



Highlights of [GAO-04-56](#), a report to the Chairman, Committee on Appropriations, House of Representatives

DEFENSE MANAGEMENT

DOD Needs to Strengthen Internal Controls over Funds Used to Support USO Activities

Why GAO Did This Study

For more than 60 years, the United Services Organization (USO), in partnership with the Department of Defense (DOD), has provided support and entertainment to U.S. armed forces, relying heavily on private contributions and on funds, goods, and services from DOD. To assist USO, Congress, beginning in fiscal year 2000, provided a total of \$23.8 million in grants to be awarded through DOD as seed money for an endowment fund. The availability of these funds to USO, along with DOD's ongoing support funded in its regular annual appropriations, represents a substantial financial commitment.

GAO determined (1) the source and amount of DOD's support to USO in fiscal years 2000-2002 and (2) the sufficiency of internal controls to provide reasonable assurance that federal funds are used in an appropriate manner. GAO focused its audit on USO World Headquarters' activities and audited a limited selection of USO transactions for the 3 fiscal years.

What GAO Recommends

GAO recommends that the Secretary of Defense develop and implement improvements in program guidance, record-keeping systems, and tests of internal controls to improve the accountability and control of funds used to support USO's operations.

In commenting on a draft of this report, DOD generally concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-56.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sharon Pickup, (202) 512-9619, or pickups@gao.gov.

What GAO Found

During fiscal years 2000 through 2002, DOD provided USO with substantial appropriated and nonappropriated support, but the total amount cannot be determined because of limitations in DOD's and USO's record-keeping systems. GAO identified at least \$34.7 million in appropriated funds that DOD provided to support USO during fiscal years 2000 through 2002. Of this amount, \$20.8 million was in congressionally appropriated grants to help USO establish the Spirit of Hope Endowment Fund to ensure the continuation of USO's programs and services. Another \$12.1 million was for reimbursements to USO, and at least \$1.8 million was paid directly by DOD for tour-related expenses such as commercial airfares, visas, and passports. DOD also provided other appropriated support, such as lodging and transportation. However, GAO could not determine the total monetary value of DOD's support from appropriated funds because neither DOD nor USO has record-keeping systems that aggregate the needed information. DOD also provides USO with nonappropriated support, largely in the form of in-kind goods (e.g., food), services (e.g., Internet access), and infrastructure support (e.g., performance facilities), to help sustain USO's overseas tours, but the same limitations precluded GAO from determining the total monetary value.

DOD and USO did not have sufficient financial and management controls to reasonably ensure that all appropriated funds were used appropriately. DOD properly awarded grant funds to USO, and USO properly administered these funds. However, USO did not require its independent auditor to fully test internal controls over grants or funds reimbursed to USO by DOD, as required by its agreements with DOD. In terms of reimbursements to USO and direct payments by DOD, DOD lacked clearly written supplemental guidance regarding allowable expenses, management oversight in reviewing USO's invoices, and procedures for capturing reimbursable expenses. In some cases, these weaknesses resulted in inappropriate expenditures of funds. As shown in the table below, based on limited testing, GAO found problems with payments totaling about \$433,000, including about \$86,000 in improper expenditures, \$3,000 in questionable expenditures, and \$344,000 for unsupported expenditures. Had USO's independent auditor tested internal controls, the problems GAO identified might have surfaced. As a result of GAO's audit, DOD stated it has initiated several actions to improve financial and management controls and to recover funds from USO. As of September 2003, DOD had recovered about \$19,000 from USO in improper payments for overseas tour expenses.

Examples of Improper, Questionable, or Unsupported Expenses Identified by GAO Based on Limited Testing (Fiscal Year 2002)

Type of payment	Description	Reason	Amount Identified
Improper	Food, liquor, lodging, and first- and business-class travel	Unauthorized or not allowed by DOD or federal travel regulations	\$85,967
Questionable	Limousine service, airport VIP lounge	No explanation indicating why needed for official government business	3,054
Unsupported	Production support, celebrity honorarium	No explanation of or detailed support for expense	343,910
Total			\$432,931

Source: GAO analysis of DOD data.