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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

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MANPOWER AND WELFARE
DIVISION

FEB 26 1974

Mr. Robert E. Lindsey, Jr., Director
Division of Engineering Service
Department of Medicine and Surgery
Veterans Administration

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Dear Mr. Lindsey.

The General Accounting Office annually audits the financial statements of the Veterans Canteen Service (VCS). This year's effort, which was recently completed, included an analysis of the Veterans Administration's (VA) charges for space and utilities provided canteens at VA hospitals. We noted that the opportunity exists for improving management controls and the methods used to compute the amounts charged

Our review was conducted at the VCS Central Office, the Atlanta and San Francisco Field Offices, and six canteens located in Augusta, Georgia, Fresno, Los Angeles, and Martinez, California, Murfreesboro, Tennessee, and Tampa, Florida. Our observations were discussed with hospital officials at each facility visited and are detailed below for your information.

Space charges not recomputed
when space utilization changes

Department of Medicine and Surgery (DM&S) Supplement MP-4, Part V, Change 109, dated October 29, 1971, requires that charges be recomputed whenever the cost of capital improvements or changes in the amount of space occupied affects the value of space furnished VCS. In addition, DM&S Supplement MP-3, paragraph 303.05, dated August 27, 1965, states that charges be updated when a significant change occurs.

Our review disclosed that the above VA procedures were not always being followed. At the Augusta canteen the amounts charged had not been updated from September 1968 to June 1973, although numerous revisions occurred which affected the value of space furnished to VCS. We estimate that in fiscal year 1973 the canteen was undercharged about \$990. A new rent was computed on June 29, 1973, and became effective the following month.

At the Los Angeles (Wadsworth) canteen, although no support for space charges was available, we were informed that the amount did not account for changes in space occupied. For example, charges were not revised during

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fiscal year 1973 for 540 square feet added to the canteen or for 3,215 square feet added to the vending machine area.

We also noted at the Tampa canteen, which had been in operation about a year, that VCS had not been charged for space or utilities. This matter was brought to the attention of hospital officials and collection action has been initiated.

Utilities charges not documented

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The basis for utility charges was not available at three hospitals that we visited even though VA Office of Administration Letter No. 68-89, dated August 21, 1968, and DM&S Circular No. 10-121 require that utility cost computations and supporting data be retained for audit purposes.

At the Los Angeles (Wadsworth) canteen there was no support for an increase of 11,130 kilowatt hours charged to the canteen. This addition represented a 94-percent increase for light and power.

At the Fresno canteen, hospital personnel could not locate any basis for the utility charges. We were informed that the amounts had remained the same for at least 3 years but that a survey of utility usage for the entire hospital will be made during this fiscal year, and canteen utility costs will be studied at that time

Charges for utilities, as well as space, at the Martinez canteen had not been updated since at least 1968. The responsible hospital official had received a list of rates from his predecessor in 1968 and did not know how they had originally been computed.

Annual review of charges not made

DM&S Supplement MP-3, paragraph 303.05, requires an annual review of charges to canteens as of July 1 and adjustments as necessary. Records of these reviews are to be maintained for audit purposes. As noted above, charges at Fresno and Martinez were neither appropriately documented nor correct and at Augusta were not current. We found no indications that annual reviews had been made in recent years at these locations.

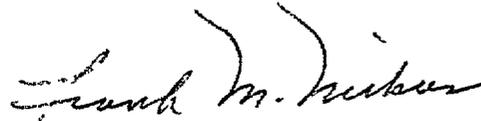
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From discussions with the VA internal audit staff we understand that they also have noted situations similar to the above at hospitals they visited. Therefore, this further highlights the need for improvements in management control over the computation of space and utility costs charged to VCS. If you concur that these matters warrant attention we suggest that

the managers of all VA hospitals and domiciliaries be instructed to (1) review current charges to VCS for compliance with DM&S Circular 10-28 and 10-175 and (2) subsequently perform the annual reviews required by DM&S Supplement MP-3, paragraph 303.05, including required maintenance of appropriate records of all reviews and adjustments.

A copy of this letter is being sent to the Director of the Internal Audit Service for his information and use. We would appreciate your comments on action taken or planned on this matter. We would be happy to meet with you if this will be helpful.

Sincerely,



Frank M. Mikus
Assistant Director

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WASHINGTON, D C 20548

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FEB 26 1974

Mr. Howard J Kohl, Director
Internal Audit Service
Veterans Administration
McPherson Building, Room 1150
1725 K Street, NW.
Washington, D C. 20006

Dear Mr. Kohl

Enclosed for your information is a copy of our letter to the Director of Engineering Service, VA Department of Medicine and Surgery, concerning the need for improvement of management controls over charges to the Veterans Canteen Service for space and utilities provided at VA hospitals. We understand that you have noted similar situations at canteens visited by your staff

In our letter, we suggested that the Director of Engineering Service strengthen the management control over the space and utility changes. You may wish to follow up on the matters noted at the six canteens we visited during your next audit of these activities

Sincerely,

A handwritten signature in cursive script that reads "Frank M. Mikus".

Frank M. Mikus
Assistant Director

Enclosure

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