifying policy problems, proposing solutions, and reporting bills to the full chamber for consideration. The House elects and appoints Officers and officials to administer both legislative and non-legislative functions, which support the institution and its Members in carrying out its legislative duties. The financial statements of the House provide financial information on the activities of all entities, which are subject to the authority vested in the House by the U.S. Constitution, public laws, and rules and regulations adopted by the membership of the House.

These financial statements reflect the organizational structure of the House under the sessions of the 111<sup>th</sup> and 112<sup>th</sup> Congress. The fiscal year 2011 financial statements are comprised of two programs: Legislative Activities and Revolving Funds.

**Legislative Activities**

Legislative Activities consist of all financial activity related to the operations of all Member Offices, both in Washington, D.C. and Congressional districts; all Committees both Standing and Special and Select; Leadership Offices; House Officers and Offices and Joint Functions that the House shares with the U.S. Senate including the Attending Physician and Joint Committee on Taxation.

House **Members** are elected from congressional districts of approximately equal population. The financial information aggregates transactions of the Member districts and Washington, D.C. offices, and includes 435 Representatives; five Delegates, one each, from the District of Columbia, Guam, Virgin Islands, American Samoa and Northern Mariana Islands; and one Resident Commissioner from Puerto Rico.

The **Committees** financial information aggregates transactions of the Standing and Special and Select Committees under the sessions of the 111<sup>th</sup> and 112<sup>th</sup> Congress. Committees are organized at the beginning of each Congress according to their jurisdictional boundaries incorporated in the Rules of the House. The Committees of the House under the sessions of the 111<sup>th</sup> and 112<sup>th</sup> Congress are:

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce (Committee on Education and Labor in the 111<sup>th</sup> Congress)
- Committee on Energy and Commerce
- Committee on Ethics (Committee on Standards of Official Conduct in the 111<sup>th</sup> Congress)
- Committee on Financial Services
- Committee on Foreign Affairs
- Committee on Homeland Security
- Committee on House Administration
- Committee on the Judiciary
- Committee on Natural Resources
- Committee on Oversight and Government Reform
- Committee on Rules
- Committee on Science, Space, and Technology (Committee on Science and Technology in the 111<sup>th</sup> Congress)
- Committee on Small Business
- Committee on Transportation and Infrastructure

Committee on Veterans' Affairs  
Committee on Ways and Means  
Permanent Select Committee on Intelligence  
Select Committee on Energy Independence and Global Warming (111<sup>th</sup> Congress only)

The House **Leadership Offices** financial information aggregates transactions of:

Speaker of the House  
Majority and Minority Leaders  
Majority and Minority Whips  
Party Steering Committees, Caucus or Conference, which consist of Representatives of the same political party

The **Officers and Legislative Offices** financial information aggregates transactions of all legislative support and administrative functions provided to Members, Committees, and Leadership offices, including:

Chaplain  
Chief Administrative Officer  
Clerk of the House  
Office of Congressional Ethics  
Office of the General Counsel  
Office of the Historian  
Office of Inspector General  
Office of the Law Revision Counsel  
Office of the Legislative Counsel  
Parliamentarian  
Sergeant at Arms

The **Joint Functions** financial information aggregates transactions of the joint activities of the House and the Senate to the extent that the House funds these functions. House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these statements include:

Attending Physician  
Joint Economic Committee  
Joint Committee on the Library  
Joint Committee on Printing  
Joint Committee on Taxation  
Joint Select Committee on Deficit Reduction

**Revolving Funds**

Revolving Fund Activities consist of all financial activity related to the operations of all House revolving fund accounts.

The **Revolving Funds** financial information aggregates transactions of:

House Child Care Center  
House Recording Studio  
House Services  
Net Expenses of Equipment  
Net Expenses of Telecommunications  
Page School  
Stationery

**B. Basis of Consolidation**

The consolidated financial statements include the accounts and significant activities of the House. All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information, except for the Statement of Budgetary Resources which is presented on a combined basis in accordance with the Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*.

The financial statements do not include legislative agencies that support the House and that receive separate appropriations. These agencies are:

- Architect of the Capitol
- Congressional Budget Office
- Government Accountability Office
- Government Printing Office
- Library of Congress
- U.S. Botanic Garden
- U.S. Capitol Police

Functions jointly shared between the House and the Senate are included in the financial statements to the extent their operations are funded by House appropriations. These consist of:

- Attending Physician
- Joint Economic Committee
- Joint Committee on the Library
- Joint Committee on Printing
- Joint Committee on Taxation
- Joint Select Committee on Deficit Reduction

**C. Basis of Accounting and Presentation**

The financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the House. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements of the OMB Circular No. A-136, *Financial Reporting Requirements*.

While the House is a Legislative Branch entity, it has elected to incorporate many of the Federal government Executive Branch agency financial management and reporting standards that management deems necessary for the fair presentation of financial statement information.

The House's accounting structure, in accordance with GAAP, utilizes both accrual and budgetary accounting. Under accrual accounting, events are recognized as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting, on the other hand, facilitates compliance with legal constraints on, and controls over, the use of Federal funds.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other Federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other Federal entities, and intragovernmental costs are payments or accruals to other Federal entities.

While these statements have been prepared from the records of the House in accordance with GAAP and formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records. These statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

**D. Fund Balance with the U.S. Treasury and Cash**

The U.S. Treasury processes cash receipts and disbursements for the House through its cash management services. Fund Balance with Treasury represents the aggregate amount of House fund accounts with the U.S. Treasury available to pay

current liabilities and finance authorized purchases. Fund Balance with Treasury consists of balances for general fund expenditure accounts, revolving funds, and other fund types as of the end of the fiscal year. Fund Balance with Treasury also includes the Congressional Use of Foreign Currency account, which is held at the U.S. Treasury and is maintained and administered by the Department of State on behalf of the House. The House also maintains an account related to Special Fund Receipts. Cash and other monetary assets include cash on hand that represents deposits in transit and amounts held in a commercial bank account. (See Note 2)

The following describes the type of funds maintained by the House:

**General Fund Expenditure Accounts** are fund accounts used to record amounts appropriated by Congress for the general support of the Federal government.

**Revolving Funds** are fund accounts used to record funds authorized by specific provisions of law to finance a continuing cycle of business-type operations. Receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress.

**Special Fund Receipt Accounts** are fund accounts used to record receipts from specific sources earmarked by law for specific purposes.

**Other Fund Types** include General Fund Receipt and Deposit Fund accounts. General Fund Receipt accounts are used to record all receipts not earmarked by law for a specific purpose. These receipts may include miscellaneous recoveries and refunds and fines and penalties. The U.S. Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year. Deposit Fund accounts are used to record monies withheld from Federal government payments for goods and services received pending payment; and receipts and disbursements awaiting determination of the proper accounting classification.

#### **E. Accounts Receivable, Net**

Accounts Receivable represents amounts due to the House from Federal entities, Members, employees and/or vendors for money, goods, and services less an Allowance for Doubtful Accounts. Accounts Receivable primarily arises from provision of goods and services, commissions, and overpayments. Allowance for Doubtful Accounts is based on an analysis of outstanding accounts, aging methodologies and historical collection experience. Intragovernmental accounts receivable are generally considered to be fully collectible. (See Note 3)

#### **F. Inventory and Related Property, Net**

Inventory is tangible personal property that is held for sale. The Chief Administrative Office (CAO) Office Supply Service and Gift Shop maintain an inventory of supplies and merchandise purchased for resale to the public. Inventories for sale are valued at the moving weighted average method.

Operating Material and Supplies are tangible personal property to be consumed during normal operations. The CAO Logistics and Support Office maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials purchased by the House for use in its operations. The CAO House Information Resources Office maintains inventories of such items as fiber jumpers to support network connectivity and patch cords to support desktop computers. These items are not for sale and are reflected in the financial statements at an estimated value based on the first in/first out inventory valuation method. (See Note 4)

#### **G. General Property and Equipment, Net**

General Property and Equipment consists of office and computer equipment, furniture, vehicles, software, assets acquired under capital leases, leasehold improvements and work in process. The House capitalizes property and equipment when the acquisition cost equals or exceeds an established threshold and has a useful life of two years or more. The costs of such items are recognized as assets when acquired.

Property and equipment are capitalized if the unit acquisition cost is equal to or greater than \$25,000 and the item has a useful life of two years or more with the exception of software. Software is capitalized if the unit acquisition cost is equal to or greater than \$10,000 and the item has a useful life of two years or more. Work in process consists of capitalized costs associated with assets received, but not placed in service as of the end of the fiscal year.



An appropriate portion of an asset's value is reduced and an expense for depreciation or amortization is recognized over the accounting periods benefited by the asset's use. The House calculates depreciation and amortization expense based on the straight-line method over an asset's estimated useful life. Depreciation expense is applicable to tangible assets such as equipment, furniture, and vehicles. Amortization expense is applicable to intangible assets such as software and capital leases. Assets acquired under capital leases are generally amortized over the lease term. However, if a lease agreement contains a bargain purchase option or otherwise transfers title of the asset to the House, the asset is amortized on the same basis as similar categories of owned assets.

A loss is recognized when the net book value of the asset at the time of disposal exceeds any proceeds received. A gain is recognized when the net book value of the asset at the time of disposal is less than any proceeds received. (See Note 5)

The House also entered into capital leases for building structures and computer hardware. Assets under capital leases are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases, if the lower of net present value or fair market value of the minimum lease payments due at lease inception meets House capitalization criteria. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the lower of net present value of the minimum lease payments or fair market value at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. (See Note 9)

House office buildings and land occupied by Members and employees in Washington, D.C. are under the custody of the Architect of the Capitol (AOC) and are excluded from the House's property and equipment accounts. The House recognizes an imputed cost and related imputed financing source in its financial statements for the costs associated with House office buildings. (See Notes 1K and 15)

#### **H. Stewardship Property and Equipment**

Stewardship Property, Plant and Equipment (PP&E) includes heritage assets and stewardship land. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets consist of collection-type heritage assets, such as objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections; and non-collection-type heritage assets, such as parks, memorials, monuments, and buildings. These assets are expected to be preserved indefinitely. The House's heritage assets are considered collection-type heritage assets and consist primarily of historical artwork and artifacts.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is included in general PP&E on the Balance Sheet. The House office buildings and land occupied and used by Members and employees in Washington, D.C. meet the criteria of multi-use heritage assets. Stewardship responsibility for these multi-use heritage assets is maintained by the AOC and disclosed on its financial statements. The House does not possess multi-use heritage assets or stewardship land.

Heritage assets are disclosed on the Balance Sheet as a note reference with no asset amount shown, and are generally not included in the general PP&E. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, matching costs with specific periods would not be meaningful. (See Note 6 and Required Supplementary Information)

#### **I. Advances and Prepayments**

Advances and prepayments are transfers of cash to cover future expenses or the acquisition of assets. These goods and/or services are delivered in increments that span several months. Advance payments are recorded as assets and consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. As the goods and/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are payments made in advance of the receipt of goods and services. Prepayments include payments for subscriptions and software licenses and are recorded as expenses. At year-end, all such payments made for the current year are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. (See Note 7)

## J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are amounts due to others as a result of items received, services rendered, expenses incurred, assets acquired and construction or work in process regardless of whether invoices have been received. Liabilities also represent amounts received that have not yet been earned. Liabilities covered by budgetary resources are liabilities incurred that will be covered by available budgetary resources encompassing not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Liabilities not covered by budgetary resources include unfunded liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of the reporting entity. (See Note 8)

The House's liabilities include:

**Accounts Payable** that represent amounts owed for the cost of goods and services received but not yet paid. The House estimates certain accounts payable balances based on financial activity determined on a three-year averaging methodology.

**Advances from Others** that represent advance payments received from other Federal government entities for shared services, in advance of the delivery of these services. As the services are rendered the Advances from Others account is drawn down and the appropriate revenue is recognized. The House received payments in advance of receipt of shared services from the Library of Congress.

**Capital Lease Liability** that represents the portion recorded at the lower of net present value or fair market value of the minimum lease payments at lease inception.

**Unfunded Workers' Compensation Actuarial Liability** that represents an estimate based on actuarial calculations using historical payment patterns to predict what costs will be incurred in the future. The liability is adjusted annually by applying actuarial procedures. Any upward or downward adjustment to the liability is recorded as an annual increase or decrease to benefits expense. The House calculated the actuarial liability based on a model developed by the U.S. Department of Labor (DOL). The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for the benefit of House employees under FECA are administered by DOL, which pays the initial claim and obtains reimbursement from the House.

**Accrued Payroll and Benefits and Annual Leave** that represent both a funded and unfunded liability. A funded liability has a corresponding appropriation to liquidate it. An unfunded liability is a liability that is incurred during the current or prior year but is not payable until a future fiscal year for which an appropriation has not yet been received.

Accrued payroll and benefits include salaries and associated benefits earned in the current fiscal year and paid in the subsequent fiscal year.

Annual leave for the House Officers, the Inspector General and their employees is accrued as earned, and the liability is reduced as leave is taken. The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, Sec. 109 Stat. 522 (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). In FY 2011, the House changed the methodology to reflect actual hours to calculate the liability. Sick and other types of paid leave are expensed as they are taken. The Members' and Committees' Congressional Handbooks allow offices to adopt personnel policies that provide for the accrual of annual leave and use of such leave. Leadership and other select House offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding the accrual and payment of leave time. Therefore, an accrued leave liability for Members, Committees, Leadership and select House offices is estimated on the financial statements. In FY 2011, the estimate was based on a three-year average of actual annual leave paid.

**Other Intragovernmental Liabilities** that represent the Accrued workers' compensation amount billed by DOL that will be paid in subsequent fiscal years and Unemployment compensation amounts owed to DOL.

**Other Public Liabilities** that represent amounts held pending proper accounting disposition or amounts withheld from payments for goods and services received pending payment.

## **K. Revenue and Other Financing Sources**

### **Appropriations**

The House finances most of its operations through congressional appropriations of budget authority. To the extent that revenue generated by some House entities does not cover expenses, appropriations are required. The House receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. A financing source is recognized for these appropriated funds received, less appropriations transferred or not available through rescission or cancellation. The House usually receives the full amount of its appropriation at the beginning of each fiscal year.

### **Exchange and Non-Exchange Revenue**

The House classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the government and the other party receive value; and is recognized when goods have been delivered or services rendered. The House's exchange revenue consists of (1) sales of goods to the public for Office Supply Service and Gift Shop sales; (2) sales of services to the public for child care fees, photography sales, postal fees and Attending Physician fees; (3) interoffice sales between House entities for graphic services, telecommunications, office supplies, framing, recording, office equipment, photography, and tape duplication; and (4) other revenue for Page School room and board and vendor commissions. Non-exchange revenue is derived from the government's sovereign right to demand payment from the public (e.g., taxes, duties, fines, and penalties) but also includes donations. The House reports non-exchange revenue collected from donations for the Reduction of Public Debt.

### **Imputed Financing from Cost Absorbed by Others (and Related Imputed Costs)**

The House must recognize the amount of cost incurred by a Federal entity for goods or services provided and paid for in total, or in part, by other Federal entities. Since the cost is not actually reimbursed to these Federal entities, an imputed financing source is also recognized to offset the costs financed by the entities. The imputed cost and imputed financing source for costs are associated with the occupancy of the U.S. Capitol and House office buildings under the custody of the AOC and the Federal Employee and Veterans' Benefits. The imputed cost is recognized in the Statement of Net Cost and the imputed financing source is recognized in the Statement of Changes in Net Position.

#### *Occupancy Cost:*

The House must recognize an occupancy cost for the U.S. Capitol and House office buildings under the custody of the AOC that are occupied by Members and staff in Washington, D.C. The House office buildings are comprised of the Cannon, Ford, Longworth, Rayburn, and other buildings and facilities. The AOC receives an appropriation for the maintenance, care and operations of the House office buildings, facilities and grounds; and costs associated with the acquisition and maintenance of the land and buildings is accounted for by the AOC.

The imputed occupancy cost for the U.S. Capitol and House office buildings is calculated by multiplying the gross square footage of the buildings by the estimated per square foot value. A common area factor of 11% was applied to the gross square footage. The industry standard rental rate increase of 3.8% over FY 2010 is reflected in the FY 2011 occupancy costs.

#### *Federal Employee and Veterans' Benefits Cost:*

Federal-employing entities recognize their share of the cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. The pension expense recognized in the Statement of Net Cost is the current service cost for House employees less the amount contributed by the employee.

The measurement of the service cost requires the use of actuarial cost methods and assumptions, with the factors applied by the House provided by the Office of Personnel Management (OPM), the Federal agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the House represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM.

The House does not receive an appropriation to fund this cost. Therefore, this portion of the pension cost is considered an imputed financing source to the House, and is included in the Imputed Financing from Costs Absorbed by Others on the Statement of Changes in Net Position.

Federal-employing entities also recognize a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still employed. This cost is included in the Statement of Net Cost. Employees and the House do not currently make contributions to fund these future benefits, and the House does not receive an appropriation to fund this expense. Therefore, this portion of the post-retirement health benefits and life insurance is considered an imputed financing source to the House, and is included in Imputed Financing from Costs Absorbed by Others on the Statement of Changes in Net Position. (See Note 15)

#### **L. Personnel and Benefits Compensation**

House Members and employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both Members and employees are eligible for retirement benefits under CSRS or FERS. A CSRS basic annuity, unreduced for age, debts to the fund, or survivor's benefits, is calculated by multiplying the highest 3 consecutive years' average salary by a percentage factor which is based on the length of Federal service. However, Members' benefits are different from those of employees. For example, a Member covered by CSRS is eligible to receive unreduced retirement benefits at age 60 if he or she has 10 years of Member service. An employee is eligible to receive reduced benefits at age 50 with 20 years of service or at any age with 25 years of service. The FERS basic benefit plan provides the same benefits for either Members or employees.

CSRS employees contribute a portion of their earnings to the Civil Service Retirement Fund. The House also contributes an amount to this fund. FERS employees, in addition to paying Social Security, contribute a portion of their base earnings to the FERS retirement fund. The House also contributes an amount toward the FERS retirement and Social Security funds.

Both FERS and CSRS employees can contribute to the Thrift Savings Plan (TSP) up to the IRS limit. FERS employees also receive an automatic one percent House-paid contribution, as well as an additional House matching TSP contribution up to five percent of their basic pay. CSRS employee contributions to TSP do not receive matching House contributions. FERS employees could receive benefits from FERS, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP. (See Note 12)

#### **M. Net Position**

The components of Net Position are:

##### **Unexpended Appropriations**

Appropriations are not considered expended until goods have been received or services have been rendered. The House has single, multi and no-year appropriations. For multi-year appropriations the House alternates each fiscal year between 15-month and 27-month multi-year funding. Funds cancel two years after expiration and are no longer available for obligation or expenditure for any purpose and are returned to the U.S. Treasury.

##### **Cumulative Results of Operations**

The net difference between expenses and revenue and financing sources including appropriations, revenues from operations and imputed financing sources.

##### **N. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenue and expense reported during the period. Actual results could differ from those estimates.

**NOTE 2 - FUND BALANCE WITH THE U.S. TREASURY AND CASH**

Fund Balances with Treasury (FBWT) as of September 30, 2011 and 2010 were:

<b>Fund Balance with Treasury</b>	<b>2011</b>	<b>2010</b>
General and Other Funds		
House maintained	\$ 205,533,568	\$ 180,734,103
Congressional Use of Foreign Currency	34,778,677	38,321,898
Total General and Other Funds	240,312,245	219,056,001
Revolving Funds	24,279,710	20,526,639
<b>Total</b>	<b>\$ 264,591,955</b>	<b>\$ 239,582,640</b>

Status of Fund Balance with Treasury as of September 30, 2011 and 2010 were:

<b>Status of Fund Balance with Treasury</b>	<b>2011</b>	<b>2010</b>
Unobligated Balance		
Available	\$ 72,061,195	\$ 39,575,858
Unavailable	63,504,552	59,012,287
Obligated Balance not yet Disbursed	129,889,820	141,186,698
Other Funds	(863,612)	(192,203)
<b>Total</b>	<b>\$ 264,591,955</b>	<b>\$ 239,582,640</b>

Other funds represent deposit funds held at the U.S. Treasury.

Cash and Other Monetary Assets as of September 30, 2011 and 2010 were:

<b>Cash and Other Monetary Assets</b>	<b>2011</b>	<b>2010</b>
Cash on Hand	\$ 520	\$ 1,092
<b>Total</b>	<b>\$ 520</b>	<b>\$ 1,092</b>

Funds that were canceled and returned to the U.S. Treasury as of September 30, 2011 and 2010 were:

<b>Appropriations</b>	<b>2011</b>	<b>2010</b>
2009 (single year)	\$ 28,317,552	\$ -
2008 (single year)	-	4,930,523
2008/2009 (multi-year)	2,992,048	-
2007/2009 (multi-year)	119,404	-
<b>Total</b>	<b>\$ 31,429,004</b>	<b>\$ 4,930,523</b>

**NOTE 3 - ACCOUNTS RECEIVABLE, NET**

Accounts Receivable, Net as of September 30, 2011 and 2010 were:

<b>Accounts Receivable, Net</b>	<b>2011</b>	<b>2010</b>
Intragovernmental		
Accounts Receivable	\$ 536,949	\$ 78,437
Total Intragovernmental	536,949	78,437
With the Public		
Accounts Receivable	847,845	871,082
Allowance for Doubtful Accounts	(375,521)	(732,613)
Total With the Public	472,324	138,469
<b>Total</b>	<b>\$ 1,009,273</b>	<b>\$ 216,906</b>

**NOTE 4 - INVENTORY AND RELATED PROPERTY, NET**

Inventory and Related Property, Net as of September 30, 2011 and 2010 were:

<b>Inventory and Related Property, Net</b>	<b>2011</b>	<b>2010</b>
Operating Materials and Supplies Held for Use	\$ 605,982	\$ 343,339
Inventory Purchased for Resale	764,632	999,020
<b>Total</b>	<b>\$ 1,370,614</b>	<b>\$ 1,342,359</b>

**NOTE 5 - GENERAL PROPERTY AND EQUIPMENT, NET**

General Property and Equipment, Net as of September 30, 2011 and 2010 and the related depreciation and amortization expense were:

<b>2011 Classes of Property and Equipment</b>	<b>Service Life (Years)</b>	<b>Acquisition Value</b>	<b>Accumulated Amortization/Depreciation</b>	<b>Net Book Value</b>	<b>Amortization/Depreciation Expense</b>
Work in Process	N/A	\$ 7,135,646	\$ -	\$ 7,135,646	\$ -
Computer Software in Development	N/A	-	-	-	-
Computer Software and Hardware	3	117,328,100	90,497,664	26,830,436	16,524,948
Assets Under Capital Lease	10	1,354,473	1,049,717	304,756	920,326
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	64,189,651	49,634,910	14,554,741	6,495,089
Motor Vehicles	5	10,734,180	10,460,322	273,858	8,021
Furnishings and Other Equipment	10	1,520,060	887,766	632,294	46,690
Leasehold Improvements	10	9,085,375	7,640,024	1,445,351	908,538
<b>Total</b>		<b>\$ 211,861,853</b>	<b>\$ 160,684,771</b>	<b>\$ 51,177,082</b>	<b>\$ 24,903,612</b>

<b>2010 Classes of Property and Equipment</b>	<b>Service Life (Years)</b>	<b>Acquisition Value</b>	<b>Accumulated Amortization/Depreciation</b>	<b>Net Book Value</b>	<b>Amortization/Depreciation Expense</b>
Work in Process	N/A	\$ 9,001,668	\$ -	\$ 9,001,668	\$ -
Computer Software in Development	N/A	16,189,010	-	16,189,010	-
Computer Software and Hardware	3	97,909,184	79,851,739	18,057,445	9,456,787
Assets Under Capital Lease	3/10	3,923,168	1,770,501	2,152,667	991,679
Computer Software and Hardware	5	514,368	514,368	-	-
Equipment	5	62,985,272	43,755,240	19,230,032	7,533,635
Motor Vehicles	5	10,666,880	10,368,555	298,325	1,598,560
Furnishings and Other Equipment	10	1,141,104	1,100,855	40,249	11,452
Leasehold Improvements	10	9,085,375	6,731,486	2,353,889	908,538
<b>Total</b>		<b>\$ 211,416,029</b>	<b>\$ 144,092,744</b>	<b>\$ 67,323,285</b>	<b>\$ 20,500,651</b>

**NOTE 6 – STEWARDSHIP PROPERTY AND EQUIPMENT**

Physical counts for collection-type heritage assets as of September 30, 2011 and 2010 were:

<b>Heritage Assets</b>	<b>2010</b>	<b>Additions</b>	<b>Withdrawals</b>	<b>2011</b>
Artwork	311	8	-	319
Artifacts	3,600	917*	6	4,511
<b>Total</b>	<b>3,911</b>	<b>925</b>	<b>6</b>	<b>4,830</b>

\*The additions reflect 30 artifacts that were acquired prior to fiscal year 2011, but were either reclassified from a single item from last year or previously not catalogued. This action was taken to ensure the completeness and accuracy of the count.

The House's heritage assets are directly related to its mission to document and preserve the legislative integrity and traditions of the institution. Permanent authority for the Clerk of the House originated in the opening days of the First Congress, when John Beckley was elected Clerk on April 1, 1789, pursuant to Article I of the Constitution: "The House of Representatives shall chuse (sic) their Speaker and other Officers...." The Clerk's responsibilities to document and preserve the activities of Congress have grown over the centuries, and are found in Rules VII and XI of the House, and by the Rules of the House of Representatives Fine Arts Board, established via 40 USC Sec. 188c (Public Law 100-696 [Title X]).

The House's stewardship responsibility for its heritage assets includes those in or associated with the House, its legislative history, Members and institutional heritage. Under the provisions of the House of Representatives Fine Arts Board, the Clerk is responsible for the administration, maintenance, and display of the works of fine art and other similar property of the Congress for display or for other use in the House wing of the Capitol, the House Office Buildings, or any other location under the control of the House in accordance with Public Law 100-696. The House's heritage assets are curated by the House Curator in the Clerk's Office of History and Preservation. The House Curator maintains records, both paper and electronic, for works of art and artifacts. Staff and resources are devoted to the conservation and preservation of heritage assets, using professional standards established by the American Institute for Conservation and the National Archives and Records Administration. These standards provide for cleaning, storing, displaying, handling and protecting the House's heritage assets.

The House acquires heritage assets by purchase, transfer from Federal entities, gift, or by provision of federal law. Prior to acquiring these assets, the House Curator, on behalf of the Clerk and the House of Representatives Fine Art Board, ensures they meet minimum standards as required by the American Association of Museum's ethics guidelines and standards and best practices for accessioning of objects into museum collections. The House's collections continue to increase as it acquires additional assets and few items have been retired or disposed of to date.

Deaccessioning of objects and related withdrawals or disposals will only occur if the House Curator, in accordance with the American Association of Museum's guidelines and best practices, determines the asset is in irretrievable condition; does not meet the needs of the collection; or withdraws due to exchange or gift of unwanted or duplicate copies. Staff ensure that heritage assets remain in good condition, carefully preserving and saving these treasures for present and future generations.

The Required Supplementary Information section of this report provides additional information on the condition of stewardship heritage assets.

Descriptions of the types of heritage assets are:

**Artwork**

The House's artwork encompasses oil and acrylic paintings, works on paper, and sculpture in bronze, marble and other media.

**Artifacts**

The House's historical artifacts include objects in all media, including but not limited to paper, metal, plaster, wood, textile and stone.

**NOTE 7 - ADVANCES AND PREPAYMENTS**

Advances and Prepayments as of September 30, 2011 and 2010 were:

<b>Advances and Prepayments</b>	<b>2011</b>	<b>2010</b>
Advances	\$ 11,359	\$ 13,776
Prepayments	6,537,610	4,011,514
<b>Total</b>	<b>\$ 6,548,969</b>	<b>\$ 4,025,290</b>

**NOTE 8 - LIABILITIES**

Liabilities covered and not covered by budgetary resources as of September 30, 2011 and 2010 were:

<b>Liabilities</b>	<b>Liabilities Covered by Budgetary Resources</b>		<b>Liabilities Not Covered by Budgetary Resources</b>		<b>2011</b>
	<b>Current</b>	<b>Non-Current</b>	<b>Current</b>	<b>Non-Current</b>	
<b>Intragovernmental Liabilities</b>					
Accounts Payable	\$ 4,879,398	\$ -	\$ -	\$ -	\$ 4,879,398
Advances from Others	55,167	-	-	-	55,167
Capital Lease Liability	-	-	216,082	333,289	549,371
<b>Other Liabilities</b>					
Accrued Benefits	1,996,751	-	-	-	1,996,751
Accrued Workers' Compensation	1,960,697	849,611	-	-	2,810,308
Unemployment Compensation	1,086,075	-	-	-	1,086,075
Other Deposit Liabilities	(859,203)	-	-	-	(859,203)
<b>Total Other Liabilities</b>	<b>4,184,320</b>	<b>849,611</b>	<b>-</b>	<b>-</b>	<b>5,033,931</b>
<b>Total Intragovernmental Liabilities</b>	<b>9,118,885</b>	<b>849,611</b>	<b>216,082</b>	<b>333,289</b>	<b>10,517,867</b>
<b>Public Liabilities</b>					
Accounts Payable	27,391,752	-	-	-	27,391,752
Actuarial FECA Liability	-	-	-	21,290,084	21,290,084
Accrued Payroll and Benefits	7,150,990	-	-	-	7,150,990
Unfunded Accrued Annual Leave	-	-	-	7,823,711	7,823,711
Capital Lease Liability	-	-	-	-	-
Other Liabilities	174,548	-	-	-	174,548
<b>Total Public Liabilities</b>	<b>34,717,290</b>	<b>-</b>	<b>-</b>	<b>29,113,795</b>	<b>63,831,085</b>
<b>Total</b>	<b>\$ 43,836,175</b>	<b>\$ 849,611</b>	<b>\$ 216,082</b>	<b>\$ 29,447,084</b>	<b>\$ 74,348,952</b>



Liabilities	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		2010
	Current	Non-Current	Current	Non-Current	
<b>Intragovernmental Liabilities</b>					
Accounts Payable	\$ 1,481,153	\$ -	\$ -	\$ -	\$ 1,481,153
Advances from Others	1,578,859	-	-	-	1,578,859
Capital Lease Liability	-	-	179,287	549,372	728,659
<b>Other Liabilities</b>					
Accrued Workers' Compensation	-	-	-	2,049,036	2,049,036
Unemployment Compensation	363,853	-	-	-	363,853
Total Other Liabilities	363,853	-	-	2,049,036	2,412,889
Total Intragovernmental Liabilities	3,423,865	-	179,287	2,598,408	6,201,560
<b>Public Liabilities</b>					
Accounts Payable	33,784,385	-	-	-	33,784,385
Actuarial FECA Liability	-	-	-	20,120,574	20,120,574
Accrued Payroll and Benefits	9,042,252	-	-	-	9,042,252
Unfunded Accrued Annual Leave	-	-	-	6,692,287	6,692,287
Capital Lease Liability	-	-	-	1,588,093	1,588,093
Other Liabilities	179,021	-	-	-	179,021
Total Public Liabilities	43,005,658	-	-	28,400,954	71,406,612
<b>Total</b>	<b>\$ 46,429,523</b>	<b>\$ -</b>	<b>\$ 179,287</b>	<b>\$ 30,999,362</b>	<b>\$ 77,608,172</b>

## NOTE 9 - LEASE COMMITMENTS

### Capital Leases

Assets Under Capital Lease as of September 30, 2011 and 2010 were:

Summary of Assets Under Capital Lease	2011	2010
Building Structures	\$ 1,354,473	\$ 1,354,473
Computer Hardware	-	2,568,695
Accumulated Amortization	(1,049,717)	(1,770,501)
<b>Total</b>	<b>\$ 304,756</b>	<b>\$ 2,152,667</b>

Future Capital Lease Payments Due as of September 30, 2011 were:

Year	Building Structures	Computer Hardware	Total
2012	\$ 301,428	-	\$ 301,428
2013	301,428	-	301,428
2014	75,156	-	75,156
2015	-	-	-
2016	-	-	-
Thereafter	-	-	-
Total Future Capital Lease Payments	678,012	-	678,012
Less: Imputed Interest	(128,641)	-	(128,641)
Less: Executory Costs	-	-	-
<b>Net Capital Lease Liability</b>	<b>\$ 549,371</b>	<b>-</b>	<b>\$ 549,371</b>

The House maintained capital leases for building structures and hardware. The hardware lease was paid off in FY 2011. The occupancy agreement for the building structures lease includes multi-year funding obligations of the tenant that state the agreement is cancelable upon 30 days written notice. Space relinquishment rights and obligations state the

agreement is cancelable by providing 30 days written notice to the U.S. General Services Administration. The House also agrees that its right to not renew the lease for a fiscal year is limited solely to the House not obtaining an appropriation for the year in an amount equal to or in excess of lease payments for the year. The House may terminate the agreement in whole or in part as prescribed in the agreed upon settlement methodology.

### Operating Leases

Future Operating Lease Payments Due as of September 30, 2011 were:

Year	Vehicles	Office Space	Parking	Total
2012	\$ 782,336	\$ 22,740,722	\$ 125,308	\$ 23,648,366
2013	240,315	6,768,995	29,876	7,039,186
<b>Total</b>	<b>\$ 1,022,651</b>	<b>\$ 29,509,717</b>	<b>\$ 155,184</b>	<b>\$ 30,687,552</b>

The House maintains operating leases for vehicles and district office space and parking. The lease agreements are in accordance with House rules and regulations and agreed upon vendor terms and conditions. The House requires that leases entered into by Members for space be no longer than the elected term of the Member. The Members' Congressional Handbook states that a Member cannot enter into a lease for office space beyond his/her elected term. Members and Officers also enter into leases to rent vehicles for official business purposes. A Member may lease a vehicle for a period that exceeds the current congressional term, but the Member remains personally responsible for the lease liability if service to the House concludes prior to lease termination.

The House enters into operating leases for temporary usage of office space, vehicles, software, computers and other equipment. Leases that convey the benefits and risks of ownership, but do not meet House capitalization criteria are also recognized as operating leases. Operating lease payments are recorded as expenses. Future operating lease payments are not accrued as liabilities. Members may lease office space in their districts through the U.S. General Services Administration or may directly lease space from the private sector.

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable. The House does not have any contingencies where the sacrifice of resources is probable. The House is currently involved in three lawsuits where the sacrifice of federal resources is reasonably possible. However, the House cannot predict at this time with any degree of accuracy the range of potential loss in the event of an unfavorable outcome.

**NOTE 11 - INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE**

Intragovernmental Costs and Exchange Revenue as of September 30, 2011 and 2010 were:

<b>Intragovernmental Costs and Exchange Revenue</b>	<b>2011</b>	<b>2010</b>
<b>Legislative Activities</b>		
Intragovernmental Costs	\$ 305,071,890	\$ 297,466,477
Public Costs	1,322,161,805	1,402,114,224
Total Costs	1,627,233,695	1,699,580,701
Intragovernmental Earned Revenue	(4,340,676)	(3,957,652)
Public Earned Revenue	(452,722)	(7,453,493)
Total Earned Revenue	(4,793,398)	(11,411,145)
Net Program Costs	1,622,440,297	1,688,169,556
<b>Revolving Funds</b>		
Intragovernmental Costs	310,732	378,589
Public Costs	751,922	2,209,571
Total Costs	1,062,654	2,588,160
Intragovernmental Earned Revenue	(2,025,838)	(2,300,239)
Public Earned Revenue	(4,200,548)	(1,856,057)
Total Earned Revenue	(6,226,386)	(4,156,296)
Net Program Costs	(5,163,732)	(1,568,136)
<b>Total</b>		
Intragovernmental Costs	305,382,622	297,845,066
Public Costs	1,322,913,727	1,404,323,795
Total Costs	1,628,296,349	1,702,168,861
Intragovernmental Earned Revenue	(6,366,514)	(6,257,891)
Public Earned Revenue	(4,653,270)	(9,309,550)
Total Earned Revenue	(11,019,784)	(15,567,441)
<b>Net Cost of Operations</b>	<b>\$ 1,617,276,565</b>	<b>\$ 1,686,601,420</b>

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal government and are disclosed separately from costs and exchange revenue with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. The net cost of the House's operations includes gross costs incurred by the House less any exchange revenue earned from House activities.

**NOTE 12 - PERSONNEL AND BENEFITS COMPENSATION**

<b>Member and Employee Personnel and Benefits Compensation</b>	<b>2011</b>	<b>2010</b>
Personnel Compensation	\$ 799,432,590	\$ 812,722,162
Retirement Plan Contributions	154,883,688	152,317,745
Social Security	54,193,051	55,133,875
Health Insurance	53,535,627	51,707,028
Student Loan/Fitness Center Programs	15,000,442	16,867,989
Unemployment and Workers' Compensation	8,695,409	2,839,906
Transit Benefits	2,929,905	2,764,903
Life Insurance	1,234,815	1,251,004
Death Benefits	1,066,549	1,316,386
Annual Leave	1,131,424	63,814
Allowances	25,386	-
Workers' Compensation Actuarial Adjustment	1,169,510	(1,338,090)
<b>Total</b>	<b>\$ 1,093,298,396</b>	<b>\$ 1,095,646,722</b>

**NOTE 13 - EMERGENCY PREPAREDNESS**

The House continues to develop contingency plans to ensure the continuation of all House Operations in the event of an emergency evacuation. Approximately \$16 million and \$19 million were expended in 2011 and 2010, respectively.

**NOTE 14 - EXCHANGE REVENUES**

Reporting entities that provide goods and services to the public or another Government entity should disclose specific information related to their pricing policies. In certain cases, the prices charged by the House for the sale of goods and services are set by House rules and regulations, which for program and other reasons may not represent full cost. In other cases, prices set for goods and services are intended to recover the full costs incurred by these activities (e.g., child care fees, postal fees, and Gift Shop sales to the public).

**NOTE 15 - IMPUTED FINANCING FROM COST ABSORBED BY OTHERS**

The House must recognize an imputed cost and imputed financing source for costs associated with the occupancy of the U.S. Capitol and House office buildings and Federal Employee and Veterans' Benefits. The imputed cost is recognized in the Statement of Net Cost and the imputed financing source is recognized in the Statement of Changes in Net Position.

<b>Imputed Cost and Financing Source</b>	<b>2011</b>	<b>2010</b>
Federal Employee and Veteran's Benefits		
Current Service Cost – Federal Employees Health Benefits	\$ 52,300,799	\$ 54,471,038
Current Service Cost – Federal Pensions	23,713,369	31,242,088
Current Service Cost – Federal Employees Group Life Insurance	118,963	123,037
Total Federal Employee and Veteran's Benefits	<u>76,133,131</u>	<u>85,836,163</u>
Occupancy Costs	159,547,757	153,514,658
<b>Total</b>	<b>\$ 235,680,888</b>	<b>\$ 239,350,821</b>

**NOTE 16 - PERMANENT INDEFINITE APPROPRIATIONS**

A permanent and indefinite appropriation is a standing appropriation which, once made, is always available for specified purposes and does not require repeated action by Congress to authorize its use. Legislation authorizing an agency to retain and use offsetting receipts tends to be permanent; if so, it is a form of permanent appropriation. This appropriation is for an unspecified amount of money; and may appropriate all or part of the receipts from certain sources, the specific amount of which is determinable only at some future date, or it may appropriate "such sums as may be necessary" for a given purpose.

The House has two permanent and indefinite appropriations. These appropriations include the Compensation of Members and Related Administrative Expenses and Congressional Use of Foreign Currency.

- Compensation of Members and Related Administrative Expenses is maintained and administered by the House. Public Law 97-51, Sec. 130(c), Oct. 1, 1981, 95 Stat. 966, "Appropriation of funds for Compensation of Members of Congress and for Administrative Expenses at Levels Authorized by Law and Recommended by the President for Federal Employees". The appropriation funds the payroll and benefits compensation for Members of Congress and related administrative expenses in support of administering the fund.
- Congressional Use of Foreign Currency is maintained and administered by the Department of State on behalf of the House. This account, which was established in 1948 and made permanent in 1981, is authorized by legislation codified in Title 22, Sec. 1754 of the United States Code. The funds are available to Congressional Committees and delegations to cover local currency expenses incurred while traveling abroad. Use of the foreign currency account for Congressional delegations and other official foreign travel of the House is authorized by either the Speaker of the House or the chairman of a Standing, Special and Select, or Joint Committee.

## NOTE 17 - EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The Budget of the U.S. Government with actual amounts for the year ended September 30, 2011 has not been published as of the issue date of these financial statements. This document will be available in February 2012.

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government as of September 30, 2010 were:

<b>Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government</b>	<b>Budgetary Resources</b>	<b>Net Outlays</b>
Statement of Budgetary Resources	\$ 1,494,157,000	\$ 1,462,276,736
Differences	(157,000)	(276,736)
Budget of the U.S. Government	<b>\$ 1,494,000,000</b>	<b>\$ 1,462,000,000</b>

The House deems the variances between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for budgetary resources and net outlays to be immaterial and/or insignificant. As such, reconciliation of this item is not necessary and therefore not included.

## NOTE 18 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders as of September 30, 2011 and 2010 were:

<b>Undelivered Orders at the End of the Period</b>	<b>2011</b>	<b>2010</b>
Undelivered Orders, Unpaid	\$ 83,890,729	\$ 97,449,237
Undelivered Orders, Paid	6,548,969	4,043,931
<b>Total</b>	<b>\$ 90,439,698</b>	<b>\$ 101,493,168</b>

Undelivered Orders represent the amount of paid and unpaid orders for goods and/or services ordered which have not been received.

**NOTE 19 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS**

	<b>2011</b>	<b>2010</b>
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$ 1,389,966,753	\$ 1,525,713,919
Less: Spending Authority from Offsetting Collections and Recoveries	(30,009,758)	(34,072,297)
Obligations Net of Offsetting Collections and Recoveries	1,359,956,995	1,491,641,622
Less: Offsetting Receipts	-	-
Net Obligations	1,359,956,995	1,491,641,622
<b>Other Resources</b>		
Donations/Forfeited Property	-	-
Transfers in/out Without Reimbursement	-	-
Imputed Financing from Costs Absorbed by Others	235,680,888	239,350,821
Net Other Resources Used to Finance Activities	235,680,888	239,350,821
<b>Total Resources Used to Finance Activities</b>	<b>1,595,637,883</b>	<b>1,730,992,443</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	(11,089,996)	40,378,171
Resources that Fund Expenses Recognized in Prior Periods	1,584,775	1,802,616
Budgetary Receipts and Offsetting Collections that do not affect Statement of Net Cost	-	-
Resources that Finance the Acquisition of Assets	16,558,901	24,187,212
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost	65,152	420,050
Total Resources Used to Finance Items not Part of the Net Cost of Ops	7,118,832	66,788,049
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$ 1,588,519,051</b>	<b>\$ 1,664,204,394</b>
<b>Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in Annual Leave Liability	\$ 1,131,424	\$ 63,812
(Increase)/Decrease in exchange revenue receivable	(435,275)	172,668
Other	1,930,783	265,228
<b>Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods</b>	<b>2,626,932</b>	<b>501,708</b>
<b>Components not Requiring or Generating Resources:</b>		
Depreciation and Amortization	24,903,612	20,500,651
Revaluation of Assets or Liabilities	149,820	547,835
Other	1,077,150	846,832
<b>Total Components of Net Cost of Operations not Requiring or Generating Resources</b>	<b>26,130,582</b>	<b>21,895,318</b>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>28,757,514</b>	<b>22,397,026</b>
<b>Net Cost of Operations</b>	<b>\$ 1,617,276,565</b>	<b>\$ 1,686,601,420</b>

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## **Required Supplementary Information**

## Required Supplementary Information

### Stewardship Property and Equipment

The U.S. House of Representatives (House) collection of heritage assets includes historical artwork and artifacts that reflect the rich heritage and evolving nature of the House. The institution mirrors the changing face and history of the nation. These ideals and trials of our history are also expressed in the heritage assets whose subject matter includes prominent Americans and other distinguished individuals, significant moments in history, and symbolic representations of the nation's rich and diverse history.

The House's Curator manages and cares for the House's collection of works of art and artifacts under its jurisdiction which are located throughout the U.S. Capitol complex including House office buildings and other locations under the control of the House. Since these locations are not in a museum setting, works of art and artifacts may be subject to damage from contact and surface deposits. However, it is the House's goal to preserve its heritage assets and manage the condition in accordance with the intended usage of the collection. The House conducts periodic assessments to monitor, inspect and evaluate the condition of the heritage assets to determine the current condition for preservation or restoration efforts. These assessments are performed in accordance with House established practice and professional standards. General conditions are categorized as excellent, good, fair and poor. The House has determined its heritage assets to be in good to excellent condition.

The following tables present the general condition of the House's heritage assets and indicate an aggregate condition of the collection as of September 30, 2011:

Heritage Asset Collection	Description	2010	Increase	Decrease	2011	General Condition
<b>Artwork</b>	The works of art include oil and acrylic paintings, works on paper, and sculpture in bronze, marble and other media. These items range from portraits and historical documents to statues and other works of art.	311	8	0	319	Good to Excellent

Examples of the House's collection of works of art include:

#### *Oil Paintings*

The House's collection of oil paintings primarily consists of the portraits of House of Representatives' Speakers and Committee Chairmen. An example includes that of Speaker Henry Clay by Guiseppe Fagnani in 1852. His portrait was the first of what became Speaker's portraits series in the House Collection. This portrait series became official with House Resolution 164 in 1910, which decreed that the service of every speaker be commemorated with an oil portrait. All Speaker portraits hang in the Speaker's Lobby and in the East and West Chamber stairways that adjoin it.

#### *Acrylic Paintings*

The House's collection of acrylic paintings includes Committee portraits painted in acrylic on canvas. One such example is the portrait of former Chairman of the Committee on Appropriations, George Mahon.

*Works on Paper*

The House’s collection of works on paper includes items such as an early 19<sup>th</sup> century sketch of Speaker Jonathan Dayton.

*Sculptures*

The House’s collection of sculptures includes items such as several marble busts of former Speakers of the House, including Speakers Thomas B. Reed, Joseph G. Cannon, James Beauchamp Clark, and Nicholas Longworth.

<b>Heritage Asset Collection</b>	<b>Description</b>	<b>2010</b>	<b>Increase</b>	<b>Decrease</b>	<b>2011</b>	<b>General Condition</b>
<b>Artifacts</b>	The artifacts include items in various types of media, including but not limited to paper, metal, plaster, wood, textile and stone. These items range from photographs and other historical images, literature (e.g., newspapers, magazines, and handbills), and political campaign buttons to engravings, furniture, and other types of historical artifacts.	3,600	917*	6	4,511	Good to Excellent

\*The additions reflect 30 artifacts that were acquired prior to fiscal year 2011, but were either reclassified from a single item from last year or previously not catalogued. This action was taken to ensure the completeness and accuracy of the count.

Examples of the House’s collection of artifacts include:

*Paper*

The House’s collection of paper artifacts include items such as photographs of the House of Representatives Chamber in 1937; Visitor’s Gallery passes from various Representatives from the early 1900’s; detail of a tally sheet of the February 9, 1825 Electoral College vote from the records of the U.S. House of Representatives with the names of Andrew Jackson of Tennessee, John Quincy Adams of Massachusetts, William H. Crawford of Georgia, and Henry Clay of Kentucky appearing written in longhand; and Campaign Cards and other memorabilia of various Representatives dating back to the early 1900s.

*Metal*

The House’s collection of metal artifacts includes items such as an artifact of the House Chamber, the historic inkwell that sits on the Speakers desk when the House is in session, which dates back to the 19<sup>th</sup> century. The inkwell is known to have been used as long ago as 1821 in the Old Hall of the House before the Members moved to the present chamber.

*Plaster*

The House's collection of plaster artifacts include items such as several small 1932 busts of George Washington, presented to Members of Congress on the bicentennial of the first president's birth.

*Wood*

The House's collection of wood artifacts includes items such as the gavel used by Speaker Nancy Pelosi to open the 110th Congress as the first woman to serve as the House's presiding officer; and an 1819 desk and chair from the House Chamber.

*Textile*

The House's collection of textile artifacts includes items such as a recent House Page uniform, donated to the collection by a former Page.

*Stone*

The House's collection of stone artifacts includes items such as a small piece of the U.S. Capitol East front stairs.

