



Architect of the Capitol  
U.S. Capitol, Room SB-15  
Washington, DC 20515  
202.228.1793  
[www.aoc.gov](http://www.aoc.gov)

United States Government

## MEMORANDUM

DATE: September 29, 2015

TO: Beth Plemmons, Chief Executive Officer for Visitor Services  
David Ferguson, Chief Administrative Officer

FROM: Kevin Mulshine, Inspector General

SUBJECT: U.S. Capitol Visitor Center Restaurant Contract – OIG Report A-2015-06

This memorandum conveys the results of the Office of Inspector General compliance audit of the restaurant service contract for the U.S. Capitol Visitor Center (CVC). CVC management requested our assistance to examine whether the contractor, Restaurant Associates (RA), is adhering to the contract regarding the commissions paid to the CVC for a 14 month period during calendar years 2014-2015.

**Background.** The Capitol Visitor Center opened on December 2, 2008 and is the newest addition to the historic Capitol complex. At nearly 580,000 square feet, the CVC is approximately three-quarters the size of the U.S. Capitol itself and serves as an important gateway for visitors to the U.S. Capitol Building. In 2015 alone the CVC hosted over 2 million visitors. The CVC contains exhibits, two theaters, an auditorium, gift shops, office space, and a 530-seat cafeteria-style restaurant serving soups, salads, entrees, and a variety of other items.

In order to accommodate visitors and offer a comfortable experience, the Architect of the Capitol (AOC) awarded a commission-based contract in May 2007 to RA, an affiliate of Compass Group North America, to operate food services within the CVC. Food services include a large self-service cafeteria and catering services. In addition to the cafeteria, there are separate dining areas designated for catered special events. Menu prices are comparable to prices at other high quality Washington D.C. area cultural institutions, restaurants, cafés, and catering/banquet facilities for similar services, items, and portions.

**Objective, Scope and Methodology.** Our objective was to determine whether RA and the Contracting Officer's Technical Representative (COTR) complied with contract specifications when administering and valuing commission payments. The scope of this review included restaurant and catering revenue for a 14 month period during calendar years 2014-2015. We (i) examined contract provisions; (ii) compared gross receipts reports and other related documents, and (iii) interviewed AOC and RA staff to obtain an understanding of the plans, program, and existing controls. Internal Controls related to the audit objective were assessed for sufficiency. Fieldwork was performed from May 2015 to August 2015. We conducted this audit under the

authority of the AOC Inspector General Act of 2007, and in accordance with Generally Accepted Government Audit Standards (GAGAS).

**Criteria.** For Fiscal Years 2013 and 2014, annual gross receipts for food service totaled approximately \$4.3 and \$4.4 million respectively with commissions paid to the CVC of \$888,000 in FY 2013 and \$895,000 in FY 2014.

Per the contract specifications (CONTRACT NO. AOC07C0036), RA is required to provide the CVC with an estimated statement of gross receipts for each preceding calendar month within 14 calendar days following the end of each calendar month. Within 45 calendar days following the end of each calendar month, RA must provide the CVC with a final statement of gross receipts for that month together with the commission payment. Commission payments calculations are as follows:

<b>Restaurant</b>	<b>Catering</b>
<b>Gross Receipts Percentage</b>	<b>Gross Receipts Percentage</b>
First \$3M 20%	First \$2M 20%
Over \$3M 23%	Next \$1M 22%
	Next \$2M 24%
	Over \$5M 25%

The monthly report includes a recap of daily gross receipts. The statement of gross receipts details all gross receipts by income category and includes (i) per capita revenue, (ii) customer counts, (iii) average checks/transactions in the facilities, (iv) the current month’s budgeted gross receipts, (v) year-to-date actuals and (vi) any other data or statistics as reasonably requested by the CVC.

Within 60 calendar days following the end of each contract year, RA provides the CVC with a statement of Income and Expense covering the operation of the services. This statement of Income and Expense is based on industry standard accounting practices and includes a breakdown of all income and expense categories including percentage ratios, monthly and year-to-date budget, etc. Upon request, RA provides additional breakdowns and/or explanations of line-item income and/or expense items. Every month, RA’s senior management and the on-site general manager discuss the monthly statement of income and expense with the CVC representatives.

RA is required to conduct an audit of the contract operations annually by an independent public accounting (IPA) firm in accordance with Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public Accountants. The audit report and any associated management letters issued by the IPA impacting any of the contractor's operations in support of this contract is to be provided to the Contracting Officer (CO).

**Results:** Our audit findings demonstrate that the COTR adequately performed the necessary steps to verify commission payments and other RA processes for computing total gross receipts. We reviewed the monthly commission payments based on total gross receipts of approximately \$4.9 million from January 2014 to February 2015. We confirmed that the COTR compared the amounts on the Rent Calculation Letter, Schedule of Gross Receipts, Volume Trend Report and Schedule of Concession Fees Paid with the actual commission payments. If any discrepancies were noted, the COTR provided feedback to RA for resolution.

In the process of determining whether RA complied with contract specifications when valuing commission payments, we identified several areas related to internal controls over financial operations that need improvement. These areas may not directly affect the computation of commissions but improving the sufficiency of supporting documentation for commission payments would provide more assurance of their accuracy. In the following paragraphs, we describe the areas that need improvement:

- Using the initial supporting financial information provided by RA, we could not reconcile total gross receipts for seven of the 14 months examined. Cash registers are the primary source of collecting and recording revenue for the café and credit for catering. We requested the following information for each month: (i) statement of profit and loss; (ii) register tapes; (iii) deposit slips; (iv) daily settlement logs; (v) catering invoices; and (vi) CVC event invoices. Using their financial documents, we tried several methods to reconcile gross receipts by:
  - Summarizing cash, credit and invoiced amounts from the daily settlement logs and catering invoices then noted differences between the summary of these accounts and listed gross receipt totals. We were able to use the Volume Trend Report to explain some of the variations in totals for the cafeteria but not in the catering totals because amounts summarized food only (excluding equipment, labor, rental and other non-food charges).
  - Verifying the totals using register tapes, deposit slips, and the Trade Receivables Report listing all catering invoices. For the cafeteria, we found that these amounts did not agree because petty cash replenishments and other adjustments were not consistently documented on financial records. As for catering, adjustments for discounts and refunds were not always properly recorded.
  - In summary, the contract requires that the contractor provide accurate estimated gross receipts data within 14 days and final gross receipt totals within 45 days. For the seven months with reconciliation problems, we were able to eventually reconcile some of the issues but could not explain differences in gross receipts totaling approximately +\$3,000 for cafeteria and -\$1,500 in catering. These amounts are not material in themselves but are an indicator of systemic issues with internal control procedures.

- One area that contributed to several of the reconciliation issues was the use of Petty Cash from a single Imprest Fund used for both Petty Cash and cash register replenishment. Petty Cash is used by RA to purchase miscellaneous items needed during day-to-day operations. According to RA officials, they maintain a \$10,000 Imprest Fund for Petty Cash and register cash. RA replenishes the commingled fund daily using cash from the daily deposit.
  - Generally Accepted Accounting Principles (GAAP) preclude the commingling of funds and require establishing a fixed amount for each account (Imprest and Register) which should be stated in separate accounts in the general ledger. According to GAAP, maintaining established cash register fund levels from cash deposits is appropriate while replenishment of the Imprest Fund is not. Petty Cash disbursement receipts are used as the basis for periodic replenishments of the Imprest Fund from the organizations' checking account which would be recorded at that time as an operational expense on the general ledger account.
  - We conducted a three-month review of the Imprest Fund to ensure that Petty Cash disbursements were properly accounted for and safeguarded. Based on our test, we concluded that receipts adequately supported purchases but no other controls existed to ensure the proper use of this fund. RA provided a Cash Handling Policy that did not designate a reasonable dollar amount or thresholds, specify proper use, segregate duties, require employees to maintain a log, mention cash handling training, or establish reconciliation procedures. The risk of errors, abuse, and theft increases without sufficient policies and procedures.
- RA has a variety of different procedures for financial operations including declaration agreements, checklists and policies for providing guidance on cash handling procedures and day-to-day financial operations. These guidance documents are limited in their coverage and by no means provide for the assurances required in the following contract clause:

*G.4 REPORTING, ACCOUNTING AND PAYMENT OBLIGATIONS Books & Records - The Contractor shall maintain complete and accurate financial records for all transactions involved with the Entity's facilities, including, without limitation, those transactions that support gross receipts, such as cash register tapes, catering billings and other sales receipts. These items shall be properly stored and shall be kept for the minimum time detailed above or until the completion of any audit made by the Entities' auditors.*

Guidance was not available for processes such as invoicing, collections, discounts, etc. Policies and procedures are a ready reference source for all employees, provides clarification of responsibilities, and helps guarantee a consistent application of practices. The institution of proper policies and procedures is also essential to a good control environment and helps ensure proper controls over and use of resources.

**Conclusions.** Overall, we found that the commissions paid by RA from January 2014 to February 2015 appeared accurate. However, we did identify several internal control areas that need improvement. These areas may not directly affect the computation of commissions, but improving the sufficiency level of financial documentation that supports commission payments will provide assurance of the accuracy of commissions paid and will better comply with contract provisions that require the Contractor to maintain complete and accurate financial records for all transactions involving CVC facilities. We believe the CO should require that the Contractor provide complete and accurate financial records for all transactions as stated in the contract.

**Recommendations.** We are recommending that the Contracting Officer, as the duly authorized representative of the CVC, require that the contractor:

- 1) Evaluate and make the necessary improvements to current procedures to ensure all financial transactions and events are properly recorded, accurate, complete, and up-to-date.

**AOB Comment:** Concur. The Acquisition and Material Management Division (AMMD) will ensure the contractor makes necessary improvements to current procedures for all financial transactions. Estimated completion date: September 2016.

- 2) Establish separate Imprest and Cash Register Fund accounts along with the requisite standard operating procedures (in accordance with GAAP).

**AOB Comment:** Concur. The AMMD will ensure the contractor establishes separate Imprest and Cash Register fund accounts following GAAP standards. Estimated completion date: September 2016.

- 3) Implement a mandatory cash handling training program.

**AOB Comment:** Concur. The AMMD will ensure the contractor implements a mandatory cash handling training program. Estimated completion date: September 2016.

We held an exit conference with the responsible officials for the CVC Restaurant Contract on September 15, 2015. These officials concurred with our conclusions and agreed to immediately implement the three recommendations. We appreciate the cooperation and assistance provided by the CVC and RA staff. If there are any questions regarding this report, please contact H. Vance Haney, Assistant Inspector General for Audits, at 202.579.1244 or vhaney@aoc.gov.

Distribution List: The Honorable Stephen T. Ayers, FAIA, LEEP AP, Architect of the Capitol  
Christine A. Merdon, P.E., CCM, Chief Operating Officer  
Shalley Kim, Executive Assistant  
John Kelly, Management Analyst



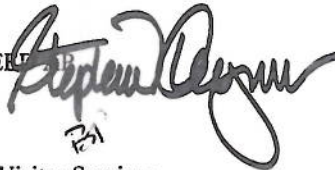
Architect of the Capitol  
U.S. Capitol, Room SB-16  
Washington, DC 20515  
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## MEMORANDUM

DATE: September 25, 2015

TO: Kevin Mulshine  
Inspector General

THROUGH: Stephen T. Ayers, FAIA, LEET   
Architect of the Capitol

FROM: Beth Plemmons  
Chief Executive Officer for Visitor Services

David W. Ferguson   
Chief Administrative Officer

SUBJECT: AOC Comments to Draft Audit Report of the U.S. Capitol Visitor Center  
Restaurant Contract

This memorandum provides the Architect of the Capitol's (AOC) comments regarding the Office of Inspector General's (OIG) Draft Audit Report of the U.S. Capitol Visitor Center Restaurant Contract.

**Recommendation 1:** Evaluate and make the necessary improvements to current procedures to ensure all financial transactions and events are properly recorded, accurate, complete, and up-to-date.

**AOC Comments:** Concur. The Acquisition and Material Management Division (AMMD) will ensure the contractor makes necessary improvements to current procedures for all financial transactions. Estimated completion date: September 2016.

**Recommendation 2:** Establish separate Imprest and Cash Register Fund accounts along with the requisite standard operating procedures (in accordance with GAAP).

**AOC Comments:** Concur. The AMMD will ensure the contractor establishes separate imprest and cash register fund accounts following GAAP standards. Estimated completion date: September 2016.

**Recommendation 3:** Implement a mandatory cash handling training program.

**AOC Comments:** Concur. The AMMD will ensure the contractor implements a mandatory cash handling training program. Estimated completion date: September 2016.

Please do not hesitate to contact Beth Plemmons at 202.593.1746 or David W. Ferguson at 202.226.1222 if you have any questions concerning this response.

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