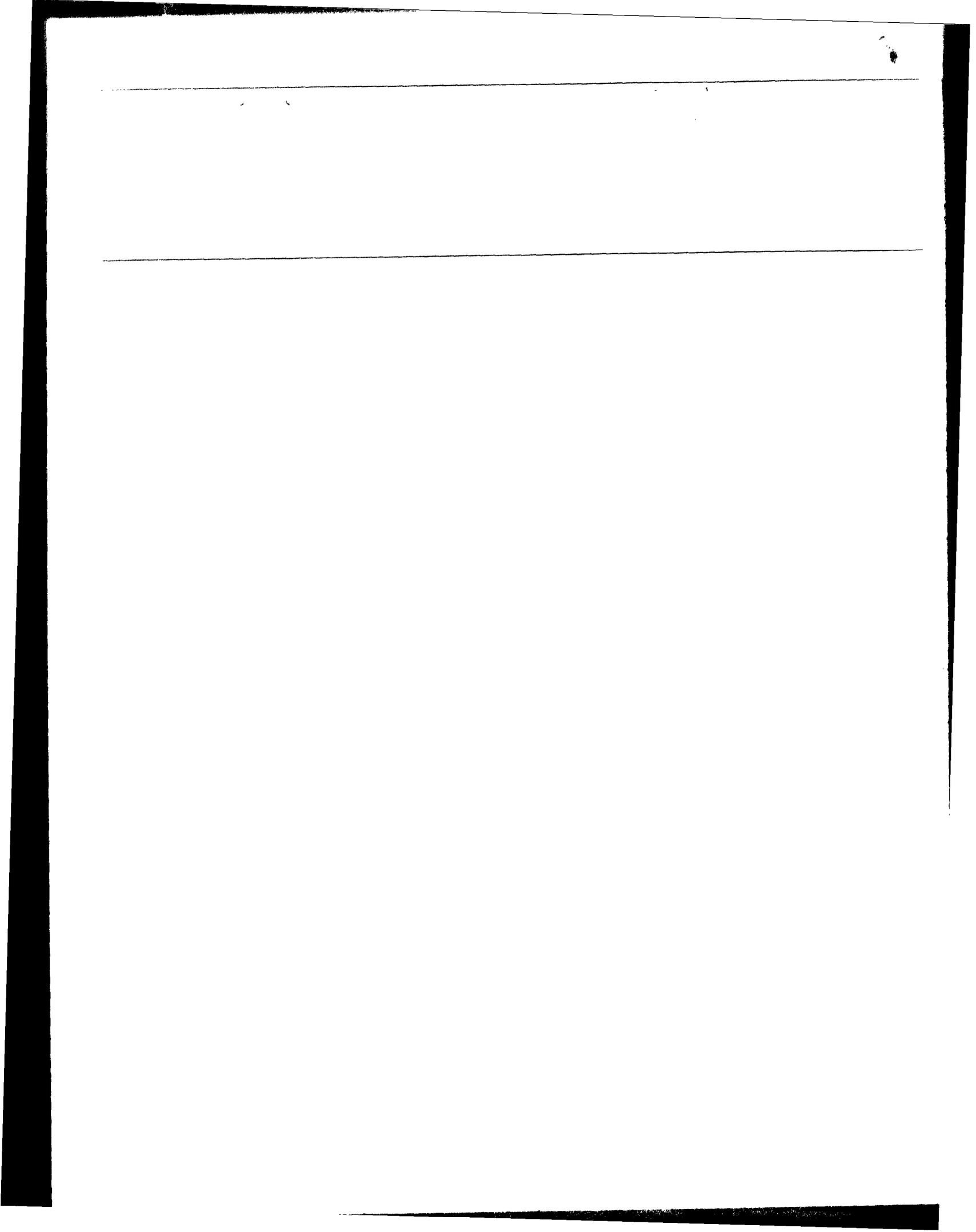


August 1990

FINANCIAL AUDIT

Service America Corporation's 1988 Operation of the House Restaurant System







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

Comptroller General
of the United States

B-114891

August 23, 1990

The Honorable George M. White
Architect of the Capitol

Dear Mr. White:

Pursuant to your letter of March 9, 1989, and a subsequent meeting with your staff, we have audited the statement of income of Service America Corporation's (SERVAM) operation of the U.S. House of Representatives Restaurant System for calendar year 1988. We have also audited the schedule of customers' accounts receivable as of April 30, 1989. We completed our audit work on November 30, 1989. The statement of income and the schedule of customers' accounts receivable are the responsibility of SERVAM's management. Our responsibility is to express an opinion on the statement of income and the schedule of customers' accounts receivable based on our audit.

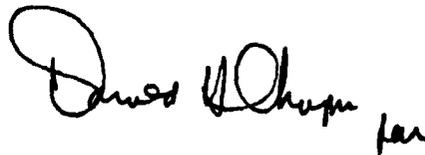
We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement and schedule are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of income and the schedule of customers' accounts receivable were prepared by SERVAM to comply with its contract with the Architect of the Capitol under which it operates the House Restaurant System.

In our opinion, the statement of income and schedule of customers' accounts receivable referred to above present fairly, in all material respects, the income and expense for calendar year 1988 and the accounts receivable balances as of April 30, 1989, for SERVAM's operation of the House Restaurant System in conformity with generally accepted accounting principles.

Our report on internal accounting controls and compliance with laws, regulations, and SERVAM's contract to operate the House Restaurant System for calendar year 1988, together with SERVAM's statement of income for calendar year 1988, schedule of customers' accounts receivable as of April 30, 1989, and the accompanying notes, is included in this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowsher". The signature is written in a cursive style with a large initial "C".

Charles A. Bowsher
Comptroller General
of the United States

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Abbreviation

SERVAM Service America Corporation

Report on Internal Accounting Controls and Compliance With Laws, Regulations, and the Contract

We have audited the statement of income for calendar year 1988 and the schedule of customers' accounts receivable as of April 30, 1989, for Service America Corporation's (SERVAM) operations of the U.S. House of Representatives Restaurant System. Our audit was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws, regulations, and SERVAM's contract with the Architect of the Capitol, as we considered necessary in the circumstances. This report pertains only to our study and evaluation of the system of internal accounting controls and our review of compliance with laws, regulations, and the contract for the year ended December 21, 1988.

Internal Controls

As part of our audit, we made a study and evaluation of SERVAM's system of internal accounting controls for the House Restaurant System to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on SERVAM's statement of income for calendar year 1988 and the schedule of customers' accounts receivable as of April 30, 1989.

For the purpose of this report, we have categorized the significant internal accounting controls as sales, purchases, payroll, and accounts receivable. Our study and evaluation included all of these control categories.

SERVAM's management is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, management makes estimates and judgments required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate

because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of internal accounting controls was made for the purpose described in the second paragraph of this report. It was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls we identified. However, our study and evaluation disclosed no condition that we believed to be a material weakness that would affect our expressing an opinion on SERVAM's statement of income and schedule of customers' accounts receivable.

Compliance With Laws, Regulations, and the Contract

As part of our audit, we tested SERVAM's compliance with (1) the federal and District of Columbia minimum wage laws, (2) provisions of Title 5 of the U.S. Code concerning Civil Service Retirement System withholding, (3) provisions of Title 5 of the U.S. Code pertaining to Federal Employees Retirement System withholding, (4) Social Security regulations, and (5) provisions of SERVAM's contract with the Architect of the Capitol.

In our opinion, SERVAM complied with the aforementioned laws, regulations, and contract for the transactions tested that could have materially affected its statement of income and schedule of customers' accounts receivable. However, SERVAM's employee withholding and its corresponding employer contribution for basic retirement benefits under federal retirement programs were less than the amounts required by the laws governing such programs, resulting in an understatement of fringe benefit expenses. Although the exact amount underwithheld has not been determined, it is not likely to materially affect the statement of income. (See note 3 for details.)

Nothing else came to our attention in connection with our audit that caused us to believe that SERVAM was not in compliance with the terms and provisions of the aforementioned laws, regulations, and contract for those transactions not tested.

Statement of Income

	Year ended December 21, 1988
Total Revenues	\$8,112,282
Net cost of merchandise	2,972,533
Gross margin	5,139,749
Expenses	
Payroll costs	3,333,698
Payroll taxes and fringe benefits	608,177
Accrued location rent	51,397
Repairs and maintenance	929
Operating supplies	448,953
Delivery expenses	2,837
Other operating expenses	265,785
Operating administrative expenses	201,724
Total Operating Expenses	4,913,500
Contribution margin	226,249
General and administrative applied (note 4)	243,368
Operating Loss	\$(17,119)

The accompanying notes are an integral part of this statement.

Schedule of Customers' Accounts Receivable as of April 30, 1989

Days outstanding	Amount	Percent of total
0-30	\$183,455	22
31-60	313,718	38
61-90	128,176	16
91-120	76,539	9
121-150	28,756	3
Over 150	95,391	12
Total Outstanding	\$826,035	100

The accompanying notes are an integral part of this schedule.

Notes to Financial Statement and Schedule

Note 1. Background

The House Restaurant System consists of (1) cafeterias in the Longworth and Rayburn Buildings and House Annex No. 2, (2) the congressional dining room in the House wing of the Capitol, (3) carryouts in the Capitol, Cannon, Longworth, and Rayburn Buildings and House Annex No. 2, (4) catering services in the Capitol and Rayburn Buildings, (5) five tobacco and candy stands (two in the Capitol and one each in House Annex No. 2 and in the Longworth and Rayburn Buildings, and (6) vending machine operations in the Longworth and Rayburn Buildings, House Annex No. 2, and the building at 501 1st Street, SE, Washington, D.C.

Effective January 4, 1987, a contract between the Architect of the Capitol and Service America Corporation (SERVAM), a private contractor, transferred the restaurant operations from government to private management. The government employees of the House Restaurant System became employees of SERVAM. The Architect of the Capitol has assigned staff to oversee the operation of the contract, including a contract administrator who is responsible for resolving day-to-day operational problems and ensuring that the contract provisions are followed.

SERVAM operates the House Restaurant System under a regional general manager with administrative staff and unit managers to supervise the various operating units. The regional general manager reports to the vice president of the Mid-Atlantic zone, who in turn reports to corporate headquarters located in Stamford, Connecticut. The zone comptroller oversees compliance with SERVAM's financial requirements and with the government contract. A certified public accounting firm annually audits SERVAM as a whole for its corporate fiscal year ending in March.

Note 2. Significant Accounting Policies

Accounts receivable: SERVAM permits Members of the House of Representatives, certain officials of the Congress, and the Architect of the Capitol to charge their expenses at the House Restaurant System in conformance with the rules established by the Committee on House Administration. SERVAM provides the Architect with a monthly accounts receivable analysis, and the Architect provides appropriate guidance and assistance to SERVAM in its attempts to collect payment due on any delinquent accounts.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined by using the first-in, first-out method.

Reporting period: For its financial statements to the Architect of the Capitol, SERVAM's calendar year ends at the conclusion of its accounting period closest to the end of the calendar year. Under this procedure, calendar year 1988 ended on December 21, 1988.

**Note 3. Incorrect
Withholding of Retirement
Benefits**

Under provisions of Public Law 99-500, the Office of Personnel Management entered into an agreement with SERVAM to implement the requirement that federal retirement coverages and benefits be continued for certain employees working in the House Restaurant System. As part of this agreement, SERVAM is to

- deduct and withhold the appropriate amounts from employees' pay for their share of the contribution into the Civil Service Retirement Fund,
- pay the employer share of the contribution,
- verify the correctness of deductions withheld from employees' pay as well as SERVAM's contributions, and
- transmit the withholdings and contributions to the Office of Personnel Management.

The formula SERVAM used to compute employees withholding was incorrect. As a result, the amount of withholdings and SERVAM's corresponding employee contributions for federal retirement benefits were less than the amounts required by the laws governing federal retirement programs. Therefore, the income statement account, Payroll Taxes and Fringe Benefits, is understated. Although the exact amount of the understatement is not known, it should not materially affect the statement of income.

**Note 4. General and
Administrative Applied**

This represents 3 percent of total revenue which SERVAM can charge as general and administrative expenses under its contract with the Architect of the Capitol.



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