



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

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AUGUST 11, 1983

The Honorable Augustus F. Hawkins
Chairman, Committee on House Administration
House of Representatives

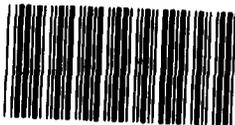
Dear Mr. Chairman:

Subject: Examination of the House of Representatives
Beauty Shop Revolving Fund's Financial State-
ments for the Years Ended December 31, 1982
and 1981 (GAO/AFMD-83-82)

As required by the Legislative Branch Appropriation Act 1970, (83 Stat. 347), and in accordance with the December 7, 1982, request from the Chairman of the Subcommittee on Services, Committee on House Administration, we have examined the balance sheets of the House of Representatives Beauty Shop Revolving Fund as of December 31, 1982 and 1981, and the related statements of operations and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the House of Representatives Beauty Shop Revolving Fund as of December 31, 1982 and 1981, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles and the financial accounting policies described in note 1 to the financial statements applied on a consistent basis.

Enclosures I and II contain our report on internal accounting controls and compliance with laws and regulations, and our comments on the House of Representatives Beauty Shop Revolving Fund's operations. Enclosures III through VI present the fund's financial statements and accompanying notes for the years ended December 31, 1982 and 1981.



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As required by the Legislative Branch Appropriation Act, 1970, we are sending copies of this report to the Speaker of the House of Representatives and to the Clerk of the House of Representatives.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States

Enclosures

REPORT ON THE HOUSE OF REPRESENTATIVESBEAUTY SHOP REVOLVING FUND'SINTERNAL ACCOUNTING CONTROLSAND COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the House of Representatives Beauty Shop Revolving Fund for the years ended December 31, 1982 and 1981. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our study and evaluation of the system of internal accounting control, and our review of compliance with laws and regulations for the year ended December 31, 1982.

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

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

- Cash
- Inventories
- Sales
- Payroll
- Purchases

Our study included all of the control categories listed above.

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

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

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

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

We reviewed the provisions of applicable laws and regulations to determine the material compliance requirements that may have a financial impact on the House Beauty Shop Revolving Fund's financial statements. In our opinion, the House Beauty Shop Revolving Fund complied with the provisions of applicable laws and regulations that could have materially affected the financial statements.

COMMENTS ON THE OPERATIONS OF THE
HOUSE OF REPRESENTATIVES BEAUTY SHOP REVOLVING FUND

The House Beauty Shop provides a convenient beauty facility for Members, employees, and the general public. During calendar 1982, approximately 20,500 customers had services performed at the shop.

Employees of the House Beauty Shop are on the House payroll, and the shop is under the jurisdiction of the Committee on House Administration, with direct oversight by the Subcommittee on Services (H. Res. 315, 95th Cong.). In December 1982, four beauticians, one manicurist, the supervisor, and the manager were employed full time; three beauticians and one maid were employed part time. In addition to these employees, one manicurist and five beauticians were working under contract.

The House Beauty Shop had a net profit of \$11,302 for 1982 compared with a net loss of \$11,191 for 1981. The Legislative Branch Appropriation Act of 1970 requires that, after restoring any impairment of capital and providing for replacement of equipment, the income established by our annual audit be transferred to the general fund of the U.S. Treasury. Because the net profit in 1982 was insufficient to offset the net loss for 1981 and provide for equipment replacement, no transfer is required.

The financial statements do not include the costs of certain benefits and services--such as space, utilities, and ordinary building repairs and maintenance--which are paid from appropriated funds and not charged to the revolving fund.

HOUSE OF REPRESENTATIVES
BEAUTY SHOP REVOLVING FUND
COMPARATIVE BALANCE SHEET
DECEMBER 31, 1982 AND 1981

| ASSETS | <u>1982</u> | <u>1981</u> |
|---|-----------------|-----------------|
| CURRENT ASSETS: | | |
| Cash in U.S. Treasury | \$32,176 | \$15,565 |
| Petty cash and change funds | 800 | 800 |
| Accounts receivable (note 1) | 114 | 2,036 |
| Inventory of merchandise and supplies (note 1) | <u>14,557</u> | <u>16,640</u> |
| Total current assets | <u>47,647</u> | <u>35,041</u> |
| FIXED ASSETS: | | |
| Equipment (notes 1 and 2) | 18,077 | 18,077 |
| Less: Accumulated depreciation | <u>12,669</u> | <u>11,837</u> |
| Total fixed assets | <u>5,408</u> | <u>6,240</u> |
| TOTAL ASSETS | <u>\$53,055</u> | <u>\$41,281</u> |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 2,296 | \$ 571 |
| Salaries, commissions, and benefits payable | 3,224 | 3,597 |
| Employees' accrued leave | 8,648 | 10,328 |
| Advance from House Finance Office | <u>800</u> | <u>-</u> |
| Total current liabilities | <u>14,968</u> | <u>14,496</u> |
| EQUITY OF THE HOUSE OF REPRESENTATIVES: | | |
| Balance at beginning of year | 26,785 | 52,586 |
| Less: Amount transferred to U.S. Treasury (note 3) | <u>-</u> | <u>14,610</u> |
| Balance | 26,785 | 37,976 |
| Add: Net income (loss) for the year | <u>11,302</u> | <u>(11,191)</u> |
| Balance at end of year | <u>38,087</u> | <u>26,785</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$53,055</u> | <u>\$41,281</u> |

The accompanying notes are an integral part of this statement.

HOUSE OF REPRESENTATIVESBEAUTY SHOP REVOLVING FUNDCOMPARATIVE STATEMENT OF OPERATIONSYEARS ENDED DECEMBER 31, 1982 AND 1981

| | <u>1982</u> | <u>1981</u> |
|--|------------------|--------------------|
| INCOME: | | |
| Beauty services | \$ 249,843 | \$ 282,607 |
| Retail sales | \$ 48,646 | \$ 51,386 |
| Less: Cost of retail sales | <u>30,383</u> | <u>36,025</u> |
| Miscellaneous income | <u>370</u> | <u>356</u> |
| Total operating income | <u>268,476</u> | <u>298,324</u> |
| OPERATING EXPENSES: (note 1) | | |
| Salaries: | | |
| Manager | 27,960 | 24,229 |
| Beauticians | 96,700 | 118,679 |
| Manicurists | 21,095 | 23,800 |
| Supervisor and receptionist | 19,501 | 20,432 |
| Maids | <u>13,962</u> | <u>15,787</u> |
| Total salaries | 179,218 | 202,927 |
| Commissions (beauticians and retail sales) | 33,445 | 58,295 |
| Employees' benefits—Government contributions | 22,892 | 25,337 |
| Supplies | 18,818 | 20,898 |
| Office | 604 | 492 |
| Laundry | 144 | 376 |
| Depreciation | 832 | 861 |
| Repairs | 119 | 42 |
| Training | 250 | 25 |
| Bad debts (note 1) | 819 | 252 |
| Miscellaneous | <u>33</u> | <u>10</u> |
| Total operating expenses | <u>257,174</u> | <u>309,515</u> |
| NET INCOME (LOSS) FOR THE YEAR | <u>\$ 11,302</u> | <u>\$ (11,191)</u> |

The accompanying notes are an integral part of this statement.

HOUSE OF REPRESENTATIVES
BEAUTY SHOP REVOLVING FUND
COMPARATIVE STATEMENT OF CHANGES
IN FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 1982 AND 1981

| | <u>1982</u> | <u>1981</u> |
|--|-------------------|-------------------|
| FUNDS PROVIDED: | | |
| Sales | \$ 298,489 | \$ 333,993 |
| Miscellaneous income | 370 | 356 |
| Decrease in working capital | <u>-</u> | <u>25,086</u> |
| Total funds provided | <u>\$ 298,859</u> | <u>\$ 359,435</u> |
| FUNDS APPLIED: | | |
| Operating expenses (excluding depreciation and other items not requiring an outlay of funds) | \$ 256,342 | \$ 308,654 |
| Cost of retail sales | 30,383 | 36,025 |
| Amount transferred to U.S. Treasury | - | 14,610 |
| Purchase of equipment (note 2) | - | 146 |
| Increase in working capital | <u>12,134</u> | <u>-</u> |
| Total funds applied | <u>\$ 298,859</u> | <u>\$ 359,435</u> |

ANALYSIS OF CHANGES IN WORKING CAPITAL

| | <u>Increase or (decrease)</u> | |
|---|-------------------------------|--------------------|
| | <u>1982</u> | <u>1981</u> |
| WORKING CAPITAL CHANGES: | | |
| Cash | \$ 16,611 | \$ (32,047) |
| Accounts receivable | (1,922) | 660 |
| Inventories | (2,083) | (1,671) |
| Salaries, commissions, and benefits payable | 373 | 8,778 |
| Accounts payable | (1,725) | 646 |
| Employees' accrued leave | 1,680 | (1,452) |
| Advance from House Finance Office | <u>(800)</u> | <u>-</u> |
| NET CHANGE IN WORKING CAPITAL | <u>\$ 12,134</u> | <u>\$ (25,086)</u> |

The accompanying notes are an integral part of this statement.

HOUSE OF REPRESENTATIVESBEAUTY SHOP REVOLVING FUNDNOTES TO FINANCIAL STATEMENTSYEARS ENDED DECEMBER 31, 1982 AND 1981

1. Significant Accounting Policies:

- Inventories are stated at cost and are charged to operations using the first-in, first-out method of cost flow.
- Bad debts expense is recognized at the time receivables are deemed uncollectible and written off.
- Equipment is depreciated over a 10-year life using the straight-line method.
- Operating expenses do not include the costs of certain benefits and services--such as space, utilities, and ordinary building repairs and maintenance--that are furnished to the House Beauty Shop without charge.

2. During 1981 the Beauty Shop purchased a portable hair dryer for \$146. No equipment was purchased in 1982.

3. Because the net income in 1982 was insufficient to offset the net loss in 1981, and to provide for equipment replacement, no funds are to be transferred to the U.S. Treasury for 1982.

The amount transferred during 1981 for 1980 was \$14,609.97. Prior years' net income transferred to the U.S. Treasury from the House Beauty Shop Revolving Fund has totaled \$65,326.