

120150



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

9810
MAR 15 1979

Mr. Allan L. Reynolds
The Inspector General
Veterans Administration

AB-C-000142
[Improvements in Veterans Canteen Services operations]

Dear Mr. Reynolds:

We have completed our examination of the Veterans Canteen Service's (VCS) financial statements for fiscal year 1978 and are preparing a report to the Congress. In the interim, we thought it would be useful to summarize for you certain matters which will not be included in our report to the Congress but in our opinion offer opportunity for improvements in VCS operations. These matters have been discussed with the Director, VCS and other VCS officials, and their comments have been incorporated in this report, as appropriate.

AB-C-00142



INCREASED AUDIT ACTIVITY WILL IMPROVE
VCS INTERNAL AUDIT PROGRAM

VCS internal audit is intended to provide management with a protective and constructive service by maintaining a comprehensive internal audit program. Essential to this program is the systematic audit of 170 reporting VCS canteens over a 3-year cycle. The internal audit cycle goal is to audit canteens with serious operating problems at least annually; large volume canteens normally on a biennial cycle; and all other canteens normally on a 3-year cycle. The application of this goal to VCS operations, for each fiscal year since 1974, shows that between 80 and 100 canteens should have been audited annually.

VCS internal audit efforts during fiscal year 1978 were substantially less than required by the internal audit cycle goal. During the year, VCS audited the operations of 40 canteens. Of the 61 canteens which had serious operating problems in fiscal year 1977, 32 were not audited in fiscal year 1978. In addition, VCS internal audit records show that 28 canteens had not been audited in the past three fiscal years, of which three were last audited in fiscal year 1972.

120150 / 504460

Exp III
Restrict

VCS recognizes this situation and has taken action to correct it. On February 2, 1979, the Deputy Director, VCS, established an audit standard requiring each auditor to review an average of 15 canteens annually or 90 audits for the entire VCS internal audit staff. In addition, the Deputy Director specified 66 critical canteens to be audited in fiscal year 1979. The remaining 24 canteens will be selected by the auditors.

VCS is taking action to improve their internal audit efforts. We recommended that the Director, VCS, continue efforts to improve the internal audit activity by insuring that the audit standard is strictly adhered to and that all canteens are audited within the 3-year cycle.

REVISED ACCOUNTING PROCEDURES FOR CONTRACT INCOME WILL IMPROVE FINANCIAL STATEMENT PRESENTATION

VCS receives commission income from the operation of juke boxes. In fiscal year 1978 the commission income received was \$5,092. A memo entry is kept of contractor sales for the use of these machines and for statement purposes VCS includes this amount with regular Service Department sales. The difference between contractor sales and commissions received is included as cost of sales even though VCS does not incur any operating cost.

The GAO Policy and Procedures Manual for Guidance of Federal Agencies, title 2, subsection 15.1, states that "Revenues represent the increase in assets (or decrease in liabilities) which result from operations." Contract sales do not increase VCS assets by the total amount of the sales nor does VCS receive the total amount.

We recommended that the Director, VCS, direct the Chief of Finance to modify the accounting procedures to exclude contract sales from Service Department sales and report commission income as other operating income. The VCS Chief of Finance agreed and said the accounting procedures will be modified to incorporate the recommendation.

INCREASED USE OF EXPLANATIONS WOULD IMPROVE THE RELIABILITY AND CLARITY OF ACCOUNTING RECORDS

During the conduct of its business, VCS prepares various schedules and records which document different aspects of its

financial operations. While conducting our audit, we noted several instances where the financial records lacked explanatory notations or statements regarding the nature of transactions or adjustments. Consequently, to understand what had transpired, one of VCS' financial personnel and a member of the GAO audit staff had to reconstruct the financial situation.

For example, the consolidated income statement, reflected an amount for occupancy expense which was \$432,500 less than the sum of occupancy expense reported for each of the five VCS field offices. The statement contained no explanation for the difference. In another case, the authorized balance of the petty cash fund was not documented. Another example was unexplained yearend adjustments made to the consolidated balance sheet figures to derive the yearend balances.

We recommend^{ed} that the Director, VCS, direct the Chief of Finance to include explanatory notations or statements, as needed, with the financial records. The VCS Chief of Finance agreed to adopt this recommendation.

REVISED OPERATING PROCEDURES WOULD MORE ACCURATELY REFLECT INVENTORY

VCS continually receives merchandise for resale as part of its merchandising operation. Items received while the inventory is being taken are often placed in a holding area and not included in the inventory count, even though they are physically received prior to the end of the accounting period. The counting of inventories may require 2 or 3 days to complete, especially at the larger canteens. As a result, establishment of a proper inventory cutoff affects the accuracy of inventories being reported.

VCS procedures require that items received after the inventory cutoff date be recorded as received in the next accounting period even though they are physically received within the current period. Although we could not determine the dollar value of items physically received and not included in the inventory balance, we did note sizable purchases recorded as received immediately following the end of the accounting period. Depending on the established cutoff, some of these items may have been received within the accounting period and not included in the inventory.

We recommended that the Director, VCS, direct the Chief of Finance to revise the operating procedures to account for all items physically received within the accounting period.

The VCS Chief of Finance said operating procedures would be changed to incorporate this recommendation. He said VCS would make a closing entry to account for the invoice value of merchandise physically received and reverse it at the beginning of the following accounting period. This will more accurately represent the cost of inventories shown on the financial statements and not interfere with VCS accounting for inventory at retail.

MAINTAINING BANK BALANCES
BELOW SECURED LIMITS WILL
REDUCE RISK OF ABUSE OR LOSS

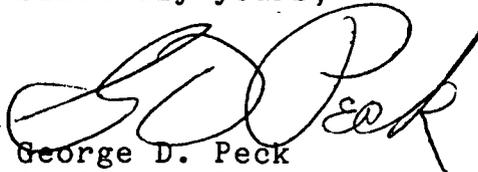
Canteen accumulated receipts are normally deposited in a bank not later than the first banking day after sales journals are prepared. Deposits in excess of VCS' needs are to be transferred to the VCS Treasury Account. VCS operating procedures state that bank balances should never exceed the amount of the Federal Deposit Insurance Corporation (FDIC) insured amount plus any collateral posted by the bank.

VCS internal audit reports have cited repeated violations of this procedure at several canteens. One canteen for example, exceeded its secured balance on 37 occasions during fiscal year 1978 including one time when the balance was more than \$45,000 greater than the secured balance. Failure to follow the operating procedure is not consistent with VCS' responsibility to assure maximum use of working capital and it exposes VCS to risk of abuse or loss.

We recommended that the Director, VCS, arrange where necessary to have banks pledge additional collateral. In addition, he should direct the Chief of Finance to enforce existing controls to assure that bank balances do not exceed the FDIC insured amount plus any collateral posted by the bank. The Director and the Chief of Finance agreed with our recommendations and said corrective action would be taken.

We appreciate the courtesies and excellent cooperation extended our staff during this review.

Sincerely yours,

A handwritten signature in black ink, appearing to read "G. D. Peck". The signature is stylized with large, overlapping loops for the letters "G" and "D", and a more fluid, cursive style for "Peck".

George D. Peck
Assistant Director

cc: Mr. Walter A. Nelson
Director, VCS