

July 1995

FINANCIAL AUDIT

Senate Restaurants Revolving Fund for Fiscal Years 1994 and 1993



Comptroller General
of the United States

B-260874

July 31, 1995

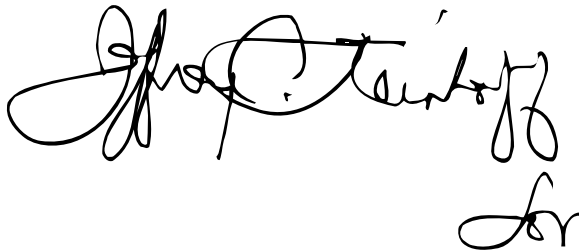
The Honorable George M. White
Architect of the Capitol

Dear Mr. White:

This report presents our opinion on the financial statements of the Senate Restaurants for fiscal year 1994 as well as our opinion on management's assertions regarding the effectiveness of its system of internal controls as of September 30, 1994. This report also discusses our evaluation of the Restaurants' compliance with laws and regulations for the period ended September 30, 1994. This review was conducted pursuant to your request and section 5 of the act of July 6, 1961 (40 U.S.C. 174j-5).

We are sending copies of this report to interested congressional committees and other interested parties. Copies will be made available to others on request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowshe". The signature is fluid and cursive, with a large initial "C" and "B". Below the main signature, there is a smaller, less distinct mark that could be interpreted as "for" or a second signature.

Charles A. Bowshe
Comptroller General
of the United States

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

Comptroller General
of the United States

B-260874

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 1, 1994 and October 2, 1993, 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;
- management fairly stated that internal controls in place on October 1, 1994, were effective in safeguarding assets from material loss, assuring material compliance with laws and regulations, and assuring that there were no material misstatements in the financial statements; and
- no reportable 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 1, 1994 and October 2, 1993, 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, and capital expenditures amounting to nearly \$2.2 million in fiscal year 1994 and nearly \$1.8 million in fiscal year 1993, which are financed by funds appropriated to the Architect of the Capitol, are not included on the financial statements. 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 1, 1994, the Fund had cumulative losses totaling over \$1.4 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 profit of \$41,615 in fiscal year 1993. However, in fiscal year 1994, the Fund incurred a loss of \$368,306. 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 Management's Assertion About the Effectiveness of Internal Controls

We evaluated management's assertion about the effectiveness of its internal controls 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.

Management of the Senate Restaurants fairly stated that those controls in place on October 1, 1994, provided reasonable assurance that losses, noncompliance, or misstatements material to the financial statements would be prevented or detected on a timely basis.¹ Management made this assertion based on criteria provided in GAO's Standards for Internal Controls in the Federal Government.

Compliance With Laws and Regulations

Our current year audit tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. We do not express an opinion on overall compliance with such provisions.

Objectives, Scope, and Methodology

Management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles;

¹Our reports on the Fund's internal control structure and compliance with laws and regulations for fiscal year 1993 are presented in GAO/AIMD-95-1, dated October 12, 1994.

-
- establishing, maintaining, and assessing the internal control structure to provide reasonable assurance that the internal control objectives mentioned above are met; and
 - complying with applicable laws and regulations.

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) management's assertion about the effectiveness of internal controls is fairly stated in all material respects based upon criteria mentioned above. We are also responsible for testing compliance with selected provisions of laws and regulations.

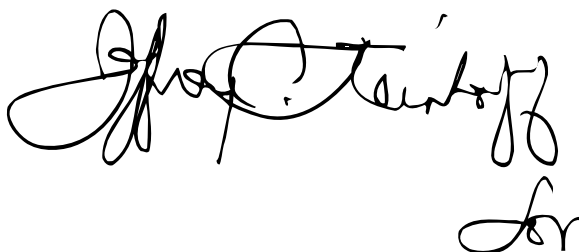
In order to fulfill these responsibilities, we

- 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;
- obtained an understanding of the internal control structure related to safeguarding assets, compliance with laws and regulations, and financial reporting;
- tested relevant internal controls over safeguarding, compliance, and financial reporting, and evaluated management's assertion about the effectiveness of internal controls; and
- tested compliance with selected provisions of 40 U.S.C. 174j-1 through j-9, Department of the 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 internal control testing to accounting and other controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control structure, 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.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowsher", with a stylized flourish below it.

Charles A. Bowsher
Comptroller General
of the United States

June 16, 1995

Financial Statements

Balance Sheets

	<u>October 1, 1994</u>	<u>October 2, 1993</u>
Assets (note 2)		
Funds with U.S. Treasury	\$ 231,829	\$ 527,006
Petty cash and change funds	20,500	20,500
Accounts receivable (note 4)	171,020	199,643
Food, beverages, and merchandise inventory	177,094	186,039
China, glassware, silverware, and tableware	<u>162,804</u>	<u>132,998</u>
Total Assets	<u>\$ 763,247</u>	<u>\$1,066,186</u>
Liabilities and Government Equity		
Liabilities		
Accounts payable		
Due to vendors	\$ 367,594	\$ 263,547
Net payroll and benefits	224,268	216,627
Supplemental services	1,309	1,385
Other	<u>2,775</u>	<u>2,272</u>
Total accounts payable	<u>595,946</u>	<u>483,831</u>
Other liabilities		
Employees' accrued leave	238,328	261,685
Deferred income	<u>14,422</u>	<u>37,813</u>
Total other liabilities	<u>252,750</u>	<u>299,498</u>
Total liabilities	<u>848,696</u>	<u>783,329</u>
Government equity		
Appropriated capital (note 7)	1,347,144	1,347,144
Cumulative results of operations (deficit) (note 9)	<u>(1,432,593)</u>	<u>(1,064,287)</u>
Total government equity (deficit)	<u>(85,449)</u>	<u>282,857</u>
Total Liabilities and Government Equity	<u>\$ 763,247</u>	<u>\$1,066,186</u>

The accompanying notes are an integral part of these statements.

Statements of Operations

	Fiscal year ended			
	October 1, 1994		October 2, 1993	
	Amount	Percent of sales	Amount	Percent of sales
Food, Beverage, and Sundry Shop Operations				
Regular food services	\$4,109,898	51.2	\$4,065,877	48.9
Catering	3,070,279	38.3	3,285,408	39.5
Sundry shop sales	<u>843,137</u>	<u>10.5</u>	<u>963,008</u>	<u>11.6</u>
Total sales (note 8)	8,023,314	100.0	8,314,293	100.0
Cost of food and beverages	2,426,325	30.2	2,341,882	28.2
Cost of sundry shop merchandise	<u>561,999</u>	<u>7.0</u>	<u>685,242</u>	<u>8.2</u>
Total cost of sales	2,988,324	37.2	3,027,124	36.4
Gross income from sales	<u>5,034,990</u>	<u>62.8</u>	<u>5,287,169</u>	<u>63.6</u>
Operating expenses				
Salaries and wages				
Straight time	3,156,878	39.3	3,133,506	37.7
Overtime	153,459	1.9	99,335	1.2
Employee benefits (note 6)	1,596,702	19.9	1,566,523	18.8
Supplemental services	449,378	5.6	453,356	5.4
China, glassware, silverware, and tableware	40,494	0.5	60,827	0.7
Kitchen utensils	20,109	0.3	22,276	0.3
Miscellaneous	<u>174,560</u>	<u>2.2</u>	<u>70,746</u>	<u>0.9</u>
Total operating expenses	<u>5,591,580</u>	<u>69.7</u>	<u>5,406,569</u>	<u>65.0</u>
Loss From Food, Beverage, and Sundry Shop Operations	\$ (556,590)		\$ (119,400)	
Vending Machine Commissions	183,760		154,077	
Penalties Assessed For Delinquent Accounts Receivable (note 5)	4,524		6,938	
Results of Operations (Loss)	\$ (368,306)		\$ 41,615	

The accompanying notes are an integral part of these statements.

Financial Statements

Statements of Cash Flows

	Fiscal year ended	
	October 1, 1994	October 2, 1993
Cash Flows From Operating Activities		
Cash received from customers	\$ 8,216,830	\$ 8,487,594
Cash paid to or for employees	(5,372,208)	(5,289,528)
Cash paid to vendors	(3,139,799)	(3,517,895)
Net cash used by operating activities	(295,177)	(319,829)
Cash Flows From Financing Activities		
Appropriated capital (note 7)	0	600,000
Borrowings from the Secretary of the Senate (note 7)	0	(250,000)
Net cash provided by financing activities	0	350,000
Net Increase (Decrease) in Cash	(295,177)	30,171
Cash at beginning of year	547,506	517,335
Cash at End of Year	\$ 252,329	\$ 547,506
Reconciliation of Results of Operations (Loss) to Net Cash Used by Operating Activities		
Results of operations (loss)	\$ (368,306)	\$ 41,615
Adjustments to reconcile results of operations (loss) to net cash used by operating activities		
(Increase) decrease in assets		
Accounts receivable (note 10)	28,623	(24,366)
Food, beverages, and merchandise	8,945	(21,254)
China, glassware, silverware, and tableware	(29,806)	12,675
Increase (decrease) in liabilities		
Due to vendors	104,046	(328,029)
Employees' accrued leave	(23,357)	(44,445)
Deferred income	(23,391)	36,337
Net payroll and benefits payable	7,642	6,956
Supplemental services payable	(76)	1,167
Other accounts payable	503	(485)
Total adjustments	73,129	(361,444)
Net Cash Used by Operating Activities	\$ (295,177)	\$ (319,829)

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, the Senate Chef facility was 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>1994</u>	<u>1993</u>
Operating expenses		
Personnel compensation	\$ 936,572	\$ 888,011
Personnel benefits	208,568	191,704
Other services	452,378	183,262
Supplies and materials	359,022	313,639
Equipment maintenance	36,670	22,068
Subtotal	<u>1,993,210</u>	<u>1,598,684</u>
Capital expenditures		
Equipment purchases	175,115	142,673
Senate Chef Renovation	0	22,438
Subtotal	<u>175,115</u>	<u>165,111</u>
Total	<u>\$2,168,325</u>	<u>\$1,763,795</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.

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 1, 1994 and October 2, 1993, follows:

Aging of Customer Accounts Receivable

<u>Days Outstanding</u>	<u>October 1, 1994</u>		<u>October 2, 1993</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
0 to 30	\$165,426	97	\$176,781	89
31 to 60	4,061	2	2,215	1
61 to 90	1,285	1	5,891	3
Over 90	<u>248</u>	<u>0</u>	<u>3,400</u>	<u>2</u>
Subtotal	\$171,020	100	\$188,287	95
Penalties Assessed				
fiscal year 1993	0	0	6,938	3
fiscal year 1992 (note 5)	<u>0</u>	<u>0</u>	<u>4,418</u>	<u>2</u>
Total	<u>\$171,020</u>	<u>100</u>	<u>\$199,643</u>	<u>100</u>

By December 24, 1994, more than 99 percent of the October 1, 1994, 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. Prior Period Adjustment -- Penalties Assessed on Delinquent Accounts Receivable

Effective January 1, 1992, the Senate Committee on Rules and Administration authorized the Senate Restaurants to assess a 2 percent penalty to delinquent customer accounts for each 30-day period of delinquency. As of October 1, 1994, the Senate Restaurants assessed cumulative penalties totaling \$15,880 for accounts deemed delinquent. Of this amount, \$4,524 corresponds to fiscal year 1994 and is included in the Penalties Assessed For Delinquent Accounts Receivable line item on the accompanying Statement of Operations. The remaining \$11,356 corresponds to fiscal years 1993 and 1992 (\$6,938 and \$4,418, respectively) and were recorded as reductions to accounts receivable, instead of additions to income during those periods. To correct this, the Senate Restaurants restated the 1993 financial statements as follows:

- \$6,938 in Penalties Assessed for Delinquent Accounts Receivable was added to the Statement of Operations, to note 4, and to note 8;
- \$4,418 corresponding to the prior period was added to Cumulative Results of Operations (note 9) and to note 4; and

-- \$11,356, which is the total effect of the two previous adjustments, was added to accounts receivable.

Note 6. Employee Benefits

Senate Restaurants' employees are covered by the Civil Service Retirement System (CSRS) or the newer Federal Employees Retirement System (FERS), to which the Senate Restaurants contribute. 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 benefit payments to its former employees under the pension programs, the federal government is liable for the benefit payments through the Office of Personnel Management.

The Fund also contributes to nonpension-related employee benefits including health insurance (FEHBP), life insurance (FGLI), social security (FICA), medicare (HIT), leave expense, employee meals, local transportation assistance, and employee physicals. Contributions made by the Fund during fiscal years 1994 and 1993 are listed on the following table.

Employee Benefits Expenses

	<u>Fiscal year</u>	
	<u>1994</u>	<u>1993</u>
Pension-related		
CSRS	\$ 77,386	\$ 82,914
FERS	433,617	403,410
TSP	<u>39,079</u>	<u>36,463</u>
Total pension-related benefits	550,082	522,787
Nonpension-related		
FEHBP	404,276	373,318
FEGLI	7,894	7,711
FICA	172,835	164,509
HIT	58,647	57,799
Leave expense	264,566	254,967
Employee meals	110,223	167,380
Others	<u>28,179</u>	<u>18,052</u>
Total nonpension-related benefits	<u>1,046,620</u>	<u>1,043,736</u>
Total Benefits	<u>\$1,596,702</u>	<u>\$1,566,523</u>

Note 7. 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 8. Sales

The following schedule provides a comparison of sales, commissions, and operating results for the various Senate Restaurant activities during fiscal years 1994 and 1993. Fiscal year 1993 has been restated to reflect penalties assessed on delinquent accounts receivable (note 5). Also, catering sales and profits have been included in Capitol dining rooms and cafeterias activities.

Sales and Operating Income (Loss) by Activity

	<u>Fiscal year 1994</u>		<u>Fiscal year 1993</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	\$1,645,901	\$(777,043)	\$1,469,166	\$(699,105)
Cafeterias	4,273,091	151,137	4,559,548	546,300
Coffee shop	226,451	(109,361)	318,739	(30,240)
Snack bar	250,812	19,385	208,510	(34,486)
Senate Chef	<u>783,922</u>	<u>42,756</u>	<u>795,322</u>	<u>(13,947)</u>
	<u>7,180,177</u>	<u>(673,126)</u>	<u>7,351,285</u>	<u>(231,478)</u>
Sundry Shop Operations				
Capitol dining rooms	55,519	10,155	55,256	8,164
Dirksen Office Building	292,525	44,327	322,409	37,127
Russell Office Building	109,034	5,339	148,949	14,886
Hart Office Building	<u>386,059</u>	<u>56,715</u>	<u>436,394</u>	<u>51,901</u>
	<u>843,137</u>	<u>116,536</u>	<u>963,008</u>	<u>112,078</u>
Subtotals	8,023,314	(556,590)	8,314,293	(119,400)
Vending Machine Commissions	183,760	183,760	154,077	154,077
Penalties Assessed on Delinquent Accounts Receivable (note 5)	<u>4,524</u>	<u>4,524</u>	<u>6,938</u>	<u>6,938</u>
Total	<u>\$8,211,598</u>	<u>\$ (368,306)</u>	<u>\$8,475,308</u>	<u>\$ 41,615</u>

Note 9. Computation of Cumulative Results of Operations

The following summarizes Cumulative Results of Operations for fiscal year 1993, restated for the effect of the prior period adjustment.

Cumulative Results of Operations (Deficit) at October 3, 1992	\$(1,110,320)
Add Prior Period Adjustment (note 5)	4,418
Less Results of Operations (Loss) for fiscal year ended October 2, 1993 (restated)	<u>41,615</u>
Cumulative Results of Operations (Deficit) at October 2, 1993	<u>\$(1,064,287)</u>

Note 10. Computation of the Changes in Accounts Receivable

The following restates the increase in accounts receivable for the fiscal year ended October 2, 1993.

Accounts Receivable at October 2, 1993	\$199,643
Accounts Receivable at October 3, 1992	\$ 170,859
Add Prior Period Adjustment (notes 5 and 9)	<u>4,418</u>
Less Accounts Receivable at October 3, 1992 (restated)	<u>175,277</u>
Restated Increase in Accounts Receivable, Fiscal Year Ended October 2, 1993	<u>\$ 24,366</u>

Financial Statements

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