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REPORT TO THE CONGRESS



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Examination Of Financial Statements Of Veterans Canteen Service For Fiscal Year 1974

Veterans Administration

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

FOD-75-6

~~02218~~

JAN. 20, 1975

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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 1974. 14-2

Our review was made pursuant to 38 U.S.C. 4207
(1970).

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

James B. Stacks
Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
VA	Veterans Administration

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS
OF VETERANS CANTEEN SERVICE
FOR FISCAL YEAR 1974
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
2 16

Basic facts

The Service was created in 1946 to make available to veterans in VA hospitals and homes merchandise and services essential to their comfort and well-being at reasonable prices. (See p. 1.)

During fiscal year 1974 the Service operated 171 canteens--1 in each VA hospital and home--located throughout the United States and in Puerto Rico. No canteens were closed during the year, and only two canteens were opened. Services were available to a daily average of about 88,000 hospitalized veterans, 10,000 veterans domiciled in VA homes, and about 37,000 veteran outpatients. (See p. 1.)

In fiscal year 1974 canteen sales totaled \$84 million and food and beverage vending machine revenue totaled \$1.6 million. Net operating income was \$2.1 million, an increase of 44 percent over the previous year. (See p. 4.)

Because of its mission, the Service 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 1974, 50 canteens operated at net losses totaling \$448,000. (See p. 3.)

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, 1974, 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. 8.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

This report provides the Congress with information on the operations and financial condition of the Veterans Canteen Service.

CHAPTER 1

INTRODUCTION

The Veterans Canteen Service, Veterans Administration (VA), was created in 1946 for the convenience of veterans in VA hospitals and homes. 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 hospitals had been unable to attract concessionaires to provide needed services; 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 additional services such as drycleaning and laundry, shoe and watch repair, and florist and photo services. Since the program is oriented toward patient service, many canteens use ward carts which make regular rounds, bringing retail merchandise to nonambulatory patients.

In addition to providing merchandise and services, 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. This therapy encourages decisionmaking and interest in personal appearance and helps prepare the patient for return to society.

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. A biweekly average of 171 patients participated in this program during fiscal year 1974.

Because the Service was established for the 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 very few complaints.

During fiscal year 1974, the Service operated 171 canteens--1 in each VA hospital and home--located throughout the United States and in Puerto Rico. No canteens were closed during the year and two canteens were opened. The new canteens are in San Antonio, Texas, and St. Albans, New York. Services were available to a daily average of about 88,000

hospitalized veterans, 10,000 veterans domiciled in VA homes, and about 37,000 veteran outpatients. Although the canteens are primarily for use by veterans, hospital employees and visitors may patronize the facilities when their purchases are to be used or consumed on the premises.

CHAPTER 2

FINANCING AND OPERATIONS

FINANCING

Legislation which authorized the establishment of the Service (38 U.S.C. 4204 (Supp. III, 1973)) 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 1975.

The Service's budget efforts and pricing policies are aimed at netting only the income necessary to maintain operations for the following year and to meet Office of Management and Budget requirements for budgetary resources. 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 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 1974, 50 canteens operated at net losses totaling \$448,000. In fiscal year 1973, net losses totaling \$621,000 were sustained at 61 canteens.

Fiscal year 1974 canteen sales totaled \$84 million and food and beverage vending machine revenue totaled \$1.6 million. This represents increases of 9 and 6 percent, respectively, over fiscal year 1973. Net operating income was 2.1 million, an increase of 44 percent. The Service attributed sales increases to higher prices, an increase in potential customers, and better merchandising. The operating income generated by the Retail, Food, and Service Departments is discussed below.

Retail Department

Retail operating income totaled \$3.4 million, an increase of 16 percent over fiscal year 1973. This increase resulted primarily from an 8-percent increase in retail sales. Sales consisted of the following:

	<u>1974</u>	<u>1973</u>
	(000 omitted)	
Tobacco	\$25,361	\$24,495
Candy	5,995	5,110
Toiletries	15,131	13,772
Clothing	<u>13,303</u>	<u>12,159</u>
	<u>\$59,790</u>	<u>\$55,536</u>

Food Department

Operating income from food sales increased by 31 percent over fiscal year 1973 to \$2 million. This increased income resulted primarily from a 15-percent increase in food sales which totaled \$20.5 million and netted \$902,000 in operating income. Automatic food and beverage operations provided the remaining operating income, yielding \$281,000 and \$815,000, respectively.

Service Department

Service operating income increased by 16 percent over fiscal year 1973, primarily resulting from an increase in photo service income. Service operating income totaled \$330,000 and was derived principally from photo services (\$210,000); barber shop operations (\$73,000); and tailoring, laundry, and drycleaning services (\$22,000). All service activities operated at a profit for the year.

CHAPTER 3

INTERNAL AUDITING

The Veterans Canteen Service internal audit staff is responsible for observing and reporting on matters, both financial and operational, affecting the maximum utilization 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 auditor located 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. Most canteens are audited every 2 to 3 years; however, large or problem canteens are 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.

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. Reports, addressed to the Director of the Service, are discussed with the responsible field director.

RELIANCE ON INTERNAL AUDIT

During fiscal year 1974, the Service's internal audit staff reviewed operations at 56 of the 171 canteens and at each of the field offices. We examined the work of the internal auditors and, as a result of their reviews, we were able to reduce 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

Our examination of the financial statements of the Veterans Canteen Service, required by 38 U.S.C. 4207 (1970), 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.

Our examination was made (1) at the Central Office in Washington, D.C., (2) at the Washington field office, and (3) at canteens located in Philadelphia, Wilmington, and Washington, D.C.

CHAPTER 5

OPINION ON FINANCIAL STATEMENTS

Veterans Canteen Service officials prepared the financial statements, schedules 1 through 3, and the notes to the 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 \$250,000 for fiscal year 1974, 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, 1974, 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.

SCHEDULE 1

VETERANS CANTEEN SERVICE
 COMPARATIVE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
 JUNE 30, 1974 AND 1973

ASSETS	<u>1974</u>	<u>1973</u>
CURRENT ASSETS:		
Cash:		
Cash in U.S. Treasury (note 2)	\$10,427,266	\$ 7,006,985
Cash in banks and on hand	<u>918,320</u>	<u>897,448</u>
	11,345,586	7,904,433
Accounts receivable, principally from Veterans Administration	642,671	527,521
Inventories (note 1):		
Retail department	7,235,514	7,979,333
Food department	650,089	554,476
Service department	27,598	24,091
Other assets	<u>6,138</u>	<u>3,502</u>
Total current assets	<u>19,907,596</u>	<u>16,993,356</u>
FIXED ASSETS (note 1):		
Furniture, fixtures, and equipment	10,862,025	10,375,013
Less accumulated depreciation	<u>4,976,641</u>	<u>4,571,792</u>
Net value furniture, fixtures, and equipment	<u>5,885,384</u>	<u>5,803,221</u>
Leasehold improvements (note 3)	<u>11,886</u>	<u>-</u>
Net fixed assets	<u>5,897,270</u>	<u>5,803,221</u>
Total assets	<u>\$25,804,866</u>	<u>\$22,796,577</u>
LIABILITIES AND EQUITY OF U.S. GOVERNMENT		
CURRENT LIABILITIES:		
Accounts payable:		
Trade creditors	\$ 1,777,642	\$ 1,769,195
U.S. Government agencies	<u>208,675</u>	<u>142,997</u>
	1,986,317	1,912,192
Employees' accrued annual leave	1,749,711	1,664,785
Accrued salaries and wages	1,369,921	1,103,295
Due other U.S. Government agencies for employee benefits, employee compensation and payroll processing expenses	199,296	170,575
Unredeemed merchandise coupons	316,048	281,834
Other (note 4)	<u>40,027</u>	<u>20,570</u>
Total current liabilities	<u>5,661,320</u>	<u>5,153,251</u>
EQUITY OF U.S. GOVERNMENT:		
Appropriated funds--total capital advanced	4,965,000	4,965,000
Donations of property principally from Veterans Administration	370,957	369,477
Net income--prior years	24,376,935	22,525,266
Net income--current year	<u>2,498,740</u>	<u>1,851,669</u>
	32,211,632	29,711,412
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>20,143,546</u>	<u>17,643,326</u>
Total liabilities and equity of U.S. Government	<u>\$25,804,866</u>	<u>\$22,796,577</u>

The notes following schedule 3 are an integral part of the financial statements.

VETERANS CANTEEN SERVICE

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

FISCAL YEARS ENDED

JUNE 30, 1974 AND 1973

	<u>Consolidated total</u>	
	<u>June 30, 1974</u>	<u>June 30, 1973</u>
SALES	\$83,957,096	\$76,819,607
Cost of sales	<u>56,443,777</u>	<u>51,926,337</u>
GROSS INCOME	<u>27,513,319</u>	<u>24,893,270</u>
FOOD AND BEVERAGE INCOME (note 5)	<u>1,608,364</u>	<u>1,512,025</u>
TOTAL GROSS INCOME	<u>29,121,683</u>	<u>26,405,295</u>
OPERATING EXPENSES:		
Salaries and wages	18,024,501	16,575,222
Supplies	581,625	555,374
Repairs	106,679	98,178
Depreciation	702,842	652,855
Laundry	35,035	37,778
Occupancy	1,953,292	1,804,392
Employee benefits	1,671,685	1,501,434
Miscellaneous	<u>337,523</u>	<u>459,970</u>
Total operating expenses (note 6)	<u>23,413,182</u>	<u>21,685,203</u>
TOTAL OPERATING INCOME	<u>5,708,501</u>	<u>4,720,092</u>
ADMINISTRATIVE EXPENSES:		
Salaries and wages	2,585,752	2,420,734
Travel	364,499	248,805
Other expenses	<u>620,483</u>	<u>566,522</u>
Total administrative expenses	<u>3,570,734</u>	<u>3,236,061</u>
NET OPERATING INCOME	2,137,767	1,484,031
OTHER INCOME:		
Purchase discount	381,555	369,822
Gain or loss (-) on disposal of fixed assets	-54,983	-84,605
Miscellaneous income	<u>34,401</u>	<u>82,421</u>
NET INCOME	<u>\$ 2,498,740</u>	<u>\$ 1,851,669</u>

The notes following schedule 3 are an integral part of the financial statements.

SCHEDULE 2

<u>Retail Department</u>		<u>Food Department</u>		<u>Service Department</u>	
<u>June 30, 1974</u>	<u>June 30, 1973</u>	<u>June 30, 1974</u>	<u>June 30, 1973</u>	<u>June 30, 1974</u>	<u>June 30, 1973</u>
\$59,789,924	\$55,535,545	\$20,478,959	\$17,810,412	\$3,688,213	\$3,473,650
<u>46,575,186</u>	<u>43,442,871</u>	<u>8,875,883</u>	<u>7,596,991</u>	<u>992,708</u>	<u>886,475</u>
<u>13,214,738</u>	<u>12,092,674</u>	<u>11,603,076</u>	<u>10,213,421</u>	<u>2,695,505</u>	<u>2,587,175</u>
<u>-</u>	<u>-</u>	<u>1,608,364</u>	<u>1,512,025</u>	<u>-</u>	<u>-</u>
<u>13,214,738</u>	<u>12,092,674</u>	<u>13,211,440</u>	<u>11,725,446</u>	<u>2,695,505</u>	<u>2,587,175</u>
8,086,215	7,486,434	7,965,180	7,160,308	1,973,106	1,928,480
164,066	167,434	387,963	358,663	29,596	29,277
28,515	28,446	74,743	68,162	3,421	1,570
191,325	186,820	481,058	436,400	30,459	29,635
1,949	2,621	24,866	26,438	8,220	8,719
521,374	486,751	1,322,623	1,216,224	109,295	101,417
738,609	672,387	730,424	637,294	202,652	191,753
<u>102,249</u>	<u>157,637</u>	<u>226,514</u>	<u>291,105</u>	<u>8,760</u>	<u>11,228</u>
<u>9,834,302</u>	<u>9,188,530</u>	<u>11,213,371</u>	<u>10,194,594</u>	<u>2,365,509</u>	<u>2,302,079</u>
<u>\$ 3,380,436</u>	<u>\$ 2,904,144</u>	<u>\$ 1,998,069</u>	<u>\$ 1,530,852</u>	<u>\$ 329,996</u>	<u>\$ 285,096</u>

SCHEDULE 3

VETERANS CANTEEN SERVICE
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
FISCAL YEARS ENDED JUNE 30, 1974 AND 1973

	<u>1974</u>	<u>1973</u>
FUNDS PROVIDED BY:		
Sales of merchandise, including food, and revenues from services furnished	\$83,957,096	\$76,819,607
Gross income from vended food and beverages	1,608,364	1,512,025
Purchase discount and other revenue	<u>435,113</u>	<u>486,311</u>
Total funds provided	<u>\$86,000,573</u>	<u>\$78,817,943</u>
FUNDS APPLIED TO:		
Cost of merchandise sold, including food	\$56,443,777	\$51,926,337
Salaries and wages	20,610,253	18,995,957
Other expenses, excluding depreciation (fiscal year 1974--\$721,807, fiscal year 1973--\$671,849)	5,651,857	5,253,458
Increase in working capital	<u>2,406,171</u>	<u>1,347,339</u>
Total funds applied to current costs and expenses	85,112,058	77,523,091
Purchase of equipment	<u>888,515</u>	<u>1,294,852</u>
Total funds applied	<u>\$86,000,573</u>	<u>\$78,817,943</u>

ANALYSIS OF WORKING CAPITAL

	<u>1974</u>	<u>1973</u>	<u>Increase or decrease (-)</u>
CURRENT ASSETS:			
Cash	\$11,345,586	\$ 7,904,433	\$ 3,441,153
Accounts receivable	642,671	527,521	115,150
Inventories	7,913,201	8,557,900	-644,699
Other assets	<u>6,138</u>	<u>3,502</u>	<u>2,636</u>
Total current assets	<u>19,907,596</u>	<u>16,993,356</u>	<u>2,914,240</u>
CURRENT LIABILITIES:			
Accounts payable	1,986,317	1,912,192	74,125
Employees' accrued annual leave	1,749,711	1,664,785	84,926
Accrued salaries and wages	1,369,921	1,103,295	266,626
Due other U.S. Government agencies	199,296	170,575	28,721
Unredeemed merchandise coupons	316,048	281,834	34,214
Other	<u>40,027</u>	<u>20,570</u>	<u>19,457</u>
Total current liabilities	<u>5,661,320</u>	<u>5,153,251</u>	<u>508,069</u>
Total working capital	<u>\$14,246,276</u>	<u>\$11,840,105</u>	<u>\$ 2,406,171</u>

The notes following schedule 3 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 represent accumulated costs incurred toward providing various services.

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 \$3,166,949 and \$2,298,608 in fiscal years 1974 and 1973, respectively.

3. Accounting procedures were revised in June 1974 to provide that leasehold improvements in excess of \$100 be capitalized. In the past such items had been expensed at the time of purchase.

4. Other current liabilities include \$33,829 collected with regard to an accountability shortage of \$36,030 allegedly attributable to a former canteen officer. Other current liabilities also include \$2,297 collected with regard to an accountability shortage of \$22,481 allegedly attributable to another former canteen officer. The Service continues to withhold retirement payments due to the former canteen officers.

5. Vended food and beverage income resulted from sales of \$9,916,178 and \$9,150,057 in fiscal years 1974 and 1973, respectively. Vending sales are made under contract with various vendors.

6. Operating expenses of about \$250,000, including the cost of space and services furnished in buildings under control of the General Services Administration and the cost of the General Accounting Office annual audit, were not borne by the Veterans Canteen Service and are not included in these financial statements.

APPENDIX

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

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR OF VETERANS AFFAIRS:		
Richard L. Roudebush	Oct. 1974	Present
Richard L. Roudebush (acting)	Sept. 1974	Oct. 1974
Donald E. Johnson	June 1969	Sept. 1974
DEPUTY ADMINISTRATOR :		
Vacant	Feb. 1974	Present
Fred B. Rhodes	May 1969	Jan. 1974
CHIEF MEDICAL DIRECTOR, DEPARTMENT OF MEDICINE AND SURGERY:		
Dr. John D. Chase	Apr. 1974	Present
Dr. Marc J. Musser	Jan. 1970	Apr. 1974
DIRECTOR, VETERANS CANTEEN SERVICE:		
Clyde C. Cook	July 1974	Present
Harroll Shelton (acting)	Jan. 1974	June 1974
Robert H. Bucknell	Aug. 1946	Dec. 1973

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