

December 2008

FINANCIAL AUDIT

Capitol Preservation
Fund's Fiscal Years
2007 and 2006
Financial Statements



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United States Government Accountability Office
Washington, D.C. 20548

December 5, 2008

The Honorable Nancy Pelosi
Co-Chair
Capitol Preservation Commission

The Honorable Robert C. Byrd
Co-Chair
Capitol Preservation Commission

This report presents our opinion on the financial statements of the Capitol Preservation Fund (the Fund) for the fiscal years ended September 30, 2007, and 2006. It also discusses our consideration of the Fund's internal controls and our tests of compliance with laws and regulations during fiscal years 2007 and 2006. We conducted our audits pursuant to 2 U.S.C. 2084 and in accordance with U.S. generally accepted government auditing standards. We appreciate the cooperation and assistance of the Office of the Secretary of the Senate, the Office of the Clerk of the House of Representatives, and the staff of the Library of Congress during our audits.

We are sending copies of this report to the members of the Capitol Preservation Commission, the Secretary of the Senate, the Clerk of the House of Representatives, the Architect of the Capitol, the Librarian of Congress, and other interested parties. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or by e-mail at sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this assignment were Julie Phillips, Greg Ziombra, and Janice Buck.

Steven J. Sebastian
Director
Financial Management and Assurance



United States Government Accountability Office
Washington, D.C. 20548

To the Members of the Capitol Preservation Commission

We have audited the statements of financial position of the Capitol Preservation Fund (the Fund) as of September 30, 2007, and 2006, and the related statements of activities and cash flows for the fiscal years then ended. We found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- no material weaknesses in the internal controls over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- no reportable noncompliance with the provisions of laws and regulations we tested.

The following sections provide additional detail about our conclusions, the scope of our audits, and comments from the Commission's representatives.

Opinion on Financial Statements

The financial statements, including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Capitol Preservation Fund's financial position as of September 30, 2007, and 2006, and the results of its activities and its cash flows for the fiscal years then ended.

Consideration of Internal Control

In planning and performing our audits of the Fund's fiscal years 2007 and 2006 financial statements, we considered the Fund's internal controls over financial reporting and compliance.¹ We did this to determine our procedures for auditing the financial statements, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal

¹The objectives of financial reporting controls are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition. The objective of compliance controls is to provide reasonable assurance that transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

control over financial reporting and compliance. However, for the controls we tested, we found no material weaknesses in internal control over financial reporting (including safeguarding of assets) and compliance. A material weakness is a control deficiency that results in more than a remote likelihood that the design or operation of one or more internal controls will not allow management or employees, in the normal course of performing their duties, to promptly detect or prevent errors, fraud, or noncompliance in amounts that would be material to the financial statements. Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies.

During our audit of the Fund's fiscal years 2005 and 2004 financial statements² we identified two reportable conditions³ related to controls at the Library of Congress associated with Fund-related financial services provided by the Library to the Capitol Preservation Commission (the Commission). While these conditions were not material weaknesses, we recommended in a related internal control report to the Librarian of Congress that the Library needed to improve its internal controls over Fund-related cash disbursements and financial reporting, and we made four recommendations to the Library for improving its CPF-related internal controls and related procedures.⁴ We confirmed during our fiscal years 2007 and 2006 audits that the Library had taken the necessary actions to fully address our recommendations and eliminated the conditions we previously reported.

²GAO, *Financial Audit: Capitol Preservation Fund's Fiscal Years 2005 and 2004 Financial Statements*, [GAO-07-335](#) (Washington, D.C.: Mar. 13, 2007).

³Reportable conditions involve matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control. In May 2006, the American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards (SAS) 112, and subsequently made conforming changes to the Statements on Standards for Attestation Engagements (AT 501). AT 501 eliminated the term reportable condition and established standards related to a new definition for the terms significant deficiency and material weakness, and the auditor's responsibilities for identifying, evaluating, and communicating matters related to an entity's internal control over financial reporting. Under these new standards, the auditor is required to communicate control deficiencies that are considered to be significant deficiencies or material weaknesses in internal controls.

⁴GAO, *Internal Control: Improvements Needed in the Library of Congress' Capitol Preservation Fund-Related Internal Controls*, [GAO-07-732R](#) (Washington, D.C.: May 25, 2007).

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations for fiscal years 2007 and 2006 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objective, Scope, and Methodology

The management of the Capitol Preservation Commission is responsible for

- ensuring that the Fund's financial statements are prepared in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of internal control over financial reporting and compliance are met; and
- complying with applicable laws and regulations.

We are responsible for

- obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- obtaining a sufficient understanding of internal controls over financial reporting and compliance with laws and regulations to plan the audits; and
- testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements and notes; (2) assessed the accounting principles used and any significant estimates made by management; (3) evaluated the overall presentation of the financial statements and notes; (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations; (5) tested selected internal controls over financial reporting, and compliance, and

evaluated the design and operating effectiveness of those selected internal controls; and (6) tested compliance with selected provisions of the following laws:

- Capitol Preservation Commission and Capitol Preservation Fund enabling legislation, 2 U.S.C. 2081-2086, and
- United States Capitol Visitor Center Commemorative Coin Act of 1999, title II, Public Law 106-126.

Our consideration of internal controls over financial reporting and compliance with laws and regulations was limited to gaining an understanding of internal control needed to plan our audits for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our testing of internal controls may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Fund. We limited our tests of compliance to selected provisions of laws and regulations that we deemed applicable to the Fund's financial statements for the fiscal years ended September 30, 2007, and 2006. We caution that noncompliance may occur and not be detected by our tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

**Commission
Comments**

We provided a draft of our report to representatives of the Capitol Preservation Commission for their review and comment. The Commission's representatives agreed with the contents of our report.



Steven J. Sebastian
Director
Financial Management and Assurance

November 21, 2008

Financial Statements

Statements of Financial Position

CAPITOL PRESERVATION FUND STATEMENTS OF FINANCIAL POSITION

As of September 30

	<u>2007</u>	<u>2006</u>
Assets		
Cash	\$ 1,320	\$ 917
Investments, net (note 3)	10,095,547	9,569,931
Accrued interest receivable	143,270	173,638
Total Assets	\$ <u>10,240,137</u>	\$ <u>9,744,486</u>
Liabilities and Net Assets		
Liabilities		
Liabilities	\$ 0	\$ 0
Net Assets (note 2)		
Unrestricted	<u>10,240,137</u>	<u>9,744,486</u>
Total Net Assets	<u>10,240,137</u>	<u>9,744,486</u>
Total Liabilities and Net Assets	\$ <u>10,240,137</u>	\$ <u>9,744,486</u>

The accompanying notes are an integral part of these financial statements.

Statements of Activities

**CAPITOL PRESERVATION FUND
STATEMENTS OF ACTIVITIES**

For the Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
Changes in Unrestricted Net Assets		
Revenues		
Interest (note 5)	\$ 495,651	\$ 654,173
Total Unrestricted Revenues	<u>495,651</u>	<u>654,173</u>
Transfers and Program Expenses		
Transfers to the Architect of the Capitol (note 2)	0	20,000,000
Program Expenses - Capitol Visitor Center (note 6)	<u>0</u>	<u>1,299</u>
Total Transfers and Program Expenses	<u>0</u>	<u>20,001,299</u>
Increase (Decrease) in Unrestricted Net Assets	495,651	(19,347,126)
Increase (Decrease) in Net Assets	495,651	(19,347,126)
Net Assets at Beginning of Year	9,744,486	29,091,612
Net Assets at End of Year	<u>\$ 10,240,137</u>	<u>9,744,486</u>

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

**CAPITOL PRESERVATION FUND
STATEMENTS OF CASH FLOWS**

For the Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Transfer to the Architect of the Capitol	\$ 0	\$ (20,000,000)
Interest received	526,019	804,746
Cash paid for program expenses - vendor payments	<u>0</u>	<u>(1,299)</u>
Net Cash Provided (Used) by Operating Activities	<u>526,019</u>	<u>(19,196,553)</u>
Cash Flows from Investing Activities		
Purchases of Treasury securities	(28,202,597)	(35,616,575)
Maturities of Treasury securities	<u>27,676,981</u>	<u>54,811,823</u>
Net Cash Provided (Used) by Investing Activities	<u>(525,616)</u>	<u>19,195,248</u>
Net increase (decrease) in cash	403	(1,305)
Cash at beginning of year	917	2,222
Cash at End of Year	<u>\$ 1,320</u>	<u>\$ 917</u>
Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Change in Net Assets	\$ 495,651	\$ (19,347,126)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
(Increase) decrease in accrued interest receivable	<u>30,368</u>	<u>150,573</u>
Total Adjustments	<u>30,368</u>	<u>150,573</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 526,019</u>	<u>\$ (19,196,553)</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

CAPITOL PRESERVATION FUND

**Notes to Financial Statements
For the Fiscal Years Ended September 30, 2007 and 2006**

NOTE 1: DESCRIPTION OF ENTITY

The Capitol Preservation Commission (the Commission) was established under Title VIII of Public Law 100-696 in November 1988 for the purpose of providing for improvements in, preservation of, and acquisitions (including works of fine art and other property for display) for the United States Capitol and other locations under the control of the Congress. In September 1999, the Commission was given the responsibility, pursuant to Public Law 106-57, for approving the planning, engineering, design, and construction milestones of the Capitol Visitor Center (CVC). The CVC is a facility, located under the East Plaza of the Capitol, which is designed to enhance the experience of visitors to the Capitol through improved visitor orientation and related services, strengthened Capitol security, and the integration of the CVC's design concepts with the appropriate improvements to the Capitol's East Plaza.

Title VIII of Public Law 100-696 established the Capitol Preservation Fund (the Fund) within the U.S. Treasury to finance improvement, preservation, and acquisition activities of the Commission. In addition, in January 2002, the Commission received authority to transfer amounts from the Fund to the Architect of the Capitol (AOC) for use in planning, engineering, design, or construction of the CVC, under Public Law 107-117. In April 2003, the Commission approved authorization of the AOC to use \$65 million from the Fund to fund a portion of the AOC's contract for Sequence 2 CVC construction.

The Fund's assets consist of amounts derived from contributions and surcharge proceeds from the Secretary of the Treasury (U.S. Mint) arising from the sale of commemorative coins, and interest earned on the invested portions of the Fund's assets.

Fund assets not needed to finance current improvement, preservation, or acquisition projects are invested in interest-bearing obligations of the United States. The Fund's assets have not been used to fund management activities or raise funds.

Since its establishment, the Fund has been authorized to receive proceeds from coin surcharges from three commemorative coin programs authorized by the Congress.

- The Bicentennial of the United States Congress Commemorative Coin Act and the Bicentennial of the United States Capitol Commemorative Coin Act authorized the Commission to receive, without restrictions, proceeds from commemorative coin surcharges. The proceeds from these coin programs were deposited to the Fund and were used by the Commission to fund approved improvement, preservation, and acquisition projects.
- The United States Capitol Visitor Center Commemorative Coin Act authorized the Commission to receive proceeds from commemorative coin surcharges for the purpose of

aiding in the construction, maintenance, and preservation of a Capitol Visitor Center. The proceeds from this coin program were received by the Commission and deposited to the Fund. In fiscal year 2006, the proceeds from the CVC commemorative coin were used to partially fund transfers to the Architect of the Capitol for use in constructing the CVC.

In accordance with its rules, the Commission may fund or assist in the funding of improvements to the Capitol Building and surrounding grounds if such improvements are authorized, undertaken, and completed under the procedures established by the Congress for such purposes. In 1991, the Commission authorized the use of \$400,000 (\$200,000 for the House of Representatives and \$200,000 for the Senate) from the Fund for the purchase of art, furnishings, or items of historical interest provided that such expenses are approved by a majority of the members of the Commission from the body of Congress for which such purchases are made. However, the Commission may not maintain any collection of fine or decorative art, or other property, but may assist in the transfer of such items to a congressional entity (such as the Senate Commission on Art, the House of Representatives Fine Arts Board, or the Joint Committee on the Library) or facilitate the disposal of items.

The AOC, the Senate Commission on Art, and the House of Representatives Fine Arts Board are required by Public Law 100-696 (1988) to provide staff support and assistance to the Commission. As necessary, the AOC awards contracts and procures goods and services to complete projects approved by the Commission, and ensures that the project-related goods and services purchased from vendors are received. Similarly, the Library of Congress (LOC), pursuant to Public Law 101-45 (1989), is required to provide financial management services for the Commission. These services include coordinating activities with the Department of the Treasury for the deposits, disbursements, investments, and management of the Fund. In addition to these congressional entities, the Secretary of the Senate and the Clerk of the House of Representatives, pursuant to Commission rules, provide general administrative-type support and assistance.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Fund's financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles issued by the Financial Accounting Standards Board that are applicable to not-for-profit organizations. Contributions and pledges are recognized as revenue when made or transferred. Contributions and coin surcharge proceeds are considered to be unrestricted unless received subject to specific restrictions as to use or time. Contributions and coin surcharge proceeds received subject to restrictions related to time or use are considered restricted net assets. The Fund has not received permanently restricted net assets, which result from receipts that are subject to restrictions stipulating that the assets be permanently maintained.

The Fund's financial statements reflect the receipt and use of the Fund's assets to finance Commission-approved improvement, preservation, and acquisition activities. Once approved and funded by the Commission, completed improvement, preservation, and acquisition projects are transferred to the AOC and/or other congressional entities. Through their transfer, these assets become the accounting responsibility of other congressional entities and are not

considered assets of the Fund.

As discussed in note 1, the AOC and LOC, as well as other congressional entities, are required by law to provide support services to the Commission. The costs of these mandated services, which are financed with appropriated funds of the other entities, are not considered operating expenses of the Fund.

B. Investments

The Fund's investments are recorded at cost, net of discounts, which approximates fair market value. The Fund's investments are invested in short-term (3- and 6-month) interest-bearing Treasury obligations.

C. Net Assets

The Fund's net assets are classified as unrestricted. Unrestricted net assets represent assets available to finance current and future operations that have not been restricted or designated for a specific use. The amounts reported have been received through the receipt of unrestricted contributions, unrestricted surcharge proceeds of certain commemorative coins, and interest earned on invested funds. As of September 30, 2007, and 2006, the Fund's unrestricted net assets were \$10,240,137 and \$9,744,486, respectively.

D. Change in Net Assets – Fiscal Year 2006

In fiscal year 2006, unrestricted - Commission designated – CVC-related net assets were used to fund \$20 million in transfers to the AOC for construction of the CVC.

NOTE 3: INVESTMENTS, NET

Deposits to the Fund from contributions, coin surcharges, and interest on invested funds that are not needed currently to finance improvement, preservation, and acquisition activities are invested in interest-bearing obligations of the United States, which are purchased from the U.S. Treasury at a discount. The Commission has directed the LOC to invest funds derived from contributions in 3-month Treasury securities and funds derived from coin surcharges in 6-month Treasury securities. Due to the short-term nature of the investments, the cost of investments in conjunction with accrued interest approximates their fair market values. Annual investment rates ranged from 3.63 to 5.00 percent in fiscal year 2007 and from 3.67 to 4.93 percent in fiscal year 2006.

Outstanding Investments as of September 30

	<u>2007</u>	<u>2006</u>
Face Value of Investments	\$ 10,300,000	\$ 9,792,000
Less: Discounts	<u>(204,453)</u>	<u>(222,069)</u>
Investments, Net of Discounts	<u>\$ 10,095,547</u>	<u>\$ 9,569,931</u>

NOTE 4: ACCRUED INTEREST RECEIVABLE

The Fund's accrued interest receivable of \$143,270 and \$173,638 at September 30, 2007, and 2006, respectively, represented interest earned during the fiscal year that will not be received until the following fiscal year.

NOTE 5: INTEREST

Revenue earned from interest on U.S. Treasury obligations for fiscal years 2007 and 2006 was \$495,651 and \$654,173, respectively. The interest earned during fiscal year 2007 was lower than in 2006 due to the decrease in funds invested once the transfers to the AOC occurred. As designated by the Commission, interest earned on investments is recognized as an unrestricted net asset.

NOTE 6: PROGRAM EXPENSES

A. Capitol Visitor Center

In October 2000, the Commission approved the expenditure of up to \$700,000 from the Fund for services related to the design and engineering of a proposed tunnel connecting the Thomas Jefferson Building of the Library of Congress to the planned CVC. In April and May 2001, the AOC contracted, on behalf of the Commission, for design and engineering services for the project totaling approximately \$640,000. During fiscal years 2007 and 2006, expenses of \$0 and \$1,299, respectively, were incurred for these CVC-related services.

B. Art, Furnishings, and Historical Items

Commission rules permit the limited use of funds to purchase art, furnishings, or items of historical interest for each body of Congress (see note 1). The House of Representatives used, in prior fiscal years, the \$200,000 available to it for this purpose. Through September 30, 2007, the Senate has used \$42,260 of the \$200,000 authorized for this purpose.

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