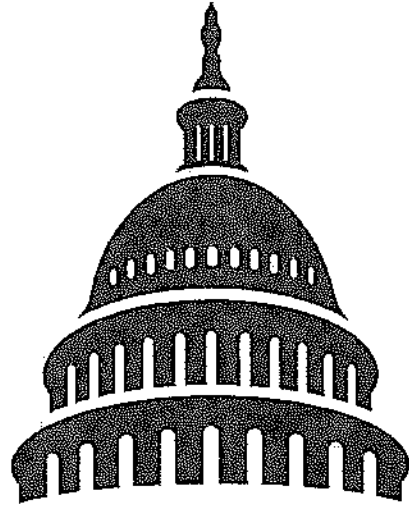


**Architect of the Capitol  
Office of Inspector General**

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**ARCHITECT  
OF THE CAPITOL**

**AUDIT OF FISCAL YEAR 2016  
FINANCIAL STATEMENTS**

**OIG Report: A-2017-01  
Issued November 14, 2016**

Architect of the Capitol  
Office of Inspector General

AUDIT OF  
FISCAL YEAR 2016 FINANCIAL STATEMENTS

OIG Report A-2017-01

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**Architect of the Capitol  
Office of Inspector General**

**AUDIT OF  
FISCAL YEAR 2016 FINANCIAL STATEMENTS**

**OIG Report A-2017-01**

**SECTION I**

**OIG Transmittal Memorandum**

**Architect of the Capitol  
Office of Inspector General**

**AUDIT OF  
FISCAL YEAR 2016 FINANCIAL STATEMENTS**

**OIG Report A-2017-01**

**SECTION II**

**Independent Auditor's Report**

## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Architect of the Capitol  
Architect of the Capitol

Inspector General  
Architect of the Capitol

### Report on the Financial Statements

We have audited the accompanying financial statements of the Architect of the Capitol (AOC), which comprise the balance sheet as of September 30, 2016, the related statements of net cost and changes in net position, and the combined statement of budgetary resources (hereinafter referred to as "the financial statements") for the year then ended, as well as the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.



Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AOC as of September 30, 2016 and its net cost of operations, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Fiscal Year 2015 Financial Statements Audited by a Predecessor Auditor*

The AOC's financial statements for fiscal year (FY) 2015 as of and for the year ended September 30, 2015, were audited by a predecessor auditor whose report, dated November 13, 2015, expressed an unmodified opinion on those financial statements.

We were not engaged to audit, review, or apply any procedures on the FY 2015 financial statements. Accordingly, we do not express an opinion or any other form of assurance on the FY 2015 financial statements as a whole.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.





*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Spending and other information in Section IV is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 14, 2016, on our consideration of AOC's internal control over financial reporting and on our tests of AOC's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2016. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02 and should be considered in assessing the results of our audit.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 14, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING**

To The Architect of the Capitol and Inspector General of 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, 2016, and we have issued our report thereon dated November 14, 2016. 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. 15-02, *Audit Requirements for Federal Financial Statements*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered AOC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AOC's internal control. Accordingly, we do not express an opinion on the effectiveness of AOC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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





A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider one of the deficiencies described in the accompanying Schedule of Findings to be a material weakness.

We noted certain additional matters involving internal control over financial reporting that we will report to AOC's management in a separate letter.

### **The Architect of the Capitol's Response to Findings**

AOC's response to the findings identified in our audit is described in a separate memorandum attached to this report. AOC's response was not subjected to the auditing procedures applied in our audit of the financial statements; accordingly, we do not express an opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control, as well as the results of that testing, and not to provide an opinion on the effectiveness of AOC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 14, 2016



## Schedule of Findings

### Material Weakness

#### I. Improvements to Project Cost Capitalization Analysis

The Architect of the Capitol (AOC) captures cumulative project costs which will be transferred as an asset to Property, Plant, and Equipment (PP&E) when the underlying asset is placed in service in Construction Work in Progress (CWIP). Since it is an asset, CWIP does not contain amounts that should be treated as period operating expenses. In January 2014, AOC began working on the dome restoration project. In accordance with AOC policy, at project inception, AOC Accounting and the Construction Management Division (CM) determined the project expenditures would be captured in CWIP (i.e., project expenditures qualified for capitalization) until project completion. As of September 30, 2015, AOC capitalized \$53.5 million in project disbursements. AOC substantially completed the project in the fourth quarter of 2016, and cumulative project disbursements totaled \$80.9 million. Based on additional information provided by CM, Accounting charged approximately \$65.4 million to fiscal year (FY) 2016 operating expenses. The \$65.4 million contained approximately \$43.2 million of charges from prior FYs.

The \$43.2 million in prior-year expenditures were material to the FY 2016 AOC Statement of Net Cost. AOC should have restated prior-year financial statements, including a downward adjustment to the FY 2015 ending CWIP balance, based on the significance of the adjustment, instead of charging the entire amount to the current year's operations.

Upon further analysis of the information provided by CM, AOC determined that the \$64.5 million charge to current-year operations was inappropriate. In the revised analysis, AOC determined that \$17.5 million was the appropriate charge to operations. AOC subsequently transferred the remaining \$63.4 million of cumulative project expenditures to PP&E as a placed in service asset.

**Recommendation #1:** Kearney & Company, P.C. (Kearney) recommends that AOC refine its current process to ensure that a complete and thorough analysis is conducted at project inception to support the recommend accounting treatment (i.e., capitalize or expense). For multi-year, large-dollar projects, Kearney also recommends that AOC reform this analysis at interim periods to ensure that project costs captured in CWIP only relate to those activities which will be transferred to PP&E at project completion.

**Management's Response to Finding:** Management concurs with this finding and recommendation.



## Significant Deficiencies

### II. Contract Holdback Reconciliation

AOC executes construction and professional service contracts, which contain provisions for the holdback of contract amounts, i.e. retainage. Retainage is a portion of the agreed-upon contract price deliberately withheld until the work is substantially complete to assure that a contractor will satisfy its obligations and complete the project. AOC can require retainage on contracts that are capitalized, as well as expensed. The starting point for all contracts when determining retainage is usually 10% and is negotiated from there. Each of these contracts can have varying retainage percentages and pertain to only certain portions of the contract. In addition, AOC has contracts without retainage.

As of September 30, 2016, AOC reported contract retainage as approximately \$12 million and CWIP as approximately \$187 million. AOC Procurement tracks retainage on the individual contract level. Neither Procurement nor AOC Financial Reporting have established any reconciliation methods or procedures over retainage to detect misstatements on the financial consolidated reporting level.

**Recommendation #2:** Kearney recommends that AOC management develop a policy, procedures, and methodology to reconcile retainage on a periodic basis.

**Management's Response to Finding:** Management concurs with this finding and recommendation.

\* \* \* \* \*



**APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES**

One issue was noted relating to internal control over financial reporting in the *Independent Auditor's Report on Internal Control over Financial Reporting and Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements* on the Architect of the Capitol's (AOC) fiscal year (FY) 2015 financial statements. The table below presents a summary of the current-year status of the issue.

**Prior-Year Deficiencies**

<b>Deficiency</b>	<b>2016 Status</b>	<b>2015 Status</b>
Ineffective Controls over Estimate of Asbestos Cleanup	Closed	Material Weakness



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

To the Architect of the Capitol

We have audited the financial statement of the Architect of the Capitol (AOC), which comprise the balance sheet as of September 30, 2016, the related statement of net cost and changes in net position, and the statement of budgetary resources for the year then ended, as well as the related notes to the financial statement, and we have issued our report thereon dated November 14, 2016. 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. 15-02, *Audit Requirements for Federal Financial Statements*.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether AOC's financial statement are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, with which noncompliance could have a direct and material effect on the determination of financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, and contracts applicable to AOC. Providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02.

The results of our tests of compliance with FFMIA disclosed no instances in which AOC's financial management systems did not substantially comply with the Federal financial management system's requirements, applicable Federal accounting standards, and application of the United States Standard General Ledger (USSGL) at the transaction level.





### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance, as well as the results of that testing, and not to provide an opinion on the AOC's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 14, 2016

**Architect of the Capitol  
Office of Inspector General**

**AUDIT OF  
FISCAL YEAR 2016 FINANCIAL STATEMENTS**

**OIG Report A-2017-01**

**SECTION III**

**Architect of the Capitol Comments**



Architect of the Capitol  
U.S. Capitol, Room NFE-16  
Washington, DC 20515  
202.228.1793  
www.aoc.gov

November 14, 2016

Kevin Mulshine  
Inspector General  
Architect of the Capitol  
499 South Capitol Street, SW, Suite 518  
Washington, DC 20515

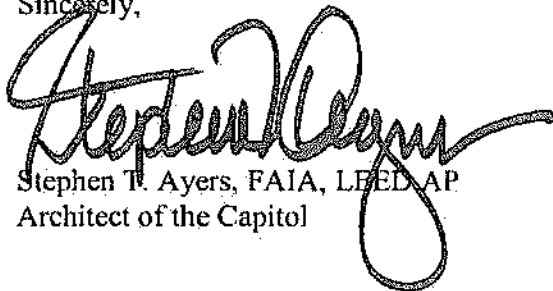
Dear Mr. Mulshine:

Thank you for the opportunity to comment on the Independent Auditor's Report on the Financial Statements, Independent Auditor's Report on Internal Control over Financial Reporting and Independent Auditor's Report on Compliance and Other Matters for the Fiscal Years ending September 30, 2016 and 2015. The Architect of the Capitol (AOC) works diligently to establish strong financial management practices to address our compliance requirements, manage our financial processes and systems, and meet our day-to-day financial responsibilities.

A key part of our accountability is the annual independent financial statement audit. We are pleased that the result of this year's audit is an unmodified opinion — marking the twelfth consecutive year that the AOC has received a “clean” independent audit opinion. We note that one material weakness was identified in this year's annual audit for *Improvements to Project Cost Capitalization Analysis*. In addition, one significant deficiency was identified for *Contract Holdback Reconciliation*. Management concurs with both the material weakness and the significant deficiency and will be developing corrective action plans to remedy these issues.

We recognize that there is more to be done that will require our organization's sustained attention, action and improvement. We look forward to cooperating with you and our stakeholders on the continuous improvement of the AOC's financial management activities. I would like to thank the Office of Inspector General and our auditors, Kearney & Company, P.C., for your cooperation and professional approach.

Sincerely,



Stephen T. Ayers, FAIA, LEED AP  
Architect of the Capitol

Doc. No. 161110-04-01

**Architect of the Capitol  
Office of Inspector General**

**AUDIT OF  
FISCAL YEAR 2016 FINANCIAL STATEMENTS**

**OIG Report A-2017-01**

**SECTION IV**

**Management Representation Letter**



Architect of the Capitol  
U.S. Capitol, Room 5B-16  
Washington, DC 20515  
202 228-1793  
[www.aoc.gov](http://www.aoc.gov)

November 14, 2016

Mr. William Kubistal, Partner  
Kearney & Company, P.C.  
1701 Duke Street, Suite 500  
Alexandria, VA 22314

Dear Mr. Kubistal:

This Representation Letter is provided in connection with your audit of the financial statements of the Architect of the Capitol (AOC), which comprise the balance sheet as of September 30, 2016, the related statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, as well as the related notes to the financial statements (hereinafter referred to as the "financial statements").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than \$1.61 million collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. That amount is not necessarily indicative of amounts that would require adjustment or disclosure in the financial statements. Such quantitative materiality considerations do not apply to representations that are not directly related to amounts included in the financial statements, required supplementary information (RSI), and Other Information (OI).

We confirm, as of November 10, 2016, the following representations made to you during your audits. These representations pertain to both years' financial statements and update the representations provided in the prior year by the predecessor auditor.

#### Financial Statements, Supplementary Information, RSI

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 20, 2016 for the preparation and fair presentation of the financial statements in accordance with United States Generally Accepted Accounting Principles (GAAP), issued by the Federal Accounting Standards Advisory Board (FASAB), and any other laws, regulations, contracts, grant agreements, and/or Government-wide policies identified in Office of Management and Budget (OMB) audit guidance.



2. We have fulfilled our responsibility for the presentation of supplementary information in accordance with the applicable criteria and prescribed guidelines and:

- a. The supplementary information is fairly presented in accordance with the applicable criteria and prescribed guidelines
- b. There are no changes in the methods of measurement or presentation of the supplementary information from the prior year, including the reasons for such changes
- c. There are no significant assumptions or interpretations underlying the measurement or presentation of the supplementary information that have not been disclosed to you.

3. We have fulfilled our responsibilities for the measurement, preparation, and presentation of the RSI in accordance with the prescribed guidelines established in GAAP and OMB audit guidance, and:

- a. The RSI is measured and presented in accordance with prescribed guidelines in GAAP and OMB audit guidance, is consistent with the financial statements, and contains no misstatements of fact
- b. There are no changes in the methods of measurement or presentation of RSI from the prior year
- c. There are no significant assumptions or interpretations underlying the measurement or presentation of the RSI.

4. We have fulfilled our responsibilities for the preparation and presentation of the OI included in the documents containing the audited financial statements and the auditor's report and for ensuring consistency of that information with the audited financial statements and RSI and:

- a. The OI included in the documents containing the audited financial statements and auditor's report is consistent with the financial statements and RSI and contains no material misstatement of fact
- b. There are no changes in the methods of preparation or presentation of OI from the prior year, including the reasons for such changes
- c. There are no significant assumptions or interpretations underlying the preparation or presentation of the OI.

5. Accounts receivables represent bona fide claims or other charges arising on or before September 30, 2016. These receivables do not include any material amounts that are collectible after one year. The allowances are sufficient to provide for any losses that may be sustained upon realization of the receivables.

6. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

7. We have provided all available information related to environmental liabilities, especially information related to the estimate of asbestos cleanup liability consistent with FASAB

Technical Bulletin 2006-1. Our information systems have no further information related to elements of the liability which we believe are probable but unestimatable. We are unable to provide sufficient evidence to support all key factors and significant assumptions underlying the environmental liability estimate.

8. All liabilities of AOC are included in the financial statements as of September 30, 2016. There are no material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Federal Financial Accounting Standards (SFFAS) No. 5, or unasserted claims or assessments that our legal counsel has advised us are probable of assertion and required to be disclosed in accordance with SFFAS No.5.

9. We have provided all available information on contract holdbacks at both the contract and account summary level. We are not aware of any material error related to the contract holdback balance.

10. We have provided you with all relevant information and access, as agreed upon in the terms of the engagement letter, including:

a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters

b. Additional information that you have requested from us for the purpose of the audit, including, but not limited to:

i. Applicable minutes of meetings of the Senior Assessment Team or summaries of actions of recent meetings for which minutes have not been prepared

ii. Communications from the Government Accountability Office (GAO), OMB, or other regulatory bodies concerning noncompliance with or deficiencies in financial reporting practices

c. Unrestricted access to and full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence

d. All reports obtained from AOC's service organizations.

11. There have been no:

a. Circumstances that have resulted in communications from AOC's legal counsel reporting evidence of a material violation of law or breach of fiduciary duty or similar violations by AOC of any agent thereof

b. Communications from regulatory/oversight agencies (such as OMB and GAO); other Government entities or agencies; and governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws or regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements, supplementary information, RSI, and OI.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. There effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole. A list of the uncorrected misstatements is attached to this Representation Letter.

14. AOC has satisfactory title to all owned assets, including stewardship land and heritage assets. There are no liens or encumbrances on these assets and no assets have been pledged as collateral.
15. We have no plans or intentions that may materially affect the recognition, measurement, presentation, disclosure, or classification of assets, liabilities, or equity.
16. We have disclosed to you the identity of AOC's related parties and all related parties' relationships and transactions of which we are aware.
17. Related party relationships and transactions, including accounts receivable or payable, revenues, expenditures, loans, transfers, leasing arrangements, assessments, and guarantees, have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of GAAP and OMB audit guidance, and do not present the financial statements from achieving fair presentation.
18. There are no guarantees under which AOC is contingently liable that require reporting or disclosure in the financial statements.
19. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
20. All events or transactions subsequent to September 30, 2016 and for which GAAP requires adjustment or disclosure have been adjusted or disclosed in the financial statements.
21. There have been no changes to the accepted accounting principles at AOC since September 30, 2016, nor have there been any changes to the application of such principles since September 30, 2015.
22. We have disclosed that AOC has contracted with Washington Gas, a WGL Holdings, Inc. company to design, build and finance the Capital Power Plant Cogeneration Facility. All budgetary accounting related to the acquisition and possession is consistent with all guidance received from general counsel and OMB.
23. We have disclosed the GAO decision on the proposal for establishment of a working capital fund issued on October 27, 2016.

#### Intra-governmental and Intra-entity Activities

24. All intra-entity activity and balances have been appropriately identified and eliminated for financial reporting purposes. All intra-governmental transactions and activities have been appropriately identified, recorded, and disclosed in the financial statements. We have been able to reconcile material intra-governmental transactions and balances with the Federal entity trading partners.

## Internal Control

25. We acknowledge our responsibility for maintaining effective internal control over financial reporting. We are responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

26. We have fulfilled our responsibility for maintaining effective internal control over financial reporting. We have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

27. We are responsible for evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 United States Code (U.S.C.) §3512 (c), (d), (commonly known as the Federal Managers' Financial Integrity Act [FMFIA]), and providing our assertion about the effectiveness of internal control over financial reporting as of September 30, 2016, based on our evaluation.

28. We evaluated the effectiveness of our internal control over financial reporting as of September 30, 2016, based on the criteria established pursuant to FMFIA. AOC's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that:

a. Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with GAAP and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

b. Transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, where noncompliance could have a material effect on the financial statements.

29. We have disclosed to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that existed at any time during the fiscal year ended September 30, 2016 and indicated which deficiencies were corrected by September 30, 2016.

30. We have disclosed to you all significant deficiencies in the design or operations of internal control that could adversely affect the AOC's ability to meet the internal control objectives. Those controls in place on September 30, 2016, and during the year ended 2016, were not effective to provide reasonable assurance that the foregoing objectives were met because the effects of financial reporting and construction-work-in-process project capitalization deficiencies, which we determined to be material weakness.

31. We utilize a process to track the status of audit findings and recommendations. All significant deficiencies and material weaknesses identified by audits, attestation engagements, or other studies that remain unresolved as of September 30, 2015 have been resolved as of September 30, 2016.

32. There have been no changes to internal control over financial reporting subsequent to September 30, 2016 or other factors that might significantly impact the effectiveness of internal control over financial reporting.

#### Fraud

33. We acknowledge our responsibility for the design, implementation, and maintenance of effective internal control to prevent and detect fraud.

34. We have fulfilled our responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud.

35. We have no knowledge of any fraud or suspected fraud affecting AOC involving the following:

- a. Management
- b. Employees who have significant roles in internal control over financial reporting
- c. Others where the fraud could have a material effect on the financial statements.

36. We have no knowledge of any fraud or suspected fraud involving others when the fraud could have a material effect on the financial statements and RSI.

37. We have no knowledge of any allegations of fraud or suspected fraud (affecting the financial statements or RSI) communicated by employees, former employees, or others.

38. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

39. We have no knowledge of any officer of AOC, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

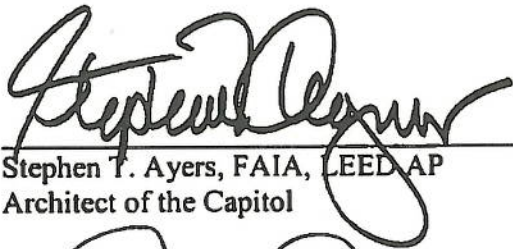
#### Compliance of Systems with the Federal Financial Management Improvement Act (FFMIA)

40. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management system requirements, Federal accounting standards (GAAP), and application of the United States Standard General Ledger (USSGL) at the transaction level.

41. We have assessed the financial management systems to determine whether they comply substantially with Federal financial management system requirements, Federal accounting standards (GAAP), and application of the USSGL at the transaction level. Our assessment was based on guidance issued by OMB.

42. AOC's financial management systems complied substantially with Federal financial management systems requirements, Federal accounting standards (GAAP), and application of the USSGL at the transaction level as of September 30, 2016.





Stephen T. Ayers, FAIA, LEED AP  
Architect of the Capitol



Thomas J. Carroll  
Chief Financial Officer



Christine A. Merdon, P.E. CCM  
Chief Operating Officer



Mona Amatie  
Supervisory Accountant

Enclosure

**Schedule of Audit Differences**

Adj. #	Management will record?	Factual, Judgmental, or Projected?	Prior Year (PY) or Current Year (CY)	Interim Variance or Year end Variance	Description	SGL Account Number	SGL Description	Debit	Credit
1	No	Factual	CY	Interim	AOC inappropriately charged capitalized project expenditures to the FY 2016 cost of operations instead of FY 2015.	173000	Buildings, Improvements, and Renovations	\$ 47,894,308	
						610000	Operating Expenses/Program Costs		\$ 47,894,308
<b>Totals:</b>								<b>\$ 47,894,308</b>	<b>\$ 47,894,308</b>

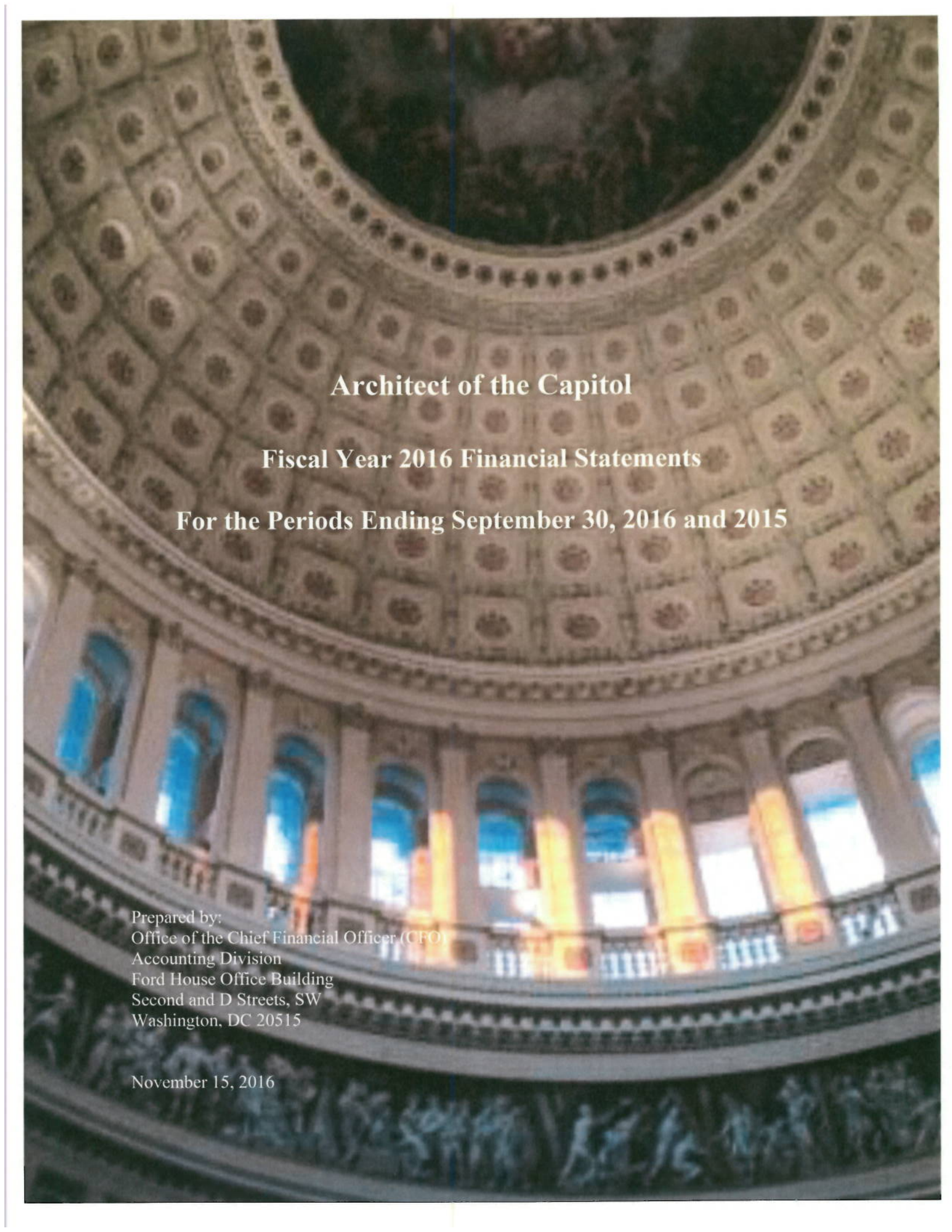
**Architect of the Capitol  
Office of Inspector General**

**AUDIT OF  
FISCAL YEAR 2016 FINANCIAL STATEMENTS**

**OIG Report A-2017-01**

**SECTION V**

**AOC Fiscal Year 2016 Financial Statements**

The background of the entire page is a photograph of the interior of the U.S. Capitol dome. The image shows the ornate, vaulted ceiling with its intricate patterns and the lower levels of the dome, including a balcony with arched windows and columns. The lighting is warm, highlighting the architectural details.

**Architect of the Capitol**  
**Fiscal Year 2016 Financial Statements**  
**For the Periods Ending September 30, 2016 and 2015**

Prepared by:  
Office of the Chief Financial Officer (CFO)  
Accounting Division  
Ford House Office Building  
Second and D Streets, SW  
Washington, DC 20515

November 15, 2016



**Architect of the Capitol**  
**Financial Statements**

- I. Balance Sheet**
- II. Statement of Net Cost**
- III. Statement of Changes in Net Position**
- IV. Statement of Budgetary Resources**
- V. Footnotes to the Financial Statements**



**Architect of the Capitol**  
**Balance Sheet**  
**As of September 30, 2016 and 2015**

Dollars in Thousands	2016	2015
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 886,248	\$ 792,185
Investments (Note 5)	18,486	15,631
Accounts receivable (Note 6)	1,477	2,090
Total intragovernmental	906,211	809,906
Cash and other monetary assets (Note 4)	32	55
Investments (Note 5)	10,275	21,266
Accounts receivable, net (Note 6)	1,008	617
Inventory & related property, net (Note 7)	554	668
General property, plant and equipment, net (Note 8)	1,860,824	1,865,078
Other (Note 10)	545	631
Total assets	\$ 2,779,449	\$ 2,698,221
Stewardship PP&E (Note 9)		
<b>Liabilities:</b>		
Intragovernmental:		
Accounts payable	\$ 140	\$ 153
Unfunded FECA (Note 12)	9,293	9,443
Other liabilities (Note 16)	629	49
Total intragovernmental	10,062	9,645
Accounts payable	2,898	3,037
Debt held by the public (Note 13)	98,445	106,666
Actuarial FECA (Note 12)	55,373	54,844
Contingent and Environmental liabilities (Note 14)	75,929	62,890
Accrued Annual Leave and Other (Note 12)	20,175	18,788
Capital Lease Liability (Note 15)	6,232	6,725
Contract Holdbacks	12,007	10,680
Other Liabilities (Note 16)	30,335	35,607
Advances from Others	47,793	19,962
Total liabilities (Note 11)	\$ 359,249	\$ 328,844
Commitments and Contingencies (Note 14)		
<b>Net position:</b>		
Unexpended appropriations	\$ 704,276	\$ 647,915
Cumulative results of operations	1,715,924	1,721,462
Total Net Position	\$ 2,420,200	\$ 2,369,377
Total liabilities and net position	\$ 2,779,449	\$ 2,698,221

The accompanying footnotes are an integral part of these financial statements



**Architect of the Capitol**  
**STATEMENT OF NET COST**  
For the Periods Ending September 30, 2016 and 2015

Dollars in Thousands	2016	2015
Program costs:		
Capitol Building:		
Gross costs	\$ 78,415	50,313
Less: earned revenue	-	-
Net program costs:	<u>78,415</u>	<u>50,313</u>
Capitol Grounds:		
Gross costs	11,053	13,276
Less: earned revenue	(11)	-
Net program costs:	<u>11,042</u>	<u>13,276</u>
Capitol Police Buildings, Grounds, and Security:		
Gross costs	33,561	34,875
Less: earned revenue	(7)	(151)
Net program costs:	<u>33,554</u>	<u>34,724</u>
Capital Construction and Operations:		
Gross costs	97,475	94,518
Less: earned revenue	(102)	(100)
Net program costs:	<u>97,373</u>	<u>94,418</u>
House Office Buildings:		
Gross costs	117,236	85,450
Less: earned revenue	(730)	(318)
Net program costs:	<u>116,506</u>	<u>85,132</u>
Library Buildings and Grounds:		
Gross costs	41,826	33,949
Less: earned revenue	(4,769)	-
Net program costs:	<u>37,057</u>	<u>33,949</u>
Senate Office Buildings:		
Gross costs	81,454	77,789
Less: earned revenue	(722)	(683)
Net program costs:	<u>80,732</u>	<u>77,106</u>
Capitol Power Plant:		
Gross costs	103,224	99,356
Less: earned revenue	(8,458)	(8,916)
Net program costs:	<u>94,766</u>	<u>90,440</u>
U.S. Botanic Garden:		
Gross costs	16,352	12,964
Less: earned revenue	-	-
Net program costs:	<u>16,352</u>	<u>12,964</u>
U.S. Capitol Visitor Center:		
Gross costs	24,542	24,936
Less: earned revenue	(4,781)	(4,388)
Net program costs:	<u>19,761</u>	<u>20,548</u>
Supreme Court Buildings and Grounds:		
Gross costs	48,698	43,537
Less: earned revenue	(29,281)	(41,559)
Net program costs:	<u>19,417</u>	<u>1,978</u>
Net cost of operations (Note 19)	<u>\$ 604,975</u>	<u>\$ 514,848</u>

The accompanying footnotes are an integral part of these financial statements

**Architect of the Capitol**  
**Statement of Changes In Net Position**  
**For the Periods Ending September 30, 2016 and 2015**

Dollars in Thousands	2016	2015
<b>Cumulative Results Of Operations:</b>		
Beginning Balances	\$ 1,721,462	\$ 1,607,490
Adjustments:		
Beginning balance, as adjusted	<u>\$ 1,721,462</u>	<u>\$ 1,607,490</u>
<b>Budgetary Financing Sources:</b>		
Appropriations used	572,246	603,395
Non-exchange revenue	59	16
<b>Other Financing Sources (Non-Exchange):</b>		
Transfers in/(out) without reimbursement	157	91
Imputed financing from costs absorbed by others (Note 17)	26,975	25,318
Total Financing Sources	<u>599,437</u>	<u>628,820</u>
Net Cost of Operations	(604,975)	(514,848)
Net Change	<u>(5,538)</u>	<u>113,972</u>
<b>Cumulative Results Of Operations</b>	<u><b>\$ 1,715,924</b></u>	<u><b>\$ 1,721,462</b></u>

**Unexpended Appropriations:**

Beginning Balance	\$ 647,915	\$ 652,858
<b>Adjustments</b>		
<b>Beginning Balances - Adjusted</b>	<u><b>\$ 647,915</b></u>	<u><b>\$ 652,858</b></u>
<b>Budgetary Financing Sources:</b>		
Appropriations received (Note 20)	622,868	611,901
Appropriations transferred in/(out)	8,300	-
Other adjustments	(2,561)	(13,449)
Appropriations used	(572,246)	(603,395)
Total Budgetary Financing Sources	<u>56,361</u>	<u>(4,943)</u>
Total Unexpended Appropriations	<u><b>\$ 704,276</b></u>	<u><b>\$ 647,915</b></u>
Net Position	<u><b>\$ 2,420,200</b></u>	<u><b>\$ 2,369,377</b></u>

The accompanying footnotes are an integral part of these financial statements