

October 1994

FINANCIAL AUDIT

Senate Restaurants Revolving Fund for Fiscal Years 1993 and 1992





United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114871

October 12, 1994

The Honorable George M. White
Architect of the Capitol

Dear Mr. White:

Pursuant to your request and section 5 of the act of July 6, 1961 (40 U.S.C. 174j-5), we audited the balance sheets of the United States Senate Restaurants Revolving Fund (the Fund) as of October 2, 1993 and October 3, 1992, and the related statements of operations and cash flows for the years then ended. We found

- the financial statements were reliable in all material respects;
- internal controls in effect on October 2, 1993, provided reasonable assurance that losses, noncompliance with laws and regulations, and misstatements material to the financial statements would be prevented or detected; and
- no material noncompliance with laws and regulations we tested.

The following sections outline each conclusion in more detail and discuss the scope of our audits.

Opinion on Financial Statements

The financial statements and accompanying notes of the Senate Restaurants Revolving Fund as of October 2, 1993 and October 3, 1992, present fairly, in conformity with generally accepted accounting principles, the Fund's

- assets, liabilities, and government equity;
- results of operations; and
- cash flows.

As discussed in note 3, the financial statements present the results of activities financed through the Senate Restaurants Revolving Fund and are not intended to present the financial position and results of operations of the Senate Restaurants as a whole. Other readily identifiable costs, such as management personnel salaries and benefits, amounting to nearly \$1.8 million in fiscal year 1993, which are financed by appropriated funds, are not included on the financial statements. These costs are disclosed in note 3. Also, the statements do not include such costs as space and utilities, which are not readily identifiable.

The Senate Restaurants Revolving Fund began incurring losses in fiscal year 1987. As of October 2, 1993, the Fund had cumulative losses totaling over \$1 million. The Fund has relied on loans and appropriated fund transfers to offset these losses and continue to pay Fund expenses. The Senate Restaurants Revolving Fund reported a small profit in fiscal year 1993. However, operating results for the first 9 months of fiscal year 1994 indicate that the Fund will probably incur a loss for fiscal year 1994. If trends continue, in addition to the appropriated funds required for other identifiable and nonidentifiable costs mentioned above, the Fund itself will continue to require supplemental funding, such as additional loans or appropriated fund transfers, to support its future operations.

Opinion on Internal Controls

The internal controls we evaluated were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with laws and regulations; and
- properly record, process, and summarize transactions to permit the preparation of financial statements and maintain accountability for assets.

Those controls in effect on October 2, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected.¹

Compliance With Laws and Regulations

Our current year audit tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred.

Objectives, Scope, and Methodology

Management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles,
- establishing and maintaining internal controls to provide reasonable assurance that the internal control objectives mentioned above are met, and
- complying with applicable laws and regulations.

¹Our reports on the Fund's internal control structure and compliance with laws and regulations for fiscal year 1992 are presented in GAO/AIMD-94-64, dated April 8, 1994.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly in conformity with generally accepted accounting principles) and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with selected provisions of laws and regulations.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- evaluated and tested relevant internal controls, including those over revenues, payroll and other expenditures, inventory, treasury, and financial reporting; and
- tested compliance with selected provisions of 40 U.S.C. 174j-1 through j-9, Department of Treasury regulations on cash, Office of Personnel Management regulations on employee benefits and employer costs, and Internal Revenue Service regulations on federal income and social security tax withholdings.

We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We performed our work in accordance with generally accepted government auditing standards. We completed our audit work on July 6, 1994.

Sincerely yours,

Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Balance Sheets

	<u>October 2, 1993</u>	<u>October 3, 1992</u>
Assets (note 2)		
Funds with U.S. Treasury	\$ 527,006	\$ 496,835
Petty cash and change funds	20,500	20,500
Accounts receivable (note 4)	188,287	170,859
Food, beverages, and merchandise inventory	186,039	164,785
China, glassware, silverware, and tableware	<u>132,998</u>	<u>145,672</u>
Total Assets	<u>\$ 1,054,830</u>	<u>\$ 998,651</u>
Liabilities and Government Equity		
Liabilities		
Accounts payable		
Due to vendors	\$ 263,547	\$ 591,576
Net payroll and benefits	216,627	209,671
Supplemental services	1,385	217
Other	<u>2,272</u>	<u>2,758</u>
Total accounts payable	<u>483,831</u>	<u>804,222</u>
Other liabilities		
Employees' accrued leave	261,685	306,130
Advances from the Senate's contingent fund (note 6)	0	250,000
Deferred income	<u>37,813</u>	<u>1,475</u>
Total other liabilities	<u>299,498</u>	<u>557,605</u>
Total liabilities	<u>783,329</u>	<u>1,361,827</u>
Government equity		
Appropriated capital (note 6)	1,347,144	747,144
Cumulative results of operations (deficit)	<u>(1,075,643)</u>	<u>(1,110,320)</u>
Total government equity (deficit)	<u>271,501</u>	<u>(363,176)</u>
Total Liabilities and Government Equity	<u>\$ 1,054,830</u>	<u>\$ 998,651</u>

The accompanying notes are an integral part of these statements.

Statements of Operations

	Fiscal year ended			
	October 2, 1993		October 3, 1992	
	Amount	Percent of sales	Amount	Percent of sales
Food, Beverage, and Sundry Shop Operations				
Regular food services	\$4,065,877	48.9	\$4,049,673	54.0
Catering	3,285,408	39.5	2,506,265	33.4
Sundry shop sales	<u>963,008</u>	<u>11.6</u>	<u>947,079</u>	<u>12.6</u>
Total sales (note 7)	8,314,293	100.0	7,503,017	100.0
Cost of food and beverages	2,341,882	28.2	2,223,803	29.6
Cost of sundry shop merchandise	<u>685,242</u>	<u>8.2</u>	<u>659,687</u>	<u>8.8</u>
Total cost of sales	3,027,124	36.4	2,883,490	38.4
Gross income from sales	<u>5,287,169</u>	<u>63.6</u>	<u>4,619,527</u>	<u>61.6</u>
Operating expenses				
Salaries and wages				
Straight time	3,133,506	37.7	3,057,663	40.8
Overtime	99,335	1.2	164,642	2.2
Employee benefits (note 5)	1,566,523	18.8	1,479,494	19.7
Supplemental services	453,356	5.4	377,970	5.0
China, glassware, silverware, and tableware	60,827	0.7	35,936	0.5
Kitchen utensils	22,276	0.3	22,918	0.3
Miscellaneous	<u>70,746</u>	<u>0.9</u>	<u>36,349</u>	<u>0.5</u>
Total operating expenses	<u>5,406,569</u>	<u>65.0</u>	<u>5,174,972</u>	<u>69.0</u>
Loss From Food, Beverage, and Sundry Shop Operations	<u>(119,400)</u>		<u>(555,445)</u>	
Vending Machine Commissions	154,077		63,805	
Results of Operations (Loss)	<u>\$ 34,677</u>		<u>\$ (491,640)</u>	

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	Fiscal year ended	
	October 2, 1993	October 3, 1992
Cash Flows From Operating Activities		
Cash received from customers	\$ 8,487,594	\$ 7,708,630
Cash paid to or for employees	(5,289,528)	(5,079,807)
Cash paid to vendors	(3,517,895)	(2,765,215)
Net cash used by operating activities	(319,829)	(136,392)
Cash Flows From Financing Activities		
Appropriated capital (note 6)	600,000	0
Borrowings from the Secretary of the Senate (note 6)	(250,000)	250,000
Net cash provided by financing activities	350,000	250,000
Net Increase (Decrease) in Cash	30,171	113,608
Cash at beginning of year	517,335	403,727
Cash at End of Year	\$ 547,506	\$ 517,335
Reconciliation of Results of Operations (Loss) to Net Cash Used by Operating Activities		
Results of operations (loss)	\$ 34,677	\$ (491,640)
Adjustments to reconcile results of operations (loss) to net cash used by operating activities		
(Increase) decrease in assets		
Accounts receivable	(17,427)	140,333
Food, beverages, and merchandise	(21,254)	(6,652)
China, glassware, silverware, and tableware	12,675	1,657
Increase (decrease) in liabilities		
Due to vendors	(328,029)	214,984
Employees' accrued leave	(44,445)	(458)
Deferred income	36,337	1,475
Net payroll and benefits payable	6,956	72,691
Supplemental services payable	1,167	(15,938)
Federal and state taxes withheld	0	(51,545)
Other accounts payable	(486)	(1,299)
Total adjustments	(354,506)	355,248
Net Cash Used by Operating Activities	\$ (319,829)	\$ (136,392)

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Background

The Senate Restaurants Revolving Fund operates restaurant facilities for Senators, employees of the Senate, and (in certain locations) the general public. The Architect of the Capitol, under the direction of the Senate Committee on Rules and Administration, is responsible for managing the restaurants. Restaurant management recommends price changes and the Committee approves them.

Note 2. Significant Accounting Policies

The Fund's fiscal year consists of thirteen 4-week accounting periods. Periodically, when determined by management, an adjustment is made so that the Fund's fiscal year-end more nearly matches the federal government's.

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash receipts from sales and commissions are deposited in the U.S. Treasury to the credit of the Fund for use in operating the various restaurant facilities.

Inventories are valued at cost and are charged to operations using the first-in, first-out method.

Note 3. Other Costs of Operations

Certain costs of operating the Senate Restaurants are not financed through the Revolving Fund. Instead, they are paid from other appropriations made to the Architect of the Capitol. Identifiable costs paid directly from appropriated funds on behalf of the Senate Restaurants include the costs of employing management personnel and other miscellaneous expenses. In addition, in fiscal year 1993 and fiscal year 1992, respectively, the Senate Chef and the Dirksen facilities were renovated without charge to the Revolving Fund. These identifiable costs are shown below.

Other costs cannot be readily determined, such as space, occupancy, utilities, garbage disposal, or printing by the Government Printing Office, which are furnished without charge to the Fund.

Identifiable Costs Paid With Appropriated Funds

	<u>Fiscal years</u>	
	<u>1993</u>	<u>1992</u>
Operating expenses		
Personnel compensation	\$ 888,011	\$ 890,092
Personnel benefits	191,704	182,202
Other services	183,262	148,161
Supplies and materials	313,639	311,746
Equipment maintenance	<u>22,068</u>	<u>25,195</u>
Subtotal	<u>1,598,684</u>	<u>1,557,396</u>
Capital expenditures		
Equipment purchases	142,673	245,253
Senate Chef Renovation	22,438	0
Dirksen cafeteria and kitchen renovation	<u>0</u>	<u>3,800</u>
Subtotal	<u>165,111</u>	<u>249,053</u>
Total	<u>\$1,763,795</u>	<u>\$1,806,449</u>

In addition, the Secretary of the Senate is responsible for paying any monetary awards to employees of the Senate Restaurants that result from employee claims of discriminatory employment practices. In fiscal year 1992, some Senate Restaurants' employees filed complaints alleging discriminatory employment practices. Two of these matters were resolved in fiscal year 1993 and resulted in monetary awards to employees and an obligation to pay associated attorney fees and other costs. Other matters with the Senate Office of Fair Employment Practices remain pending, with no probable losses estimated.

Note 4. Accounts Receivable

The Senate Committee on Rules and Administration allows Senators, former Senators, and certain Senate officials to have customer accounts. A comparison of the aged customer accounts receivable at October 2, 1993 and October 3, 1992, follows:

Aging of Customer Accounts Receivable

<u>Days Outstanding</u>	<u>October 2, 1993</u>		<u>October 3, 1992</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
0 to 30	\$176,781	94	\$164,920	97
31 to 60	2,215	1	2,209	1
61 to 90	5,891	3	3,460	2
Over 90	<u>3,400</u>	<u>2</u>	<u>270</u>	<u>0</u>
Total	<u>\$188,287</u>	<u>100</u>	<u>\$170,859</u>	<u>100</u>

By December 25, 1993, more than 99 percent of the October 2, 1993, accounts receivable balance had been collected. In accordance with the policy direction established by the Senate Committee on Rules and Administration, the Fund's accounting office mails monthly delinquent notice letters. These letters are signed by the Architect of the Capitol and are mailed to customers whose accounts are delinquent for over 30 days.

Note 5. Employee Benefits

Senate Restaurants' employees are covered by the contributory Civil Service Retirement System (CSRS) or the newer Federal Employees Retirement System (FERS), to which the Senate Restaurant makes contributions. For employees covered by FERS, the Senate Restaurants also contribute 1 percent of pay to the Thrift Savings Plan (TSP), then match employee contributions up to an additional 4 percent of pay. While the Senate Restaurants Revolving Fund has no liability for future payments to its employees under the pension programs, the federal government is liable for future payments to employees through the Office of Personnel Management.

The Fund also makes nonpension-related contributions for employee benefits which include health insurance (FEHBP), life insurance (FEGLI), social security (FICA), medicare (HIT), leave expense, employee meals, local transportation assistance, and employee physicals. Contributions made by the Fund during fiscal years 1993 and 1992 are listed on the following table.

Employee Benefits Expenses

	<u>Fiscal year</u>	
	<u>1993</u>	<u>1992</u>
Pension-related		
CSRS	\$ 82,914	\$ 89,065
FERS	403,410	381,430
TSP	<u>36,463</u>	<u>28,887</u>
Total pension-related benefits	<u>522,787</u>	<u>499,382</u>
Nonpension-related		
FEHBP	373,318	342,726
FEGLI	7,711	8,334
FICA	164,509	152,515
HIT	57,799	55,540
Leave expense	254,967	246,621
Employee meals	167,380	173,460
Others	<u>18,052</u>	<u>916</u>
Total nonpension-related benefits	<u>1,043,736</u>	<u>980,112</u>
Total Benefits	<u>\$1,566,523</u>	<u>\$1,479,494</u>

Note 6. Financing Activities

In managing the Senate Restaurants, the Architect has access to two types of supplemental funding: appropriations and loans. Under 40 U.S.C. 174j-4, the Secretary of the Senate, at the request of the Architect and with the approval of the Senate Committee on Rules and Administration, may transfer funds from the Senate's contingent expenses appropriation account to the Restaurants as appropriated capital. Also, 40 U.S.C. 174j-9 allows the Architect to borrow from the contingent fund, amounts necessary to manage the Restaurants on the approval of the Senate Committee on Rules and Administration, which establishes the loan amounts and repayment periods. The funds come from the miscellaneous items appropriation account of the Senate's contingent fund and loan repayments are deposited to the same account.

During October 1988, under the authority of 40 U.S.C. 174j-9, the Architect borrowed \$400,000 from the contingent fund on behalf of the Senate Restaurants Revolving Fund, which was to repay the loan by June 30, 1989. In June 1989, pursuant to 40 U.S.C. 174j-4, the Architect requested, and the Chairman of the Senate Committee on Rules and Administration subsequently approved, a transfer of \$400,000 of appropriated funds from the Senate's contingent expenses appropriation account to the Revolving Fund. The Revolving Fund received the \$400,000 transfer in October 1989, thus increasing its total appropriated capital to \$497,144, and repaid the October 1988 loan.

In December 1990, the Architect again requested an appropriated capital transfer of \$250,000 to the Senate Restaurants Revolving Fund. This transfer took place in January 1991, increasing the Revolving Fund's appropriated capital to \$747,144. In September 1991, the Architect requested an additional transfer of \$250,000. Instead, the Chairman of the Committee on Rules and Administration granted the Revolving Fund a \$250,000 loan, which it received in October 1991. The original repayment date was June 30, 1992, but was later extended to September 30, 1992. Also in September 1992, the Chairman of the Committee on Rules and Administration approved an additional transfer of appropriated capital to the Revolving Fund of \$600,000. This transfer was received by the Revolving Fund in October 1992. The Revolving Fund repaid the October 1991 loan of \$250,000 on October 6, 1992.

Note 7. Sales

The following schedule provides a comparison of sales, commissions, and operating results for the various restaurant activities during fiscal years 1993 and 1992. In fiscal year 1992, the Architect of the Capitol and the Committee on Rules and Administration ceased restaurant operations at the Senators' dining room in the Dirksen building. This space is now used for special functions. The Senate Restaurants continue to maintain Senators' dining rooms in the Capitol.

Sales and Operating Income (Loss) by Activity

	<u>Fiscal year 1993</u>		<u>Fiscal year 1992</u>	
	<u>Sales and commissions</u>	<u>Operating profit or (loss)</u>	<u>Sales and commissions</u>	<u>Operating profit or (loss)</u>
Food and Beverage Operations				
Capitol dining rooms	\$1,469,166	\$(699,105)	\$1,399,368	\$(764,361)
Senators' dining room	0	0	16,243	(43,583)
Cafeterias	4,559,548	546,300	3,738,101	119,450
Coffee shop	318,739	(30,240)	350,200	(44,878)
Snack bar	208,510	(34,486)	259,103	(10,777)
Senate Chef	<u>795,322</u>	<u>(13,947)</u>	<u>792,923</u>	<u>78,885</u>
	<u>7,351,285</u>	<u>(231,478)</u>	<u>6,555,938</u>	<u>(665,264)</u>
Sundry Shop Operations				
Capitol dining rooms	55,256	8,164	64,356	1,064
Dirksen Office Building	322,409	37,127	335,367	41,688
Russell Office Building	148,949	14,886	128,447	3,530
Hart Office Building	<u>436,394</u>	<u>51,901</u>	<u>418,909</u>	<u>63,537</u>
	<u>963,008</u>	<u>112,078</u>	<u>947,079</u>	<u>109,819</u>
Subtotals	8,314,293	(119,400)	7,503,017	(555,445)
Vending Machine Commissions	<u>154,077</u>	<u>154,077</u>	<u>63,805</u>	<u>63,805</u>
Total	<u>\$8,468,370</u>	<u>\$ 34,677</u>	<u>\$7,566,822</u>	<u>\$(491,640)</u>

Financial Statements

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