



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

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Accounting and Financial
Management Division

B-114891

June 23, 1992

The Honorable Charlie Rose
Chairman, Committee on House Administration
House of Representatives

Dear Mr. Chairman:

In letters dated July 10, 1990, and April 10, 1991, the Architect of the Capitol requested that we audit the financial statements of the Service America Corporation's (SERVAM) operation of the House of Representatives Restaurant System for calendar years 1989 and 1990, respectively. We are addressing this letter to you because, effective August 4, 1991, SERVAM's contract was terminated and your Committee assumed responsibility for operating the restaurant system.

As discussed with your office and the Architect's office, we are unable to complete our audit on the financial statements for either 1989 or 1990 because we were unable to obtain from SERVAM key financial and accounting records to support payroll expenses and other material financial statement accounts.

In the course of our attempt to audit the 1989 financial statements, we found that SERVAM continued to be in noncompliance with federal requirements related to employee benefits. Our work also showed that SERVAM lacked adequate controls over restaurant equipment and inventory, thus impairing accountability. These and other controls are essential to the financial management of restaurant operations.

PROBLEMS IN SERVAM'S OPERATIONS

Accounting System

SERVAM's accounting system in 1989 and 1990 did not ensure that key financial and accounting records would be available

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to support an audit of its financial statements for the restaurant system. For example, we were not able to obtain from SERVAM key documentation to support certain payroll costs, SERVAM's largest operating expense. This included basic documentation of employees' work hours and supervisory approval of those hours.

Equipment and Inventory Control

SERVAM did not establish centralized control over restaurant equipment and inventory during 1989 and 1990. As a result, SERVAM could not account for certain equipment or ensure that certain inventory, such as china, glassware, flatware, and serving utensils, was adequately stocked.

Federal Retirement Contributions

In August 1990, we reported that SERVAM used an incorrect formula in 1988 to compute employee withholdings.¹ As a result, employee withholdings and corresponding employer contributions for basic retirement benefits under federal retirement programs were less than the amounts required by the laws governing such programs. As of the time of our report, the exact amount underwithheld had not been determined.

During the course of our attempt to audit the 1989 financial statements, we found that SERVAM was still using an incorrect formula for computing employee benefits. Also, SERVAM was not making required contributions to the Thrift Savings Program (TSP) as required under Office of Personnel Management regulations. The exact amount underwithheld, and the amount of TSP contributions not made, had not been determined when SERVAM's contract to operate the House restaurant system was terminated.

THE IMPORTANCE OF EFFECTIVE CONTROLS

Many of these problems could have been avoided if SERVAM had had effective controls in place to ensure that key financial

¹Financial Audit: Service America Corporation's 1988 Operation of the House Restaurant System (GAO/AFMD-90-87, August 23, 1990).

and accounting records were readily available. Effective controls, combined with an accounting system with clearly written accounting policies and procedures, as well as adequate resources and oversight, allow for the preparation of reliable financial statements and, in the process, can generate useful financial information needed to manage a restaurant system.

In addition, an effective centralized equipment and inventory system can help to ensure that equipment and inventory levels are properly managed. Such a system would include clearly written policies, procedures, and controls as well as adequate resources and oversight for the acquisition, repair, and disposal of all equipment and for the determination and maintenance of inventory stock levels.

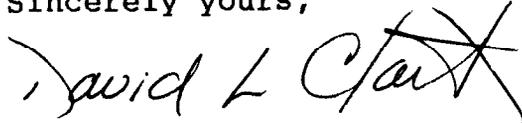
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We have discussed the issues addressed in this letter with SERVAM, with your office, and with the Architect of the Capitol's office. In a November 14, 1991, letter, you asked us to answer several questions pertaining to SERVAM's operation of the restaurant system, including its accountability for equipment and inventory. We are currently pursuing the answers to those questions, and are also working with SERVAM in its efforts to determine the correct amount of employee withholdings and the required contributions it owes to the Thrift Savings Program. Representatives of SERVAM have informed us that it intends to resolve all payroll issues outstanding as of the time its contract to operate the House restaurant system was terminated. If requested, we would be available to assist the Committee in any other efforts related to the House restaurant system.

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Should you or your staff have any questions or require additional information on the matters discussed in this letter, please contact me at (202) 275-9489 or Rosemary Jellish, Assistant Director, at (202) 512-6920.

Sincerely yours,

A handwritten signature in cursive script that reads "David L. Clark". The signature is written in black ink and is positioned below the "Sincerely yours," text.

David L. Clark
Director, Legislative Reviews and
Audit Oversight

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