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REPORT TO THE CONGRESS 096750

~~74-0148~~



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Examination Of Financial Statements  
Of Veterans Canteen Service  
For Fiscal Year 1973

B-114818

Veterans Administration

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

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FEB. 25, 1974



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-114818

To the President of the Senate and the  
C, Speaker of the House of Representatives

We have examined the financial statements of the Veterans Canteen Service, Veterans Administration, for fiscal year 1973.

Our review was made pursuant to the act of September 2, 1958 (38 U.S.C. 4207).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Administrator of Veterans Affairs.

*James B. Stets*

Comptroller General  
of the United States

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ABBREVIATIONS

GAO      General Accounting Office

VA        Veterans Administration

D I G E S T

WHY THE EXAMINATION WAS MADE

GAO is required by law to audit annually the accounts of the Veterans Canteen Service, Veterans Administration (VA). 142

maintains uniform retail prices at all canteens and varies cafeteria prices only slightly by location. This can lead to losses at smaller canteens. In fiscal year 1973, 61 canteens operated at net losses totaling \$621,000. (See p. 6.)

Basic facts

The Service was created in 1946 to make available to veterans in VA hospitals and homes articles of merchandise and services essential to their comfort and well-being at reasonable prices. (See p. 3.)

During fiscal year 1973 the Service operated 169 canteens--one in each VA hospital and home--located throughout the United States and in Puerto Rico. No canteens were opened or closed during the year. Services were available to a daily average of about 82,000 hospitalized veterans, 10,000 veterans domiciled in VA homes, and about 30,000 veteran outpatients. (See p. 4.)

In fiscal year 1973 sales totaled \$86 million and resulted in a net operating income of \$1,484,000, an increase of 32 percent over the previous year. (See p. 6.)

Because of its mission, the Service

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the financial statements included in the report present fairly the financial position of the Veterans Canteen Service at June 30, 1973, and the results of its operations and the changes in financial position for the year then ended in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States. (See p. 9.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION  
BY THE CONGRESS

This report contains no proposals or recommendations for consideration by the Congress.



## CHAPTER 1

### INTRODUCTION

The Veterans Canteen Service, Veterans Administration (VA), was created in 1946 to make available to veterans in VA hospitals and homes articles of merchandise and services essential to their comfort and well-being at reasonable prices. Because of the limited profit potential, some VA hospitals had been unable to attract concessionaires to provide needed services and those hospitals which attracted concessionaires received complaints of high prices, poor sanitation, and unsatisfactory services. The Administrator of Veterans Affairs is authorized to establish canteens at VA hospitals and homes and at other facilities where essential services are not reasonably available from outside sources.

While a canteen typically includes a retail store, cafeteria, barber shop, and vending room, most canteens also provide such additional services as drycleaning and laundry, shoe and watch repair, and florist and photo services. Since the program is oriented toward service to the patient, many canteens use ward carts which make regular rounds, bringing retail merchandise to nonambulatory patients.

Canteens also provide some relief from the confinement of hospital life and help build morale. Confined psychiatric patients are brought to the canteens for supervised shopping trips, which include selection of their own clothing, as therapy to encourage decisionmaking and interest in personal appearance and in preparation for return to society.

In addition, the Service participates in an incentive therapy program under which patients, who in the opinion of VA officials could benefit from such a program, work in canteens and are paid a small wage. An average of 168 patients participate in this program.

To overcome problems and complaints which existed before its establishment, the Service instituted a policy of customer satisfaction, which includes return of purchase

price to dissatisfied customers. As a result, the Service receives very few complaints.

During fiscal year 1973 the Service operated 169 canteens--one in each VA hospital and home--located throughout the United States and in Puerto Rico. No canteens were opened or closed during the year. Services were available to a daily average of about 82,000 hospitalized veterans, 10,000 veterans domiciled in VA homes, and about 30,000 veteran outpatients. Although the canteens are primarily for use by veterans, hospital employees and visitors may also patronize the facilities when their purchases are to be used or consumed on the premises.

BEST DOCUMENT AVAILABLE



## CHAPTER 2

### FINANCING AND OPERATIONS

#### FINANCING

The act of August 7, 1946, which authorized the establishment of the Service, provided for funds to be appropriated from the U.S. Treasury and deposited in a revolving fund in such amounts as were needed to finance the establishment, maintenance, and operation of the Service. During fiscal years 1947 and 1948, \$4,965,000 was appropriated from the Treasury. No additional funds have been appropriated.

The authorizing legislation provides that any balance in the revolving fund at the close of the fiscal year in excess of the estimated requirements for the ensuing fiscal year be deposited into the Treasury as miscellaneous receipts. In fiscal year 1950 the Service began returning such excess funds to the Treasury and has continued this practice periodically. The excess funds returned to the Treasury amount to about \$12 million, and the last transfer was made in fiscal year 1969. No excess funds will be available for transfer to the Treasury during fiscal year 1974.

The Service's budget efforts are aimed at netting only the income necessary to maintain operations for the following year. Excess funds are determined by considering cash and receivables less current liabilities and undelivered orders. Available funds are further reduced by encumbered cash in local depositories for use of the field offices and canteens and by cash advanced to VA for payroll purposes. In the last several years, the Service has determined that no excess funds have been available.

#### OPERATIONS

Management of the Service is decentralized at five field offices, located in Atlanta, New York, St. Louis, San Francisco, and Washington, D.C. These offices are responsible for administration accounting, and supervision of area operations. The Central Office establishes overall administrative and operating policies and negotiates price agreements directly with manufacturers and other sources.

The Service functions on an overall self-sustaining basis. However, because of its special mission, the Service holds retail prices uniform at all canteens and varies cafeteria prices only slightly by location even though hospitals vary from large to small and urban to rural. This can lead to losses at smaller canteens.

In fiscal year 1973, 61 canteens operated at net losses totaling \$621,000. In fiscal year 1972, net losses were sustained at 64 canteens and totaled 620,000.

Fiscal year 1973 sales totaled \$86 million, an increase of 6 percent over the previous year, and resulted in a net operating income of \$1,484,000, an increase of 32 percent. The Service attributed these increases to generally higher prices, an increase in potential customers, and better merchandising. The total operating income of \$4,720,000 before administrative expenses was generated by the Food, Retail, and Service Departments, as discussed below.

Retail Department

Retail operating income totaled \$2,904,000, an increase of 9 percent over fiscal year 1972. This increase resulted primarily from a 5-percent increase in retail sales. Sales consisted of the following:

	<u>1973</u>	<u>1972</u>
	(000 omitted)	
Tobacco	\$24,495	\$24,137
Candy	5,110	4,717
Toiletries	13,772	12,845
Clothing	<u>12,159</u>	<u>11,328</u>
	<u>\$55,536</u>	<u>\$53,027</u>

Food Department

Operating income from food sales increased by 8 percent over fiscal year 1972 to \$1,531,000. This income resulted in part from manual food sales of \$17,810,000, which netted \$514,000 in operating income. Automatic food and beverage operations provided the remaining operating income, yielding \$247,000 and \$770,000, respectively.

## Service Department

Service operating income of \$285,000 resulted primarily from photo services (\$166,000); barber shop operations (\$71,000); and tailoring, laundry, and drycleaning services (\$24,000). All service activities operated at a profit, with the exception of the beauty shop, which showed a loss of \$100. Service operating income increased by 26 percent over fiscal year 1972, primarily as a result of the increases in barber shop and photo service income.

## CHAPTER 3

### SCOPE OF EXAMINATION

Our examination of the financial statements of the Veterans Canteen Service, required by the act of September 2, 1958 (38 U.S.C. 4207), was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in view of the nature and volume of the transactions and the effectiveness of the internal controls, including the internal audit function.

Veterans Canteen Service internal auditors reviewed operations at 76 of the 169 canteens and each of the 5 field offices during fiscal year 1973 to determine the adequacy and effectiveness of the internal controls, reliability of financial records and reports, and compliance with prescribed administrative and operating policies. During our review we examined the work of the internal auditors, and, as a result of their work, we were able to reduce our own tests of the accounting records.

Our examination was made at (1) the Central Office in Washington, D.C., (2) at the Atlanta and San Francisco field offices, and (3) at canteens located in Augusta, Georgia; Fresno, Los Angeles, and Martinez, California; Murfreesboro, Tennessee; and Tampa, Florida.

## CHAPTER 4

### OPINION ON FINANCIAL STATEMENTS

Certain expenses relating to activities of the Service are not borne by it and are not included in its financial statements. These expenses, which total about \$300,000, include the cost of space and services furnished in buildings under control of the General Services Administration and the cost of our annual audit.

In our opinion, the accompanying financial statements present fairly the financial position of the Veterans Canteen Service at June 30, 1973, and the results of its operations and the changes in financial position for the year then ended in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.



FINANCIAL STATEMENTS





## VETERANS CANTEEN SERVICE

## COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1973 AND 1972

	<u>1973</u>	<u>1972</u>
ASSETS		
CURRENT ASSETS:		
Cash:		
Cash in Treasury	\$ 7,006,985	\$ 5,364,522
Cash in banks and on hand	<u>897,448</u>	<u>868,251</u>
	7,904,433	6,232,773
Accounts receivable	527,521	457,065
Merchandise inventories:		
Retail department	7,979,333	7,763,800
Food department	554,476	475,925
Service department	24,091	21,825
Prepaid expenses and other assets	<u>3,502</u>	<u>15,508</u>
Total current assets	<u>16,993,356</u>	<u>14,966,896</u>
FIXED ASSETS:		
Furniture, fixtures, and equipment	10,375,013	9,692,380
Less accumulated depreciation	<u>4,571,792</u>	<u>4,393,628</u>
Net fixed assets	<u>5,803,221</u>	<u>5,298,752</u>
Total assets	<u>\$22,796,577</u>	<u>\$20,265,648</u>
LIABILITIES AND EQUITY OF U.S. GOVERNMENT		
CURRENT LIABILITIES (note a):		
Accounts payable:		
Trade creditors	\$ 1,769,195	\$ 1,276,048
U.S. Government agencies	<u>142,997</u>	<u>136,614</u>
	1,912,192	1,412,662
Employees' accrued annual leave	1,664,785	1,615,831
Accrued salaries and wages	1,103,295	997,940
Due other U.S. Government agencies for accrued payroll taxes and other payroll expenses	170,575	137,436
Unredeemed merchandise coupons	281,834	297,483
Other (note b)	<u>20,570</u>	<u>12,778</u>
Total current liabilities	<u>5,153,251</u>	<u>4,474,130</u>
EQUITY OF U.S. GOVERNMENT:		
Appropriated funds--total capital advanced	4,965,000	4,965,000
Donations of property principally from VA	369,477	369,337
Accumulated net income--prior years	22,525,266	21,136,191
Net income--current year	<u>1,851,669</u>	<u>1,389,076</u>
	29,711,412	27,859,604
Less payment of excess funds into Treasury from inception	<u>12,068,086</u>	<u>12,068,086</u>
Equity of U.S. Government	<u>17,643,326</u>	<u>15,791,518</u>
Total liabilities and equity of U.S. Government	<u>\$22,796,577</u>	<u>\$20,265,648</u>

<sup>a</sup>VA is contingently liable for a \$158,020 claim filed by a former vending contractor alleging violation of his contractual right and other damages. VA's Office of General Counsel, while believing that the plaintiff's case is weak, is uncertain of the outcome of this claim.

<sup>b</sup>Other current liabilities include \$20,013 collected with regard to an accountability shortage of \$36,039 allegedly attributable to a former canteen officer. In fiscal year 1973 the officer was convicted of embezzling \$6,000 of this total and was directed to make restitution. The Service expects eventually to recover the remaining \$30,039 shortage and continues to withhold retirement payments due the former officer.

The accompanying summary of significant accounting policies is an integral part of the financial statements.

VETERANS CANTEEN SERVICE

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

FISCAL YEARS ENDED

JUNE 30, 1973 AND 1972

	<u>Consolidated total</u>	
	<u>June 30, 1973</u>	<u>June 30, 1972</u>
SALES	\$85,969,664	\$81,070,319
Cost of sales	<u>59,564,369</u>	<u>56,204,328</u>
GROSS INCOME	<u>26,405,295</u>	<u>24,865,991</u>
OPERATING EXPENSES:		
Salaries and wages	16,575,222	15,770,273
OTHER EXPENSES:		
Operating supplies	555,374	503,641
Repairs	98,178	87,432
Depreciation	652,855	609,165
Laundry	37,778	40,544
Occupancy	1,804,392	1,724,108
Employee benefits	1,501,434	1,415,418
Miscellaneous	<u>459,970</u>	<u>407,493</u>
Total operating expenses	<u>21,685,203</u>	<u>20,558,074</u>
TOTAL OPERATING INCOME	<u>4,720,092</u>	<u>4,307,917</u>
ADMINISTRATIVE EXPENSES:		
Salaries and wages	2,420,734	2,434,710
Travel	248,805	325,644
Other expenses	<u>566,522</u>	<u>427,088</u>
Total administrative expenses	<u>3,236,061</u>	<u>3,187,442</u>
NET OPERATING INCOME	1,484,031	1,120,475
OTHER INCOME:		
Purchase discount	369,822	342,515
Gain or loss (-) on disposal of fixed assets	-84,605	-100,836
Miscellaneous income	<u>82,421</u>	<u>26,922</u>
NET INCOME	<u>\$ 1,851,669</u>	<u>\$ 1,389,076</u>

The accompanying summary of significant accounting policies is an integral part of the financial statements.

BEST DOCUMENT AVAILABLE

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Retail Department		Food Department		Service Department	
June 30, 1973	June 30, 1972	June 30, 1973	June 30, 1972	June 30, 1973	June 30, 1972
\$55,535,545	\$53,026,657	\$26,960,469	\$24,700,791	\$3,473,650	\$3,342,871
<u>43,442,871</u>	<u>41,598,330</u>	<u>15,235,023</u>	<u>13,803,448</u>	<u>886,475</u>	<u>802,550</u>
12,092,674	11,428,327	11,725,446	10,897,343	2,587,175	2,540,321
7,486,434	7,142,075	7,160,308	6,697,664	1,928,480	1,930,534
167,434	152,227	358,663	319,211	29,277	32,203
28,446	20,732	68,162	61,705	1,570	4,995
186,820	181,305	436,400	399,024	29,635	28,836
2,621	3,066	26,438	27,305	8,719	10,173
486,751	469,068	1,216,224	1,157,799	101,417	97,241
672,387	634,784	637,294	588,577	191,753	192,057
<u>157,637</u>	<u>159,319</u>	<u>291,105</u>	<u>230,704</u>	<u>11,228</u>	<u>17,470</u>
9,188,530	8,762,576	10,194,594	9,481,989	2,302,079	2,313,509
<u>\$ 2,904,144</u>	<u>\$ 2,665,751</u>	<u>\$ 1,530,852</u>	<u>\$ 1,415,354</u>	<u>\$ 285,096</u>	<u>\$ 226,812</u>

SCHEDULE 3

BEST DOCUMENT AVAILABLE

VETERANS CANTEEN SERVICE

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

FISCAL YEARS ENDED JUNE 30, 1973 AND 1972

	<u>1973</u>	<u>1972</u>
FUNDS PROVIDED BY:		
Sales of merchandise, including food, and revenues from services furnished	\$85,969,664	\$81,070,319
Purchase discount and other revenue	<u>486,311</u>	<u>404,506</u>
Total funds provided	<u>\$86,455,975</u>	<u>\$81,474,825</u>
FUNDS APPLIED TO:		
Cost of merchandise, including food, sold	\$59,564,369	\$56,204,327
Salaries and wages	18,995,957	18,204,984
Other expenses, excluding depreciation (fiscal year 1973--\$671,849, fiscal year 1972--\$627,713)	5,253,458	4,912,819
Increase in working capital	<u>1,347,339</u>	<u>795,365</u>
Total funds applied to current costs and expenses	85,161,123	80,117,495
Purchase of equipment	<u>1,294,852</u>	<u>1,357,330</u>
Total funds applied	<u>\$86,455,975</u>	<u>\$81,474,825</u>

ANALYSIS OF WORKING CAPITAL

	<u>1973</u>	<u>1972</u>	Increase or decrease(-)
CURRENT ASSETS:			
Cash	\$ 7,904,433	\$ 6,232,773	\$ 1,671,660
Accounts receivable	527,521	457,065	70,456
Merchandise inventories	8,557,900	8,261,550	296,350
Prepaid expenses and other assets	<u>3,502</u>	<u>15,508</u>	<u>-12,006</u>
Total current assets	<u>16,993,356</u>	<u>14,966,896</u>	<u>2,026,460</u>
CURRENT LIABILITIES:			
Accounts payable	1,912,192	1,412,662	499,530
Employees' accrued annual leave	1,664,785	1,615,831	48,954
Accrued salaries and wages	1,103,295	997,940	105,355
Due other U.S. Government agencies	170,575	137,436	33,139
Unredeemed merchandise coupons	281,834	297,483	-15,649
Other	<u>20,570</u>	<u>12,778</u>	<u>7,792</u>
Total current liabilities	<u>5,153,251</u>	<u>4,474,130</u>	<u>679,121</u>
Total working capital	<u>\$11,840,105</u>	<u>\$10,492,766</u>	<u>\$ 1,347,339</u>

The accompanying summary of significant accounting policies is an integral part of the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Cash in the Treasury includes cash transferred to a VA Treasury account to be used for Service payroll and related benefits. This amounted to \$2,298,608 and \$2,322,744 in fiscal years 1973 and 1972, respectively.

2. Retail merchandise inventories are recorded at cost, after conversion from retail value by application of individual canteen departmental cost percentages under the retail inventory method of accounting. Food inventories are recorded at cost under the first-in-first-out method of inventory. Service department merchandise inventories are recorded at actual cost of the various service activities to the Veterans Canteen Service.

3. Fixed assets are stated at cost, with the exception of donated equipment which is stated at appraised value at the time of acquisition. Depreciation is computed on a straight-line basis at an annual composite rate of 8-1/3 percent.

**APPENDIXES**

PRINCIPAL OFFICIALS OF THE VETERANS  
ADMINISTRATION RESPONSIBLE FOR THE  
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	From	To
ADMINISTRATOR OF VETERANS AFFAIRS: Donald E. Johnson	June 1969	Present
DEPUTY ADMINISTRATOR: Fred B. Rhodes	May 1969	Present
CHIEF MEDICAL DIRECTOR, DEPART- MENT OF MEDICINE AND SURGERY: Dr. Marc J. Musser	Jan. 1970	Present
DIRECTOR, VETERANS CANTEEN SERVICE: Robert H. Bucknell	Aug. 1946	Present





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