

10/27/81 116645

BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Review Of The Disabled American Veterans' Financial Statements For The Year Ended December 31, 1980

GAO reviewed the report on the audit of the Disabled American Veterans' ( DAV's )1980 financial statements and the work of DAV's independent public accountant. GAO concurs with the opinion of DAV's accountant and transmits it to the Congress.

Separate sections of the United States Code require annual audits of DAV's accounts by both GAO and independent public accountants. GAO believes these duplicate efforts provide little additional benefit to DAV and other users of the audit reports. They also result in a greater expense to DAV than would otherwise be necessary, and a less effective use of GAO's resources.

Therefore, GAO recommends that DAV's authorizing legislation ( 36 U.S.C. 90i(b) ) be amended to eliminate the requirement for an annual audit of DAV's financial statements by GAO.



116645



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

B-55712

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

This report summarizes the results of our review of the Disabled American Veterans (DAV) National Headquarters' financial statements for the year ended December 31, 1980. DAV is a federally chartered, privately funded, nonprofit corporation established by Congress in 1932 to advance the interests of injured and disabled American veterans. The review was conducted in accordance with 36 U.S.C. 90i(b).

OPINION OF DELOITTE HASKINS + SELLS

We reviewed the workpapers and audit report of Deloitte Haskins + Sells (DH+S), DAV's independent certified public accountant, to determine the quality of its work and the extent to which we could rely on it, and thus minimize our involvement. We performed such tests of its workpapers and audit report as we considered necessary to ensure that:

- DAV's financial statements were prepared in accordance with generally accepted accounting principles.
- DH+S' audit was made in accordance with generally accepted auditing standards.
- DH+S had established the necessary policies and procedures to comply with other applicable professional standards.

We conducted our review at DH+S' office in Cincinnati, Ohio, and DAV's National Headquarters in Cold Spring, Kentucky.

During our review of DH+S' workpapers and audit report, nothing came to our attention that would indicate that DH+S' opinion on DAV's 1980 financial statements was inappropriate. We, therefore, concur with and transmit to the Congress, Deloitte Haskins + Sells' opinion and DAV's 1980 financial statements which are included as appendix I.

EXISTING LAWS REQUIRE AUDITS BY BOTH  
GAO AND INDEPENDENT ACCOUNTANTS

Separate sections of the United States Code require annual audits of DAV's accounts by both GAO and independent public accountants. Section 90i(b) of 36 U.S.C. requires an annual

audit of DAV's accounts by GAO. Section 1102 of 36 U.S.C. requires an annual audit of DAV's accounts by independent certified public accountants or independent licensed public accountants. Both audit reports must be submitted to the Congress.

GAO and DAV feel the requirement for GAO to audit DAV's accounts annually is duplicative and unnecessary. We believe this duplicative effort provides little additional benefit to DAV and other users of the audit report. It also prevents GAO from using its resources more effectively. Similarly, DAV believes that " \* \* \* the expense of the duplicate audit performed by the General Accounting Office outweighs its usefulness \* \* \*". A discussion paper on GAO's audit requirement and DAV's views on annual GAO audits are presented as appendixes II and III, respectively.

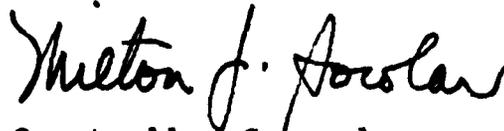
Even if the duplicate annual audit were eliminated, GAO would still perform some oversight of DAV's financial statements and independent auditor's report each year. Because DAV is a federally chartered corporation, its annual reports are subject to a desk review by GAO under a continuing arrangement with the House Judiciary Committee. The purpose of the review is to ensure compliance with Public Law 88-504 (36 U.S.C. 1102), which mandates certain financial reporting requirements for federally-chartered corporations. Our reports on these reviews are regularly sent to the Judiciary Committee.

#### RECOMMENDATION TO THE CONGRESS

We recommend that DAV's authorizing legislation (36 U.S.C. 90i(b)) be amended to eliminate the requirement for an annual audit of DAV's financial statements by GAO.

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We are sending copies of this report to the Director of the Office of Management and Budget, the Chairman of the House Judiciary Committee, and the National Adjutant, Disabled American Veterans.



Acting Comptroller General  
of the United States

**Deloitte  
Haskins + Sells**

One East Fourth Street  
Cincinnati, Ohio 45202  
(513) 241-2450  
Telex 214124

National Finance Committee  
Disabled American Veterans,  
National Headquarters  
Cold Spring, Kentucky 41076

April 2, 1981

Dear Sirs:

We have examined the financial statements of Disabled American Veterans, National Headquarters ("DAV"), for the year ended December 31, 1980, listed in the foregoing table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have previously examined and expressed our qualified opinion on the 1979 financial statements from which the accompanying comparative financial information for that year was derived. Our opinion was qualified because certain pension costs were charged directly against the unrestricted fund balance instead of being deferred and amortized to expense in accordance with DAV's actuarial cost method as required by generally accepted accounting principles. As discussed in Note 5, DAV has restated its 1979 comparative financial information to conform with generally accepted accounting principles.

As described in Note 7 to the financial statements, DAV has been assessed certain federal income taxes for the years 1970 through 1973. There are indications that additional assessments may be proposed for the years 1974 through 1980.

In order to contest the assessments for 1970 through 1973 in the U. S. Court of Claims, DAV paid the amounts assessed and recorded such amounts in the accompanying unrestricted fund balance sheets as a claim for refund of taxes. The amount of refund, if any, that may ultimately result from the action in the U. S. Court of Claims, or the amounts of additional payments, if any, that may be required for years after 1973 are not presently determinable.

In our opinion, subject to the effects of such adjustments, if any, as might have been required, had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements listed in the table of contents present fairly the financial position of Disabled American Veterans, National Headquarters, at December 31, 1980, and the results of its operations and the changes in its fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the changes, with which we concur, in the methods of accounting for pension costs as described in Note 5 and accounting for life membership fees as described in Note 4 to the financial statements.

Yours truly,

*Deloitte Hasbani & Sells*

DISABLED AMERICAN VETERANS  
NATIONAL HEADQUARTERS

BALANCE SHEETS, DECEMBER 31, 1980 AND 1979

<u>ASSETS</u>	<u>1980</u>	<u>1979</u> (Restated)	<u>LIABILITIES AND FUND BALANCES</u>	
UNRESTRICTED OPERATING AND DESIGNATED FUNDS:			UNRESTRICTED OPERATING AND DESIGNATED FUNDS:	
Current assets:			Current liabilities:	
Cash.....	\$ 1,068,295	\$ 473,950	Accounts payable.....	\$
United States Government securities - at cost (approximates market).....	5,551,793	4,258,677	Accrued expenses:	
Accounts receivable.....	396,056	488,758	Salaries.....	
Interest and dividends receivable.....	523,484	424,804	Vacation pay and sick pay (Note 8).....	
Inventories (Note 2).....	1,193,940	1,222,025	Other.....	
Prepaid expenses.....	362,771	332,350	Deferred dues and service fees collected in advance, etc.....	—
Prepaid pension expense (Note 5).....	2,095,516	4,862,527	Total current liabilities.....	—
Total current assets.....	<u>11,191,855</u>	<u>12,063,091</u>	Operating and designated funds:	
Investments in securities - at cost (approximate market value: 1980, \$23,804,476; 1979, \$21,211,425) (Note 2).....	26,611,555	22,918,466	Undesignated operating fund available for general activities.....	3
Claim for refund of taxes (Note 7).....	4,267,140	4,267,140	Designated by the National Finance Committee for (Note 3)	
			Scholarships.....	
			Emergency Relief.....	
			Disaster relief.....	
			Health Services.....	
			Total.....	14
TOTAL UNRESTRICTED OPERATING AND DESIGNATED FUNDS.....	<u>\$42,070,550</u>	<u>\$39,248,697</u>	TOTAL UNRESTRICTED OPERATING AND DESIGNATED FUNDS.....	<u>\$4</u>
FIXED ASSETS FUND (Note 2):			FIXED ASSETS FUND - Fund balance.....	\$
Property leased to others (less accumu- lated depreciation: 1980, \$2,400,189; 1979, \$2,339,426).....	\$ 1,123,011	\$ 1,183,774		
Land, buildings and equipment (less accumulated depreciation: 1980, \$3,051,098; 1979, \$2,629,669).....	<u>7,106,968</u>	<u>7,393,780</u>		
TOTAL FIXED ASSETS FUND.....	<u>\$ 8,229,979</u>	<u>\$ 8,577,554</u>	TOTAL FIXED ASSETS FUND.....	<u>\$</u>

DISABLED AMERICAN VETERANS  
NATIONAL HEADQUARTERS

BALANCE SHEETS, DECEMBER 31, 1980 AND 1979

<u>ASSETS</u>	<u>1980</u>	<u>1979</u> (Restated)	<u>LIABILITIES AND FUND BALANCES</u>
<b>RESTRICTED LIFE MEMBERSHIP FUND (Note 4):</b>			<b>RESTRICTED LIFE MEMBERSHIP FUND:</b>
Cash.....	\$ 493,069	\$ 88,283	Accounts payable..... \$
Accrued interest and dividends.....	487,202	476,483	Reserve for future distributions of dues (Note 4)..... 26
United States Government securities - at cost (approximates market).....	2,275,877	2,910,600	
Investments in securities - at cost (approximate market value: 1980, \$20,041,436; 1979, \$18,255,488) (Note 2).....	<u>23,032,920</u>	<u>20,265,575</u>	
<b>TOTAL RESTRICTED LIFE MEMBERSHIP FUND.....</b>	<b><u>\$26,289,068</u></b>	<b><u>\$23,740,941</u></b>	<b>TOTAL RESTRICTED LIFE MEMBERSHIP FUND..... <u>\$26</u></b>

See notes to financial statements.

DISABLED AMERICAN VETERANS  
NATIONAL HEADQUARTERS

STATEMENT OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 1980 WITH COMPARATIVE TOTALS FOR 1979

	UNRESTRICTED OPERATING FUND	FIXED ASSETS FUND	....TOTAL ALL FUNDS..... 1980	1979 (Restated)
<b>SUPPORT AND REVENUE:</b>				
<b>Support:</b>				
Contributions and revenue received from direct mail solicitations, etc.....	\$25,251,566		\$25,251,566	\$22,558,457
Donations and bequests.....	145,676		145,676	272,567
Total support.....	<u>25,397,242</u>		<u>25,397,242</u>	<u>22,831,024</u>
<b>Revenue:</b>				
Membership dues and fees (Note 4).....	2,571,880		2,571,880	2,426,157
Income from investments (principally interest).....	2,549,657		2,549,657	2,079,663
Rental from leased property, less related direct costs (1980, \$130,313; 1979, \$139,881).....	269,037	\$ (60,763)	208,274	205,702
Sale of emblems, etc., less related direct costs (1980, \$625,174; 1979, \$438,352).....	145,342		145,342	132,077
Subscription revenue.....	21,052		21,052	20,805
Miscellaneous.....	128,149		128,149	220,522
Total revenue.....	<u>5,685,117</u>	<u>(60,763)</u>	<u>5,624,354</u>	<u>5,084,926</u>
Total support and revenue.....	<u>31,082,359</u>	<u>(60,763)</u>	<u>\$31,021,596</u>	<u>\$27,915,950</u>
<b>EXPENSES (Exhibit C):</b>				
<b>Program services:</b>				
Maintenance of staff of National Service Officers.....	15,589,334	185,458	\$15,774,792	\$13,056,319
Publications and other communications.....	1,931,050	993	1,932,043	1,764,953
Membership services.....	1,201,624	57,550	1,259,174	1,127,286
Other.....	1,841,506		1,841,506	1,789,932
Total program services.....	<u>20,563,514</u>	<u>244,001</u>	<u>20,807,515</u>	<u>17,738,490</u>
<b>Supporting services:</b>				
Fund raising costs.....	8,438,547	176,720	8,615,267	7,479,730
Administrative and general expenses.....	1,545,616	39,713	1,585,329	1,306,587
Total supporting services.....	<u>9,984,163</u>	<u>216,433</u>	<u>10,200,596</u>	<u>8,786,317</u>
Total expenses.....	<u>30,547,677</u>	<u>460,434</u>	<u>\$31,008,111</u>	<u>\$26,524,807</u>
EXCESS OF PUBLIC SUPPORT AND REVENUE OVER EXPENSES.....	534,682	(521,197)		
FUND BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED.....	32,151,172	8,577,554		
ADJUSTMENT FOR PENSION PLAN ACCOUNTING CHANGE (Note 5).....	2,765,608			
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED.....	<u>34,916,780</u>	<u>8,577,554</u>		
OTHER CHANGE IN FUND BALANCE - Fixed assets, including construction in process, purchased by Unrestricted Operating Fund - net of retirements.....	<u>(173,622)</u>	<u>173,622</u>		
FUND BALANCE, END OF YEAR.....	<u>\$35,277,840</u>	<u>\$8,229,979</u>		

See notes to financial statements.

EXHIBIT C

DISABLED AMERICAN VETERANS  
NATIONAL HEADQUARTERS

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 1980 WITH COMPARATIVE TOTALS FOR 1979

	PROGRAM SERVICES					SUPPORTING SERVICES			TOTAL EXPENSES	
	MAINTENANCE OF STAFF OF NATIONAL SERVICE OFFICERS	PUBLICATIONS AND OTHER COMMUNICATIONS	MEMBERSHIP SERVICES	OTHER	TOTAL	FUND RAISING COSTS	ADMINISTRATIVE AND GENERAL EXPENSES	TOTAL	1980	1979 (Recasted)
Salaries (Note 8).....	\$ 9,376,260	\$ 193,505	\$ 553,053		\$10,122,818	\$2,808,802	\$ 774,642	\$ 1,588,444	\$13,711,262	\$11,114,266
Employee benefits.....	3,226,083	62,976	188,642		3,477,701	1,100,221	326,765	1,426,986	4,904,687	4,271,752
Disbursements for scholarship, disaster, and relief purposes, etc.....				\$1,812,296	1,812,296				1,812,296	1,738,587
Grants to other organizations.....				29,210	29,210				29,210	51,345
Expenses of National Conventions.....	181,245				181,245				181,245	151,267
Expenses of National Commander and Staff.....	213,151				213,151				213,151	162,479
Payroll taxes.....	532,493	9,073	35,594		577,160	211,458	38,816	250,264	827,424	739,813
Travel expenses - Field Service Units and others.....	832,758	14,301	7,566		854,625	18,424	33,626	52,050	906,675	653,055
Postage.....	180,522	302,708	133,186		616,416	857,057	17,581	868,638	1,485,054	1,339,255
Rental of space and equipment.....	39,801		7,303		47,104	21,072	3,460	24,532	71,636	59,026
Supplies.....	171,650	18,290	157,931		347,871	77,857			425,728	436,407
Relocation of personnel.....	81,127				81,127		55,313	133,170	81,127	81,818
Expenses of national officials at state conventions.....	30,814				30,814				30,814	27,271
Insurance.....	72,895	380	2,832		76,107	36,709	14,000	50,798	126,905	121,410
Telephone and telegraph.....	55,734	2,829	3,329		61,892	12,303	21,743	34,046	95,938	83,539
Maintenance and repairs.....	79,541	531	34,359		114,431	141,983	25,955	167,938	282,369	189,132
Express and hauling.....	11,552	5,060	1,739		18,351	29,916	1,226	31,340	69,891	31,757
Outside service - labor.....	17,079	33			17,112				17,112	7,103
Project cost.....	306,088	168,078			474,166		179	179	474,345	470,857
Printing of magazine.....		1,133,307			1,133,307				1,133,307	1,018,327
Commissions.....						243,649			243,649	252,361
Cost of solicitation mailings - materials.....						2,478,436			2,478,436	2,275,446
Awards.....			58,728		58,728		4,136		62,864	61,497
Heat, light, water, and power.....	49,282		11,886		61,168	152,537	12,426	164,963	226,111	186,812
Security service.....	39,675				39,675	112,727		152,402	192,077	136,861
Professional fees.....	1,012				1,012		193,211	193,211	194,223	243,129
Dues and subscriptions.....	25,177		519		25,696		12,948		38,644	9,195
Other.....	65,395	19,979	4,957		90,331	23,652	14,943		128,926	172,329
Decrease (increase) in labor and overhead costs in inventory.....						108,073			108,073	(34,055)
Total expenses before depreciation.....	15,589,334	1,931,050	1,201,624	1,841,506	20,563,514	8,438,547	1,545,616	9,984,163	30,547,677	26,072,042
Depreciation of fixed assets.....	185,458	993	57,550		244,001	176,720	39,713	216,433	460,434	462,763
TOTAL.....	\$15,774,792	\$1,932,043	\$1,259,174	\$1,841,506	\$20,807,515	\$8,615,267	\$1,585,329	\$10,200,596	\$31,008,111	\$26,534,807

DISABLED AMERICAN VETERANSNATIONAL HEADQUARTERS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1980

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## 1. ORGANIZATION

The Disabled American Veterans (DAV) is a Congressionally Chartered, not-for-profit service organization specifically organized to provide for the rehabilitation and continuing welfare of the Nation's disabled veterans, their families, dependents, and survivors. DAV's principal program (social) service activities are:

- . maintenance of national service officers in all Veterans Administration Regional and Contact Offices to assist veterans in obtaining benefits to which they are entitled under law
- . identification of veterans eligible for assistance and referral of such veterans to DAV service officers
- . publication of a monthly magazine and other communications for disabled veterans, in order to provide information regarding veterans' benefits and social activities
- . coordination of DAV's state departments and local membership chapters which provide a social environment to aid the veteran in personal and social development
- . maintenance of special and need programs for emergency relief, disaster relief and scholarships to disabled veterans and their dependents

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements - The accompanying financial statements have been prepared in accordance with the principles contained in the Audits Of Voluntary Health And Welfare Organizations published by the American Institute of Certified Public Accountants.

Leased Property - Property leased to other is accounted for under the operating method of accounting for lease transactions, and has accordingly been segregated from other property assets in the balance sheet.

Inventories - Inventories, stated at the lower of cost (principally on the first-in, first-out basis) or market, are as follows at December 31, 1980:

Materials and supplies.....	\$ 325,222
Solicitation materials.....	<u>868,718</u>
Total.....	<u>\$1,193,940</u>

Investments in Securities - Investments in securities are recorded at cost unless management judges that there has been a permanent impairment in value.

The aggregate recorded value of investments in securities at December 31, 1980 exceeded the market value by approximately \$2,807,000 and \$2,991,000 in the Unrestricted Operating Fund and the Restricted Life Membership Fund, respectively. In management's opinion, there is no permanent decline in value of the securities.

Fixed Assets - Fixed assets are stated at cost less accumulated depreciation, and are comprised of the following at December 31, 1980:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Property, leased to others.....	\$ 3,523,200	\$2,400,189	\$1,123,011
Land and improvements.....	924,915	161,141	763,774
Buildings and improvement.....	6,011,043	992,628	5,018,415
Machinery and other equipment.	<u>3,222,108</u>	<u>1,897,329</u>	<u>1,324,779</u>
Total land, building and machinery.....	<u>10,158,066</u>	<u>3,051,098</u>	<u>7,106,968</u>
Total.....	<u>\$13,681,266</u>	<u>\$5,451,287</u>	<u>\$8,229,979</u>

Depreciation is computed generally on the straight-line method over the estimated useful lives of assets which range from 3 to 50 years, and amounted to \$521,197 for 1980.

1979 Comparative Totals - The comparative totals for 1979 have been restated to give recognition on a pro forma basis of the accounting changes discussed in Notes 4 and 5.

### 3. DESIGNATED FUNDS

Certain unrestricted funds have been designated by the National Finance Committee for the following purposes:

Scholarships - For scholarships and financial assistance to dependents of disabled veterans who qualify scholastically and are in need of financial aid.

Disaster Relief - For assistance to disabled veterans and their families who have suffered losses resulting from natural disasters.

Emergency Relief - For financial assistance to disabled veterans for emergency health and welfare reasons.

Health Services - For research of health care provided by the VA hospital system.

### 4. RESTRICTED LIFE MEMBERSHIP FUND

Under the by-laws of the DAV, life membership in the organization is available and amounts so paid are required to be placed in a separate life membership fund and invested; the only allowable withdrawals from the fund are amounts required to pay chapter, department and national per capita dues for life members.

In 1980, an actuarial evaluation of the life membership population indicated that the accumulated fund balance approximates the present value of future membership fees required for existing life members. In recognition of this, DAV changed the method of accounting for life membership fees. Prior to 1980, such dues were recognized in the life membership fund as income upon receipt. Beginning in 1980, life membership receipts are deferred and recognized as income at the time such dues are transferred to the general fund from the life membership fund, in accordance with the by-laws.

As a result of this change the 1979 comparative financial information was restated and, the life membership fund balance has been transferred to reserve for future distribution of dues.

The following summary represents the changes during 1980 in the reserve for future distribution of dues:

Balance, January 1, 1980.....	<u>\$23,731,725</u>
Additions:	
Membership dues received.....	2,619,781
Earnings on invested fund assets.....	<u>2,113,077</u>
Total.....	<u>4,732,858</u>
Distributions of dues:	
National Headquarters.....	1,256,240
Local Chapters.....	609,021
State Departments.....	<u>326,697</u>
Total.....	<u>2,191,958</u>
Balance, December 31, 1980.....	<u>\$26,272,625</u>

## 5. PENSION PLAN

DAV has a pension plan covering substantially all of its employees. Effective January 1, 1979, DAV amended its pension plan to provide an annual increase in pension benefits for all eligible participants up to a maximum of a 4% increase per year. In 1979, DAV recorded \$3,015,865 (which relates to additional benefits for currently retired employees) as a charge to the unrestricted operating fund in the accompanying statement of support, revenue and expenses and changes in fund balances.

In 1980 a portion of this charge (\$2,765,608) was restored to the unrestricted operating fund in order to account for pension costs in accordance with generally accepted accounting principles. Accordingly, DAV restated its 1979 comparative financial information for this change.

The normal cost for 1980 of \$3,417,974 which includes amortization of prior service cost for active participants, as determined under the aggregate cost method, is included in employee benefits expense in the accompanying statement of functional expenses. As of December 31, 1980, additional information with regard to the pension plan as of January 1, 1980, the date of the most recent actuarial evaluation, is presented as follows:

Present value of vested accumulated plan benefits.....	\$19,895,589
Present value of non-vested accumulated plan benefits.....	1,368,446
Net assets available for benefits.....	15,501,215
Assumed rates of return in determining actuarial value of vested and non-vested plan benefits.....	6%

The prepaid pension expense in the accompanying unrestricted fund balance sheets as of December 31, 1980 represents payments made into the pension plan during 1979 which will be applied to the normal cost of the plan in future years.

6. DISABLED AMERICAN VETERANS SERVICE FOUNDATION

The balance sheets do not include the net assets of the Disabled American Veterans Service Foundation (a separate corporation) which are held in trust by the Foundation and available to National Headquarters only by appropriation or dissolution of the Foundation. Based upon financial information (unaudited) at December 31, 1980, net assets of the Foundation were approximately \$1,458,000.

7. INTERNAL REVENUE SERVICE EXAMINATION

In 1976, the Internal Revenue Service, as a result of its examination of the years 1970 through 1973, assessed DAV taxes in the amount of \$3,510,000 and interest of \$757,000. DAV believes there is no tax liability, but as a procedural matter, paid the assessments plus interest and filed suit in the U. S. Court of Claims for recovery of amounts paid plus interest. Such amounts were recorded in the unrestricted fund balance sheets as a claim for refund of taxes.

As a result of another examination in 1980, there are indications that additional assessments maybe proposed by the Internal Revenue Service for the years 1974 through 1980. The estimated tax could approximate \$1,700,000 plus interest for those years.

During 1980, judgment was rendered in the suit by the U. S. Court of Claims substantially in favor of DAV on certain issues but partially in favor of the Internal Revenue Service on certain other tax issues. DAV filed an exception to this judgment, which as of April 2, 1981, is still pending. Consequently, the amount of the refund that will ultimately result from the appeal or any additional tax payments that may be required for 1974 through 1980 are not presently determinable.

## 8. SICK LEAVE PAY

In 1980 DAV amended its sick leave plan to increase the maximum number of accumulated hours that each employee may accumulate and receive as a future benefit in the event of illness or termination of employment. The effect of this change in the maximum hours accumulated, from 1,000 to 2,000 hours, was to increase the salaries expense and accrual for sick leave pay by approximately \$1,640,000.

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DISCUSSION PAPERTHE REQUIREMENT FOR AN ANNUAL AUDIT OF THE  
DISABLED AMERICAN VETERANS' ANNUAL FINANCIAL STATEMENTS  
BY THE U.S. GENERAL ACCOUNTING OFFICEBACKGROUND

The Disabled American Veterans was incorporated by an act of Congress in 1932 as a privately funded, nonprofit corporation devoted to advancing the interests of wounded, injured, and disabled American veterans. DAV is a "federally chartered corporation" as opposed to a "government corporation." Therefore, it is a private enterprise and not an agency of the Federal Government. Federally chartered corporations typically need undergo only an annual audit by independent public accountants and submit a report of the audit to the House Committee on the Judiciary in accordance with Public Law 88-504 (36 U.S.C. 1103). The committee then forwards these reports to the General Accounting Office to determine if they meet the requirements of the law and the audit standards of the profession. However, in 1967, Public Law 90-208 (36 U.S.C. 90i(b)) amended DAV's authorizing legislation and required GAO to annually audit DAV's accounts. The legislative history of this amendment reveals that the Congress enacted this provision not simply to have GAO audit DAV, but more to relieve DAV, by means of a Federal audit, from the burden of having to comply with divergent state and municipal statutes and regulations applicable to DAV's nationwide fundraising.

DAV'S POSITION ON GAO AUDIT

Although we do not know specifically what DAV's initial position was in 1967 regarding Public Law 90-208, it is our understanding that DAV requested an annual audit by GAO and that the law was changed to require such an audit.

In a July 1977 letter sent to Representative Peter W. Rodino, Jr., chairman of the House Judiciary Committee, William B. Gardiner, DAV's National Director of Legislation, stated that enactment of Public Law 90-208 had materially assisted in making the fundraising reporting procedures uniform, both at the State and municipal levels. Because of this benefit, he requested that the act incorporating the Disabled American Veterans remain unchanged and that the annual audit of DAV's accounts by the Comptroller General be continued. However, Mr. Gardiner noted that DAV would not oppose elimination of annual GAO audits if their continuation would result in Governmental intrusion in the internal affairs of the organization. DAV's position on the annual GAO audit was reversed in a second letter Mr. Gardiner sent to the chairman of the House

Judiciary Committee in July 1977. Although the earlier letter favored the GAO audit, the second letter said that DAV felt the expense of the duplicate audit performed by GAO outweighed its usefulness and that DAV supported the Comptroller General's recommendation that the requirement for an annual audit of DAV's accounts be deleted from DAV's authorizing legislation.

In response to a draft of this discussion paper, which was sent to DAV to obtain its current views on annual GAO audits, DAV stated that it still believes such audits are duplicative and that their expense outweighs their usefulness. Accordingly, DAV favors deleting the requirement for annual audits of its accounts by GAO. (See app. III.)

#### GAO's POSITION

The Comptroller General opposed the amendment which gave GAO the responsibility to audit DAV's accounts. In a September 1966 letter to Senator James O. Eastland, chairman of the Senate Judiciary Committee, the Comptroller General advised:

"\* \* \* The Disabled American Veterans is a private organization operated with private, not Federal funds; and we consider the audit required by the act of 1964 [codified at 36 U.S.C. §1102-1103, (1970)] to adequately serve Federal audit purposes. Moreover, we question the advisability of extending the audit function of the Comptroller General, an officer of the Federal Government, to private organizations even at their own request, which we understand is the situation here involved."

In a letter sent to the chairman of the House Judiciary Committee in May 1977, the Comptroller General expressed concern that:

- the scope of our audit authority over DAV may not satisfy the requirements of the various State and local officials responsible for the supervision of charities,
- our audit of DAV may be misleading to State and local officials or private citizens who assume our audit report is the result of the usual GAO audit, and
- an audit of an organization that has already been audited by a public accounting firm will not accomplish anything and is duplicative as long as our audit authority is limited to that of the public accounting firm.

GAO concluded that participation in the regulation of private charitable organizations is not an appropriate role for GAO and recommended an amendment to DAV's authorizing legislation to delete the requirement for the annual GAO audit.

#### SUMMARY

Since 1967, GAO has been required by law to conduct an annual audit of the DAV's financial statements. Because DAV's financial statements are also subject to annual audit by a public accountant, GAO and DAV, in 1977, recommended to the chairman of the House Judiciary Committee that the requirement for an annual GAO audit be eliminated. The committee did not act on the recommendation, so the requirement for the annual audit by GAO still exists. As part of our audit of DAV's 1980 statements we reassessed the need for a GAO audit which, in effect, duplicates the work of other independent auditors. We concluded, once again, that DAV's authorizing legislation should be amended to eliminate the requirement for a GAO audit. DAV agrees with our position.



*Motto: "If I cannot speak good of my comrade, I will not speak ill of him."*

## DISABLED AMERICAN VETERANS

NATIONAL SERVICE and LEGISLATIVE HEADQUARTERS  
807 MAINE AVENUE, S.W.  
WASHINGTON, D. C. 20024  
(202) 554-3501

June 16, 1981

Mr. D. L. Scantlebury  
Division Director and  
Chief Accountant  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Scantlebury:

This letter is in reference to your correspondence dated May 20, 1981 requesting the views of the Disabled American Veterans regarding the provisions of Public Law 90-208 which require an annual audit of our organization.

As you know, the DAV is also subject to the provisions of Public Law 88-504 which require that private corporations established under federal law be annually audited by public accountants. These reports are submitted to the Congress each year.

Because we view the GAO audit requirements contained in P.L. 90-208 as duplicative in nature, we concur in your assessment that an audit (by GAO) of an organization (DAV) which has already been audited by a private public accounting firm serves no purpose. As we indicated in a letter dated July 29, 1977 to the House Committee on the Judiciary, we believe that the expense of the duplicate audit performed by the General Accounting Office outweighs its usefulness to our organization.

Accordingly, the DAV supports the recommendation of the Comptroller General that the requirement for an annual GAO audit of our accounts be repealed.

Sincerely yours,

JOHN F. HEILMAN  
National Legislative Director

JFH/J/dh

cc: Mr. Denvel D. Adams, Natl. Adjutant  
Mr. Thomas G. Dehne, Asst. Natl. Adjt.  
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