United States General Accounting Office

GAO

Report to the Chairman, Committee on Rules and Administration, U.S. Senate, and the Architect of the Capitol

June 1998

FINANCIAL AUDIT

Senate Restaurants Revolving Fund for Fiscal Years 1997 and 1996

GAO

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

Accounting and Information
Management Division

B-278619

June 23, 1998

The Honorable John Warner
Chairman, Committee on Rules
and Administration
United States Senate

The Honorable Alan M. Hantman
Architect of the Capitol

As requested, we provided for an audit of the financial statements of the United States Senate Restaurants Revolving Fund (the Fund) for the period ended September 30, 1997 and September 28, 1996, by contracting with the independent public accounting firm of KPMG Peat Marwick LLP (KPMG). The contract required that the audit be done in accordance with generally accepted government auditing standards and GAO's Financial Audit Manual.

In its audit of the Fund, KPMG found the following:

- The financial statements were reliable in all material respects.
- Management fairly stated its assertion that internal controls in place on September 30, 1997, were effective in safeguarding assets against unauthorized acquisition, use, or disposition; assuring material compliance with laws and regulations; and assuring that there have been no material misstatements in the financial statements.
- There was no reportable noncompliance with laws and regulations it tested.

However, KPMG's work identified the need to improve internal controls related to logical access. As disclosed in its accompanying report, KPMG's fiscal year 1997 audit disclosed continuing weaknesses with the Fund's logical access controls. Logical access controls involve the use of computer hardware, software, and related procedures to prevent or detect unauthorized access to computer software and data. Although the Fund's management initiated actions designed to resolve the weaknesses noted in the fiscal year 1996 audit,[1] many of the individual weaknesses continued to exist during fiscal year 1997. In addition, KPMG's fiscal year 1997 audit procedures identified additional logical access control weaknesses. KPMG's accompanying report describes in further detail the logical access

[1]The results of KPMG's fiscal year 1996 financial audit can be found in our report entitled Financial Audit: Senate Restaurants Revolving Fund for Fiscal Years 1996 and 1995 (GAO/AIMD-97-93, May 16, 1997).

weaknesses and related recommendations to improve those controls. In commenting on a draft of KPMG's report, management of the Fund agreed with KPMG's assessment of current weaknesses and agreed to pursue further corrective actions.

As disclosed in KPMG's report, the Fund's financial statements and cumulative $2.6 million deficit reflect the results of the operating activities recorded in the Revolving Fund and financed with operating receipts of the Restaurants. The Fund has relied on loans and subsequent transfers of appropriated capital from the Senate to finance its losses and to continue to pay the Fund's expenses. In addition, as discussed in note 3 to the financial statements, the Fund's operating losses do not include other identifiable restaurant costs, such as management personnel and miscellaneous expenses, paid directly from appropriated funds of the Architect of the Capitol, or certain unidentifiable costs, such as utilities, paid by the Architect, or printing provided by the Government Printing Office. As noted in KPMG's report, if past operating trends continue, the Fund will continue to require supplemental funding to support future operations.

As disclosed in note 8 to the financial statements, two events, which occurred after fiscal year-end, will affect the Fund's future operations and financial reporting. In an effort to reduce the present workforce and related operating costs, the Architect of the Capitol was authorized to offer early retirement or voluntary separation incentive payments to certain Restaurants' employees. Beginning with fiscal year 1998, as a result of the 1998 Legislative Branch Appropriations Act, funds appropriated to the Architect of the Capitol for paying management personnel and miscellaneous restaurant expenses will be transferred directly to the Revolving Fund at the beginning of each fiscal year. Accordingly, future financial statements of the Fund will reflect the use of the Architect of the Capitol's appropriated funds to pay these restaurant-related expenses as part of the Fund's income and expenses reported in the Statement of Operations and Changes in Government Equity (Deficit). The initial reporting of these changes will be reflected in the Fund's fiscal year 1998 financial statements.

In connection with the contract, we reviewed the KPMG report and related working papers and, as necessary, inquired with KPMG representatives and the Fund's management. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Fund's financial statements and management's assertion about the effectiveness of its internal controls or conclude on compliance with laws and regulations. KPMG is responsible for the attached Auditors' report, dated January 26, 1998, and for the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We are sending copies of this report to interested committees and other interested parties. Copies will be made available to others on request. Should you or your staffs have any questions concerning our review of the audits, please contact me on (202) 512-9406 or John J. Reilly, Assistant Director, on (202) 512-9517.

Robert W. Gramling
Director, Corporate Audits
and Standards

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Report on Audit of United States Senate Restaurants Revolving Fund

Independent Auditors' Report

KPMG Peat Marwick LLP

2001 M Street, N.W.
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

Acting Comptroller General
United States General Accounting Office:

We have audited the fiscal years 1997 and 1996 financial statements of the United States Senate Restaurants Revolving Fund (the Fund). We also have examined management's assertion regarding the effectiveness of the Fund's internal controls over financial reporting that were in place as of September 30, 1997.

The objective of our audit was to express an opinion on the fair presentation of the Fund's financial statements. The objective of our examination of management's assertion regarding internal controls over financial reporting was to express an opinion on the fair presentation of management's assertion. In connection with our audit, we also tested the Fund's compliance with certain provisions of applicable laws and regulations.

In our opinion:

- the Fund's fiscal years 1997 and 1996 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and
- management fairly stated its assertion that internal controls in place on September 30, 1997, were effective in safeguarding assets against unauthorized acquisition, use, or disposition; assuring material compliance with laws and regulations, and assuring that there have been no material misstatements in the financial statements.

We found no reportable noncompliance with laws and regulations we tested.

We noted several new and recurring weaknesses related to the adequacy of logical access controls over the Fund's accounting and restaurant management information system software which warrant management's attention. We consider these weaknesses to be a reportable condition.

Our conclusions and the scope of our work are discussed in more detail below.

Opinion on Financial Statements

We have audited the accompanying balance sheets of the Fund as of September 30, 1997 and September 28, 1996, and the related statements of operations and changes in U.S. Government equity (deficit) and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

As discussed in note 3, the financial statements present the results of activities financed through the Fund and are not intended to present the financial position and results of operations of the Senate Restaurants as a whole. Other readily identifiable operating costs, such as management personnel salaries and benefits, and capital expenditures, amounting to approximately $1.9 million in fiscal year 1997 and approximately $1.7 million in fiscal year 1996, which are financed by funds appropriated to the Architect of the Capitol, are not included in the financial statements. Also, the financial statements do not include such costs as space and utilities, which are not readily identifiable.

As of September 30, 1997 and September 28, 1996, the Fund had cumulative operating losses totaling over $2.6 million and $2.2 million, respectively. The Fund has relied on loans and appropriated capital transfers to finance these losses and to continue to pay Fund expenses. 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the United States Senate Restaurants Revolving Fund as of September 30, 1997 and September 28, 1996, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Opinion on Management's Assertion About the Effectiveness of Internal Controls

We have examined management's assertion (included in its representation letter dated January 26, 1998) regarding the effectiveness of internal controls designed by management to:

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- execute 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.

In our opinion, management's assertion that internal controls in place as of September 30, 1997 were effective in safeguarding assets against unauthorized acquisition, use, or disposition; assuring compliance with laws and regulations; and assuring that there have been no material misstatements or omissions of amounts or disclosures in the financial statements, is fairly stated in all material respects. Management made its assertion based upon criteria established by the General Accounting Office (GAO) *Standards for Internal Controls in the Federal Government.*

However, our audit procedures applicable to fiscal year 1997 continued to identify weaknesses in the design and operation of the Fund's internal controls over logical access. Logical access controls involve the use of computer hardware, software and related procedures to prevent or detect unauthorized access by requiring users to input identification numbers (IDs), passwords, and other identifiers that are linked to preestablished access privileges. Logical access controls should be designed to restrict legitimate users to the specific systems, programs, and data files that they need and to prevent others from entering the system at all. Inadequate logical access controls can diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data.

Many of the weaknesses identified during our fiscal year 1997 audit procedures were also identified as weaknesses during our audit of the Fund's fiscal year 1996 financial statements. Specifically, we found the following conditions were unchanged from the prior year:

- not all inactive user IDs were disabled or removed from the information system;
- users had inappropriate access to the operating systems, which could result in misuse or loss of server security files;
- six users IDs were without passwords, and;
- most users were locked out of the system for 24 hours after three (3) unsuccessful logon attempts, however, ten (10) user IDs were allowed more than three grace logon attempts.

While the Fund's management acted to address the logical access control weaknesses identified during our fiscal year 1996 audit, we found that many weaknesses found in the prior year audit continued to exist.

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We also noted additional weaknesses in the fund's logical access controls during our fiscal year 1997 audit as follows:

- An inconsistency between written security policies and common user practice was found. Although the Fund management stated its security policy was changed in fiscal year 1997 to require users to change their passwords every 90 days, the written security policy required users to change their passwords every 60 days.
- During our test work, we noted seven user IDs that were not required to have unique passwords when the passwords were changed. As a result, users are able to reuse a previously utilized password, increasing the risk that passwords can be easily guessed.
- We noted that the auditing logs were not enabled. Audit logs, if enabled, record information about user activities. Consistent review of these logs enhance the security administrator's ability to detect unauthorized access.

Based on these findings, we made the following recommendations:

As in the prior year, we continue to recommend the Fund (1) disable or remove all inactive user IDs from the information system, (2) require passwords for all system users, (3) limit the amount of user access to netware operating system files, and (4) after three unsuccessful logon attempts, deny user access to the system until the user ID is reinstated by the systems administrator.

In addition, we recommend the Fund (1) update the security policy to reflect the current acceptable practice of requiring password changes every 90 days, (2) require all user IDs to have a unique password when passwords are changed, and (3) enable audit log and generate, review and approve them regularly.

We consider the logical access control weaknesses described above to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management.

This condition was considered in determining the nature, timing, and extent of audits tests applied in our audits of the fiscal year 1997 and 1996 financial statements, and this report does not affect our opinions on these financial statements. Through substantive audit procedures, we were able to satisfy ourselves that the weakness described above did not have a material effect on the fiscal year 1997 and 1996 financial statements.

We also noted other matters involving the internal controls and their operation that we do not consider to be reportable conditions that we are reporting to management in a separate letter.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations that have a direct and material effect on the financial statements disclosed no instances of noncompliance that would be reported under *Government Auditing Standards*.

We do not express an opinion on overall compliance with such provisions.

Responsibilities

Management's Responsibility. Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles,
- maintaining adequate internal controls designed to fulfill control objectives, and
- complying with applicable laws and regulations.

Auditors' Responsibility. We are responsible for obtaining reasonable assurance about whether (1) the financial statements are free of material misstatement and, in our opinion, are 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 on the criteria established by the GAO *Standards for Internal Controls in the Federal Government*. We are also responsible for testing compliance with selected provisions of laws and regulations.

However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions.

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 financial statement presentation;
- tested compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements;
- obtained an understanding of the internal control structure related to safeguarding assets, compliance with laws and regulations, and financial reporting;

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- 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 those 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 system of internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We conducted our audits in accordance with generally accepted government auditing standards. We believe that our audits and examination provide a reasonable basis for our opinions.

This report is intended for the information and use of the General Accounting Office, the Architect of the Capitol, management of the Senate Restaurant and the United States Senate, and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Agency Comments and Our Evaluation

Senate Restaurant management has agreed with the assessment of the weakness and corrective action is being taken.

KPMG Peat Marwick LLP

January 26, 1998, except for Note 6(b), as to which the date is April 28, 1998.

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Balance Sheets

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Balance Sheets

September 30, 1997 and September 28, 1996

Assets		1997	1996
Cash:			
Funds with U.S. Treasury	$	396,649	406,984
Petty cash and change funds		20,500	20,500
Accounts receivable (note 4)		190,177	195,189
Food, beverage, and merchandise inventory		141,772	145,081
China, glassware, silverware, and tableware		95,490	121,411
Total assets	$	844,588	889,165
Liabilities and U.S. Government Equity (Deficit)			
Accounts payable and accrued expenses:			
Due to vendors	$	357,534	453,482
Payroll and related benefits		262,959	219,862
Total accounts payable and accrued expenses		620,493	673,344
Other liabilities:			
Employees' accrued leave		208,423	218,193
Loans from Senate contingent fund (note 6)		925,000	475,000
Total other liabilities		1,133,423	693,193
Total liabilities		1,753,916	1,366,537
U.S. Government equity:			
Appropriated capital (note 6)		1,747,144	1,747,144
Cumulative results of operations (deficit)		(2,656,472)	(2,224,516)
Total U.S. Government equity (deficit)		(909,328)	(477,372)
Total liabilities and U.S. Government equity	$	844,588	889,165

See accompanying notes to financial statements.

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Statements of Operations and Changes in U.S. Government Equity (Deficit)

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Statements of Operations and Changes in U.S. Government Equity (Deficit)

Years ended September 30, 1997 and September 28, 1996

	1997		1996	
	Amount	Percent of sales	Amount	Percent of sales
Food services, catering, and sundry shop operations (note 7):				
Regular food services	$ 3,702,311	51.3	3,739,115	50.6
Catering	3,047,815	42.2	3,066,243	41.5
Sundry shop sales	464,052	6.5	578,928	7.9
Total sales	7,214,178	100.0	7,384,286	100.0
Cost of food and beverages	2,369,189	32.8	2,299,511	31.1
Cost of sundry shop merchandise	311,320	4.3	370,716	5.1
Vendor fees	27,376	0.4	-	-
Total cost of sales	2,707,885	37.5	2,670,227	36.2
Gross income from sales	4,506,293	62.5	4,714,059	63.8
Operating expenses (note 3):				
Salaries and wages				
Straight time	2,922,345	40.5	3,014,170	40.8
Overtime	119,265	1.6	102,098	1.4
Employee benefits (note 5)	1,411,778	19.5	1,428,186	19.3
Supplemental services	473,523	6.5	480,852	6.5
China, glassware, silverware, and tableware	25,921	0.4	24,904	0.4
Kitchen utensils	26,990	0.4	11,405	0.2
Miscellaneous	121,480	1.8	155,155	2.1
Total operating expenses	5,101,302	70.7	5,216,770	70.7
Loss from food services, catering, and sundry shop operations (note 7)	(595,009)	(8.2)	(502,711)	(6.9)
Other income:				
Vending machine commissions	153,014	2.1	187,158	2.6
Penalties assessed for delinquent accounts receivable	10,039	0.1	7,409	0.1
Net loss	(431,956)	(6.0)	(308,144)	(4.2)
U.S. Government equity (deficit) – beginning of year	(477,372)	-	(169,228)	-
U.S. Government equity (deficit) – end of year	$ (909,328)	-	(477,372)	-

See accompanying notes to financial statements.

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Statements of Cash Flows

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Statements of Cash Flows

Years ended September 30, 1997 and September 28, 1996

	1997	1996
Cash flow from operating activities:		
Net loss	$ (431,956)	(308,144)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Increase)/decrease in assets:		
Accounts receivable	5,012	(71,342)
Food, beverage, and merchandise inventory	3,309	3,775
China, glassware, silverware, and tableware	25,921	24,904
Increase/(decrease) in liabilities:		
Due to vendors	(95,948)	57,132
Payroll and related benefits	43,097	12,057
Employees' accrued leave	(9,770)	(10,381)
Deferred income	-	(12,631)
Net cash used for operating activities	(460,335)	(304,630)
Cash flows from financing activities - loans from Senate contingent fund	450,000	-
Net decrease in cash	(10,335)	(304,630)
Funds with U.S. Treasury, beginning of year	406,984	711,614
Funds with U.S. Treasury, end of year	$ 396,649	406,984

See accompanying notes to financial statements.

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Notes to Financial Statements

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Notes to Financial Statements

September 30, 1997 and September 28, 1996

(1) Organization

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

Economic Dependency

The Fund relies on loans and transfers of appropriated capital from the Senate's contingent fund, which are approved by the Committee, to offset recurring operating losses. In addition, the Fund is dependent upon the use of appropriated funds provided through the Architect for other operating costs as discussed in note 3. The Architect has received its appropriated funds for fiscal year 1998 and has budgeted sufficient funds to continue to support the Fund at current operating levels.

(2) Summary of Significant Accounting Policies

Fiscal Year-end

Prior to FY 97, the Fund's fiscal year consisted of thirteen four-week accounting periods. Periodically, when determined by management, an adjustment was made so that the Fund's fiscal year-end more closely matched the federal government's year-end. During fiscal year 1997, the U.S. Senate Committee on Rules and Administration directed the Fund to change its fiscal year to coincide with the Federal Government fiscal year, October 1 to September 30, effective with the close of fiscal year 1997. As a result, fiscal year 1997 results of operations represent a period two days longer than fiscal year 1996.

Funds with U.S. Treasury

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

Inventory

Inventory consisting of food, beverages, and merchandise is valued at cost using the first-in, first-out method.

(Continued)

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Notes to Financial Statements

(2) Continued

China, glassware, silverware, and tableware purchased by the Fund are also valued at cost, using a first-in, first-out method. Charges for breakage and shortages, based on physical count, are charged to operations. Prior to October 1, 1995, replacements and additions were purchased using operating funds of the Fund and recorded in the financial statements. Beginning October 1, 1995, replacements of and additions to china, glassware, silverware, and tableware are purchased using appropriated funds provided through the Architect and are not recorded in the Fund's financial statements (see note 3).

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported revenues and expenses during the reporting period. Actual results could differ from management's estimates.

(3) Other Costs of Operations

Certain costs of operating the restaurants are not paid by the Fund and, accordingly, are not included in the accompanying financial statements. Instead, they are paid by the Architect from its appropriated funds. Identifiable costs paid directly by the Architect on behalf of the Fund during the fiscal years ended September 30, 1997 and September 28, 1996 are:

	Fiscal years	
	1997	1996
Operating expenses:		
Personnel compensation	$ 930,254	883,675
Personnel benefits	233,789	209,837
Other services	193,112	134,619
Supplies and materials	322,168	349,573
Equipment maintenance	26,174	18,442
China, glassware, silverware, and tableware	28,895	11,208
Subtotal	1,734,392	1,607,354
Capital expenditures – equipment purchases	154,321	84,406
Total	$ 1,888,713	1,691,760

(Continued)

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Notes to Financial Statements

(3) Continued

Certain other operating costs of the Fund are also paid with appropriated funds of the Architect, but cannot be readily determined. These unidentifiable costs include occupancy, utilities, and garbage disposal provided by the Architect, and printing provided by the Government Printing Office. These services are furnished without charge to the Fund and have not been included in the accompanying financial statements.

(4) Accounts Receivable

The Committee allows Senators, former Senators, and certain Senate officials to have customer accounts. A comparison of the aged customer accounts receivable at September 30, 1997 and September 28, 1996 follows.

	September 30, 1997		September 28, 1996	
Days outstanding	Amount	Percent	Amount	Percent
0 to 30	$ 154,584	81.1 %	$ 157,945	80.9 %
31 to 60	1,139	0.6	18,357	9.4
61 to 90	21,526	11.4	5,841	3.0
Over 90	12,928	6.9	13,046	6.7
Total	$ 190,177	100 %	195,189	100 %

In accordance with policies established by the Committee, the Fund's accounting office mails monthly delinquent notice letters. These letters are signed by the Architect and are mailed to customers whose accounts are delinquent for over 30 days. Approximately 90 percent of the accounts receivable balance at September 30, 1997 had been collected within 60 days subsequent to year end.

(5) Employee Benefits

Fund employees are covered by the Civil Service Retirement System (CSRS) or the newer Federal Employees Retirement System (FERS), to which the Fund contributes. For employees covered by FERS, the Fund also contributes one percent of pay to the Thrift Savings Plan (TSP) and matches employee contributions to the TSP, up to an additional four percent of pay. While the 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.

(Continued)

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Notes to Financial Statements

(5) Continued

The Fund also contributes to other employee benefits including 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 1997 and 1996 are listed in the following table.

	Fiscal year 1997	Fiscal year 1996
Pension-related		
CSRS	$ 68,486	72,197
FERS	362,582	371,913
TSP	53,701	49,627
Total pension-related benefits	484,769	493,737
Other		
FEHBP	347,277	350,244
FEGLI	7,245	7,412
FICA	167,019	166,986
HIT	54,507	55,569
Leave expense	235,305	232,670
Employee meals	93,725	97,580
Others	21,931	23,988
Total nonpension-related benefits	927,009	934,449
Total benefits	$ 1,411,778	1,428,186

(Continued)

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Notes to Financial Statements

(6) Financing Activities

(a) In managing the Fund, the Architect has access to two types of supplemental funding: (1) appropriations and (2) 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 Committee, may transfer funds from the Senate's contingent expenses appropriation account to the Fund as appropriated capital. Also, 40 U.S.C. 174j-9 allows the Architect, with the approval of the Committee, to borrow from the Senate contingent fund in amounts necessary to manage the Fund. The Committee establishes the loan amounts and repayment periods. The loaned funds come from the miscellaneous items appropriation account of the Senate's contingent fund, and loan repayments are deposited to the same account.

From October 1988 through October 1994, under authority provided by 40 U.S.C. 174j-9, the Architect of the Capitol requested and received three loans from the Senate's contingent fund totaling $1,050,000. Between October 1989 and September 1995, the Fund repaid the loans with transfers of appropriated funds from the Senate's contingent expense appropriation account. The appropriated fund transfers used to repay loans and other transfers have increased the Fund's total appropriated capital by $1,650,000 to $1,747,000 at September 30, 1996 and 1997.

In fiscal year 1995, the Fund also received loans totaling $475,000 from the miscellaneous items appropriation account of the Senate's contingent fund to offset operating losses and pay operating expenses. These loans were scheduled for repayments of $210,000 due September 30, 1997, and $265,000 due June 30, 1998. The $210,000 repayment was unpaid on September 30, 1997.

In October 1996, the Fund received proceeds from an additional loan for $450,000 from the miscellaneous items appropriation account of the Senate's contingent fund to cover continuing operating losses and pay expenses. This loan is scheduled for repayment by June 30, 2000. Accordingly, the loans outstanding at September 30, 1997 and September 28, 1996 totaled $925,000 and $475,000 respectively.

(b) On April 28, 1998, the Committee approved the transfer of $210,000 in appropriated capital from the Senate's contingent expenses appropriation account to the Fund to repay the overdue loan payment of $210,000.

(Continued)

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Notes to Financial Statements

(7) Sales

The following schedule provides a comparison of sales, commissions, and operating income (loss) for the various Fund activities during fiscal years 1997 and 1996. Catering sales and profits have been included in Capitol dining rooms and cafeteria activities.

		Fiscal year 1997		Fiscal year 1996	
		Sales and commissions	Operating income (loss)	Sales and commissions	Operating income (loss)
Food and beverage operations:					
Special functions	$	2,891,678	675,435	2,880,939	738,314
Capitol dining room		329,963	(674,963)	431,145	(817,165)
Cafeterias		2,500,728	(438,357)	2,358,922	(435,364)
Coffee shop		199,617	(108,842)	251,984	(23,910)
Snack bar		155,219	(39,603)	177,696	(36,448)
Senate chef		672,921	(29,197)	704,672	13,977
Total		6,750,126	(615,527)	6,805,358	(560,596)
Sundry shop operations:					
Capitol dining rooms		17,185	3,435	25,605	8,148
Dirksen office building		182,572	17,281	273,741	42,332
Russell office building		-	-	16,765	(9,510)
Hart office building		264,295	(198)	262,817	16,915
Total		464,052	20,518	578,928	57,885
Subtotals		7,214,178	(595,009)	7,384,286	(502,711)
Vending machine commissions		153,014	153,014	187,158	187,158
Penalties assessed on delinquent accounts receivable (note 4)		10,039	10,039	7,409	7,409
Total	$	7,377,231	(431,956)	7,578,853	(308,144)

(Continued)

UNITED STATES SENATE RESTAURANTS REVOLVING FUND

Notes to Financial Statements

(8) Subsequent Events

Employee Buy-outs

In an effort to reduce the present work force and cut operating costs, the Fund was authorized, pursuant to the Legislative Branch Appropriation Act, 1998, Public Law 105-55, Section 310 (the Act), to offer early retirement or voluntary separation incentive payments to not more than fifty eligible employees, effective beginning October 7, 1997, the enactment date of this legislation, through September 30, 1999. A total of 23 employees, which represents approximately 11 percent of Fund employees on board at the end of fiscal year 1997, have opted out under this program. As a result, the Fund paid approximately $430,000 in involuntary separation payments and approximately $66,000 in accrued annual leave to eligible employees in early fiscal year 1998.

Prospective Change in Financial Statement Presentation

As described in notes 1 and 3, funds appropriated to the Architect of the Capitol have been used to pay certain expenses associated with operating the Fund. Because the receipt and use of these funds to pay restaurant-related expenses occurs outside the Fund, they have not been reflected in the Fund's statement of operations and changes in U.S. government equity (deficit).

Beginning with fiscal year 1998, under provisions of Public Law 105-55, 111 stat. 1189 Title I, the funds appropriated to the Architect of the Capitol for management personnel and miscellaneous restaurant expenses will be transferred to the Fund at the beginning of each fiscal year. Beginning with fiscal year 1998, the receipt and use of these funds by the Fund to pay personnel and miscellaneous expenses will be reflected in the Fund's statement of operations and changes in U.S. government equity (deficit).

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