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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

9944

Examination Of Financial Statements Of The Veterans Canteen Service For Fiscal Year 1978

In GAO's opinion, the Veterans' Canteen Service financial statements for fiscal year 1978 present fairly the financial position of the Canteen Service at September 30, 1978, 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.



109200

HRD-79-70
APRIL 25, 1979





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

B-114818

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

We have examined the financial statements of the
Veterans Canteen Service, Veterans Administration, for
fiscal year 1978.

Our review was made pursuant to 38 U.S.C. 4207
(1976).

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.

A handwritten signature in black ink, reading "James R. Steele".

Comptroller General
of the United States



D I G E S T

GAO is required by law to audit the accounts of the Veterans Canteen Service of the Veterans Administration (VA). GAO's last audit of the Service was for the fiscal year ended June 30, 1974.

The Service provides reasonably priced merchandise and services to patients in VA medical centers. A typical canteen includes a retail store, cafeteria, barber shop, and vending room, as well as drycleaning and laundry services, shoe and watch repair, newspaper and photo services. (See p. 1.)

During fiscal year 1978, the Service operated canteens at each VA medical center and domiciliary located in the United States and Puerto Rico. Services were available to a daily average of about 81,700 veterans in VA medical centers and domiciliaries and about 52,500 outpatients. (See p. 2.)

In fiscal year 1978, sales totaled \$119.6 million and food and beverage vending machine revenue totaled \$2.3 million. Net operating income was \$4.3 million, an increase of 104 percent over the previous year. (See p. 4.)

Because of its mission, the Service establishes prices as low as or lower than community prices and, to the extent possible, maintains uniform prices. This can lead to losses at smaller canteens. In fiscal year 1978, 52 canteens operated at net losses totaling \$514,835. (See p. 4.)

In GAO's opinion, the financial statements in the report present fairly the financial position of the Veterans Canteen Service at September 30, 1978, 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. GAO does not express an opinion on the financial statements for interim fiscal years since its last audit. (See p. 7.)

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ABBREVIATIONS

GAO	General Accounting Office
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

The Veterans Canteen Service, Veterans Administration (VA), was created on August 7, 1946, under authority of Public Law 79-636 (38 U.S.C. 4201 et seq.), for the convenience of veterans in VA medical centers and domiciliaries. Its objective is to provide, at reasonable prices, merchandise and services essential to the veterans' comfort and well-being. Because of the limited profit potential, some VA medical centers had been unable to attract concessionaires to provide needed services; those centers which had attracted concessionaires received complaints of high prices, poor sanitation, and unsatisfactory services. Pursuant to the 1946 law, the Administrator of Veterans Affairs is authorized to establish canteens at VA medical centers and at other facilities where essential services are not reasonably available from outside sources.

Canteens typically include retail stores, cafeterias, barber shops, and vending rooms. Also, most canteens provide additional services such as drycleaning and laundry, shoe and watch repair, and newspaper and photo services. Because canteens are oriented toward patient service, many canteens use ward carts that make regular rounds to bring retail merchandise to nonambulatory patients. In addition to providing merchandise and services, canteens provide relief from the confinement of hospitalization and help build morale. For example, confined psychiatric patients are brought to the canteens for supervised shopping trips, which include selection of their own clothing. This therapy encourages decisionmaking and interest in personal appearance and helps prepare the patient for return to the community.

The Service also 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. As of December 1978, approximately 150 patients were participating in this program.

Because the Service was established for veterans to overcome problems and complaints which had previously existed, the Service instituted a policy of customer satisfaction which includes return of purchase price to dissatisfied customers. The Service has relatively few merchandise returns and receives few complaints.

During fiscal year 1978, the Service operated canteens at each VA medical center and domiciliary located throughout the United States and in Puerto Rico. No canteens were closed during the year and no new canteens were opened. Services were available to a daily average of about 81,700 veterans hospitalized or domiciled in VA medical centers and domiciliaries and about 52,500 veteran outpatients. Although the canteens are primarily for use by veterans, medical center employees and visitors may patronize the facilities provided their purchases are used or consumed on the premises.

CHAPTER 2

FINANCING AND OPERATIONS

FINANCING

Legislation which authorized establishment of the Service (38 U.S.C. 4204) provided that funds 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 U.S. Treasury. Since that time, 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 U.S. Treasury as miscellaneous receipts. 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 used by the field offices and canteens, by change and petty cash funds on hand, and by cash advanced to VA for payroll purposes.

In fiscal year 1950, the Service began returning such excess funds to the U.S. Treasury and has continued this practice periodically. Total excess funds returned to the U.S. Treasury amounted to about \$12 million. The last transfer was made in fiscal year 1969, and no excess funds will be available for transfer to the U.S. Treasury during fiscal year 1979.

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 for 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. Its pricing policy is to establish selling prices as low as or lower than community prices and, to the extent possible, maintain uniform prices throughout the Service.

The Service operates canteens in medical centers which vary from large to small and urban to rural. This can lead to losses at smaller canteens.

In fiscal year 1978, 52 canteens operated at net losses totaling \$514,835. In fiscal year 1977, net losses totaling \$935,535 were sustained at 59 canteens.

Fiscal year 1978 sales totaled \$119.6 million and food and beverage vending machine revenue totaled \$2.3 million. This represents increases of 6 and 11 percent, respectively, over fiscal year 1977. Net operating income was \$4.3 million, an increase of 104 percent. The Service attributed sales increases to higher prices, an increase in customers, and improved merchandising. The operating income generated by the Retail, Food, and Service Departments is discussed below.

Retail Department

Operating income totaled \$5.3 million, an increase of 18 percent over fiscal year 1977. This increase resulted primarily from a 2-percent increase in retail sales from \$77.4 million in fiscal year 1977 to \$79.2 million in fiscal year 1978 in conjunction with a smaller percentage increase in the cost of sales.

Food Department

Operating income from food sales increased by 56 percent over fiscal year 1977 to \$4.2 million. This increased income resulted primarily from a 16-percent increase in food sales which totaled \$36.2 million and netted \$2.7 million in operating income. Automatic food and beverage operations provided the remaining operating income, yielding \$0.3 and \$1.2 million, respectively.

Service Department

Service operating income increased by 29 percent (\$79,110) over fiscal year 1977, primarily resulting from an increase in barber service operating income. For fiscal year 1978 service operating income totaled \$348,516 and was derived principally from photo services (\$238,567); barber shop operations (\$43,797); and tailoring, laundry, and drycleaning services (\$25,750). All service activities operated at a profit for the year.

CHAPTER 3

INTERNAL AUDITING

The Service's internal audit staff is responsible for observing and reporting on financial and operational matters that affect the maximum use of resources in rendering services. This responsibility includes

- appraising the system of internal controls with a view toward safeguarding assets,
- assuring accuracy and reliability of accounting data,
- promoting operational efficiency, and
- encouraging adherence to prescribed policies and procedures.

The internal audit staff consists of a chief auditor at the Central Office and one or more auditors at each of the five field offices. Audits are scheduled by the Director of the Service and reports are addressed to him.

CANTEEN AUDITS

Canteen audits are scheduled on an unannounced, irregular basis and cover the interval from the last audit. The internal audit manual states that all canteens will normally be audited on a 3-year cycle and large or problem canteens will be audited more frequently.

Although audits include review of any function deemed necessary by the auditor, cash, inventory, and internal controls are of particular interest. Canteen audit guidelines also provide for review of such procedures as receiving, stocking, and pricing; payroll and personnel; security; and housekeeping and sanitation.

Upon issuance, audit reports, addressed to the Director of the Service, are provided to the responsible canteen officer for response. The auditor reviews previous audit reports and the canteen officer's response before initiating a canteen audit and includes comments in his report on the canteen's compliance with previous audit recommendations.

FIELD OFFICE AUDITS

The field offices are audited at the end of each fiscal year. Books of original entry, supporting documents, and internal control procedures are reviewed in accordance with generally accepted auditing standards. A field office audit program details procedures for auditing balance sheet and income and expense accounts, and each audit includes a review of actions taken to correct previously reported deficiencies. Prior to issuance, audit reports, addressed to the Director of the Service, are discussed with the responsible field director.

RELIANCE ON INTERNAL AUDIT

During fiscal year 1978, the Service's internal audit staff reviewed operations at 40 of the 170 reporting canteens and at each field office. We examined the work of the internal auditors and, as a result of their reviews, we were able to limit the number of canteens we audited and the extent of our test of the accounting records at the field office.

CHAPTER 4

SCOPE OF EXAMINATION AND

OPINION ON FINANCIAL STATEMENTS

Our examination of the fiscal year 1978 financial statements of the Service, as required by 38 U.S.C. 4207 (1976), was made in accordance with auditing standards prescribed by the Comptroller General of the United States 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.

Our examination was made (1) at the Central Office in Washington, D.C., (2) at the San Francisco Field Office, and (3) at canteens located in Livermore, Palo Alto, and San Francisco, California.

We reviewed, on a limited basis, internal audit reports, financial statements, and other financial data for fiscal years 1977, 1976, and 1975 to assure ourselves of the reasonableness of the fiscal year 1978 beginning balances.

Service officials prepared the financial statements, schedules 1 through 3, and the notes to the financial statements.

In our opinion, the accompanying financial statements for fiscal year 1978 present fairly the financial position of the Veterans Canteen Service at September 30, 1978, 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.

The accompanying financial statements as of September 30, 1977, presented for comparison purposes only, and interim financial statements, 1976 and 1975, and related statements of income for the years then ended, were not audited by us and, accordingly, we do not express an opinion on them. Our last audit of the Service was for the fiscal year ended June 30, 1974. ("Examination Of Financial Statements Of Veterans Canteen Service For Fiscal Year 1974," FOD-75-6, Jan. 20, 1975.)



FINANCIAL STATEMENTS

VETERANS CANTEEN SERVICE

COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 1978 AND 1977

	1978	1977 (note a)
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash:		
Cash in U.S. Treasury (note 2)	\$ 9,997,379	\$ 8,135,227
Cash in banks and on hand	<u>3,828,500</u>	<u>2,902,865</u>
	13,825,879	11,038,092
Accounts receivable, principally from Veterans Administration	878,918	749,243
Inventories (note 1):		
Retail department	11,332,720	12,254,508
Food department	1,040,093	1,000,588
Service department	24,542	27,892
Other assets	<u>9,641</u>	<u>11,357</u>
Total current assets	<u>27,111,793</u>	<u>25,081,680</u>
FIXED ASSETS (note 1):		
Furniture, fixtures, and equipment	17,793,974	15,263,995
Less accumulated depreciation	<u>6,521,244</u>	<u>5,886,450</u>
Net value furniture, fixtures, and equipment	<u>11,272,730</u>	<u>9,377,545</u>
Leasehold improvements	<u>98,128</u>	<u>63,065</u>
Net fixed assets	<u>11,370,858</u>	<u>9,440,610</u>
Total assets	<u>\$38,482,651</u>	<u>\$34,522,290</u>
<u>LIABILITIES AND EQUITY OF U.S. GOVERNMENT</u>		
CURRENT LIABILITIES:		
Accounts payable:		
Trade creditors	\$ 3,135,173	\$ 3,873,472
U.S. Government agencies	<u>513,020</u>	<u>553,760</u>
	3,648,193	4,427,232
Employees' accrued annual leave	2,203,237	2,017,962
Accrued salaries and wages	1,804,658	1,635,015
Due other U.S. Government agencies for employee benefits, employee compensation and payroll processing expenses	409,175	315,505
Unredeemed merchandise coupons	380,311	308,127
Other (note 3)	<u>1,224</u>	<u>18,753</u>
Total current liabilities	<u>8,446,798</u>	<u>8,722,594</u>
EQUITY OF U.S. GOVERNMENT:		
Appropriated funds--total capital advanced	4,965,000	4,965,000
Donations of property principally from Veterans Administration	374,127	373,994
Net income--prior years	32,528,788	30,427,178
Net income--current years (note 3)	<u>4,236,024</u>	<u>2,101,610</u>
	42,103,939	37,867,782
Less payment of excess funds into U.S. Treasury	<u>12,068,086</u>	<u>12,068,086</u>
Equity of U.S. Government	<u>30,035,853</u>	<u>25,799,696</u>
Total liabilities and equity of U.S. Government	<u>\$38,482,651</u>	<u>\$34,522,290</u>

a/Unaudited.

The notes on pages 13 and 14 are an integral part of the financial statements.

VETERANS CANTEEN SERVICE

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

FISCAL YEARS ENDED SEPTEMBER 30, 1978 AND 1977

	Consolidated total		Retail department		Food department		Service department	
	Sept. 30, 1978	Sept. 30, 1977 (note a)	Sept. 30, 1978	Sept. 30, 1977 (note a)	Sept. 30, 1978	Sept. 30, 1977 (note a)	Sept. 30, 1978	Sept. 30, 1977 (note a)
SALES:	\$119,608,839	\$112,767,881	\$79,190,624	\$77,352,291	\$36,217,946	\$31,252,926	\$4,200,268	\$4,162,664
Cost of sales	75,543,434	73,693,694	59,627,594	59,481,452	14,832,978	13,087,332	1,082,861	1,124,910
GROSS INCOME	44,065,405	39,074,187	19,563,030	17,870,839	21,384,968	18,165,594	3,117,407	3,037,754
FOOD AND BEVERAGE INCOME (note 4)	2,278,221	2,055,190	-	-	2,278,221	2,055,190	-	-
TOTAL GROSS INCOME	46,343,626	41,129,377	19,563,030	17,870,839	23,663,189	20,220,784	3,117,407	3,037,754
OPERATING EXPENSES:								
Salaries and wages	27,718,309	25,094,608	11,643,951	10,683,021	13,770,111	12,177,927	2,304,248	2,233,660
Supplies	1,137,472	1,089,130	292,261	306,244	811,401	747,926	33,810	34,960
Repairs	165,215	154,054	30,788	34,916	134,324	118,013	103	1,125
Depreciation	1,096,828	960,498	245,612	204,650	815,670	718,814	35,546	37,034
Laundry	52,335	51,282	2,144	2,038	38,961	38,159	11,230	11,084
Occupancy (note 5)	2,981,641	3,101,841	649,783	763,277	2,239,511	2,170,756	92,346	167,808
Employee benefits	2,985,734	2,688,226	1,227,153	1,124,790	1,470,749	1,288,091	287,832	275,345
Miscellaneous	366,866	548,402	146,309	244,459	216,781	296,613	3,776	7,331
Total operating expenses	36,504,400	33,688,041	14,238,001	13,363,395	19,497,508	17,556,299	2,768,891	2,768,347
TOTAL OPERATING INCOME	\$ 9,839,226	\$ 7,441,336	\$ 5,325,029	\$ 4,507,444	\$ 4,165,681	\$ 2,664,485	\$ 348,516	\$ 269,407
ADMINISTRATIVE EXPENSES:								
Salaries and wages	\$ 3,769,225	\$ 3,558,536						
Travel	571,548	626,126						
Other expenses	1,214,096	1,158,204						
Total administrative expenses	5,554,869	5,342,866						
NET OPERATING INCOME	4,284,357	2,098,470						
OTHER INCOME:								
Gain or (loss) on disposal of fixed assets	(132,313)	(105,354)						
Miscellaneous income	61,499	108,494						
NET INCOME (note 3)	\$ 4,213,543	\$ 2,101,610						

a/Unaudited.

The notes on pages 13 and 14 are an integral part of the financial statements.

SCHEDULE 2

SCHEDULE 2

VETERANS CANTEEN SERVICECOMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITIONFISCAL YEARS ENDED SEPTEMBER 30, 1978 AND 1977

	1978	1977 (note a)
FUNDS PROVIDED BY:		
Sales of merchandise, including food, and revenues from services furnished	\$132,887,114	\$125,116,173
Other sources	<u>144,319</u>	<u>162,511</u>
Total funds provided	<u>\$133,031,433</u>	<u>\$125,278,684</u>
FUNDS APPLIED TO:		
Cost of merchandise sold, including food	\$ 86,543,487	\$ 83,986,796
Salaries and wages	31,487,534	28,653,144
Other expenses, excluding depreciation (fiscal year 1978 \$1,123,811, fiscal year 1977 \$988,440)	9,447,924	9,389,323
Increase in working capital	<u>2,305,909</u>	<u>(215,155)</u>
Total funds applied to current costs and expenses	<u>129,784,854</u>	<u>121,814,108</u>
Purchase of equipment	<u>3,246,579</u>	<u>3,464,576</u>
Total funds applied	<u>\$133,031,433</u>	<u>\$125,278,684</u>

ANALYSIS OF WORKING CAPITAL

	1978	1977 (note a)	Increase or (decrease)
CURRENT ASSETS:			
Cash	\$13,825,879	\$11,038,092	\$2,787,787
Accounts receivable	878,918	749,243	129,675
Inventories	12,397,355	13,282,988	(885,633)
Other assets	<u>9,641</u>	<u>11,357</u>	<u>(1,716)</u>
Total current assets	<u>27,111,793</u>	<u>25,081,680</u>	<u>2,030,113</u>
CURRENT LIABILITIES:			
Accounts payable	3,648,193	4,427,232	(779,039)
Employees' accrued annual leave	2,203,237	2,017,962	185,275
Accrued salaries and wages	1,804,658	1,635,015	169,643
Due other U.S. Government agencies	409,175	315,505	93,670
Unredeemed merchandise coupons	380,311	308,127	72,184
Other	<u>1,224</u>	<u>18,753</u>	<u>(17,529)</u>
Total current liabilities	<u>8,446,798</u>	<u>8,722,594</u>	<u>(275,796)</u>
Total working capital	<u>\$18,664,995</u>	<u>\$16,359,086</u>	<u>\$2,305,909</u>

a/Unaudited.

The notes on pages 13 and 14 are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies:
 - a. 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 accounting. Service department inventories are recorded at cost, after conversion from retail value, by application of individual types of activities cost percentages under the retail inventory method of accounting.
 - b. 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.
2. Cash in the Treasury includes cash transferred to a VA Treasury account to be used for Service payroll and related benefits. This amounted to \$4,324,952 and \$3,374,476 in fiscal years 1978 and 1977, respectively.
3. Other current liabilities for fiscal year 1977 include \$17,984 collected with regard to an accountability shortage of \$22,481 allegedly attributable to a former canteen officer. The Service collected the balance of the amount during fiscal year 1978. To facilitate accounting for the revolving fund for the unobligated balance, the \$22,481 was included in the net income--current year on the balance sheet, but excluded from the net income--current year on the income statement.
4. Vended food and beverage income resulted from sales of \$13,278,274 and \$12,348,292 in fiscal years 1978 and 1977, respectively. Vending sales are made under contract with various vendors.

5. At the end of the second quarter of fiscal year 1978, the Service had an unobligated balance which was \$516,000 deficient due primarily to the funding of committed capital improvements at a time when sales revenue did not meet the budget plan. Legislation (38 U.S.C. 4202(3)) provides that the Administrator of VA may reduce or waive charges for rent, maintenance, and repair normally paid by the Service to VA. The Administrator approved a waiver of those payments for the second half of fiscal year 1978 in the amount of \$432,500.

(40176)

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