John W. Lainhart IV
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515–9990

MEMORANDUM

TO: James M. Eagen III
Chief Administrative Officer

FROM: John W. Lainhart IV
Inspector General

DATE: July 20, 1998

SUBJECT: Audit Report – More Effective Contract Administration Needed In House Food Services (Report No. 98-CAO-07)

This is our final report on the administration of House food service contracts. The objective of this audit was to determine the effectiveness and adequacy of established procedures and controls over food service contracts. In this report, we identified a number of weaknesses in food service contract controls and procedures and made specific recommendations for corrective actions.

In response to our October 31, 1997 draft report, your office concurred with our findings and recommendations. The May 8, 1998 management response is incorporated in this final report and included in its entirety as an appendix. The corrective actions taken by your office are appropriate and satisfy the intent of our recommendations.

We appreciate the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Robert B. Frey III at (202) 226-1250.

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Chairman, Committee on House Oversight
Ranking Minority Member, Committee on House Oversight
Members, Committee on House Oversight

More Effective Contract Administration Needed In House Food Services

Report No. 98-CAO-07
July 20, 1998

RESULTS IN BRIEF

CONCLUSIONS

Improvements are needed in the administration of the Office of Food Services to ensure (1) timely deposits of fees and commissions; (2) contractor compliance with the terms of the contracts; (3) vending agreements are adequately controlled; and (4) segregation of duties for the in-house vending operation. Also, deposits from the in-house vending operation had not been posted to the House of Representatives Restaurant account.

These improvements are needed because the Contracting Officer's Representative (COR) in the Office of Food Services has not provided adequate oversight of the House Restaurant System. As a result, (1) fees and commissions were placed at risk of loss, misplacement, or theft; (2) House employees were exposed to increased health and security risks; (3) contractors did not remit payments to the House within the contract required time frame; (4) prices charged and commissions received may not reflect current market trends; (5) the House did not receive all the commissions owed to it; and (6) inventory and funds for the in-house vending operation could be misdirected without detection. In addition, the balance in the House of Representatives Restaurant account, as stated in the Monthly Financial Statement produced by Finance, does not accurately reflect the true balance of the account.

RECOMMENDATIONS

We recommend that the Chief Administrative Officer (1) issue a formal policy requiring that all funds collected be deposited daily; (2) ensure that the COR conducts regular inspections of all House food service facilities for compliance with specific contract requirements and adequately documents and follows up on the inspection results; (3) reassign duties within Office of Food Services to ensure that the COR has sufficient support to oversee the food service contracts; (4) develop policies and procedures for monitoring, periodic reviewing and renegotiating of contracts associated with vending operations; (5) implement the appropriate option, depending on the outcome of the food service request for proposal, by either (a) reassigning the vending manager to assist with food service contract oversight, or (b) developing policies and procedures and establishing adequate segregation of duties or compensating controls for the in-house vending operation. In addition, we recommend that the Chief Administrative Officer modify the Restaurant account financial statement presentation so the true balance of the account is reflected and deposits are correctly identified.

MANAGEMENT RESPONSE

On May 8, 1998, the Chief Administrative Officer formally concurred with the findings and recommendations in this report. According to the response, the CAO: (1) issued a policy requiring all cash receipts to be deposited within one business day of receipt; (2) developed a COR Food Service Manual to regulate inspections; (3) made additional resources available to monitor contractor compliance with all contractual requirements; (4) took an alternative action by contracting out all vending operations; and (5) reassigned the vending manager within the Office of Food Services to assist with food service contract oversight. Also, the CAO agreed to modify accounting procedures and financial statement presentation of the Restaurant account.

OFFICE OF INSPECTOR GENERAL COMMENTS

The CAO's corrective actions are appropriate and satisfy the intent of our recommendations.

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I. INTRODUCTION

Background

The House Restaurant System (HRS) is composed of various food services operated in the Capitol and the House office buildings. These operations, which are administered and monitored by the Office of Food Services (OFS), include the Members' Dining Room, cafeterias, carry-out facilities, catering functions, and vending operations. During the 103rd Congress, the House contracted with several vendors to provide food services that were previously provided by House employees. With the exception of the internal candy and snack vending operation, all House food services were contracted out.

The House contracted with the Skenteris Family, Inc. (Skenteris) and a partnership of Marriott Management Services, Inc., and Thompson Hospitality, Limited (Marriott/Thompson) for food services. Vending services were provided to the House through agreements with Coca-Cola Enterprises North; Pepsi-Cola of Washington, D.C., L.P.; Lance, Inc.; and C & K Sales. As part of their agreements, the vendors and contractors were required to pay either a commission or fee to the House in lieu of rent payments. To monitor the food service contractors, a Contracting Officer's Representative (COR) from OFS was appointed to ensure that contractors complied with the terms of their contracts.

Skenteris Contract

The Skenteris contract began on September 16, 1994, and continues through September 15, 1999. The facilities covered by the contract include the cafeteria, carry-out, and in-house catering operations located in the Ford House Office Building. Pursuant to the contract, Skenteris pays monthly fees to the House that were determined as a percentage of gross revenues from operations. These payments totaled approximately $152,000 as of May 30, 1997.

Marriott/Thompson Contract

The Marriott/Thompson contract was issued on July 5, 1994, for a period of five years. The contract provided for extensions of one or two five-year terms not to extend more than 15 years from the beginning of the original contract. It required Marriott/Thompson to make monthly payments to the House equal to 2 percent of gross sales. As of May 23, 1997, Marriott/Thompson remitted nearly $300,000 to the House. Contract provisions also allowed for its termination by either party, without cause, by giving the other party 180 days written notice.

On November 25, 1996, Marriott/Thompson notified the House of its intention to terminate the contract. Marriott/Thompson cited continuing operating losses as its primary justification for contract termination. The contract was terminated on May 23, 1997. However, to ensure that House food services continued, Marriott/Thompson agreed to a contract modification extending services to August 15, 1997. On August 19, 1997, the House released a request for proposal for the food service operations covered by the terminated contract. During the new contract solicitation period, Marriott/Thompson agreed to a second contract modification to extend its contract to December 19, 1997.

Vending Operations

Vending machines providing beverages and snacks are located throughout the House office buildings and the Capitol. The beverage vending machines are operated by Coca-Cola and Pepsi-Cola. Most snack machines are operated by the House except for the machines operated by C & K Sales and Lance. Each of the vending agreements requires the vendor to pay the House commissions based on monthly vending machine sales. The commission percentages paid to the House are stipulated in each agreement and vary according to vendor and vending price. During 1996, the House received $92,419 in vending commissions from Coca-Cola, Pepsi-Cola, and C & K, and $197,160 in gross sales from the House-run vending operation.

Objective, Scope, And Methodology

Our objective was to determine the effectiveness and adequacy of the established contract oversight procedures over the House food service operations. Specifically, we wanted to determine if contract oversight procedures ensured that the food service contractors were compliant with specific contract requirements. In addition, we expanded our audit of the House food service operations to include a review of the internal vending operation's controls and procedures.

Our audit was conducted in the Offices of the CAO and Clerk, and we reviewed the Skenteris and Marriott/Thompson contracts, the vending agreements with Coca-Cola, Pepsi-Cola, Lance, and C & K Sales, the House-run vending operation, and the processing of the related House proceeds. The audit covered the period from October 1995 through August 1997.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We reviewed the oversight of the House food service operations by interviewing CAO, Clerk, and contract food service personnel; reviewing pertinent policies and procedures; observing operations; reviewing management reports; evaluating the flow of transactions; inventorying vending machines; and comparing records and documents.

Internal Controls

We reviewed the internal controls related to oversight activities of food services, vending operations, and contract requirements. The internal control weaknesses we identified are described in the "Findings and Recommendations" section of this report.

Prior Audit Coverage

The OIG previously issued an audit report -- *Improvements Are Needed In The Management And Operations Of The Office Of The Chief Administrative Officer* (Report No. 96-CAO-15, dated December 31, 1996) -- which addressed, among other issues, contract management policies and procedures. The report identified areas that needed improvement and made four recommendations related to contract management. Two of the recommendations have been fully implemented and the remaining two are expected to be fully implemented by August 31, 1998. The Exhibit at the end of this report summarizes the current status of these recommendations.

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II. FINDINGS AND RECOMMENDATIONS

Finding A: Better Controls Are Needed For The Handling Of House Restaurant System Receipts

Fee payments and commissions were held for prolonged periods of time before being deposited with the U.S. Treasury (Treasury). This occurred because OFS only deposited fee and commission checks once a month. This practice resulted in the increased risk of check loss, misplacement, or theft.

Standard business practices dictate that deposits should be made daily. In addition, Title 31 U.S. Code § 3302 requires an official or agent of the U.S. Government having custody or possession of public money to safeguard the money and deposit the money in the Treasury as soon as practicable. It further requires that money shall be deposited not later than the third day after the custodian receives the money. During the period of our audit, OFS did not handle the funds in compliance with the statutory requirements for deposit frequency or funds safeguarding.

Contractors and vendors sent checks to OFS -- Marriott/Thompson and Skenteris for restaurant and carryout operations; Coke, Pepsi, and C&K for vending commissions; and vending suppliers for miscellaneous rebate checks. During 1996 and the first five months of 1997, OFS deposited fee checks from the various contract service providers totaling $320,126 and $96,339, respectively. These checks were deposited with the Treasury at approximately one-month intervals. In 1996 the checks were held an average of 17.9 days and during the first five months of 1997, 29.3 days before being deposited.

Furthermore, OFS did not properly safeguard the fee and commission checks. After OFS received fee checks, the checks were stored in an unlocked desk drawer until deposited. The need for proper safeguards becomes even more important since office access is unrestricted during regular OFS business hours. This greatly increases the risk that one or more of the checks could be lost, misplaced, or stolen. For instance, one check received at the end of December 1995 for $89,249.56 was held in the unlocked desk drawer for 26 days before it was deposited. This instance illustrates the magnitude of the risk associated with the inadequate safeguarding of fee and commission checks.

As a result of our discussions with CAO management regarding deposit practices, the Acting Associate Administrator for Media and Support Services issued draft guidelines requiring offices to deposit collections daily. Since these guidelines were issued, OFS has initiated daily deposits of fees and commissions.

Recommendation

We recommend that the Chief Administrative Officer issue a formal policy requiring that all collections be deposited daily.

Management Response

The CAO concurred with the recommendation in this finding. In accordance with a CAO memorandum dated October 20, 1997, all cash receipts are now deposited within one business day of receipt.

Office of Inspector General Comments

The action taken is responsive to the issue identified, and satisfies the intent of our recommendation. Therefore, we consider this recommendation closed.

Finding B: House Food Service Contractors Are Not In Compliance With Critical Contract Requirements

The House food service contractors did not always comply with critical contract requirements. This occurred because the COR for these contracts did not adequately monitor contract requirements pertaining to employee health tests, employee identification (ID) cards and background checks, and the payment of monthly fees. As a result, House employees were exposed to increased health and security risks, and the House did not receive its payments within the required time frame.

General contract oversight is the responsibility of the COR. As part of these duties, the COR is required to conduct regular inspections of the food service facilities to ensure that contractors are in compliance with contract terms. However, the COR did not regularly inspect the Marriott/Thompson or Skenteris facilities. In fact, the only documented COR inspection of the Marriott/Thompson facilities was one conducted on February 2, 1995. There were no documented inspections of the Skenteris facilities.

Several factors can be attributed to the COR's inadequate oversight of the House food service contracts. These factors include insufficient COR training, other duties demanding COR time and attention, and poor contract oversight by the original COR. Since the inception of these contracts, the COR and OFS responsibilities were expanded to include contract negotiations, new contract solicitations, and unemployment compensation issues. During the life of the Marriott/Thompson contract, the COR was required to negotiate two contract amendments and participate in the solicitation for new food service providers. The COR and OFS also were faced with time-consuming tasks pertaining to the HRS unemployment compensation program. With these new responsibilities, the COR had less time to devote to oversight responsibilities and did not conduct regular inspections. However, due to the lack of inspections, the COR could not ensure that all of the terms of the contracts were met.

Health Tests

Both the Skenteris and Marriott/Thompson contracts require that all of their employees take a tuberculin test and an infectious disease test to assure that they are free from communicable diseases. These tests are coordinated through the Office of Environmental Health.[1]

To determine if employees were being tested as required, we compared each contractor's current list of employees to the tuberculin and infectious disease test records kept by the Office of Environmental Health. We found that nearly half of the Skenteris employees and a small portion of the Marriott/Thompson employees had not been tested. Figure 1 illustrates the results of this comparison.

[1] The Office of Environmental Health (formerly known as the Sanitarian of the Capitol) reports to the Attending Physician. The office is responsible for conducting sanitation inspections of the food service facilities and coordinating health tests for food service employees.

Contractor	Total Number Of Employees	# Of Employees Without Tests	% Of Employees Without Tests
Skenteris	23	10	43.5%
Marriott/Thompson	160	9	5.6%

Figure 1

Although it is the contractors' responsible to notify the Office of Environmental Health when new employees need to be scheduled for health tests, the COR is responsible for ensuring that the health test requirement is met. However, the COR was unaware that the health tests had not been done because inspections on health test requirements were never made.

After determining that a significant number of Skenteris employees, and to a lesser extent, Marriott/Thompson employees had not complied with the health test requirement, we notified both the COR and the Office of Environmental Health. Since such a significant number of Skenteris' employees had not been tested, we also notified Skenteris management. According to an Office of Environmental Health official, health tests for all Skenteris and Marriott/Thompson employees are now current.

ID Cards and Background Checks

Both the Skenteris and the Marriott/Thompson contracts require that the contractors' employees be issued House ID cards and submit to a background check. The Sergeant at Arms issues House ID cards and coordinates background checks performed by the Capitol Police. Therefore, to determine if contractor employees had IDs and background checks, we compared a list from the Sergeant at Arms with a current list of contractor employees. From our comparison, we found that most of the Skenteris employees and a small number of Marriott/Thompson employees did not have House ID cards. Furthermore, no background checks had been performed on any of the contract employees. Figure 2 shows that a total of 24 contract employees were without House IDs.

Contractor	Total Number Of Employees	# Of Employees Without IDs	% Of Employees Without IDs
Skenteris	23	18	78%
Marriott/Thompson	160	6	4%

Figure 2

Although the contractors are responsible for ensuring that each employee is issued an ID card, the COR is responsible for monitoring contract compliance. However, the COR never verified whether the contract employees had been issued ID cards. After determining that most of the Skenteris employees and a small number of Marriott/Thompson employees did not have House ID cards, we notified the COR. Since such a significant number of Skenteris' employees needed House IDs, we also notified Skenteris management. Upon receiving this information, Skenteris management, working with the COR, began the process to comply with this contract requirement. Marriott/Thompson management is also obtaining IDs for their employees.

Neither the contractor nor the COR requested the Sergeant at Arms to obtain background checks for the food service employees. As a result, no food service employees received the contract required background checks. We notified the COR of this requirement but, to date, no background checks have been completed. However, the COR is working on procedures to ensure future contractor compliance.

Fee Payment

The contractors are required to remit payment to the House each month within the time frame stipulated in their respective contracts.[2] Marriott/Thompson must pay "2% of gross sales" within 15 days of the start of the subsequent month. Skenteris must pay "5.5% of gross revenues" by the fifth business day after the end of the month.[3]

During 1996 and the first five months of 1997, Marriott/Thompson usually paid its fees within the time specified in the contract. However, this was not the case during 1995. During this period, the fee payments were not received within the 15 working day time frame. Instead, Marriott/Thompson deposited its fees into an escrow account while certain contract terms were in dispute. Marriott/Thompson did this without authorization from the House and continued to deposit its fees into the escrow account until the contract dispute was resolved. In December 1995, Marriott/Thompson issued one check to cover the entire period that the fees were escrowed. However, the COR had no reasonable recourse because the contract did not provide any monetary penalties for late payment.

In addition, during 1996 and the first five months of 1997, Skenteris did not make any payments within five business days after the end of the month as specified by its contract. Skenteris only remitted its fees when the COR requested payment. Consequently, Skenteris fee payments were received 17.7 business days late on average during this period.

Recommendations

We recommend that the Chief Administrative Officer:

1. Ensure that the Contracting Officer's Representative conducts regular inspections of all House food service facilities for compliance with specific contract requirements and adequately documents and follows up on the inspection results.

[2] The amounts remitted to the House from the food service contractors were reviewed in the *Audit Of Revenue Verification Of The Food Service Contractor Operations At The U.S. House Of Representatives* (Report No. 97-CAO-xx, issued Month xx, 1997).
[3] As stipulated by the terms of the contract, the percentage of gross revenues paid by Skenteris increased from 5 percent to 5.5 percent in September 1996.

2. Reassign duties within Office of Food Services to ensure that the Contracting Officer's Representative has sufficient support to oversee the food service contracts to:
   (a) ensure all contract employees have the required medical tests;
   (b) ensure all contract employees have House-issued ID cards and appropriate background checks; and
   (c) ensure that all fee checks are received by the House as stipulated in the contracts.

Management Response

The CAO concurred with the recommendations in this finding. The CAO has developed a *Contracting Officer Representative's Food Service Manual* which provides procedures for inspections and ensuring contract compliance. In addition the CAO made additional resources available to monitor contractors for compliance with all required medical tests, and to ensure they have House-issued ID cards and appropriate background checks. Also, a financial analyst position has been proposed for Committee on House Oversight approval. The duties of this position include monitoring the timely receipt of contractual fees.

Office of Inspector General Comments

The actions taken are responsive to the issue identified, and satisfy the intent of our recommendation. Therefore, we consider this recommendation closed.

Finding C: Controls Over Vending Agreements Are Needed

Vending agreements with outside vendors were not adequately controlled. This occurred because OFS has not developed any policies or procedures to ensure proper oversight of House vending agreements. As a result, the prices charged and commissions received may not reflect current market trends. In addition, the House has not received all the commissions owed to it.

In order to establish accountability and control over vending machines, the House assigned responsibility for vending operations to OFS in 1992. As a result, OFS entered into agreements with Pepsi-Cola, Coca-Cola, C&K Sales, and Lance to provide vending services to the House. These agreements currently cover 32 machines that generate approximately $5,000 to $7,000 in monthly commissions.

Each vending agreement requires that the vendor pay the House a commission based on a percentage of monthly vending machine sales. The commissions are stipulated in each agreement and vary according to vendor and vending price. Standard business practices dictate that all agreements should be reviewed periodically to determine if the terms of the agreements are still in the entity's best interest. However, the agreements have not been reviewed, re-negotiated, or adequately monitored since their inception. Although the terms of these agreements appear to be favorable to the House, periodic reviews would ensure that prices charged and commissions received continue to be favorable to the House and its employees. Figure 3 lists the four vending companies having agreements with the House and the dates the agreements were signed.

COMPANY	DATE SIGNED[4]
Pepsi-Cola	April 1, 1992
Coca-Cola	Not Dated
Lance	December 16, 1993
C&K Sales	Not Dated

Figure 3

When we originally requested copies of all the vending agreements, the COR was not aware of any agreement with Lance. After we learned from the vending manager that an agreement did exist, OFS contacted Lance to get a copy of the agreement. However, our review of the agreement disclosed that Lance had not paid the House any commissions from June 1994 to March 1997. Currently, the Director of Food Services is working with Lance in an effort to collect the overdue commissions.

In addition, while conducting an inventory of the vending machines, we found one Pepsi machine in the Ford House Office Building not covered by any agreement. Subsequently, we

[4] Based on the signatures, the agreements with Coca-Cola and C&K Sales were most likely signed in 1992 and 1994, respectively.

were informed that a Coke machine in the Capitol also was not covered by any agreement.[5] As a result, the House was providing space and electricity for machines without receiving any commissions from their service. The Director of Food Services is taking action to remove these machines and collect commissions owed.

Recommendation

We recommend that the Chief Administrative Officer develop policies and procedures for the monitoring, periodic reviewing and renegotiating of contracts associated with vending operations.

Management Response

The CAO concurred with the recommendation in this finding; however, the CAO took an alternative action. As of January 1998, the House no longer administers vending operations. In accordance with the new contract with Guest Services, Inc. (GSI), vending operations are now managed by GSI, which employs a vending subcontractor. The new contract requires GSI and any of its subcontractors to meet acceptable standards of vending controls. A Quality Assurance Plan also has been developed to hold GSI and any of its subcontractors to high standards of vending performance.

Office of Inspector General Comments

The action taken is responsive to the issue identified, and satisfies the intent of our recommendation. Therefore, we consider this recommendation closed.

[5] We were unable to determine if any commissions were generated or paid for these machines. Pepsi did not have any relevant information on the machine's operation, and the Coke machine apparently had not been operational for some time.

Finding D: Additional Controls Are Needed Over In-house Vending Operations

Controls over in-house vending operations need improvement. This occurred because all custody and record-keeping duties for the vending inventory and funds were performed by a single individual--the vending manager. As a result, vending inventory and funds could be misdirected without detection.

The in-house vending operation consists of 15 House-owned vending machines. One full-time House employee, the vending manager, performs virtually all duties related to custody and record keeping of the vending inventory and funds. The vending manager is responsible for ordering, receiving, and maintaining custody of inventory and filling and servicing the vending machines. He also records the cumulative machine sales readings, collects the cash (approximately $16,000 to $20,000 monthly), counts the cash, bands the bills, and rolls the coins in preparation for deposits twice monthly. The vending manager also keeps the accounting records for sales, cash over/short, and cost of goods sold.

To offset risks associated with inadequate segregation of duties, compensating controls (such as cumulative machine sales reading verification or trend analysis of a profit and loss statement) can be used to monitor operations. However, no compensating controls have been implemented in the in-house vending operation. At one time, the Director of Food Services maintained a profit and loss statement for the vending operation, but the practice was discontinued since deposits are not tracked by the Office of Finance (see Other Matters for additional information). Only expenditures charged to the revolving fund are reviewed and verified. These expenditures include goods and services purchased for the internal vending operation. Without segregation of duties or adequate compensating controls, inventory and funds could be misdirected without detection.

On August 19, 1997, the House issued a request for proposal (RFP) for food services which included the House vending operations. The contracting out of all House vending operations would eliminate in-house vending operations and the need for any additional controls.

Recommendation

We recommend that the Chief Administrative Officer, depending on the outcome of the request for proposal, implement the appropriate option:

Option 1: Vending operation contracted out -- reassign the vending manager to assist with food service contract oversight.

Option 2: Vending operation remains in-house -- develop policies and procedures and establish adequate segregation of duties or compensating controls for the in-house vending operation.

Management Response

The CAO concurred with the recommendation in this finding and implemented Option 1. Under the new contract with GSI, all vending operations have been contracted out, and the vending manager has been reassigned within the Office of Food Services to assist with food service contract oversight. In accordance with the contract, the contractor and its vending subcontractor must use appropriate controls to provide for adequate segregation of duties.

Office of Inspector General Comments

The action taken is responsive to the issue identified, and satisfies the intent of our recommendation. Therefore, we consider this recommendation closed.

III. OTHER MATTERS

Deposits from the in-house vending operation had not been posted to the Restaurant account managed by the Finance Office. The deposits were listed on the Appropriation Table in the Federal Financial System (FFS) but not properly recorded in the Restaurant account.[6] Therefore, the balance in the Restaurant account, as stated in the Monthly Financial Statement produced by Finance, does not accurately reflect the true balance of the account.

The Legislative Branch Appropriations Act, 1996 (P.L. 104-53), as amended by P.L. 104-197, provided that the special deposit account established for the House of Representatives Restaurant shall be available only to the extent provided in appropriations acts. The Act further provides that the amounts deposited in the Restaurant account from vending operations of the House Restaurant System shall be available to pay the cost of goods sold.

Pursuant to this Act, revenues from the in-house vending operation were correctly deposited to the special House of Representatives Restaurant fund at Treasury. However, prior to our inquiry, Finance had not transferred the fiscal year 1996 and 1997 vending deposits to the Restaurant account in FFS. As a result, the balance shown on the Monthly Financial Statements for fiscal year 1996 was significantly understated and the fiscal year 1997 balance was incorrectly listed as negative. These balances did not accurately reflect the true balance of the account which had accumulated to over $400,000.

As a result of our inquiry, Finance transferred the deposited amounts to the Restaurant account. However, the account balance still was not accurate since the balances for each fiscal year were presented separately. To determine the actual balance in the account, the fiscal year balances must be manually added.

Furthermore, by law, no appropriations are to be included in this account. However, when the deposits were transferred to the Restaurant account, the total amount deposited for each fiscal year was listed as one lump sum under a column entitled “Appropriation.” This presentation of the deposits is incorrect. Anyone reviewing a Restaurant account statement would incorrectly conclude that this account was sustained by appropriated funds since it is not otherwise noted or referenced.

Recommendation

We recommend that the Chief Administrative Officer modify the Restaurant account financial statement presentation so the true balance of the account is reflected and deposits are correctly identified.

[6] Appropriation Tables are a function in FFS used to track the availability of funds for the various entities of the House.

Management Response

The CAO concurred with our recommendation. The Office of Finance has moved the deposits for fiscal years 1996 and 1997 to the Restaurant account at the Organization and Program level. As of October 1997, the Office of Finance records all revenues from vending machine operations directly into the Restaurant account in FFS as they are received. In addition, in January 1998, the Office of Finance consolidated the balances from fiscal years 1996 and 1997 into the fiscal year 1998 balance except for unexpended balances for unliquidated obligations against the account. For the Restaurant account (X4003), the Monthly Financial Statements will be changed to show the Restaurant account as “Funds Available” in place of “Appropriation” beginning with the May Statement, which is scheduled to be distributed on June 12, 1998.

Office of Inspector General Comments

The actions taken, before and subsequent to the CAO’s May 8, 1998 response, fully addresses the issue identified and satisfies the intent of our recommendation. Therefore, we consider this recommendation closed.

EXHIBIT

Status Of Implementation Of Prior Audit Report Recommendations

Audit Report/Recommendations	Implementation Status	Comments on Corrective Actions Taken And/Or Planned	Scheduled Date of Completion
Audit Report No. 96-CAO-15, entitled *Improvements Are Needed In The Management And Operations Of The Office Of The Chief Administrative Officer*, dated December 31, 1996:			
T. 1. Develop procedures to ensure that each contract issued is covered with a purchase order in the FFS Purchasing Subsystem.	Partially Implemented	The Office of Procurement and Purchasing (OPP) currently has 197 active contract files, but they are unsure if all active contracts in the House are included. OPP continues to find areas where there are unrecorded contracts.	7/31/98
T. 2. Develop comprehensive management policies and procedures with respect to contracts within the purview of the CAO.	Partially Implemented	OPP is developing the policies and procedures. The first draft is almost complete.	8/31/98
T. 3. Develop and implement a comprehensive tracking system with respect to contracts within the purview of the CAO.	Complete	This recommendation has been fully implemented. OPP is continuing to refine the system and is working on the accompanying documentation.	Not Applicable
T. 4. Develop and deliver COR training programs.	Complete	OPP hired a consultant to assist them in developing a COR training program. The first training session was held June 27, 1997. Several other sessions have also been scheduled. Additional training will be provided after the policies and procedures have been finalized.	Not Applicable

James M. Eagen III
Chief Administrative Officer

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515–6860

MEMORANDUM

TO: John W. Lainhart IV
Inspector General

FROM: Jay Eagen
Chief Administrative Officer

SUBJECT: Draft Audit Report
More Effective Controls Needed in House Food Services

DATE: MAY 8 1998

Thank you for the opportunity to comment on the Draft Audit Report, More Effective Controls Needed in House Food Services. We have carefully reviewed the draft report's recommendations and are in general support of them. Our specific comments for each recommendation are provided below.

Finding A: Better Controls Are Needed For The Handling Of House Restaurant System Receipts

Recommendation

- **We recommend that the Chief Administrative Officer issue a formal policy requiring that all collections be deposited daily.**

CONCUR
Implemented. In accordance with a CAO memorandum dated October 20, 1997, all cash receipts are now deposited within one business day of receipt; therefore, this recommendation should be closed.

Finding B: House Food Service Contractors Are Not In Compliance With Critical Contract Requirements

Recommendations

1. **Ensure that the Contracting Officer's representative conducts regular inspections of all House food service facilities for compliance with specific contract requirements and adequately documents and follows up on the inspection results.**

CONCUR
The new food service contract with Guest Services, Inc. (GSI), and Modification 001 to the Skenteris contract, provide for regular inspections, compliance with contract terms and conditions, and follow-up on any deficiencies. For both contracts, procedures for inspections and ensuring contract compliance are covered in the Contracting Officer Representative's Food Service Manual. Therefore, this recommendation should be closed.

2. Reassign duties within Office of Food Services to ensure that the Contracting Officer's Representative has sufficient support to oversee the food service contracts to:

a. ensure all contract employees have the required medical tests;

b. ensure all contract employees have House-issued ID cards and appropriate background checks; and

c. ensure that all fee checks are received by the House as stipulated in the contracts.

CONCUR
The CAO has made additional resources available, by the reassignment of the vending manager position as indicated in our response to recommendation D.1 below, to monitor contractors for compliance with all required medical tests, and to ensure they have House-issued ID cards and appropriate background checks. Additionally, a financial analyst position in the Immediate Office of Media and Support Services was proposed on April 15, 1998 for CHO approval. The duties of this position include monitoring the timely receipt of contractual fees. Therefore, this recommendation should be closed.

Finding C: Controls Over Vending Agreements Are Needed

Recommendation

- **We recommend that the Chief Administrative Officer develop policies and procedures for monitoring, periodic reviewing and renegotiating of contracts associated with vending operations.**

CONCUR WITH ALTERNATIVE ACTION
Stronger controls over vending operations are needed, but as of January 1998, vending operations are no longer administered by the House. In accordance with the new contract with Guest Services, Inc. (GSI), vending operations are now managed by GSI, which employs a vending subcontractor. GSI and any of its subcontractors, including the vending subcontractor, are required by the new contract to meet acceptable standards of vending controls. A Quality Assurance Plan also has been developed to hold GSI and any of its subcontractors to high standards of vending performance. This recommendation should be closed.

Finding D: Additional Controls Are Needed Over In-house Vending Operations

Recommendation

- **We recommend that the Chief Administrative Officer, depending on the outcome of the request for proposal, implement the appropriate option:**

Option 1
Vending operation contracted out — reassign the vending manager to assist with food service contract oversight.

Option 2
Vending operation remains in-house — develop policies and procedures and establish adequate segregation of duties or compensating controls for the in-house vending operation.

CONCUR
The CAO has implemented Option 1. Under the new contract with Guest Services, Inc. (GSI), all vending operations have been contracted out and the vending manager has been reassigned, by the Associate Administrator, Media and Support Services, within the Office of Food Services to assist with food service contract oversight. In accordance with the contract, GSI and its vending subcontractor must use appropriate controls to provide for adequate segregation of duties. This recommendation should be closed.

III. Other Matters

- **We recommend that the Chief Administrative Officer modify the Restaurant account financial statement presentation so the true balance of the account is reflected and deposits are correctly identified.**

CONCUR
The Office of Finance has moved the deposits for fiscal years 1996 and 1997 to the Restaurant account at the Organization and Program level. As of October 1997, the Office of Finance records all revenues from vending machine operations directly into the Restaurant account in FFS as they are received. This procedure is now a part of the Office of Finance Cash Receipts Procedures.

In January 1998, the Office of Finance consolidated the balances from fiscal years 1996 and 1997 into the fiscal year 1998 balance except for unexpended balances for unliquidated obligations against the account.

The Monthly Financial Statement is capable of showing a title based on the type of funds in the account. For the Restaurant account (X4003), the Monthly Financial Statements will be changed to show the Restaurant account as "Funds Available," in place of "Appropriation," beginning with the May Statement, which is scheduled to be distributed on June 12, 1998.