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Audit Of The Senate Office Beauty Shop Calendar Year 1970

B-133046

United States Senate

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

SEPT. 15, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-133046

Dear Mr. Dunphy:

The General Accounting Office has made an audit of the operations of the Senate Office Beauty Shop for calendar year 1970, pursuant to your request dated December 22, 1970. Our audit included an examination of the financial statements, appropriate tests of the accounting records, and such other auditing procedures as we considered necessary.

GENERAL COMMENTS

The beauty shop was established to provide convenient, efficient, and economical services to employees of the Senate. It has been operated as a gratuitous concession; that is, the concessionaire pays no fee for the privilege of operating the shop. Mrs. Myrtle B. Olivier has operated the beauty shop since September 6, 1967.

At December 31, 1970, the staff of the beauty shop consisted of the concessionaire, a receptionist, 3 part-time maids, a janitor, a part-time manicurist, and 9 beauticians. Six of the beauticians quit shortly after the close of the calendar year. Five new operators have been hired to replace them, but, because the new operators do not have an established clientele, sales have decreased. During the first 4 months of 1971, sales were approximately \$14,000 less than during the same period in 1970.

We note that low-cost items, such as ashtrays and plastic wastebaskets, are being charged to the equipment account and are being depreciated and that the equipment and depreciation accounts are not being adjusted when the items are no longer useful and are discarded. We suggest that the concessionaire adopt the practice of charging items costing less than \$50 as an operating expense at the time of acquisition and thus avoid unnecessary accounting.

In our last year's report, we pointed out that the concessionaire was continuing to make payments from cash receipts for such expenses as laundry and insurance. This practice resulted in cash payments in 1970 of about \$4,700.

During our examination we noted that a number of minor errors had been made in posting these payments to the various accounts. In the interest of providing better financial control over these payments and of improving the accuracy of recording them, we suggest that in the future expenses of this nature be paid by check.

We noted that prices for the shop's services had not been changed since 1969 and that only a few prices had been increased then. Costs for many of the supply items have gone up since the present concessionaire took over the shop in 1967. Also commissions paid to the beauticians were increased from 50 percent to 55 percent in 1968. These factors contributed to the decrease in the net income of the shop.

The concessionaire, however, did not decrease the amount of her withdrawals to coincide with the decrease in the shop's net income. Her withdrawals increased from \$7,778 in 1969 to \$9,781 in 1970, although the net income decreased from \$7,641 to \$3,731 during the same period. This resulted in a negative balance of \$4,915 in the concessionaire's capital account at December 31, 1970.

OPINION OF THE FINANCIAL STATEMENTS

The accompanying financial statements are based on the statements furnished to us by the firm of certified public accountants employed by the concessionaire to maintain the accounting records of the shop. The accompanying statements include:

1. An increase in sales and in other deductions for unrecorded receipts lost in a robbery.
2. An adjustment of the amounts for equipment items discarded and for new items acquired.
3. An adjustment of the cash balance for errors disclosed in the bank reconciliation at December 31, 1970.
4. An increase in the concessionaire's withdrawals for personal insurance costs.

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These adjustments should be made in the accounting records. The statements do not include the cost of certain benefits and services, such as space, telephone, utilities, painting, and repairs, which had been furnished to the beauty shop without charge.

In our opinion, the accompanying statements (schedules 1, 2, and 3), which were prepared on a basis consistent with that of the preceding period and in accordance with the accounting practice and financial arrangements described above, present fairly the financial position of the Senate Office Beauty Shop at December 31, 1970, the results of its operations, and the source and application of its funds for the year then ended.

Sincerely yours,



Acting Comptroller General
of the United States

The Honorable Robert G. Dunphy
Sergeant at Arms
United States Senate

SCHEDULE 1

SENATE OFFICE BEAUTY SHOP
COMPARATIVE BALANCE SHEET
DECEMBER 31, 1970 AND 1969

	1970	1969
A S S E T S		
CURRENT ASSETS:		
Cash in bank and on hand	\$ 479	\$ 1,481
Inventory (note a)	859	2,218
Prepaid expenses	<u>1,128</u>	<u>1,605</u>
Total current assets	\$ 2,466	\$ 5,304
FURNITURE AND EQUIPMENT:		
Furniture and equipment at cost	19,134	19,130
Less depreciation to date	<u>8,947</u>	<u>6,101</u>
Net furniture and equipment	10,187	13,029
OTHER ASSETS:		
Prepaid interest	<u>-</u>	<u>450</u>
TOTAL ASSETS	<u>\$12,653</u>	<u>\$18,783</u>
L I A B I L I T I E S		
CURRENT LIABILITIES:		
Note payable--American Security and Trust Company--current maturities	\$ 2,950	\$5,900
Note payable--McLachlen Bank	419	-
Loan payable--Mrs. Mable Zimmerman Solomon	2,000	-
Accounts payable (note b)	7,730	6,152
Bank overdraft	937	-
Taxes collected, withheld, and accrued	3,336	2,025
Accrued salaries	<u>196</u>	<u>621</u>
Total current liabilities	\$17,568	\$14,698
LONG-TERM OBLIGATIONS:		
Note payable--American Security and Trust Company		8,850
Less current maturities	<u>-</u>	<u>5,900</u>
TOTAL LIABILITIES	17,568	17,648
P R O P R I E T A R Y E Q U I T Y		
PROPRIETARY EQUITY:		
Myrtle B. Olivier, capital:		
Balance--January 1	1,135	1,272
Net income for year ended December 31--schedule 2	<u>3,731</u>	<u>7,641</u>
	4,866	8,913
Less withdrawals	<u>9,781</u>	<u>7,778</u>
	-4,915	1,135
TOTAL LIABILITIES AND PROPRIETARY EQUITY	<u>\$12,653</u>	<u>\$18,783</u>

GAO notes: ^a Inventory includes operating supplies, wigs, and supplies for resale.

^b Accounts payable (for both years) includes \$2,396.66 due Mrs. Mable Zimmerman Solomon for equipment.

SENATE OFFICE BEAUTY SHOP

COMPARATIVE INCOME STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

	<u>1970</u>	<u>1969</u>
INCOME:		
Beauty shop operations	\$102,444	\$102,369
Sale of supplies and wigs	<u>2,067</u>	<u>4,940</u>
Total income	\$104,511	\$107,309
Less cost of goods sold and consumed in operations	12,921	13,693
Less operators' commissions and/or wages	<u>56,312</u>	<u>56,951</u>
	<u>69,233</u>	<u>70,644</u>
GROSS PROFIT FROM OPERATIONS	35,278	36,665
OPERATING EXPENSES:		
Salaries and wages-- receptionist, manicurist, janitor, and maids	14,910	14,352
Taxes	4,773	4,032
Depreciation	2,865	3,446
Laundry	2,995	2,712
Insurance	1,735	1,794
Accounting	480	1,205
Interest and finance charges	979	903
Bank service charges	111	102
Miscellaneous	<u>593</u>	<u>515</u>
Total expenses	<u>29,441</u>	<u>29,061</u>
	5,837	7,604
MISCELLANEOUS INCOME	-	37
OTHER DEDUCTIONS:		
Loss on disposal of equipment	22	
Loss from robbery	<u>2,084</u>	<u>-</u>
NET INCOME FOR YEAR ENDED DECEMBER 31	<u>\$3,731</u>	<u>\$7,641</u>

SENATE OFFICE BEAUTY SHOP

COMPARATIVE STATEMENT OF SOURCE AND

APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

	<u>1970</u>	<u>1969</u>
FUNDS PROVIDED:		
Sales	\$104,511	\$107,309
Miscellaneous	-	37
Decrease in working capital	5,708	1,691
Transfer of long-term prepaid interest to current assets	<u>450</u>	<u>900</u>
Total funds provided	<u>\$110,669</u>	<u>\$109,937</u>
FUNDS APPLIED:		
Costs (Excluding depreciation)	\$ 95,809	\$ 96,259
Equipment addition	45	-
Portion of long-term liability transferred to current liability	2,950	5,900
Robbery loss	2,084	-
Withdrawals by owner	<u>9,781</u>	<u>7,778</u>
Total funds applied	<u>\$110,669</u>	<u>\$109,937</u>