

Architect of the Capitol  
Office of Inspector General

---



Fiscal Year 2008 Financial Statements Reports

OIG Report No. A-09-1

UNITED STATES GOVERNMENT  
**MEMORANDUM**

ARCHITECT OF THE CAPITOL  
WASHINGTON, DC 20515

OFFICE OF INSPECTOR GENERAL  
FAIRCHILD BUILDING, SUITE 518

DATE: February 13, 2009

TO: Stephen T. Ayers, AIA  
Acting Architect of the Capitol

FROM: Carol Bates, Inspector General *Carol Bates*

SUBJECT: Fiscal Year 2008 Financial Statements Reports

We contracted with the independent certified public accounting firm of Kearny & Company (Kearney) to audit the financial statements of the Architect of the Capitol (AOC) as of and for the years ending September 30, 2008 and 2007. The contract required that the audit be conducted in accordance with generally accepted government auditing standards and the joint Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

Kearney's opinion on the financial statement is unqualified. I commend the AOC for continuing to maintain this significant accomplishment.

The report on internal control identified material weakness in the areas of Internal Control Assessments, Risk Assessment Updates, and Financial Information System and Financial Reporting Internal Control Design and Operation. The report also includes significant deficiencies in the areas of Information System General Controls, Information System Financial Management and Time and Attendance Application Controls, and Time Recordation, Processing, and Approval Procedures.

Kearney's report on compliance with laws and regulations includes two instances of noncompliance resulting from Office of Compliance citations resulting from fire safety and tunnel investigations.

In connection with the audit we reviewed Kearney's reports and related documentation and met with its representatives. The review was not intended to enable us to express, and we do not express an opinion on the conclusions expressed therein. Kearney is responsible for the opinion in the attached reports and the conclusions in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Kearney did not comply, in all material respects, with generally accepted government auditing standards.

Attachments

Copy to: Michael Riley, Chair, AOC Audit Committee  
Michael Lampley, AOC Audit Committee  
John Webster, AOC Audit Committee



Certified Public Accountants  
and Consultants

4501 Ford Avenue, Suite 1400, Alexandria, VA 22302  
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

## Independent Auditor's Report

To the Architect of the Capitol

We have audited the accompanying balance sheets of the Architect of the Capitol (AOC) as of September 30, 2008 and 2007, and the related statements of net cost, statements of changes in net position, and statements of budgetary resources for the years then ended. These financial statements are the responsibility of AOC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AOC at September 30, 2008 and 2007, and its net cost of operations, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 6, 2009 on our consideration of AOC's internal control over financial reporting, and compliance and other matters for the year ended September 30, 2008. The purpose of these reports is to describe the scope of our internal control testing over financial reporting and compliance and the results of that testing. The purpose of these reports is not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 6, 2009  
Alexandria, Virginia



**ARCHITECT OF THE CAPITOL**  
**Consolidated Balance Sheet**  
**As of September 30, 2008 and 2007**  
(in thousands)

	<u>Fiscal Year</u> <u>2008</u>		<u>Fiscal Year</u> <u>2007</u>
<b>ASSETS</b>			
Intragovernmental Assets:			
Fund Balance with Treasury (Note 2)	\$ 485,626	\$	571,932
Investments (Note 3)	70		150
Accounts Receivable (Note 4)	2,303		1,659
<b>Total Intragovernmental</b>	<u>487,999</u>		<u>573,741</u>
Investments (Note 3)	35,611		34,635
Accounts Receivable (Note 4)	94		126
Inventory & Other Related Property (Note 5)	2		-
Property Plant and Equipment, net (Note 6)	1,856,106		1,812,518
Other (Note 7)	7		4
AOC Heritage Collections (Note 1J and 17)	-		-
<b>TOTAL ASSETS</b>	<u>\$ 2,379,819</u>	<u>\$</u>	<u>2,421,024</u>
 <b>Stewardship PP&amp;E</b>			
<b>LIABILITIES</b>			
Intragovernmental:			
Accounts Payable (Note 8)	\$ 224	\$	222
Accrued Unfunded Workers' Compensation (Notes 8 and 9)	8,835		8,499
Other (Note 8)	1,030		1,670
<b>Total Intragovernmental</b>	<u>10,089</u>		<u>10,391</u>
Accounts Payable (Note 8)	5,909		3,085
Debt Held by the Public (Note 10)	148,154		152,305
Actuarial Unfunded Workers' Compensation (Note 9)	45,909		44,435
Contingent and Environmental Liabilities (Note 11)	85,254		98,800
Accrued Annual Leave and Other (Note 9)	17,875		14,680
Capital Lease Liability (Note 13)	28,615		32,052
Contract Holdbacks (Note 14)	14,826		18,117
Other Accrued Liabilities (Note 14)	28,138		47,887
Advances from Others (Note 14)	12,398		13,198
<b>TOTAL LIABILITIES</b>	<u>\$ 397,167</u>	<u>\$</u>	<u>434,950</u>
 <b>Commitments and Contingencies</b>			
<b>NET POSITION</b>			
Unexpended Appropriations - Other Funds	\$ 396,932	\$	455,635
Cumulative Results of Operations - Other Funds	1,585,720		1,530,439
<b>Total Net Position</b>	<u>\$ 1,982,652</u>	<u>\$</u>	<u>1,986,074</u>
 <b>TOTAL LIABILITIES &amp; NET POSITION</b>	 <u>\$ 2,379,819</u>	 <u>\$</u>	 <u>2,421,024</u>



**ARCHITECT OF THE CAPITOL**

**Statements of Net Cost**

For the Years Ending

**September 30, 2008 and 2007**

(in thousands)

	Fiscal Year 2008	Fiscal Year 2007
Program Costs:		
<b>General and Administrative</b>		
Gross Costs	\$ 91,159	\$ 88,354
Less Earned Revenue	(614)	(125)
Net Program Costs	<b>90,545</b>	<b>88,229</b>
 <b>Capitol Buildings/Capitol Grounds</b>		
Gross Costs	45,687	39,428
Less Earned Revenue	(995)	(1,549)
Net Program Costs	<b>44,692</b>	<b>37,879</b>
 <b>Senate Office Buildings</b>		
Gross Costs	71,237	71,372
Less Earned Revenue	(545)	(2,787)
Net Program Costs	<b>70,692</b>	<b>68,585</b>
 <b>House Office Buildings/House Wellness</b>		
Gross Costs	52,189	51,391
Less Earned Revenue	(72)	(155)
Net Program Costs	<b>52,117</b>	<b>51,236</b>
 <b>Capitol Power Plant</b>		
Gross Costs	102,439	118,512
Less Earned Revenue	(9,474)	(8,967)
Net Program Costs	<b>92,965</b>	<b>109,545</b>
 <b>Library of Congress</b>		
Gross Costs	37,799	34,383
Less Earned Revenue	-	-
Net Program Costs	<b>37,799</b>	<b>34,383</b>
 <b>Capitol Police</b>		
Gross Costs	15,782	12,353
Less Earned Revenue	-	-
Net Program Costs	<b>15,782</b>	<b>12,353</b>
 <b>Botanic Gardens</b>		
Gross Costs	10,210	8,576
Less Earned Revenue	-	-
Net Program Costs	<b>10,210</b>	<b>8,576</b>
 <b>Supreme Court/Judiciary Office Building</b>		
Gross Costs	38,248	35,465
Less Earned Revenue	(31,658)	(30,184)
Net Program Costs	<b>6,590</b>	<b>5,281</b>
 <b>Net Cost</b>	<b>\$ 421,392</b>	<b>\$ 416,067</b>

**ARCHITECT OF THE CAPITOL**  
**Statements of Changes in Net Position**  
For the Years Ending  
**September 30, 2008 and 2007**  
(in thousands)

	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2007</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>Beginning Balances</b>	\$ 1,530,439	\$ 1,440,176
<b>Budgetary Financing Sources:</b>		
Appropriations Used	478,826	458,513
Non-Exchange Revenue	4	52
Transfers - In/Out without Reimbursement	585	800
<b>Other Financing Sources:</b>		
Donations and Forfeitures of Property (Note 6)	-	28,951
Transfers - In/Out Without Reimbursement (Note 6)	(18,496)	(2,432)
Imputed Financing from Costs Absorbed by Others (Note 12)	15,754	20,446
<b>Total Financing Sources</b>	<u>476,673</u>	<u>506,330</u>
<b>Net Cost of Operations</b>	(421,392)	(416,067)
<b>Net Change</b>	<u>55,281</u>	<u>90,263</u>
<b>Cumulative Results of Operation</b>	<u><u>\$ 1,585,720</u></u>	<u><u>\$ 1,530,439</u></u>

**UNEXPENDED APPROPRIATIONS**

<b>Beginning Balances</b>	\$ 455,635	\$ 457,254
<b>Budgetary Financing Sources:</b>		
Appropriations Received	416,436	455,545
Appropriations Transferred-In/Out	10,778	13,686
Other Adjustments (Rescissions, etc)	(7,091)	(12,337)
Appropriations Used	(478,826)	(458,513)
<b>Total Budgetary Financing Sources</b>	<u>(58,703)</u>	<u>(1,619)</u>
<b>Total Unexpended Appropriations</b>	<u><u>\$ 396,932</u></u>	<u><u>\$ 455,635</u></u>

**NET POSITION**

	<u><u>\$ 1,982,652</u></u>	<u><u>\$ 1,986,074</u></u>
--	----------------------------	----------------------------

**ARCHITECT OF THE CAPITOL**  
**Statements of Budgetary Resources**  
For the Years Ending  
**September 30, 2008 and 2007**  
(in thousands)

	Fiscal Year 2008	Fiscal Year 2007
<b>Budgetary Resources</b>		
Unobligated Balance, Brought Forward, October 1	\$ 302,518	\$ 273,382
Recoveries of Prior Year Unpaid Obligations	10,896	9,142
Budget Authority:		
Appropriation	416,436	455,597
Borrowing Authority	13,079	13,419
Spending Authority from Offsetting Collections:		
Earned:		
Collected	41,574	43,408
Change in Receivables from Federal Sources	1,282	(1,413)
Change in unfilled Orders:		
Advance Received	(800)	7,817
Transfers from Trust Funds	585	800
Subtotal Budget Authority	\$ 472,156	\$ 519,629
Nonexpenditure Transfers, net, anticipated and actual	10,778	13,687
Permanently not available	(24,321)	(29,567)
<b>Total Budgetary Resources</b>	<b>\$ 772,027</b>	<b>\$ 786,273</b>
<b>Status Of Budgetary Resources</b>		
Obligations Incurred:		
Exempt From Apportionment	\$ 499,736	\$ 444,692
Reimbursable	43,577	39,063
Subtotal	543,313	483,755
Unobligated Balances:		
Exempt from Apportionment	202,802	278,089
Unobligated Balances - Not Available	25,912	24,429
<b>Total Status Of Budgetary Resources</b>	<b>\$ 772,027</b>	<b>\$ 786,273</b>
<b>Change In Obligated Balances</b>		
Obligated Balances, net:		
Unpaid Obligations, Brought Forward, October 1	\$ 269,565	\$ 361,658
Uncollected Customer Payments From Federal Sources, Brought Forward	-	(1,413)
Total Unpaid Obligated Balance, Brought Forward, net	269,565	360,245
Obligations Incurred	543,313	483,755
Gross Outlays	(543,719)	(566,706)
Recoveries of Prior-Year Unpaid Obligations, Actual	(10,896)	(9,142)
Change in Uncollected Customer Payments from Federal Sources	(1,282)	1,413
<b>Total, Obligated Balances, Net</b>	<b>\$ 256,981</b>	<b>\$ 269,565</b>
Obligated Balance, Net, End of Period		
Unpaid Obligations	\$ 258,263	\$ 269,565
Uncollected Customer Payments from Federal Sources	(1,282)	-
<b>Total, Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 256,981</b>	<b>\$ 269,565</b>
<b>Net Outlays</b>		
Gross Outlays	\$ 543,719	\$ 566,706
Offsetting Receipts	(41,359)	(52,026)
<b>Total Net Outlays</b>	<b>\$ 502,360</b>	<b>\$ 514,680</b>



**NOTES TO THE FINANCIAL STATEMENTS**

---

**INDEX**

NOTE 1:	Summary of Significant Accounting Policies .....	2
	A. Reporting Entity .....	2
	B. Basis of Accounting and Presentation.....	2
	C. Fund Balance with Treasury .....	2
	D. Accounts Receivable .....	3
	E. Investments.....	3
	F. Trust and Revolving Funds .....	3
	G. Recognition of Financing Sources .....	3
	H. Operating Materials and Supplies .....	3
	I. Inventory .....	4
	J. Property and Equipment.....	4
	K. AOC Heritage Collections .....	4
	L. Liabilities.....	4
	M. Personnel Compensation and Benefits.....	5
	N. Contingencies .....	5
	O. Statement of Net Cost .....	5
NOTE 2:	Fund Balance with Treasury .....	6
NOTE 3:	Investments.....	6
NOTE 4:	Accounts Receivable .....	7
NOTE 5:	Inventory .....	7
NOTE 6:	Property and Equipment.....	7
NOTE 7:	Other Assets .....	8
NOTE 8:	Liabilities Not Covered by Budgetary Resources .....	8
NOTE 9:	Payroll and Liabilities .....	9
NOTE 10:	Debt Held by the Public .....	9
NOTE 11:	Contingent and Environmental Liabilities .....	9
NOTE 12:	Imputed Financing.....	11
NOTE 13:	Leases .....	12
NOTE 14:	Other Liabilities.....	12
NOTE 15:	Net Cost of Operations.....	12
NOTE 16:	Reconciliation of Net Cost of Operations to Budget.....	13
NOTE 17:	Stewardship Assets.....	14

## **NOTE 1: Summary of Significant Accounting Policies**

### **A. Reporting Entity**

The Architect of the Capitol (AOC) is an office within the legislative branch of the federal government. Initially authorized by Congress to provide “suitable buildings and accommodations for the Congress of the United States,” our role has evolved to include responsibility for the maintenance, operation, development, and preservation of the Capitol Building, Senate Office Buildings, House Office Buildings, Library of Congress Buildings and Grounds, Capitol Power Plant, U.S. Botanic Garden, Capitol Police Buildings and Grounds, Supreme Court Building and Grounds, and all of the grounds encompassing the Capitol campus.

We are also responsible for

- providing facilities management services for the Senate Restaurants,
- construction of the Capitol Visitor Center,
- arrangements for the presidential inaugural and other ceremonies held on the capitol grounds, and
- providing steam and chilled water to the Supreme Court and Thurgood Marshall Federal Judiciary Buildings, Union Station, and the Folger Library, as well as steam only to the Government Printing Office and the Postal Square building.

Non-entity activities include

- a portion of steam and chilled water,
- flag-flying fees, and
- provision of palm trees for rent.

Upon receipt, funds for these activities are not available for our use. The only non-entity asset is in accounts receivable.

### **B. Basis of Accounting and Presentation**

Our Balance Sheet has been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants (AICPA) recognizes FASAB standards as GAAP for federal reporting entities. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment as well as the recognition of other long-term assets and liabilities.

GAAP require us to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities (including contingent liabilities), and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from our estimates.

For financial reporting purposes, we have issued AOC Order No.32-02 which adopts GAAP for financial reporting and internal controls in a manner consistent for a legislative office. As a legislative branch office, we are not required to follow the accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the standards promulgated by FASAB.

We have not adopted the Federal Managers Financial Integrity Act, the Federal Financial Management Improvement Act of 1996, or the Government Performance and Results Act, as these standards apply only to executive branch agencies. We are committed to using these Acts as “best practices” and are incorporating them into our financial management practices as appropriate.

### **C. Fund Balance with Treasury**

We maintain all cash accounts, with the exception of investments described in Note 3, with the U.S. Department of Treasury (Treasury). The Fund Balance with Treasury account represents the



unexpended balances of appropriation accounts, trust accounts, and revolving funds. Cash receipts and disbursements are processed by Treasury, and our records are reconciled with those accounts on a regular basis.

#### **D. Accounts Receivable**

Accounts Receivable includes reimbursement for supplying entities on Capitol Hill with steam and chilled water to heat and cool their facilities (*see Note 4*). Per annual appropriation, we provide steam and chilled water to the Folger Library, Union Station, Supreme Court and Thurgood Marshall Federal Judiciary Buildings, as well as steam only to the Government Printing Office and the Postal Square building. Legislation provides the ability to collect a pre-determined amount to recover the cost of supplying these services and record these amounts as offsetting collections. Any amount collected over the pre-determined amount is credited to the Treasury's Miscellaneous Receipt Fund and is a non-entity asset.

#### **E. Investments**

As a result of financing the construction of the Thurgood Marshall Federal Judiciary Building, we have funds invested by a trustee (*see Note 3*). These investments are recorded at current market value.

#### **F. Trust and Revolving Funds**

We have stewardship responsibility for three revolving funds that are included in the balance sheet. The revolving funds consist of the House of Representatives Wellness Center Fund, the Senate Health and Fitness Facility Fund, and the Judiciary Office Building Development and Operations Fund. Preservation and maintenance of the House of Representatives Wellness Center are paid by members' dues. Proceeds from the Senate recycling program are used to pay for the preservation and maintenance of the Senate Health and Fitness Facility. The Judiciary Office Building Development and Operations Fund is

used to record transactions related to the Thurgood Marshall Federal Judiciary Building (TMFJB) (*see Note 3*).

We also administer the National Garden Trust Fund, subject to the direction of the Joint Committee on the Library (of Congress). We are authorized to accept gifts or bequests of money, plant material, and other property on behalf of the Botanic Garden. Gifts of money are deposited into the National Garden Trust Fund. We can also dispose of, utilize, obligate, expend, disburse, and administer such gifts for the benefit of the Botanic Garden, including, among other things, the carrying out of any programs, duties, or functions of the Botanic Garden, and for constructing, equipping, and maintaining the National Garden (*see Note 3*).

#### **G. Recognition of Financing Sources**

We receive funding to support our programs through appropriations authorized by Congress. Funding for our operating and capital expenditures is received as annual, multi-year, and no-year appropriations. The appropriations we receive are

- Botanic Garden,
- Capitol Building,
- Capitol Grounds,
- Capitol Police Buildings and Grounds,
- Capitol Power Plant,
- Capitol Visitor Center,
- Congressional Cemetery,
- General Administration,
- House Office Buildings,
- Library Buildings and Grounds, and
- Senate Office Buildings.

#### **H. Operating Materials and Supplies**

Our materials and supplies consist of tangible personal property consumed during normal operations. Per Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Inventory and Related Property," operating materials and supplies are recorded using the purchases method.



The purchases method provides that operating materials and supplies be expensed when purchased.

Operating materials and supplies are purchased using funds specifically appropriated to our ten jurisdictions; therefore, the related usage of those materials and supplies is restricted to those specific appropriations making the purchases.

### I. Inventory

Our inventory is composed of on-hand balance of retail inventory to be available for sale in its gift shops as required by the mission of the Capitol Visitor Center's. This inventory is valued at historical cost using the First-in, First-out (FIFO) method, less an allowance which is based on slow-moving, excess or obsolete inventory. There are no restrictions on this inventory (*see Note 5*).

### J. Property and Equipment

We record property and equipment at cost. We depreciate buildings and equipment over their estimated useful lives, which range from 2 to 40 years, using the straight-line method. All AOC property and equipment is in our possession. None is held by others (*see Note 6*).

The following table presents our capitalization thresholds and related useful lives.

Property Type	Useful Life(years)	Capitalization Threshold
Real Property	40	\$200,000
Improvements	20	\$200,000
Equipment and Vehicles	2-15	\$25,000
Assets under Capital Lease	Shorter of Lease Term or Useful Life of Property Type	See related Property Type
Intellectual Property	3	\$1,000,000

The Capitol Building, the Supreme Court Building, the Botanic Garden, and the Senate and House office buildings, as well as the Library of Congress Jefferson Building, are considered multi-use heritage assets and are included in the balance sheet.

### K. AOC Heritage Collections

Stewardship Property, Plant & Equipment (PP&E) consist of assets whose physical properties resemble those of General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, determining a monetary value would be difficult, and matching costs with specific periods may not be possible or meaningful. Heritage assets are Stewardship PP&E that are unique and are generally expected to be preserved indefinitely. Heritage assets have historical or natural significance; are of cultural, educational, or artistic importance; or have significant architectural characteristics. These assets are reported in terms of physical units rather than cost or other monetary values per SFFAS No. 29. There are two types of heritage assets: collection, which are objects gathered and maintained for exhibition, such as museum and art collections; and non-collection, which are parks, memorials, monuments, and buildings. AOC's collections contain both types of heritage assets.

### L. Liabilities

Liabilities represent the amounts we owe to others for goods or services received, and amounts owed for progress in contract performance. Because no liability can be paid without an enacted appropriation, some liabilities are funded while others are unfunded. For accrued unfunded annual leave and workers' compensation, appropriations may be enacted to fund these activities. The Balance Sheet presents the following types of liabilities:

- Unfunded actual and actuarial workers' compensation
- Accounts payable



- Debt held by the public
- Annual leave
- Capital lease liability

### M. Personnel Compensation and Benefits

Federal Employee Benefits -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. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the federal agencies employing the claimants. The DOL determines the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases (*see Note 9*).

We recognize our share of the cost of providing future pension benefits to eligible employees over the period that they render the related services. This amount is considered imputed financing to us (*see Note 12*).

We also recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for our employees while they are actively employed. This amount is also considered imputed financing to us (*see Note 12*).

Annual and Other Leave - Annual leave is recognized as an expense and a liability as it is earned. The liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Other types of leave are expensed when taken and no future liability is recognized for these amounts (*see Note 9*).

### N. Contingencies

We account for contingencies in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." It defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to the possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. We recognize a contingent liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow is measurable. We have recorded provisions for losses in relation to the definition of contingent liabilities documented above (*see Note 11*).

### O. Statement of Net Cost

The Statement of Net Cost (SONC) is presented in accordance with SFFAS No. 4, by responsibility segment/jurisdiction. Costs not otherwise assigned to responsibility segments/jurisdictions are presented as General Administrative. We have a number of initiatives (cost accounting, performance-based budgeting, etc.) in process that will assist us with gathering data in a manner to provide even more information to our stakeholders. While these initiatives are in various stages of progress, we believe the responsibility segment/jurisdiction approach provides information to our stakeholders in a direct and succinct manner. As our financial reporting processes mature, we plan to enhance our SONC by linking it to our strategic plan following best practices seen at other agencies.

The responsibility segments are aggregates of the following funds:

- General Administrative
  - General Administrative
  - American Disabilities Act
  - Congressional Cemetery
- Capitol Buildings and Capitol Grounds
  - Capitol Buildings
  - Capitol Grounds
  - Capitol Visitor Center



West Central Front  
 Senate Office Building  
   Senate Office Building  
   Senate Health and Fitness  
 House Office Building  
   House Office Building  
   House Wellness Center  
 Capitol Power Plant  
 Library of Congress and Grounds  
 Capitol Police and Grounds  
 Botanic Garden  
   Botanic Garden  
   National Garden  
 Judiciary Buildings and Grounds  
   Supreme Court  
   Thurgood Marshall

Revenues are calculated on a direct cost recovery basis.

**NOTE 2: Fund Balance with Treasury**

Our funds with Treasury primarily consist of appropriated funds. We also have stewardship responsibility for three revolving funds and administer one trust fund. The balance of these funds as of September 30, 2008 and 2007 is as follows:

A. Fund Balances

dollars in thousands

Fund Type	2008	2007
Appropriated Funds	\$ 473,135	\$ 557,396
Trust Funds	10	43
Revolving Funds	12,481	14,493
<b>Total</b>	<b>\$ 485,626</b>	<b>\$ 571,932</b>

B. Status of Fund Balance with Treasury

We classify our funds with Treasury as obligated, unobligated available, or unobligated unavailable. Unobligated available balances represent unexpired appropriations available for incurring new obligations. Unobligated unavailable balances are expired appropriations no longer

available to incur new obligations. Obligated balances not yet disbursed include undelivered orders or orders received but not yet paid.

Status of Fund Balance with Treasury as of September 30, 2008 and 2007, consist of the following:

dollars in thousands

Balance Type	2008	2007
Unobligated Balance		
Available	\$199,937	\$274,805
Unavailable	27,426	27,562
Obligated Balance not yet Disbursed	258,263	269,565
<b>Total</b>	<b>\$485,626</b>	<b>\$571,932</b>

**NOTE 3: Investments**

A. Investments with Treasury

The National Garden at the U.S. Botanic Garden was funded privately via The National Fund for the U.S. Botanic Garden (USBG), a not-for-profit corporation assisting the Architect of the Capitol in raising private funds pursuant to Public Law 102-229. This is the first project, authorized by Congress for construction by the Architect of the Capitol, which was financed with privately donated funds. Funds were raised by private citizens, corporations, and garden clubs from across the nation. We invest the donated funds in government account securities through the Bureau of Public Debt using their Web-based application, FedInvest. By law, the interest earned is credited to the National Garden fund.

The balances at year September 30, 2008 and 2007 are as follows:

dollars in thousands

Investments Held With Treasury	2008	2007
Invested	\$ 150	\$ 1,392
Interest	4	52
Less: Expended	(84)	(1,294)
<b>Total</b>	<b>\$ 70</b>	<b>\$ 150</b>

B. Investments held Outside Treasury



In 1989, we entered into a contractual agreement with Boston Properties for the construction of the Thurgood Marshall Federal Judiciary Building. To finance the construction of the building, Shearson Lehman Hutton, Inc., and Kidder, Peabody, & Co., Inc., issued 30-year Serial Zero Coupon Certificates of Participation.

The proceeds were received by a trustee, The U.S. Trust Company of NY (now The Bank of New York), and deposited into two funds, the Project Fund and the Operating Reserve Fund. The funds are held outside the U.S. Treasury by the trustee and, at our direction, are invested or disbursed. After construction, the remaining amounts were left in trust in the Project Fund. During 2007, the Project Fund balance was transferred to the Operating Reserve Fund. The Operating Reserve Fund is held in reserve for future needs (e.g., roof replacement, major renovation). The market values of these funds are listed below:

dollars in thousands

<b>Investments Held Outside Treasury</b>		
<b>Fund Type</b>	<b>2008</b>	<b>2007</b>
Operating Reserve	\$ 35,611	\$ 34,635
<b>Total</b>	<b>\$ 35,611</b>	<b>\$ 34,635</b>

#### **NOTE 4: Accounts Receivable**

The breakdown of consolidated gross accounts receivable at September 30, 2008 and 2007 is as follows:

dollars in thousands

<b>Accounts Receivable</b>		
<b>Receivable Type</b>	<b>2008</b>	<b>2007</b>
Entity:		
Intragovernmental	\$ 1,743	\$ -
With the Public	83	115
<b>Total Entity</b>	<b>1,826</b>	<b>115</b>
Non-Entity:		
Intragovernmental	560	1,659
With the Public	11	11
<b>Total</b>	<b>\$ 2,397</b>	<b>\$ 1,785</b>

Based upon a year-end review, all receivables are deemed collectible.

#### **NOTE 5: Inventory**

Inventory as of September 30, 2008 and 2007 consists of the following:

	Cost	Allowance For loss	2008	2007
Inventory held for current Sale	\$ 2	\$ -	\$ 2	\$ -

#### **NOTE 6: Property and Equipment**

We differentiate our property and equipment by distinct categories. The following represents these categories in further detail:

dollars in thousands

<b>Property and Equipment – 2008</b>			
<b>Class of Property and Equipment</b>	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Buildings	\$ 785,512	\$ 460,723	\$ 324,789
Building Improvements	919,917	475,561	444,356
Land	162,947	-	162,947
Land Improvements	142,264	29,823	112,441
Capital Leases			
Real Property	39,450	15,362	24,088
Leasehold Improvements	22,934	6,952	15,982
Equipment Computers, Hardware and Other	34,788	24,201	10,587
Construction Work-in-Progress	760,916	-	760,916
<b>Total</b>	<b>\$2,868,728</b>	<b>\$ 1,012,622</b>	<b>\$ 1,856,106</b>

dollars in thousands

<b>Property and Equipment - 2007</b>			
<b>Class of Property and Equipment</b>	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Buildings	\$ 785,513	\$ 445,547	\$ 339,966
Building Improvements	860,934	440,955	419,979
Land	162,947	-	162,947
Land Improvements	138,543	23,023	115,520
Capital Leases			
Real Property	39,541	11,086	28,455
Leasehold Improvements	22,934	4,921	18,013
Equipment Computers, Hardware and Other	34,139	23,069	11,070
Construction Work-in-Progress	716,568	-	716,568
<b>Total</b>	<b>\$ 2,761,119</b>	<b>\$ 948,601</b>	<b>\$ 1,812,518</b>

The educational, artistic, architectural, and historical significance of the Capitol, Senate, House, Supreme Court, and Jefferson buildings meets the FASAB criteria for heritage assets. Because these buildings are currently used for day-to-day business, they are further classified as multi-use heritage assets. This means we depreciate them in the same manner as if they were general purpose assets.

In 2007, we recorded the acquisition of property in Culpeper Va. The property, acquired via donation from the Packard Humanities Institute and a transfer of matching funds of \$16.5 million, is to be used as the Library of Congress' National Audio Visual Conservation Center. In accordance with SFFAS 6, we recorded the acquisition at the fair market value of \$45 million.

In 2008, in an agreement with the Federal Law Enforcement Training Center (FLETC) we transferred a facility with a value of \$17 million.

We are responsible for reviewing and authorizing all changes to the buildings and grounds prior to any change occurring.

## NOTE 7: Other Assets

dollars in thousands

	<b>2008</b>	<b>2007</b>
Advances to Others	\$ 7	\$ 4

In 2008 and 2007, Advances to Others consisted of travel advances.

## NOTE 8: Liabilities Not Covered by Budgetary Resources

The liabilities on our Balance Sheets as of September 30, 2008 and 2007 include liabilities not covered by current budgetary resources. These liabilities require Congressional action prior to budgetary resources being provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources generally include accrued annual and compensatory leave, workers' compensation, debt held by the public, and capital lease liability. Liabilities not covered by budgetary resources for 2008 and 2007 are as follows:

dollars in thousands

<b>Liabilities</b>	<b>2008</b>	<b>2007</b>
<b>Intragovernmental:</b>		
Liabilities covered by budgetary resources	\$ 224	\$ 222
Liabilities not covered by budgetary resources	9,865	10,169
<b>Total Intragovernmental</b>	<b>\$ 10,089</b>	<b>\$ 10,391</b>
Liabilities covered by budgetary resources	\$ 90,822	\$ 137,184
Liabilities not covered by budgetary resources	306,345	297,766
<b>Total</b>	<b>\$ 397,167</b>	<b>\$ 434,950</b>



**NOTE 9: Payroll and Liabilities**

The liability for Accrued Annual Leave and Other is comprised of three accounts: Funded Accrued Payroll (payrolls that have been earned but not paid), Unfunded Accrued Annual Leave (employee leave that has been earned but not taken) and Unemployment Compensation.

dollars in thousands

<b>Accrued Annual Leave and Other</b>		
<b>Accrual Type</b>	<b>2008</b>	<b>2007</b>
Funded Accrued Payroll	\$ 8,761	\$ 6,705
Unfunded Accrued Annual Leave	9,114	7,975
Unemployment Compensation	-	-
<b>Total</b>	<b>\$ 17,875</b>	<b>\$ 14,680</b>

Workers' Compensation is reported as required by the Federal Employees' Compensation Act (FECA). The liability is presented in two parts: an annual accrued liability for billed costs (current portion) and a long-term, actuarial-based unfunded liability (see Note 1.L).

The actuarial workers' compensation liability for 2008 and 2007 was calculated using a formula provided by the DOL.

dollars in thousands

<b>Workers' Compensation</b>		
<b>Type</b>	<b>2008</b>	<b>2007</b>
Unfunded Annual (current)	\$ 8,835	\$ 8,499
Actuarial Unfunded (long-term)	\$ 45,909	\$ 44,435

Estimated future costs have been actuarially determined, and they are regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL. Workers' Compensation is included in Liabilities not covered by Budgetary Resources, as described in Note 8.

**NOTE 10: Debt Held by the Public**

As of September 30, 2008 and 2007, Debt Held by the Public consists of the financing obtained for the construction of the Thurgood Marshall Federal Judiciary Building. The debt consists of 30-year Serial Zero Coupon Certificates of Participation issued in 1988 worth \$125,391,621 with a maturity value of \$525,515,000. The certificates are amortized using the effective interest rate of 8.72%. The balance of Debt Held by the Public is as follows:

dollars in thousands

<b>Debt Held by the Public</b>		
	<b>2008</b>	<b>2007</b>
Securities	\$ 275,680	\$ 292,910
Interest Payable	1,051	1,080
Subtotal	276,731	293,990
Discount on Securities	(400,123)	(400,123)
Less: Amortization of Discount	271,546	258,438
Subtotal	(128,577)	(141,685)
<b>Total</b>	<b>\$ 148,154</b>	<b>\$ 152,305</b>

Various judiciary offices and personnel occupy the Thurgood Marshall Federal Judiciary Building under an Interagency Agreement between the AOC and the Administrative Office of the U.S. Courts. Base rent will not change over the initial 30 years and is set at the amount necessary to retire the debt at \$17,230,000 annually. Payment of the certificates will end in August 2024.

Per the language in the certificate agreement, "This Certificate is not subject to prepayment or acceleration under any circumstance."

**NOTE 11: Contingent and Environmental Liabilities**

We conducted a review of contingent liabilities for financial statement purposes for 2008 and 2007. Based on this review, we recorded a contingent liability for claims we think it probable we will lose and for which we can reasonably estimate the amount of an unfavorable outcome. Our review covered claims arising from contracts,



environmental issues, labor and equal employment opportunity issues, and personal and property damage. Additionally, management and General Counsel evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome. None of these cases were determined to meet our materiality threshold.

#### Fort Meade, Maryland

Our review concluded that we are not responsible for the clean-up and remediation of previous environmental contamination on the approximately 100 acres of land at Fort George G. Meade, Maryland (FGGM), which the U.S. Army transferred to us. The Army is responsible for the environmental clean-up of any previous contamination under the Comprehensive and Environmental Response Compensation and Liability Act (CERCLA). We understand that the Army is actively monitoring existing contamination on the entire FGGM site, including the 100 acres transferred to us, and is pursuing appropriate remediation of this contamination.

#### Capitol Power Plant

The Office of Compliance issued a complaint in February 2006, alleging that certain unsafe work practices and conditions exist at the Capitol Power Plant (CPP) utility tunnels. The alleged unsafe work practices and conditions cited in the complaint pertain to the structural integrity of concrete in the utility tunnels and tunnel egress and communication systems.

In addition, in January 2006, the Office of Compliance issued Citations 59 and 60. These citations are not part of the complaint and formal enforcement action but also address other alleged unsafe work practices and conditions at the CPP utility tunnels. The unsafe work practices and conditions alleged by the Office of Compliance in Citation 59 are that employees working in the utility tunnels are exposed to heat stress conditions. Citation 60 is discussed below under Environmental Cleanup Cost Liability.

We are actively seeking solutions to the issues identified by the Office of Compliance. We intend to pursue settlement discussions with the goal of coming to a resolution of the issues in the complaint conditioned upon our budget authority, and logistical, technical and other limitations outside of our control.

Because the review of estimates is required in the preparation of our financial statement, our balance sheets reflect a liability of approximately \$48 million in 2008 and \$53 million in 2007. Management and General Counsel believe that we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

#### Environmental Cleanup Cost Liability

In January of fiscal year 2006, the Office of Compliance issued Citation 60, addressing certain alleged unsafe work practices and conditions at the Capitol Power Plant utility tunnels. Since these conditions existed at the end of 2005 and some of these tunnels have been in place and functioning since the early 1900's, we booked a liability and a related prior period adjustment as required by SFFAS 6, par. 105 on our 2005 financial statements. In Citation 60, the Office of Compliance alleges that the AOC has not adequately monitored Capitol Power Plant employees for asbestos exposure, provided required information to employees regarding the presence and location of asbestos in the tunnels, provided the required notification to employees regarding asbestos-containing materials, or adequately maintained the tunnels so they were as free as practicable from asbestos, and asbestos waste, debris, and dust. Funding was requested and funds were appropriated by Congress to address the tunnel issues which is an amount adequate in management's opinion to comply with the Environmental Protection Agency's guidelines.



## NOTE 12: Imputed Financing

In accordance with SFFAS No. 4, "Managerial Cost Accounting," imputed financing results when an entity receives un-reimbursed services from other government entities.

Our imputed financing consists of future pension benefits for our employees that are paid on our behalf by the Office of Personnel Management, printing services provided by the GPO, and design elements paid for by the Army Corps of Engineers to improve building infrastructure campus-wide.

With certain exceptions, employees participate in one of three defined benefit retirement programs based upon the starting date of their employment with us: employee and employer contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), the Civil Service Retirement Offset, or the Federal Employee Retirement System, all of which are administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Our employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Federal Retirement Thrift Investment Board administers the Plan.

### Civil Service Retirement System (CSRS)

According to PL 99-335, all employees hired prior to January 1, 1987, could elect CSRS or CSRS Offset. The CSRS provides a basic annuity and Medicare coverage. The CSRS fund covers most employees hired prior to January 1, 1984. The AOC and the employee contribute to Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS.

### Civil Service Retirement System Offset

CSRS Offset generally covers those employees who have had a break in their CSRS service of more than one year and less than five years by the

end of 1986. The AOC and the employee contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS Offset.

### Federal Employee Retirement System (FERS)

According to PL 99-335, employees with less than five years of creditable civilian service as of December 31, 1986, were automatically converted to FERS. In addition, during certain periods in 1987, 1988, and 1998, employees hired before January 1, 1984, could choose to participate in FERS. This system consists of Social Security, a basic annuity plan, and the Thrift Savings Plan.

The AOC and the employee contribute to Social Security and Medicare at rates prescribed by law. In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1% per year of the basic pay of employees covered by this system. We also match a voluntary employee contribution up to 3% dollar-for-dollar, and another 2% is matched 50 cents on the dollar.

Imputed Financing consists of the following:

dollars in thousands

<b>Imputed Financing</b>		
<b>Benefit Type</b>	<b>2008</b>	<b>2007</b>
CSRS	\$ 7,733	\$ 7,963
CSRS Offset	714	639
FERS	17,976	16,313
Less: Contributions	(20,724)	(19,494)
Subtotal Pensions	5,699	5,421
Health	9,230	9,415
Life Insurance	28	25
<b>Total Employee Benefits</b>	<b>14,957</b>	<b>14,861</b>
GPO	470	872
Corps Building Improvements	327	4,713
<b>Total</b>	<b>\$ 15,754</b>	<b>\$ 20,446</b>



## NOTE 13: Leases

As of September 30, 2008, we were committed to various non-cancelable leases primarily covering administrative office space and storage facilities, motor vehicles, and office equipment. Many of these leases contain escalation clauses tied to inflationary and tax increases, and renewal options.

In 2007, we had three real property capital leases. During 2007, we purchased one of these buildings and thus, we currently have two real property - leases.

The following is a schedule of the present value of the future minimum lease payments required by those leases identified as capital leases, which have initial or remaining noncancelable lease terms in excess of one year.

### Capital Leases

dollars in thousands			
<b>Capital Leases</b>			
Fiscal Year	Real Property	Personal Property	Total
2009	\$ 4,536		\$ 4,536
2010	4,571	-	4,571
2011	4,599	-	4,599
2012	4,627	-	4,627
2013	4,655	-	4,655
Thereafter	12,376	-	12,376
<b>Total Future Lease Payments</b>			<b>35,364</b>
Less: Imputed Interest			6,749
<b>Net Capital Lease Liability</b>			<b>\$ 28,615</b>

### Operating Leases

We currently have leases with the General Services Administration (GSA) and commercial vendors for office and storage space, plus rentals of equipment and vehicles.

The aggregate of our future payments due under noncancelable operating leases and our estimated real property payments to GSA for fiscal year 2009 through fiscal year 2013 is as follows:

dollars in thousands

<b>Operating Leases</b>			
Fiscal Year	Real Property	Personal Property	Total
2009	\$ 6,614	\$ 12	\$ 6,626
2010	5,029	12	5,041
2011	4,741	1	4,742
2012	4,283	-	4,283
2013	4,283	-	4,283
Thereafter	38,616	-	38,616
<b>Total Future Lease Payment</b>			<b>\$ 63,591</b>

## NOTE 14: Other Liabilities

During fiscal year 2008, other liabilities consists of accrued accounts payable and miscellaneous receipts that are to be forwarded to Treasury (custodial liabilities). These receipts included, but were not limited to, flag-flying fees, rent for the Monocle restaurant, and steam and chilled water. These liabilities are current.

## NOTE 15: Net Cost of Operations

Expenses for salaries and related benefits for 2008 and 2007 amounted to \$179 million and \$165 million, which was about 39% and 36% of our annual cost of operations for both years. Included in the net cost of operations are imputed federal employee benefit costs of \$14 and \$15 million paid by OPM.

Exchange revenue with the public consists of revenues received for services provided, such as access to the Senate Health and Fitness Facility, House Wellness Center, steam and chilled water to governmental and private entities, work performed on reimbursable projects, and rent, interest and reimbursement for projects performed related to the Thurgood Marshall Building.



**NOTE 16: Reconciliation of Net Cost of Operations (Proprietary) to Budget( Formerly the Statement of Financing)**

FASAB requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations. In previous years this reconciliation was accomplished by presenting the Statement of Financing as a Basic Financial Statement. Effective for fiscal year 2007, OMB decided that this reconciliation would be better placed and understood as a note rather than as a basic statement.

Most entity transactions are recorded in both budgetary and proprietary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts (e.g., accrual of workers' compensation liabilities which are recorded only in the proprietary records). Furthermore, not all obligations or offsetting collections may result in expenses or exchange revenue (e.g., purchase of a building is capitalized on the balance sheet in the proprietary accounts but obligated and outlaid in the budgetary accounts).

The Resources Used to Finance Activities section reflects the budgetary resources obligated and other resources used to finance the activities of the agency. The obligations of budgetary resources are net of offsetting collections, recoveries and offsetting receipts. The other resources are financing sources that increase net position but are not budgetary resources such as donated property and imputed costs.

Resources Used to Finance Items Not Part of the Net Cost of Operations includes resources used to

finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the net cost of operations. This item includes undelivered orders reflected in net obligations but not part of current period net cost of operations. It also includes budgetary resources and obligations recognized in the current period that do not affect the net cost of operations (e.g., the acquisition of assets reflected in net obligations but not in net cost of operations for the period).

Components Requiring or Generating Resources in Future Periods identifies items that are recognized as a component of the net cost of operations for the current period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period. Costs such as contingent liabilities and workers' compensation are not always funded in the period the costs are incurred and are included in this item.

Components Not Requiring or Generating Resources includes items that are recognized as part of the net cost of operations for the period but will not generate or require the use of resources, such as depreciation and amortization.

**Reconciliation of Net Cost of Operations to Budget**

dollars in thousands

	FY 2008	FY 2007
Resources used to finance activities:		
Budgetary resources obligated	\$ 489,780	\$ 424,000
Other resources	(2,742)	46,966
Total resources used to finance activities	487,038	470,966
Less: resources used to finance items not part of the net cost of operations	(119,153)	(169,092)
<b>Total resources used to finance the net cost of operations</b>	<b>367,885</b>	<b>301,874</b>
Components of the net cost of operations requiring or generating resources in future periods	(10,597)	58,145



Components of net cost of operations not requiring or generating resources in future periods	64,104	56,048
Total components of net cost not requiring or generating resources in the current period	53,507	114,193
<b>Net Cost of Operations:</b>	<b>\$ 421,392</b>	<b>\$ 416,067</b>

**NOTE 17: Stewardship Assets**

Heritage assets, per Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 29, “Heritage Assets and Stewardship Land,” are property, plant and equipment (PP&E) that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets are expected to be preserved indefinitely. Federal agencies are not required to show dollar amounts on the balance sheet for heritage assets, except for multi-use heritage assets, which are defined as heritage assets whose predominant use is in general government operations. For example, a historic building predominantly used as an office building would be considered a multi-use heritage asset. The Capitol, Senate and House Office Buildings, Supreme Court, and Thomas Jefferson Building of the Library of Congress are all multi-use heritage assets.

The Architect of the Capitol’s heritage assets and stewardship land are directly related to its mission to preserve and enhance the Capitol complex and related facilities. Permanent authority for the care and maintenance of the Capitol was established by legislation on August 15, 1876 (40 U.S.C. 162, 163). The Architect’s core duties include the mechanical and structural maintenance of the buildings of the Capitol complex, the conservation and care of works of art in the buildings under the Architect’s jurisdiction, the upkeep and improvement of the Capitol Grounds, and the arrangement of inaugural and other ceremonies held in its buildings or on its grounds.

The AOC’s stewardship responsibility for the heritage assets on the Capitol complex include those in or attached to its buildings and on its grounds and, therefore, encompass the care for works of architectural fine art and other heritage assets. The AOC’s Strategic Plan describes plans to update and refine our heritage asset inventories. Descriptions of the types of heritage assets are:

**Artwork**

AOC’s artwork has many subcategories include:

- Fine Art
- Decorative Art
- Architectural Fine Art
- Architectural Decorative Art

**Architectural Features**

The AOC’s buildings and grounds are graced with many unique architectural features include:

- Outdoor Sculptures
- Landscape Features and Fixtures

**Reference and Library Materials**

The AOC’s Reference and Library Materials include:

- Art and Reference Files
- Art and Reference Materials

**Records**

The AOC’s historic records and reference materials include:

- Architectural and Engineering Drawings
- Manuscripts and Other Textual Records
- Small Architectural Models
- Photographs

## Living Heritage Assets

As Acting Director of the U.S. Botanic Garden the AOC has many Living Heritage Assets, include:

- Taxa
- Memorial Trees
- Plants
- Individual

The required supplementary information (RSI) section of our Performance and Accountability Report provides additional information on our heritage assets.

	9/30/07	Increase	Decrease	9/30/08
<b>Artwork</b>	1,697	646	396	1,947
<b>Architectural Features</b>	195	42	-	237
<b>Reference and Library Materials:</b>				
Art and Reference Files	108 drawers	-	-	108 drawers
Art and Reference Materials (in hundreds)	15	-	2	13
<b>Living Heritage Assets (in thousands)</b>	80	12	-	92
<b>Records (in thousands)</b> * includes conservation reports	342	17	-	359





Certified Public Accountants  
and Consultants

4501 Ford Avenue, Suite 1400, Alexandria, VA 22302  
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

## Independent Auditor's Report on Internal Control

To the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of and for the year ended September 30, 2008, and have issued our report dated February 6, 2009. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The management of AOC is responsible for maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered AOC's internal control over financial reporting by obtaining an understanding of the design effectiveness of AOC's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of AOC's controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of AOC's internal control over financial reporting.

We limited our control testing to those controls necessary to achieve the following OMB control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; (2) transactions are executed in compliance with laws governing the use of budget authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, and other laws and regulations that could have a direct and material effect on financial statements; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects AOC's ability to



initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of AOC's financial statements that is more than inconsequential will not be prevented or detected by AOC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by AOC's internal control. Our consideration of internal control was for the limited purpose described in the second paragraph of this report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted three matters, discussed below, involving the internal control and its operation that we consider to be material weaknesses.

## **MATERIAL WEAKNESSES**

### **1. Internal Control Assessments (Repeat Condition)**

AOC has not completed a formal and systematic assessment and evaluation of the design and operation of internal controls. As of September 30, 2008, AOC has completed an assessment of the procure-to-pay process, and has partially completed the human resource, time and attendance, and project management processes. In the absence of a complete assessment, AOC cannot determine if its current internal control design mitigates existing risks and effectively safeguards assets.

Recommendation – We recommend that AOC completes and documents internal control assessments that evaluate the effectiveness of the design and operation of its internal control structure, including the identification of risks to material accounts and the existence of internal controls to mitigate those risks. Although AOC is not subject to OMB Circular A-123, *Management's Responsibility for Internal Control*, we recommend that AOC consult the "Implementation Guide for OMB Circular A-123 Appendix A, Internal Control over Financial Reporting" (the Guide). The Guide was issued by the Chief Financial Officer's Council in May 2005. The Guide includes guidance to enable management to evaluate internal controls and monitor and test these controls throughout the year.

### **2. Risk Assessment Updates (Repeat Condition)**

The AOC internal control environment does not have a formal, documented process to monitor the internal and external environment, to identify changing risk profiles or to respond accordingly. Specifically, AOC has not implemented additional controls to reconcile the payroll data transmitted to and received from the National Finance Center (NFC). While NFC received an unqualified SAS 70 opinion, the SAS 70 only covers data processed by NFC. NFC's internal controls do not encompass data transmission to and from AOC. Despite NFC's unqualified SAS 70 opinion, AOC is still ultimately





responsible for the data validity. AOC has not implemented best practice controls as cited by the Government Accountability Office (GAO) and included as appendices in previous NFC SAS 70 reports. While several employees performed additional tests in response to the event, the actions were predicated on individual efforts as compared to a repeatable and sustainable systemic effort.

Recommendation – We recommend that AOC develop a component in the internal control structure to monitor and identify changing risks. Also, AOC should reconcile NFC payroll data transmission to data receipt including at a minimum, jurisdictional employees and hours.

### **3. Financial Information System and Financial Reporting Internal Control Design and Operation**

We observed a degradation of the financial information system and financial reporting internal control structure design and operation. This decline in the performance of the internal control structure resulted in a significant increase in the time required for the financial reporting close process compared to previous years. After the financial close process was completed, the audit identified key accounts which were not adequately reconciled or analyzed. Additionally, AOC could not easily produce supporting evidence and transaction details for other key accounts. In several instances, the audit team needed to perform the analysis or transaction identification for AOC. The audit also identified an increase in the number of financial reporting errors which AOC ultimately corrected in the financial statements. While none of the observed exceptions individually resulted in a material error, we considered the broad based and collective systemic nature of the exceptions in assessing them as a material weakness.

Additionally, we identified several instances in which the internal control design was not sufficient to identify and prevent financial errors. The nature of these exceptions seem to be the result from the lack of a comprehensive risk assessment, as previously discussed, and questions the robustness of the internal control structure to identify other potential errors which did not occur in the current fiscal year. The internal control environment was also subject to additional strain resulting from turnover in key financial positions. A comprehensive risk assessment and documented key control points may have minimized this disruption. Collectively, these exceptions weakened the internal control structure, lengthened the financial reporting timeline, and diminished the effectiveness of the financial analysis process.

Recommendation – We recommend that AOC assign formal authority for oversight and monitoring of the financial reporting process including risk assessments and control design. This assessment should focus on interchange points between all process participants to ensure that financial statement risks are adequately mitigated. We recommend that critical accounting analyses are reviewed for accuracy and prepared in accordance with a master reporting timeline.



## SIGNIFICANT DEFICIENCIES

### 1. Information System General Controls (Repeat Condition)

We evaluated AOC's Information System general controls following guidance provided by the National Institute of Standards and Technology (NIST) and the GAO's Federal Information System Controls Audit Manual (FISCAM). We provided a detailed report as well as a prioritization of findings under separate cover. For detailed descriptions and recommendations for these findings, refer to the separately issued report.

AOC has made improvements to their overall information system security program since the completion of the FY 2007 audit. AOC's progress includes:

- Initiation of Certification and Accreditation (C&A) of the General Support System (GSS) and major applications
- Implementation of tools for monitoring security violations
- Improvement in procedures for de-provisioning user access
- Revisions to AOC's Information Security Program Policy and related procedures.

Having noted improvements, AOC still has areas of weakness that need to be addressed. We summarize some of the salient findings below. Findings are reported under the following general categories:

- Entity-wide Security Program (SP)
- Access Control (AC)
- Segregation of Duties (SD).

#### *Entity-wide Security Program*

This category provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls. We noted weaknesses in the following areas relating to AOC's SP:

- Complete formal risk assessments for financial and core operation components
- Implement the Information System Security Plans (ISSP)
- Document detailed procedures in a Computer Incident Response Plan
- Document detailed hiring and termination procedures for IT Security
- Define, document and enforce the expertise needed to carry out information security responsibilities.

#### *Access Control*

Controls within this category limit or detect access to computer resources (i.e., data, programs, equipment, and facilities), thereby protecting these resources against



unauthorized modification, loss, and disclosure. The AOC does not define user profiles and document in System Security Plans.

***Segregation of Duties***

The controls in this category provide policies, procedures, and an organizational structure to prevent one individual from controlling key aspects of computer-related operations, thereby conducting unauthorized actions or gaining unauthorized access to assets or records. The AOC does not have an entity-wide segregation of duties policy.

Recommendation – We recommend that AOC perform the following:

- Continue efforts to complete the C&A for the GSS and major applications following NIST SP 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems* and development of System Security Plans in accordance with NIST SP 800-18, *Guide for Developing Security Plans for Federal Information Systems*.
- Complete C&A activities and develop the Information System Security Plans (ISSP) in accordance with NIST SP 800-18, *Guide for Developing Security Plans*, as well as make any additions and/or corrections based on the updated risk assessments and planned infrastructure redesign. In addition, AOC should develop and implement procedures to implement the policies designated in the ISSP.
- Continue implementing and enforcing the new personnel policies and procedures.
- Revise incident response procedures to include choosing a containment strategy, evidence gathering and handling, and eradication and recovery. In addition, ITD should integrate the incident response procedures with other relevant policies such as the Search and Seizure policy.
- Continue efforts to implement the security awareness training requirements and enforcing these policies.
- Document user profiles and include them in the System Security Plans.
- Document and implement an overall AOC segregation of duties policy and procedures. Assignment of roles and responsibilities should be documented.

**2. Information Systems Financial Management and Time and Attendance Application Controls**

We evaluated AOC's Information System Financial Management and Time and Attendance application controls following guidance provided by NIST and FISCAM.



AOC uses Momentum as its financial information application. Momentum provides functionality which includes:

- General ledger maintenance
- Journal voucher preparation and approval
- Financial reporting
- Vendor approval and maintenance
- Purchase order creation, review, and approval
- Invoice review and approval
- Disbursement processing.

A majority of the automated controls over financial reporting and vendor payments reside within Momentum.

AOC uses WebTA as its time and attendance reporting application. WebTA provides functionality which includes:

- Employee information maintenance and approval
- Time recordation, review, and approval
- Transmission to processing center.

A majority of automated controls over time and attendance processing reside within WebTA.

Kearney's testing identified the following weaknesses:

#### ***Momentum Security Configuration***

AOC has not formally documented the Financial Management Systems (FMS)/Momentum security roles and their assignment by position to achieve adequate segregation of duties. AOC does not maintain documented definitions of the FMS/Momentum security roles and the actions accorded each role in FMS/Momentum. AOC does not maintain a current analysis of which security roles are mutually incompatible and should not be held by the same individual to maintain an effective segregation of duties. AOC also does not maintain an analysis of which security roles should be assigned by position to FMS/Momentum users. AOC has no policy or procedures to ensure the users actual security role assignments are benchmarked against position description standards to validate the existence of appropriate segregation of duties.

Additionally, AOC's existing Momentum security reports do not facilitate effective monitoring of implementation and operation of security policies. ITD has not activated the Momentum audit logging feature. This feature is critical to capture user activity and relevant security events. This tracking feature facilitates investigation and analysis of



security violations, attempted security breaches, policy exceptions, and other system activity.

AOC has not implemented Momentum's document type security features to ensure that requisitions, purchase orders, and orders to pay transactions are approved by someone other than the originator and document matching requirements have been implemented. AOC has elected to base these security features on dollar amounts. As a result, a user may process a transaction under his/her dollar threshold from beginning to end without a second party approval.

Additionally, AOC has not disabled the "admin" user ID in FMS/Momentum to ensure accountability and an audit trail for its use. Presently, the system does not uniquely identify a user that logs into the "admin" account. The "admin" user ID allows broad ranging capabilities including changing users' rights and authorizations and facilitating changes to master databases.

Recommendation – AOC should develop and document a segregation of duties policy for FMS/Momentum that includes the assignment of security organizations, roles and the actions included in each role to users. Further, AOC should periodically review the security roles and actions to determine that adequate segregation of duties is maintained.

AOC should develop security reports, to facilitate robust monitoring of security policies. AOC should perform an evaluation to determine the user access information and security events that should be captured. The Momentum application should be setup to log the appropriate information and audit logs should be reviewed regularly for unusual activity. We recommended that AOC consult the NIST SP 800.92: Guide to Computer Security Log Management for guidance, which provides information concerning Computer Security Log Management and the information to be logged.

AOC should implement the Momentum controls based on a risk assessment to ensure matching of documents and proper approvals.

AOC should assign the "Admin Role" to individual users. The "Admin Role" has the same privileges of the "admin" ID, but provides accountability and transparency.

### ***WebTA Security Configuration***

AOC has not documented procedures or access request forms used to add WebTA users and track profiles as required in the WebTA Concept of Operations. WebTA administrators do not review WebTA accounts for inactivity and disable them upon identification. WebTA administrators do not cross-reference terminated AOC employees to WebTA accounts on a routine basis. WebTA account profiles are not documented, maintained, and/or reviewed by WebTA administrators.



The WebTA System Administration does not ensure that WebTA password parameters are set in accordance to industry standards and best practices as follows:

- WebTA passwords are not required to be changed for a duration of “forever”
- WebTA passwords do not require upper, lower, numeric, or special characters
- Old WebTA passwords can be reused
- WebTA accounts are locked after five unsuccessful attempts.

Recommendations - The WebTA administrators should comply with stated requirements in the WebTA Concept of Operations by:

- Documenting and implementing a process for adding WebTA users and their respective profiles
- Reviewing WebTA accounts for inactive accounts and deactivating them after two months of inactivity
- Identifying terminated AOC accounts and remove the accounts every 60 days
- Maintaining, documenting, and reviewing WebTA account profile changes.

The WebTA Security Administrator should ensure that WebTA password requirements comply with industry standards and best practices as follows:

- WebTA passwords should be changed every 60 days
- WebTA passwords should contain upper, lower, numeric, or special characters
- WebTA passwords should not be allowed to be reused
- WebTA accounts should be locked out after 3 unsuccessful attempts.

### **3. Time Recordation, Processing, and Approval Procedures (Repeat Condition)**

We identified instances in which AOC time recordation and payroll was not properly authorized. While AOC has policies addressing each of these areas, AOC has no formal mechanism to ensure compliance. The instances from a sample of seventy-eight timesheets are as follows:

- We identified ten employees whose initial day of employment followed a holiday. Two employees were improperly paid for holiday time prior to their start date
- Out of thirty two instances reviewed, twelve employees were either missing an overtime approval form, did not have the required authorizing signature or did not obtain approval before the overtime was taken
- Twelve annual leave request forms, from a total of fifty-six timesheets reporting leave, were not approved prior to the leave being taken
- Five sick leave request forms, from a total of fifty-six timesheets reporting leave, were not completed and approved timely upon employees return
- Four employees did not sign the Star Web time summary
- Two timekeepers did not sign the Star Web timesheet out a total of sixty-nine timesheets processed in Star Web.





Recommendation – We recommend that AOC develop procedures to ensure that policies concerning the approval and entering of time are followed and enforced.

We also identified other less significant matters that will be reported to AOC's management in a separate letter.

This report is intended solely for the information and use of the Office of Inspector General of the Architect of the Capitol, Architect of the Capitol management, the GAO, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kearney &amp; Company".

February 6, 2009  
Alexandria, Virginia

## **Independent Auditor's Report on Compliance and Other Matters**

To the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of and for the year ended September 30, 2008, and have issued our report dated February 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The management of the AOC is responsible for compliance with laws and regulations.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with laws and regulations including laws governing the use of budgetary authority, laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin No. 07-04 and other laws, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to AOC. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests disclosed two instances of noncompliance, described below, with laws and regulations or other matters that are required to be reported upon under *Government Auditing Standards* and OMB Bulletin No. 07-04.

- AOC was not compliant with the Congressional Accountability Act (CAA) of 1995. In the CAA, Congress made its facilities and employees subject to the same safety laws that apply outside of the Legislative Branch. In 1997, other provisions of the CAA applied fire safety standards to Congressional buildings, including the buildings of AOC. The Office of Compliance has conducted ongoing safety investigations since the inception of the Act, which have identified numerous safety hazards in several of AOC's buildings.
- AOC is responsible for maintenance of the utility tunnels that run from the Capitol Power Plant to the House and Senate office buildings, United States Capitol, and other surrounding buildings. In January 2006, the Office of Compliance issued citations resulting from its July 2005 investigation, which alleged violations of the Occupational Health and Safety Act. These citations addressed the following:
  - Employee exposure to heat stress conditions
  - Monitoring of employees potentially exposed to airborne concentrations of asbestos





- Notifying employees about the presence and location of materials containing asbestos
- Labeling of materials containing asbestos
- Maintaining surfaces free of asbestos waste, debris, and dust.

AOC is working with the Office of Compliance to remediate these two instances of noncompliance.

This report is intended solely for the information and use of the Architect of the Capitol Office of Inspector General, Architect of the Capitol management, Office of Management and Budget, Government Accountability Office, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kearney &amp; Company".

February 6, 2009  
Alexandria, Virginia



Washington, DC 20515

February 6, 2009

Carol Bates  
Inspector General  
499 South Capitol Street, SW  
Washington, DC 20003

Dear Ms. Bates:

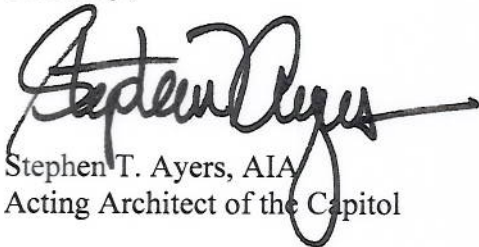
Thank you for the opportunity to respond to your audit report of the Architect of the Capitol's (AOC) consolidated financial statements for the Fiscal Years ending September 30, 2008 and September 30, 2007.

This is the fourth consecutive year in which the AOC has received an unqualified opinion on our full set of financial statements. We are pleased to have made progress to minimize the "Internal Control Design and Management of the Purchase to Disbursement Process," which is no longer considered a material weakness. We understand there is much work to be done to improve our remaining material weaknesses, which include:

- "Internal Controls Assessment"
- "Risk Assessment"
- "Financial Information System and Financial Reporting Internal Control Design and Operation"

We look forward to the challenge of strengthening the financial management of the AOC's operations. We will continue to work cooperatively with your office, Congress and all other interested parties in continuing to improve the accountability of the AOC's resources.

Sincerely,



Stephen T. Ayers, AIA  
Acting Architect of the Capitol