United States Government Accountability Office

GAO

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

May 2009

# FINANCIAL AUDIT

# Senate Restaurants Revolving Fund for Fiscal Years 2008 and 2007

GAO

Accountability * Integrity * Reliability

GAO-09-409

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**United States Government Accountability Office**
**Washington, DC 20548**

May 29, 2009

The Honorable Charles E. Schumer
Chairman
The Honorable Robert F. Bennett
Ranking Member
Committee on Rules and Administration
United States Senate

Mr. Stephen T. Ayers
Acting Architect of the Capitol

As requested, we provided for audits of the financial statements of the U.S. Senate Restaurants Revolving Fund (the Fund) for the fiscal years ended September 30, 2008, and 2007. Specifically, we contracted with the independent public accounting firm of Clifton Gunderson LLP. The contract required that the audit be conducted in accordance with U.S. generally accepted government auditing standards and the joint GAO/President's Council on Integrity and Efficiency (PCIE)[1] *Financial Audit Manual*.

In its audit of the Fund, Clifton Gunderson LLP reported that:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There were three significant deficiencies in internal control over financial reporting (including safeguarding assets) as of September 30, 2008.
- There was no reportable noncompliance in fiscal year 2008 with selected provisions of laws and regulations it tested.

In planning and performing the audits of the Fund's fiscal years 2008 and 2007 financial statements, Clifton Gunderson LLP considered the Fund's

[1]The PCIE was an administratively established interagency council to promote integrity and effectiveness in federal programs. It primarily consisted of the presidentially appointed inspectors general (IG) under the IG Act, as amended. On October 14, 2008, the Inspector General Reform Act of 2008 replaced the PCIE with the Council of Inspectors General of Integrity and Efficiency (CIGIE). The CIGIE essentially combined what were formerly the PCIE and Executive Council on Integrity and Efficiency (ECIE). The ECIE's function was also to promote integrity and effectiveness in federal programs and primarily consisted of all civilian statutory Inspectors General not represented on the PCIE.

internal control over financial reporting and compliance.[2] Clifton Gunderson LLP did this to determine its procedures for auditing the financial statements, not to express an opinion on internal control over financial reporting and compliance.

Clifton Gunderson LLP identified certain deficiencies in internal control over financial reporting (including safeguarding assets) that it considers to be significant deficiencies[3] which adversely affect the Fund's ability to meet internal control objectives described in the *Standards for Internal Control in the Federal Government*. Significant deficiencies Clifton Gunderson LLP identified were:

- The Fund recognized an audit adjustment to record a liability for termination benefits for covered employees who (1) elected not to accept employment with the private company that took over the operations of the Senate Restaurants, and (2) terminated employment with the Architect of the Capitol (the Architect). According to restaurant management, the Fund did not include the liability for termination benefits in the draft financial statements because the amount could not be reasonably estimated at the time the financial statements were drafted. Subsequent to the fiscal year end, the accounting function responsibilities for the Fund were assumed by the Architect, but no formal procedures were developed by it to document its new oversight responsibility, which included monitoring the fiscal year 2008 financial reporting process for the Fund. By the completion of the audit, the liability amount for termination benefits could be reasonably estimated and an audit adjustment was proposed by Clifton Gunderson LLP and recorded by the Architect.

[2] The objectives of financial reporting controls are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition. The objective of compliance controls is to provide reasonable assurance that transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

[3] A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- The Fund did not maintain and fully implement an effective entity-wide security program. Clifton Gunderson LLP identified deficiencies in the areas of security program management (including policy administration), and certification and accreditation. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

- The Fund did not effectively implement consistent controls to restrict access to its information systems. Clifton Gunderson LLP's tests of access controls relating to the Fund's general support systems and major applications identified access control weaknesses. Without adequate access controls, unauthorized parties may gain access to the Fund's computer system and network resources that could result in damage, deletion, or theft of computerized data.

Clifton Gunderson LLP reported that it did not consider these significant deficiencies to be material weaknesses.[4] However, Clifton Gunderson LLP reported that misstatements may nevertheless occur in other financial information reported by the Fund as a result of these internal control deficiencies.

As disclosed in Clifton Gunderson LLP's report and note 8 to the financial statements, on September 16, 2008, the Architect contracted out all of the Senate Restaurants' operations (including food service, catering, sundry shop, and vending operations) and transitioned the operations to a private company on December 7, 2008. The agreement with the contractor is for a term of 7 years with two 7-year options for renewal, subject to negotiations. The agreement provides for the Architect to receive commissions on catering and vending sales, which are statutorily required to be deposited in the miscellaneous items account within the contingent fund of the Senate.[5] The contractor is wholly responsible for any operating losses. The agreement also provides for former Senate Restaurant employees who accepted employment with the contractor to retain their wages and benefits as of the transfer date, while employed by the contractor, subject to the availability of appropriated funds. Public Law No. 110-279 requires the Architect, through a negotiated fee arrangement, to reimburse the contractor for the wage and benefit differential (i.e., the

[4] A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

[5] 2 U.S.C. §2051(h)(1).

difference between what the employees were paid as federal employees versus what they will be paid as contractor employees) and administrative fees involved in retaining the former employees. The Architect will provide use of its facilities and equipment to the contractor. Going forward, the purpose and authority of the Senate Restaurant Revolving Fund is not changing, but the Fund's assets, liabilities, and transactions will be substantially different, due to the privatization of the restaurant operations.

As disclosed in Clifton Gunderson LLP's report and note 1 to the Fund's financial statements, the financial statements present the financial position and the results of operations financed through the Fund and are not intended to present the financial position and results of operations of the Senate Restaurants as a whole. The operation of the Senate Restaurants is economically dependent on financial and other support provided through the Architect and by the U.S. Senate:

- The Fund's financial statements for fiscal years 2008 and 2007 reflect direct financial support of $2,706,259 and $850,000 respectively, received from the Architect and the United States Senate through transferred appropriations. As disclosed in note 4 to the financial statements, $1,284,424 of the fiscal year 2008 transfer was provided to fund payment of liabilities and expenditures needed to prepare for privatizing the operation of the restaurants.

- The Fund's financial statements for fiscal years 2008 and 2007 do not include other support that benefited the operation of the restaurants. Specifically, the Architect provided approximately $355,509 and $185,246 in fiscal years 2008 and 2007, respectively, for the purchase and maintenance of capital equipment (which remain the property of the Architect) and professional fees. The majority of the increase in the costs for fiscal year 2008 is attributable to consulting and other costs the Fund incurred preparing for privatizing the restaurant's operations. In addition, during fiscal years 2008 and 2007, the Architect and the Government Printing Office provided the Fund with other support services, such as space and utilities, the value of which cannot be readily determined.

The Fund's financial statements for fiscal years 2008 and 2007 also do not include estimated future pension costs[6] and estimated future

[6] Fund employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS).

postretirement health and life insurance[7] costs of $682,560 and $821,786 in fiscal years 2008 and 2007, respectively. These costs are financed by the Office of Personnel Management on behalf of the Fund.

As disclosed in Clifton Gunderson LLP's report and the Fund's financial statements, losses from operations totaled $1,433,687 and $1,340,637 in fiscal years 2008 and 2007, respectively. Financial support amounts provided in fiscal year 2008 through the Architect and by the United States Senate were used to help cover these losses.

In connection with the audit of the Fund's financial statements, we reviewed Clifton Gunderson LLP's report and related audit documentation and, as necessary, met with Clifton Gunderson LLP representatives and the Fund's management. Our review, as differentiated from an audit in accordance with U.S. 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 internal controls or conclude on its compliance with laws and regulations. Clifton Gunderson LLP is responsible for the accompanying auditor's report and for the conclusions expressed in the report. However, our review did not disclose any instances in which Clifton Gunderson LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards and the joint GAO/PCIE *Financial Audit Manual*.

This report is a matter of public record and is intended for the use of the U.S. Senate, the Architect, and other interested parties. We are sending copies of this report to the Chairman and Ranking Member, Subcommittee on Legislative Branch, Senate Committee on Appropriations, and the Majority Leader and Minority Leader of the Senate. In addition, this report is also available at no charge on the GAO Web site at http://www.gao.gov. If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on

[7] Fund employees can elect to be covered by the Federal Employees Health Benefits Program (FEHBP) and/or the Federal Employees Group Life Insurance Program (FEGLIP).

the last page of this report. Contributors to this report were Julie T. Phillips, Bethany Smith, Vivian Gutierrez, and Liliam Coronado.

Steven J. Sebastian
Director
Financial Management and Assurance

# Appendix I: Report on Audit of the U.S. Senate Restaurants Revolving Fund

## Independent Auditor's Report

Clifton Gunderson LLP
Certified Public Accountants & Consultants

**Independent Auditor's Report**

Acting Comptroller General
United States Government Accountability Office

In our audits of the United States Senate Restaurants Revolving Fund (the Fund) for fiscal years 2008 and 2007, we found:

- The financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- Three significant deficiencies in internal control over financial reporting (including safeguarding assets); and
- No reportable noncompliance in fiscal year 2008 with laws and regulations we tested.

The following sections provide additional detail on (1) these conclusions and (2) the scope of our audits.

Opinion on Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the Fund as of September 30, 2008 and 2007, and the results of its operations and cash flows for the fiscal years then ended.

As discussed in Note 8 to the financial statements, on September 16, 2008, the Architect of the Capitol (the Architect) contracted out all of the Senate Restaurants' operations and transitioned its employees to a private company on December 7, 2008. The purpose and authority of the Senate Restaurant Revolving Fund is not changing, but the Fund's assets, liabilities, and transactions will be substantially different due to the privatization of the restaurant operations.

As discussed in Note 1, the financial statements present the financial position and the results of operations of the Fund and are not intended to present the financial position and results of operations of the Senate Restaurants as a whole. Amounts for capital expenditures and related repairs and maintenance purchased by the Architect for the benefit of the Fund are not reflected in the Fund's financial statements. Also, the financial statements do not include such costs as space and utilities provided by the Architect, which are not readily identifiable.

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As discussed in Note 1, the operations of the Fund are economically dependent on direct support provided through the Architect and by the United States Senate. In fiscal years 2008 and 2007, the Fund received $2,706,259 and $850,000, respectively, in direct financial support to help cover losses from operations, which totaled $1,433,687 and $1,340,637, respectively, and to fund payment of certain liabilities and expenditures needed to prepare for privatizing the operations of the Restaurants. The Architect is responsible for reimbursement to the Contractor for wage and benefit differentials of the former Senate Restaurant employees it retained.

Consideration of Internal Control

In planning and performing our audits of the Fund's fiscal years 2008 and 2007 financial statements, we considered the Fund's internal control over financial reporting and compliance.[1] We did this to determine our procedures for auditing the financial statements, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We identified certain deficiencies in internal control over financial reporting (including safeguarding assets) that we consider to be significant deficiencies which adversely affect the Fund's ability to meet the internal control objectives listed in the objectives, scope, and methodology section of this report, or meet the criteria under *Standards for Internal Control in the Federal Government*. Significant deficiencies we noted are as follows:

- The Fund recognized an audit adjustment to record a liability for termination benefits.
- The Fund has not maintained and fully implemented an effective entity-wide security program.
- The Fund has not effectively implemented consistent controls to restrict access to its information systems.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that none of the significant deficiencies described in this report are material weaknesses. However, misstatements may nevertheless occur in other financial information reported by the Fund as a result of the internal control deficiencies described in this report.

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[1] The objectives of financial reporting controls are to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition. The objective of compliance controls is to provide reasonable assurance that transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

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**SIGNIFICANT DEFICIENCIES**

**1. The Fund Recognized an Audit Adjustment to Record a Liability for Termination Benefits**

The draft financial statements of the Fund, provided to us at the beginning of the audit, did not recognize a $1.1 million liability for voluntary separation incentive payments (VSIP) for covered employees who (1) elected not to accept employment with the private company that took over operations of the Senate Restaurants; and (2) terminated employment with the Architect. According to restaurant management, the Fund did not include this liability in the draft financial statements because the amount could not be reasonably estimated at the time the financial statements were drafted. Subsequent to the fiscal year end, the accounting function responsibilities were assumed by the Architect, but no formal procedures were developed by it to document its new oversight responsibility, which included monitoring the fiscal year 2008 financial reporting process for the Fund. By the completion of our audit, the liability amount could be reasonably estimated and an audit adjustment was proposed by the auditors and recorded by the Architect. In assuming the management of the Fund, the Architect should review existing accounting procedures, and revise them as necessary.

**2. The Fund Did Not Maintain and Fully Implement an Effective Entity-Wide Security Program**

The Fund did not maintain and fully implement its security program. Our current year audit found deficiencies in the areas of security program management, including policy administration, and certification and accreditation. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low risk resources. An entity-wide security program should be in place to establish a framework and continuing cycle of activity to manage security risk, develop security policies, assign responsibilities, and monitor the adequacy of computer security related controls. It should also represent the foundation for an entity's security control structure and a reflection of senior management's commitment to addressing security risks. OMB Circular No. A-130, Appendix III, *Security of Federal Automated Information Resources,* requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications. The Fund's information system infrastructure is serviced by the Architect, which is responsible for information security, disaster recovery, and information support.

**3. The Fund Did Not Effectively Implement Consistent Controls to Restrict Access to its Information Systems**

Our tests of logical access controls relating to the Fund's general support systems and major applications identified access control weaknesses. Without adequate access controls, unauthorized parties may gain access to the Fund's computer system and network resources that could result in damage, deletion, or theft of computerized data. Access controls should be in place to consistently limit, detect, or monitor access to computer programs, data, equipment, and facilities thereby protecting against unauthorized modification, disclosure, loss or impairment. Such controls include logical security controls to ensure that federal employees, contractors and staff will be given only the privileges necessary to perform business functions, i.e., access privileges. Federal Information

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Processing Standards Publication (FIPS PUB) 200, *Minimum Security Requirements for Federal Information and Information Systems,* specifies minimum access controls for federal systems. The Fund's information system owners must limit information system access to authorized users.

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Compliance with Laws and Regulations

Our tests for compliance in fiscal year 2008 with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

## Objectives, Scope, and Methodology

The Fund's management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that control objectives are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; (2) obtaining a sufficient understanding of internal control over financial reporting and compliance with laws and regulations to plan the audits; and (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements and notes; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); (5) tested relevant internal control over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of those selected internal controls; (6) tested compliance in fiscal year 2008 with selected provisions of 2 U.S.C. 2042-2051, certain provisions of the Legislative Branch Appropriations Act, 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; and (7) reviewed contracting documents relating to privatizing the restaurants' operations.

Our consideration of internal controls over financial reporting and compliance with laws and regulations was limited to gaining an understanding of internal control needed to plan our audits for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance 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. In addition, we caution that our testing of internal controls may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Fund. We limited our tests of compliance to those laws and regulations that we deemed applicable to the financial statements for the fiscal years ended September 30, 2008 and 2007. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and the joint GAO/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual*.

Agency Comments and Our Evaluation

In commenting on the draft of this report, the Fund's management concurred with the facts and conclusions in our report.

Clifton Gunderson LLP

Calverton, Maryland
May 22, 2009

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## Balance Sheets

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**BALANCE SHEETS**
**September 30, 2008 and 2007**

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Cash: | | |
| Funds with U.S Treasury | $ 1,644,273 | $ 758,612 |
| Petty cash and change funds | 20,500 | 20,500 |
| Total cash | 1,664,773 | 779,112 |
| Accounts receivable, Senate customer accounts (note 3) | 74,701 | 50,914 |
| Vendor commissions and other income receivables | 26,685 | 32,888 |
| Food, beverage, and merchandise inventory | 125,287 | 160,464 |
| China, glassware, silverware, and tableware | 212,074 | 224,108 |
| Prepaid expenses | 2,282 | 19,977 |
| **TOTAL ASSETS** | $ 2,105,802 | $ 1,267,463 |
| **LIABILITIES AND U.S. GOVERNMENT EQUITY** | | |
| Accounts payable and accrued expenses: | | |
| Due to vendors and customers | $ 260,843 | $ 348,423 |
| Payroll and related benefits | 256,606 | 224,303 |
| Deferred income | 38,057 | 34,998 |
| Accrued employee termination expense (note 8) | 1,101,284 | - |
| Total accounts payable and accrued expenses | 1,656,790 | 607,724 |
| Other liabilities: | | |
| Employees' accrued leave | 242,038 | 303,297 |
| Total liabilities | 1,898,828 | 911,021 |
| U.S. government equity: | | |
| Appropriated capital (note 4) | 2,847,144 | 2,847,144 |
| Cumulative results of operations (deficit) | (2,640,170) | (2,490,702) |
| Total U.S. government equity | 206,974 | 356,442 |
| **TOTAL LIABILITIES AND U.S. GOVERNMENT EQUITY** | $ 2,105,802 | $ 1,267,463 |

The accompanying notes are an integral part of these statements.

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## Statements of Operations and Changes in U.S. Government Equity

UNITED STATES SENATE RESTAURANTS REVOLVING FUND
STATEMENTS OF OPERATIONS AND
CHANGES IN U.S. GOVERNMENT EQUITY
For the Fiscal Years Ended September 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **SALES, COMMISSIONS, AND OTHER OPERATING INCOME (NOTE 5)** | | |
| Food services | $ 5,111,409 | $ 4,891,851 |
| Catering | 3,957,005 | 4,141,505 |
| Sundry shop sales | 518,532 | 688,013 |
| Vending machine and other commissions | 298,647 | 306,123 |
| Total | 9,885,593 | 10,027,492 |
| **COST OF SALES** | | |
| Food and beverages | 3,669,943 | 3,477,705 |
| Sundry shop merchandise | 367,263 | 484,589 |
| Total | 4,037,206 | 3,962,294 |
| Income from sales, commissions, and other operating income | 5,848,387 | 6,065,198 |
| **OPERATING EXPENSES** | | |
| Personnel and benefits (note 6) | 6,681,982 | 6,808,654 |
| Supplies and materials | 576,311 | 561,001 |
| Miscellaneous | 23,781 | 36,180 |
| Total | 7,282,074 | 7,405,835 |
| Loss from operations | (1,433,687) | (1,340,637) |
| **OTHER FUNDING AND (EXPENSES)** | | |
| Direct financial support (notes 1 and 4) | 2,706,259 | 850,000 |
| Employee termination expense (note 8) | (1,101,284) | - |
| Consultants | (170,756) | - |
| Equipment upgrade | (150,000) | - |
| Total | 1,284,219 | 850,000 |
| Net loss | (149,468) | (490,637) |
| **U.S. GOVERNMENT EQUITY, BEGINNING OF YEAR** | 356,442 | 847,079 |
| **U.S. GOVERNMENT EQUITY, END OF YEAR** | $ 206,974 | $ 356,442 |

The accompanying notes are an integral part of these statements.

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## Statements of Cash Flows

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**STATEMENTS OF CASH FLOWS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

| | 2008 | 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (149,468) | $ (490,637) |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Effects of changes in operating assets and liabilities: | | |
| Accounts receivable | (23,787) | 17,443 |
| Vendor commissions receivable | 6,203 | (6,809) |
| Food, beverage, and merchandise inventory | 35,177 | (19,014) |
| China, glassware, silverware, and tableware | 12,034 | (24,754) |
| Prepaid expenses | 17,695 | (17,232) |
| Due to vendors and customers | (87,580) | 3,862 |
| Payroll and related benefits | 32,303 | (9,060) |
| Employees' accrued leave | (61,259) | 4,821 |
| Deferred income | 3,059 | 15,543 |
| Accrued employee termination expense | 1,101,284 | - |
| Net cash provided by (used in) operating activities | 885,661 | (525,837) |
| **CASH, BEGINNING OF YEAR** | 779,112 | 1,304,949 |
| **CASH, END OF YEAR** | $ 1,664,773 | $ 779,112 |

The accompanying notes are an integral part of these statements.

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## Notes to Financial Statements

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**NOTES TO FINANCIAL STATEMENTS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

**NOTE 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, which are subject to the Committee's approval.

The financial statements present the financial position and the results of operations of the Fund and are not intended to present the financial position and results of operations of the Senate Restaurants as a whole.

**ECONOMIC DEPENDENCY**

The Fund's operations are economically dependent on direct financial support provided through the Architect and by the United States Senate (the Senate). Under 2 U.S.C. 2050, the Architect is required to transfer appropriated funds to the Fund for use in paying certain management personnel and miscellaneous operating expenses of the restaurants. Support provided directly by the Senate consists of appropriations, loans, and transfers of appropriated capital (equity) to the Fund from the Senate's contingent fund used to finance the Fund's recurring operating losses. As noted in Note 8, restaurant operations were transitioned to a private company by contract dated September 16, 2008. Public Law 110-279, in conjunction with the operating agreement, provides for the Architect to reimburse the contractor for wage and benefit differential and administrative fees, subject to availability of appropriated funds, resulting from retaining former restaurant employees.

In addition, as discussed in Note 4, funds were provided during fiscal year 2008 to cover certain costs needed to prepare for privatizing restaurant operations.

The Architect also provides other financial support that is not included in the Fund's financial statements. The Architect uses appropriated funds among other things to purchase and maintain restaurant-related capital items, which remain the property of the Architect and are thus not reflected in the Fund's financial statements.

In addition, the Architect and the Government Printing Office use appropriated funds – the value of which cannot readily be determined – to provide the Fund with space, utilities, garbage disposal, and printing in support of restaurant operations. These costs do not appear in the Fund's financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) BASIS OF ACCOUNTING**

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

This information is an integral part of the accompanying financial statements.

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**NOTES TO FINANCIAL STATEMENTS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**(b) USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. 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 of those amounts could differ from management's estimates and assumptions.

**(c) 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. The balance at September 30, 2008, also includes additional funding provided during fiscal year 2008 to cover certain costs associated with privatizing restaurant operations. See Notes 4 and 8 for further details.

**(d) ACCOUNTS RECEIVABLE**

Accounts receivable are uncollateralized customer obligations, which generally require payment within 30 days from the invoice date. Accounts receivable are stated at the invoice amount. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices. Interest accrues at 2 percent per month on balances over 60 days past due.

Management has determined that there is no need for an allowance for doubtful accounts, which is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the Fund could be adversely affected.

**(e) VENDOR COMMISSIONS RECEIVABLE**

Vendor commissions receivable represents vending machine commissions earned in the current fiscal year but not received until next fiscal year.

**(f) INVENTORY**

Under its authority to use funds as necessary for restaurant operations, the Fund acquires various types of inventory items (food, beverage, merchandise, china, glassware, silverware, and tableware). These inventories are valued at lower of cost or market using the first-in, first-out method.

This information is an integral part of the accompanying financial statements.

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**NOTES TO FINANCIAL STATEMENTS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

Charges for breakage and shortages of china, glassware, silverware, and tableware purchased by the Fund are based on periodic physical counts and are treated as current period expenses in the Fund's statements of operations.

**(g) DEFERRED INCOME**

Deferred income represents catering deposits received as of September 30 for events that will occur subsequent to year-end.

**(h) EMPLOYEES' ACCRUED LEAVE**

Employees accrue annual leave on a biweekly basis. Full-time hourly and salaried workers accrue leave at rates ranging from 4 to 8 hours, depending on length of service. Part-time employees accrue leave at fluctuating biweekly rates, based on the amount of hours worked each pay period. Employees may carry over a maximum of 240 hours each calendar year.

**(i) FEDERAL EMPLOYEE BENEFITS**

The Fund contributes to the costs of providing future pension benefits to eligible employees over the period of time they render services to the Fund. The costs recognized in the financial statements represent actual contributions made by the Fund. The Office of Personnel Management (OPM) supplies the Fund with factors to apply in calculating the estimated current year service cost. These factors are derived through actuarial cost methods and assumptions. The estimated future pension costs is the excess of the current year service costs less current agency and employee contributions and represents the amount being financed directly by OPM. This amount is disclosed in the financial statements (see Note 6).

The Fund also discloses the current-period costs calculated for the estimated future costs of post retirement health benefits and life insurance for its employees while they are still working. The Fund discloses this cost in a manner similar to that used for pensions with the exception that employees and the Fund do not make current contributions to fund these future benefits (see Note 6).

This information is an integral part of the accompanying financial statements.

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**NOTES TO FINANCIAL STATEMENTS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

**NOTE 3 – ACCOUNTS RECEIVABLE, SENATE CUSTOMER ACCOUNTS**

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, 2008 and 2007 follows.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Amount** | **Percentage** | **Amount** | **Percentage** |
| **Days outstanding** | | | | |
| 0 to 30 | $ 71,896 | 96.3 | $ 48,340 | 94.9 |
| 31 to 60 | 1,653 | 2.2 | 2,286 | 4.5 |
| 61 to 90 | 1,152 | 1.5 | 288 | 0.6 |
| **Total** | $ 74,701 | 100.0 | $ 50,914 | 100.0 |

Management actively pursues collection of all past due amounts. In accordance with policies established by the Committee, the Fund's accounting office mails monthly statements, which include the current charge (with supporting receipt) to all accounts with a balance. Customers whose accounts are delinquent over 30 days will receive a telephone reminder. Customers whose accounts are delinquent over 60 days will receive an e-mail reminder. Additional collection procedures are pursued on all balances that are delinquent for over 120 days, or accounts that are over 60 days delinquent with balances over $10,000. The ultimate collection of all delinquent receivables is ensured through closeout procedures, which require payment of all past due balances at the time a senator leaves office.

**NOTE 4 – FINANCING ACTIVITIES**

In managing the Fund, the Architect has access to three types of supplemental funding: (1) appropriations, (2) loans, and (3) transfers of appropriated capital (equity). Under 2 U.S.C. 2050, the Architect is required to transfer appropriated funds to the Fund for use in paying certain management personnel and miscellaneous operating expenses of the restaurants. For the fiscal years ended September 30, 2008 and 2007, the Fund's financial statements include direct financial support received from the Architect and the Senate through transferred appropriations of $2,706,259 and $850,000, respectively. As discussed in Note 8, restaurant operations were transitioned to a private company by contract dated September 16, 2008. $1.3 million of the fiscal year 2008 transfer was used to fund expenditures for September 2008 payroll and benefits, accounts payable to vendors, unpaid annual and sick leave for transferring employees, and replacement of the point of sale system as specified in the operating agreement. Public Law 110-279, in conjunction with the agreement, provides for the Architect to reimburse the contractor for wage and benefit differential and related administrative fees in retaining former restaurant employees, subject to availability of appropriated funds, for the term of the agreement.

Also, 2 U.S.C. 2049 allows the Architect, with the approval of the Committee, to borrow from the Senate contingent fund the amounts necessary to manage the Fund. The Committee establishes the loan amounts and repayment periods. The loaned funds come from the miscellaneous appropriation account of the Senate's contingent fund, and loan repayments are deposited to the same account. The last loan requested was received in fiscal year 1998 and repaid in fiscal year 2002.

This information is an integral part of the accompanying financial statements.

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**NOTES TO FINANCIAL STATEMENTS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

**NOTE 4 – FINANCING ACTIVITIES** (CONTINUED)

Under 2 U.S.C. 2044, 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. The Fund's total appropriated capital is $2,847,144 as of September 30, 2008 and 2007. No appropriated capital transfers have been received by the Fund since fiscal year 1999.

**NOTE 5 – SALES, COMMISSIONS, AND OTHER OPERATING INCOME**

The following schedule provides a comparison of sales, commissions, and operating income for the various Fund activities during fiscal years 2008 and 2007.

| | Fiscal Year 2008 | | Fiscal Year 2007 | |
|---|---|---|---|---|
| | Sales and Commissions | Operating Income (Loss) | Sales and Commissions | Operating Income (Loss) |
| Regular food services: | | | | |
| Catering | $ 3,957,005 | $ (411,848) | $ 4,141,505 | $ (175,545) |
| Capitol dining rooms | 339,483 | (443,163) | 301,611 | (420,667) |
| North Servery Cafeteria | 2,998,029 | (520,824) | 2,910,818 | (774,826) |
| South Buffet | 492,185 | (83,848) | 502,758 | (23,797) |
| Snack bar | 279,810 | (146,699) | 267,736 | (123,301) |
| Senate chef | 1,001,902 | (84,057) | 908,928 | (70,065) |
| Total regular food services | 9,068,414 | (1,690,439) | 9,033,356 | (1,588,201) |
| Sundry Shop operations: | | | | |
| Southside Deli | 250,607 | (27,834) | 323,428 | (24,724) |
| Hart Office Building | 267,925 | (14,061) | 364,585 | (33,835) |
| Total Sundry Shop operations | 518,532 | (41,895) | 688,013 | (58,559) |
| Vending machine and other commissions | 298,647 | 298,647 | 306,123 | 306,123 |
| **Total** | $ 9,885,593 | $ (1,443,687) | $ 10,027,492 | $(1,340,637) |

This information is an integral part of the accompanying financial statements.

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UNITED STATES SENATE RESTAURANTS REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended September 30, 2008 and 2007

**NOTE 6 – PERSONNEL AND BENEFITS**

Personnel and benefits consist of salaries and wages for Fund employees; employee benefits for Fund employees; and contract labor, which includes on-call wait staff used for special functions and events. The following table presents a breakout of the amounts included in each category for the fiscal years ended September 30, 2008 and 2007.

| | 2008 | 2007 |
|---|---|---|
| **Personnel and benefits** | | |
| Salaries and wages | $ 3,543,912 | $ 3,701,314 |
| Employee benefits | 1,819,784 | 1,893,468 |
| Contract labor | 1,318,286 | 1,213,872 |
| **Total** | $ 6,681,982 | $ 6,808,654 |

**Pension Benefits, Savings Plans and Postemployment Benefits**

Fund employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Although the Fund contributed a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The Fund also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM). For employees covered by FERS, the Fund contributes 1 percent of pay to the Thrift Savings Plan (TSP) and matches employee contributions to the TSP, up to an additional 4 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 OPM. Using the cost factors supplied by OPM, the Fund has calculated the estimated future pension costs and estimated future cost of postretirement health benefits and life insurance for its employees. These costs are financed by OPM on behalf of the Fund, and are not reflected in the Fund's financial statements.

| | 2008 | 2007 |
|---|---|---|
| Federal employee retirement benefit costs paid by OPM on behalf of the Fund: | | |
| Estimated future pension costs (CSRS/FERS) | $ 201,547 | $ 235,932 |
| Estimated future postretirement health and life insurance (FEHBP/FEGLIP) | 481,013 | 585,854 |
| **Total** | $ 682,560 | $ 821,786 |

**Employee Benefits Included in the Fund's Financial Statements**

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. All of these payments are recognized as operating expenses in the Fund's financial statements.

This information is an integral part of the accompanying financial statements.

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**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**NOTES TO FINANCIAL STATEMENTS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

**NOTE 6 – PERSONNEL AND BENEFITS** (CONTINUED)

Contributions made by the Fund for employee benefits during fiscal years 2008 and 2007 are listed in the following table.

| | 2008 | 2007 |
|---|---|---|
| **Employee benefits** | | |
| FEHBP | $ 563,344 | $ 584,874 |
| FERS | 430,084 | 458,566 |
| Leave expense | 297,233 | 303,298 |
| FICA | 182,972 | 188,178 |
| TSP | 109,911 | 117,375 |
| Employee meals | 83,485 | 88,847 |
| Transit subsidy | 44,603 | 44,120 |
| HIT | 53,623 | 54,492 |
| CSRS | 47,982 | 47,221 |
| FEGLI | 6,547 | 6,497 |
| **Total** | $ 1,819,784 | $ 1,893,468 |

**NOTE 7 – OTHER FUNDING NOT IN FINANCIAL STATEMENTS**

Identifiable costs paid directly by the Architect for the benefit of the Fund that are not reflected in the Fund's financial statements include equipment maintenance, equipment purchases, and professional fees totaling $355,509 and $185,246 for fiscal years 2008 and 2007, respectively. The majority of the increase in the costs from fiscal year 2007 is due to consulting and other costs associated with privatizing the restaurant's operations.

**NOTE 8 – PRIVATIZATION OF SENATE RESTAURANTS**

On September 16, 2008, the Architect contracted out all of the Senate Restaurants' operations, including food service, catering, sundry shop, and vending operations and transitioned the operations to a private company on December 7, 2008. The agreement with the contractor is for a term of seven years with two seven year options for renewal, subject to negotiations. The agreement provides for the Architect to receive commissions on catering and vending sales, which are statutorily required to be deposited in the miscellaneous items account within the contingent fund of the Senate. The contractor is wholly responsible for 100 percent of operating losses (if any). The agreement also provides for former Senate Restaurant employees, who accepted employment with the contractor, to retain their wages and benefits as of the transfer date while employed by the contractor, subject to the availability of appropriated funds. Public Law 110-279 requires the Architect, through a negotiated fee arrangement, to reimburse the contractor for wage and benefit differential and administrative fees involved in retaining the former employees. The Architect will also provide use of its facilities and equipment to the contractor.

This information is an integral part of the accompanying financial statements.

**UNITED STATES SENATE RESTAURANTS REVOLVING FUND**
**NOTES TO FINANCIAL STATEMENTS**
**For the Fiscal Years Ended September 30, 2008 and 2007**

**NOTE 8 – PRIVATIZATION OF SENATE RESTAURANTS** (CONTINUED)

Public Law 110-279 authorized, with congressional approval, the Architect to provide covered employees of the Senate Restaurants an option of receiving a Voluntary Separation Incentive Payment (VSIP). Under the VSIP, employees were given the option to go to work for the contractor taking over the operations of the restaurants, or terminate employment (i.e. retire/resign) with the Architect and receive a monetary payment based on time and service. Those employees electing to work for the contractor were given an additional 90-day grace period to retire/resign and still receive a VSIP based on time and service. Forty-three individuals chose to retire/resign by the transition date; three individuals chose to retire/resign during the 90-day grace period; and the Fund provided VSIP to them totaling $1,026,284 and $75,000, respectively. Thus, the Fund recognized a $1,101,284 total liability for VSIP for those Senate Restaurants employees who voluntarily opted not to accept employment with the contractor by the transition date or during the 90-day grace period. All separating employees were paid for their accrued annual leave balances which amounted to $86,313. Per the legislation, employees that accepted employment with the contractor will continue to maintain their retirement, health and life insurance benefits as well as retain the pay they earned at the time of restaurant operations transition to the contractor. The Architect of the Capitol will reimburse the contractor, subject to available appropriations, for any authorized pay and benefit differential.

Going forward, the purpose and authority of the Senate Restaurant Revolving Fund is not changing, but the Fund's assets, liabilities, and transactions will be substantially different due to the privatization of the restaurant operations effective December 7, 2008 (transition date). As of March 31, 2009, the Fund's cash balance with Treasury was $412,906; substantially all of the outstanding accounts receivable balances at September 30, 2008 had been collected by the Fund; and the unpaid accounts payable balance was $24,843. Leading up to the transition date, the Senate Restaurants reduced its acquisition of food, beverages, and supplies; therefore minimal amounts were transferred to the contractor. On the transition date, certain items of china, glassware and silverware were transferred to the contractor at no cost. Remaining items were transferred to a storage site for eventual disposal through the General Services Administration.

**NOTE 9 – SUBSEQUENT EVENT**

Subsequent to fiscal year-end, the Fund received $850,000 of appropriated funds from the Architect for fiscal year 2009 for the support of management personnel and other operating expenses of the restaurants.

This information is an integral part of the accompanying financial statements.

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