



GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

April 6, 2011

The Honorable Charles E. Schumer
Chairman
The Honorable Lamar Alexander
Ranking Member
Committee on Rules and Administration
United States Senate

Subject: *Financial Management: Audit of the Senate Gift Shop Revolving Fund for Fiscal Year 2010*

In a letter dated July 22, 2010, you requested that we conduct an audit of the Senate Gift Shop's cash receipts and cash disbursements recorded in the Senate Gift Shop Revolving Fund for the fiscal year ended September 30, 2010. In the letter, you also requested that we review the inventory accounting procedures of the Gift Shop.

The Senate Gift Shop was established on October 6, 1992, to sell gift items to members of the Senate, Senate staff, and the general public. All sales receipts are taken to the Senate Disbursing Office for deposit into the Senate Gift Shop Revolving Fund in the U.S. Treasury. The Gift Shop then uses the cash receipts to purchase inventory items for resale, supplies, shipping, and other related services expenses. The Senate Disbursing Office maintains the money and makes payments on behalf of the Senate Gift Shop Revolving Fund. Salaries and benefits of Senate employees who work in the Gift Shop are not paid from the revolving fund; rather, they are paid from the "Salaries, Officers, and Employees" appropriation account of the Senate. Additional costs of the Gift Shop such as rent and utilities cannot be readily determined and are covered by other appropriated Senate funds.

Results in Brief

We found that recorded cash receipts and cash disbursements of the Senate Gift Shop for the fiscal year ended September 30, 2010, were consistent with the purpose of the Senate Gift Shop Revolving Fund and supported by documentation approved by authorized shop management. We also found that overall, the Gift Shop's inventory accounting procedures provided reasonable assurance that it appropriately accounted for physical quantities on hand and that items were safeguarded from theft and loss. However, our testing identified instances in which shop personnel either did not fully adhere to established policies and procedures, or written policies and procedures were not sufficiently detailed for certain control activities. Therefore, we are making a recommendation that management update the Gift Shop's existing written accounting procedures to improve their effectiveness. We are also making a recommendation that Gift Shop management disseminate the updated accounting procedures, train personnel as necessary, and review subsequent activities for compliance. In commenting on a draft of this report, the Secretary of the Senate agreed with our recommendations and stated that Gift Shop management is in the process of implementing our recommendations.

Objectives, Scope, and Methodology

We obtained and reviewed the accounting procedures used by the Senate Gift Shop to record cash receipts, cash disbursements, and to manage inventory. We also observed a physical inventory of the Gift Shop at the end of September 2010. We reviewed the results of the physical inventory, its comparison to book records maintained by the Gift Shop, and observed how any differences were reconciled and resolved. We particularly focused on how the results of the physical inventory compared to recorded inventories to establish evidence of control over inventory quantities and to safeguard inventory from theft or loss.

We used statistical sampling to audit the Gift Shop's nearly \$1.6 million of cash receipts and nearly \$1.4 million of cash disbursements recorded in the revolving fund for the fiscal year ended September 30, 2010. We examined sample items for: (1) proper recorded amount, (2) consistency with the authorized purposes of the revolving fund, (3) proper supporting documentation, and (4) evidence of authorized review and approval. For cash receipts, examination of sample items included verifying the daily amounts of cash receipts from cash registers and other sources and their weekly deposit with the Senate Disbursing Office. For cash disbursements, examination of sample items included a review of contracts, purchase orders, receiving information, and invoices; recalculation of amounts; and validation of payment by the Senate Disbursing Office. Because we limited our audit to those transactions recorded in the revolving fund, there is a risk that there could be unrecorded transactions not included in our examination. See enclosure I for more detailed information on our scope and methodology.

Cash Receipts for Fiscal Year 2010

Table 1 below presents the Gift Shop's recorded cash receipts by department for fiscal year 2010 deposited into the revolving fund.

Table 1: Senate Gift Shop Recorded Cash Receipts by Department for the Fiscal Year Ended September 30, 2010

Department	Amount
Apparel	\$105,467
Art	23,539
Books	306,128
Business accessories	179,627
China & crystal	152,673
Coins & medallions	38,870
Flag boxes	19,910
Gift shop use	17,263
Housewares	118,039
Jewelry	105,393
Novelties	144,568
Ornaments	299,059
Pewter & silver	44,693
Special order	11,254
Total recorded cash receipts	\$1,566,483

Source: GAO, compiled from Senate Gift Shop records.

We found that recorded cash receipts were generally approved, accurately recorded, and supported by appropriate documentation. Additionally, we found cash accounting procedures to be generally accurate and up-to-date. However, our testing identified instances where personnel either did not fully adhere to established policies and procedures, or the Gift Shop lacked detailed written procedures on control activities. Effectively designed and properly implemented policies and procedures are critical to identifying errors and improving internal controls. Specifically, we found:

- A daily cash receipt and three weekly cash sheets did not have evidence of required review. Existing written procedures require this documentation.
- Eighteen of 22 recorded sales returns did not have evidence of required review. In addition, all 22 return items tested did not contain a notation of why the item was returned on the sales return form. Existing written procedures require this documentation.
- Three sample items did not have documentation of cash drawer counts to confirm amounts, detect differences, and document daily cash activity. Existing written procedures require this documentation.
- Weekly deposit envelopes and monthly reconciliations did not have evidence of review. While the reconciliation form has a place for a reviewer sign-off, it was blank for all sample items we tested. Existing procedures did not require documentation of review.
- The “Notes” sections of the daily and weekly cash sheets did not document reasons for manual corrections to amounts on the “X” and “Z” reports.¹ Existing procedures did not require this documentation.

None of the issues noted above resulted in an incorrect receipt being deposited into the revolving fund. However, they did indicate that personnel were not always adhering to existing Gift Shop accounting procedures regarding the processing of receipts or existing procedures were lacking detail. Such procedural deficiencies were primarily caused by Gift Shop personnel focusing on the operational aspects of their jobs without updating written procedures to document changes that occurred over time. Complete and current policies and procedures are internal control activities that provide important controls to guide staff, particularly new personnel, in performing their daily tasks effectively. Control activities, including policies and procedures, help ensure that management’s directives are carried out in an effective and efficient manner to accomplish control objectives. They also help ensure actions are taken to address risks and are an integral part of planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.²

¹ “X” and “Z” reports are system generated based on opening and closing of registers

² GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999).

Cash Disbursements for Fiscal Year 2010

Table 2 below presents the Gift Shop's recorded cash disbursements by type for fiscal year 2010 paid from the revolving fund.

Table 2: Senate Gift Shop Recorded Cash Disbursements by Type for the Fiscal Year Ended September 30, 2010

Type	Amount
Inventory purchases for resale	\$1,360,213
Supplies expense	9,641
Shipping expense	9,531
Other services expense	2,165
Total recorded cash disbursements	\$1,381,550

Source: GAO, compiled from Senate Gift Shop records.

We found that recorded cash disbursements were approved, accurately recorded, and supported by appropriate documentation. We also found no instances in which Gift Shop personnel did not adhere to the shop's written disbursement policies and procedures. We further found cash accounting procedures to be generally accurate and up-to-date. However, we found that the monthly reconciliation form has a place for a reviewer sign-off, but it was blank for all sample items tested and a review was not a specified procedure.

Review of Inventory Accounting Procedures

We found that the Gift Shop's existing written inventory accounting procedures were sufficiently complete and current to effectively account for and control Gift Shop inventory purchases, sales, and on-hand items.

We found that the accounting records of the Senate Gift Shop valued its total inventory at \$2,968,126 as of September 30, 2010, and total physical counts valued the inventory at \$3,527 less. While we found that some physical item quantities were less than the recorded quantities, indicating a recording error or possible shortage, other physical inventory amounts were more, indicating a recording error; with the net variance amounting to about 0.001 percent of the inventory value. The Gift Shop accordingly adjusted its accounting records to reflect the actual quantity and value on hand. We concluded that the Gift Shop's physical inventory procedures provided reasonable assurance that it appropriately accounted for physical quantities on hand and that items were safeguarded from theft and loss.

Recommendations for Executive Action

We recommend that the Secretary of the Senate direct Senate Gift Shop management to:

1. update existing written procedures for cash receipts and cash disbursements to include:
 - documented reviews of weekly deposit envelopes (cash receipts),
 - a description of any manual adjustments to amounts on "X" and "Z" reports in the "Notes" section of Daily and Weekly Cash Sheets (cash receipts), and
 - documented reviews of monthly reconciliations (cash receipts and disbursements).
2. disseminate updated accounting procedures, train personnel as necessary, and establish a mechanism to provide for subsequent review of activities for compliance.

Agency Comments and Our Evaluation

The Secretary of the Senate was provided a draft of this report. In commenting on the draft report, the Secretary of the Senate stated that she agreed with the report's recommendations. She further stated that Gift Shop management is in the process of implementing the recommendations, citing the fact that the Gift Shop's procedures are being better documented as an example. The Secretary of the Senate also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Secretary and interested congressional committees. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

Should you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or at sebastians@gao.gov. Key contributors to this engagement were Roger R. Stoltz, Jacquelyn N. Hamilton, Tory E. Wudtke, Taya R. Tasse, and Brian S. Harechmak.



Steven J. Sebastian
Director
Financial Management and Assurance

Enclosure

Enclosure

Objectives, Scope, and Methodology

Cash Receipts

To achieve our audit objective with respect to cash receipts, we gained an understanding of the accounting policies and procedures for cash receipts by reviewing Senate Gift Shop control activities and documenting them. Using an attribute sampling method, we selected a sample of recorded cash receipts to statistically test the nearly \$1.6 million universe of receipts for fiscal year 2010. Our tests included recalculation of amounts, review of adherence to established policies and procedures, and review of supporting documentation for cash receipts.

We developed the sample of cash receipts from a population of the 242 days in which the Gift Shop was open for business during fiscal year 2010. Days were selected as the universe due to the nature of daily reconciliations of cash drawers and the weekly deposit of receipts with the Senate Disbursing Office. We excluded weekends, federal holidays, inclement weather closures, and days the Gift Shop was closed for inventory counts. Using IDEA sampling software, we selected a random sample of 30 days from the population for detailed testing.

We developed a data collection instrument based on the Gift Shop's written cash receipts policies and procedures and the shop's Desk Procedures for the Accounts Administrator. We recalculated cash drawer reports, daily totals, weekly deposits, and monthly reconciliations. We verified refund controls, evidence of reviews, and existence of control activities.

Cash Disbursements

To achieve our audit objective with respect to cash disbursements, we gained an understanding of the accounting policies and procedures for cash disbursements by reviewing Senate Gift Shop control activities and documenting them. Using monetary unit sampling (MUS), we selected a sample of recorded cash disbursements to statistically test the universe of nearly \$1.4 million cash disbursements for fiscal year 2010. Our tests included recalculation of amounts, review of adherence to established policies and procedures, and review of supporting documentation for disbursements.

We developed the sample of cash disbursements from the universe of invoices paid by the Gift Shop during fiscal year 2010. Invoices were selected due to the assignment of unique numerical identifiers to invoices and the required documentation to support invoice payment. From its accounting system, the Gift Shop provided a listing of 469 invoices that were paid during fiscal year 2010. Using MUS, we selected a random sample of 25 invoices from the universe for detailed testing.

We developed a data collection instrument based on the Gift Shop's written cash disbursement policies and procedures documented and the shop's Desk Procedures for the Accounts Administrator. We recalculated amounts on purchase orders, receiving reports, invoices, general ledgers, and invoice batches. We verified vendors "Made in America"³

³ The Secretary of the Senate, when disbursing public moneys, is required by statute to purchase only goods of U.S. origin as long as the domestic item can be purchased upon as good terms as to quality and price as would exist if the foreign item were purchased (2 U.S.C. §109).

compliance, safety verifications,⁴ evidence of reviews and approval, and existence of proper documentation.

Inventory

To achieve our audit objective with respect to inventory, we gained an understanding of the accounting policies and procedures for inventory by reviewing Senate Gift Shop control activities and documenting them. We also observed shop personnel counting physical inventories at the end of September 2010 for completeness and accuracy, reviewed the results of the counts, examined how differences between physical counts and book records were reconciled, and observed how inventory was properly safeguarded from theft or loss.

- - - - -

We performed our work in the Washington, D.C. area from August 2, 2010, through January 28, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

(196228)

⁴ Vendors are to certify that items they sell comply with the Consumer Product Safety Improvement Act of 2008.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

