

**GAO**

Report to the Chairman, Committee on  
Appropriations, House of  
Representatives

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December 2003

# DEFENSE MANAGEMENT

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





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

## 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](http://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](mailto:pickups@gao.gov).

## DEFENSE MANAGEMENT

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

## 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           |
| <b>Total</b>    |   |   | <b>\$432,931</b>  |

Source: GAO analysis of DOD data.

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**Abbreviations**

|      |                                    |
|------|------------------------------------|
| AFEO | Armed Forces Entertainment Office  |
| DOD  | Department of Defense              |
| GSA  | General Services Administration    |
| JFTR | Joint Federal Travel Regulations   |
| JTR  | Joint Travel Regulations           |
| O&M  | operations and maintenance         |
| OMB  | Office of Management and Budget    |
| OSD  | Office of the Secretary of Defense |
| USO  | United Services Organization       |

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United States General Accounting Office  
Washington, DC 20548

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December 5, 2003

The Honorable C.W. Bill Young  
Chairman, Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

For more than 60 years, the United Services Organizations (USO), a not-for-profit, nongovernmental but congressionally chartered organization, has offered support and entertainment to the men and women of America's armed forces and their families. The USO mission is to enhance the quality of life of the personnel within the U.S. armed forces community wherever they are based.

Throughout the years, USO has relied on corporate donors and individual contributors, as well as on funds, goods, and services provided by the Department of Defense (DOD), to support its operations. With the creation of a federal charter for USO in 1979, Pub. L. No. 96-165, DOD was granted statutory authority to make the department's resources available to help USO achieve its mission. DOD provides both appropriated and nonappropriated resources to support USO's operations. Appropriated support is derived from DOD's operations and maintenance (O&M) funds, and nonappropriated support is provided largely through DOD-donated goods, services, and infrastructure. DOD's Armed Forces Entertainment Office (AFEO), through its Armed Forces Professional Entertainment Program, is primarily responsible for coordinating with USO to deliver overseas entertainment. Under a contractual arrangement, USO solicits celebrity entertainers for gratis or reduced rates to perform at overseas DOD locations. AFEO reimburses USO for certain expenses incurred in securing celebrity entertainment, including honoraria,<sup>1</sup> production support, and other administrative costs. AFEO and other DOD entities also pay directly from their respective O&M accounts, referred to as direct payments, for certain goods and services provided for USO tours, such as commercial airfare and military airlift services.

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<sup>1</sup> Honoraria are daily allowances paid for celebrity and noncelebrity performers, as well as tour managers and producers.

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At your request, we determined (1) the source and amount of support provided to USO during fiscal years 2000 through 2002 and (2) the sufficiency of the financial and management controls to provide reasonable assurance that funds were used appropriately.

We focused our audit on DOD's support for activities of the USO World Headquarters, which operated USO's overseas entertainment tours, and did not include the activities of chartered, stateside USO affiliates, which are financially autonomous from the USO World Headquarters. We did not audit support provided to USO from nonfederal sources. Because of limitations in AFEO and USO record keeping, we limited our audit to support provided by DOD during fiscal years 2000 through 2002. To assess financial and management controls, we evaluated the adequacy of the overall control environment and management oversight of controls at USO and AFEO, audited selected transactions between AFEO and USO for fiscal year 2002, analyzed AFEO's centrally billed account for fiscal year 2002, and reviewed AFEO's purchase card account for fiscal years 2001 and 2002. We also reviewed annual audits of USO's consolidated statement of financial position and the related consolidated statement of activities and cash flows prepared by an independent audit firm. For more details on our scope and methodology, see appendix I.

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## Results in Brief

During fiscal years 2000 through 2002, DOD provided significant appropriated and nonappropriated support; however, the total amount cannot be determined because of limitations in DOD's and USO's record-keeping systems. For this 3-year period, we identified at least \$34.7 million in appropriated funds that DOD used to support USO's activities. Of this amount, \$20.8 million was awarded in congressionally appropriated grants, which USO used to help fund the Spirit of Hope Endowment Fund, a restricted fund intended to ensure the continued existence of USO's programs and services. We also identified another \$12.1 million in reimbursements to USO under its contract with AFEO for such costs as celebrity honoraria and production expenses for overseas tours, and at least another \$1.8 million in direct payments by AFEO and other DOD entities for tour-related expenses, such as commercial airfares, visas, passports, and military airlift services. DOD also provided other appropriated support such as lodging, transportation, and use of facilities. However, we could not determine the total monetary value of DOD's appropriated support because neither DOD nor USO has record-keeping systems to aggregate or report the needed information. While DOD also provided nonappropriated support, largely in the form of in-kind goods (e.g., food and refreshments), services (e.g., Internet and telephone

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access), and infrastructure support (some performance facilities), to help sustain USO's overseas operations, the same limitations precluded us from determining the total monetary value of this support.

DOD and USO did not have sufficient financial and management controls in place to provide reasonable assurance that all appropriated funds were used appropriately. DOD properly awarded grant funds to USO, and USO appropriately administered these funds. However, USO did not require its independent auditor to fully test internal controls over grant funds or funds reimbursed by DOD, as required under agreements with DOD. For support provided through contract reimbursements and direct payments, AFEO lacked clear written supplemental guidance regarding allowable expenses, effective management oversight in reviewing USO invoices, and adequate procedures for capturing reimbursable expenses. In some cases, these weaknesses resulted in inappropriate expenditures of funds. Specifically, based on our limited testing, we found problems with expenditures totaling about \$433,000, including about \$86,000 in improper expenditures, about \$3,000 in questionable expenditures, and approximately \$344,000 for unsupported expenditures. For example, AFEO improperly reimbursed USO about \$9,000 for administrative services that had already been paid and about \$1,300 for unallowable food, liquor, and other miscellaneous expenses. Also, AFEO improperly incurred approximately \$67,000 for first-class and business-class travel expenses that were not authorized in accordance with DOD and federal travel regulations and around \$9,000 for transportation expenses for unauthorized travelers. These latter expenses were paid by AFEO, but they should have been billed to and paid by USO. As a result of our audit, AFEO officials told us they initiated several actions to improve financial and management controls and to recover funds from USO. As of September 2003, AFEO had recovered from USO about \$19,000 in improper payments it made to support USO's overseas tours.

We are making recommendations to the Secretary of Defense to 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 operations. In commenting on a draft of this report, DOD generally concurred with our recommendations.

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## Background

USO is a congressionally chartered, nonprofit, nongovernmental, and charitable corporation whose mission is to enhance the quality of life for U.S. armed forces personnel and their families. The USO World Headquarters acts as the enabling body for the organization, sets overall

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policy and strategy, is responsible for the operation of overseas USO centers, and produces overseas celebrity entertainment tours in partnership with AFEO. From World War II through the Vietnam War, USO and DOD partnered to enhance troop morale and provide entertainment to military outposts worldwide. Following the Vietnam War, legislation establishing USO's federal charter and various DOD directives and instructions formalized this close association and made DOD resources, including funds, available to the maximum extent possible to support USO's mission.<sup>2</sup> DOD uses both appropriated and nonappropriated resources to support USO's operations. Appropriated support is derived from DOD's O&M funds, and nonappropriated support is provided largely through DOD-donated goods, services, and infrastructure.

DOD regulations designate (1) the Under Secretary of Defense for Personnel and Readiness as the official liaison between DOD and USO and (2) AFEO, a joint-service operation, as the DOD liaison office for USO. AFEO, established in 1951, administers DOD's Armed Forces Entertainment Program in partnership with USO. The U.S. Air Force is the executive agent for AFEO, having assumed that role from the U.S. Army in 1997. AFEO's mission is to provide free, high quality, live entertainment to U.S. military personnel and their families stationed overseas. AFEO supplies all noncelebrity entertainment, and USO is the primary provider of celebrity entertainment. Noncelebrity entertainment is made up of up-and-coming performers professionally managed by an agent; celebrity entertainment consists of well-known entertainers, listed in Billboard or with gold or platinum recordings.

Under a contractual arrangement with AFEO, USO recruits celebrity performers for the Armed Forces Entertainment Program. AFEO reimburses USO for certain tour-related expenses such as honoraria, production support, and other direct costs. In some cases, AFEO and other DOD entities also make arrangements to support USO overseas tours and pay directly for these expenses, such as for commercial airfares, visas, passports, and military airlift services, from their respective O&M accounts. Also, USO has agreed to pay for certain tour-related costs, for example, paying the difference between the cost of business-class and

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<sup>2</sup> Pub. L. No. 96-165, § 8, 93 Stat. 1267 (1979) (codified as amended at 36 U.S.C. § 220107 (2002)); DOD/USO Memorandum of Understanding, November 9, 1987; DOD Directive 1330.12, *United Services Organizations, Inc.*, November 9, 1987; DOD Directive 1330.12, *United Services Organizations, Inc.*, November 1, 2000; and DOD Instruction 1330.13, *Armed Forces Professional Entertainment Program Overseas*, September 8, 1985.



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first-class air travel and the travel costs for individuals accompanying performers whose costs are not covered under the contract with AFEO.

Following the 1991 Gulf War, USO faced serious financial problems because of declining contributions and therefore became concerned about its continued ability to serve the military. To address these concerns, USO's Board of Governors established the Spirit of Hope Endowment Fund in 1998. According to a former USO official, the intent of the fund was to infuse USO with funds to provide for the perpetuity of its programs and services. To assist USO, the Congress, beginning in fiscal year 2000, provided a total of \$23.8 million in O&M funds in the form of grants for USO. As of September 2003, DOD had provided about \$20.8 million to USO. USO used these funds as seed money for the endowment.

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### **DOD Provided Substantial Appropriated and Nonappropriated Support to USO, but Total Amount Cannot Be Determined**

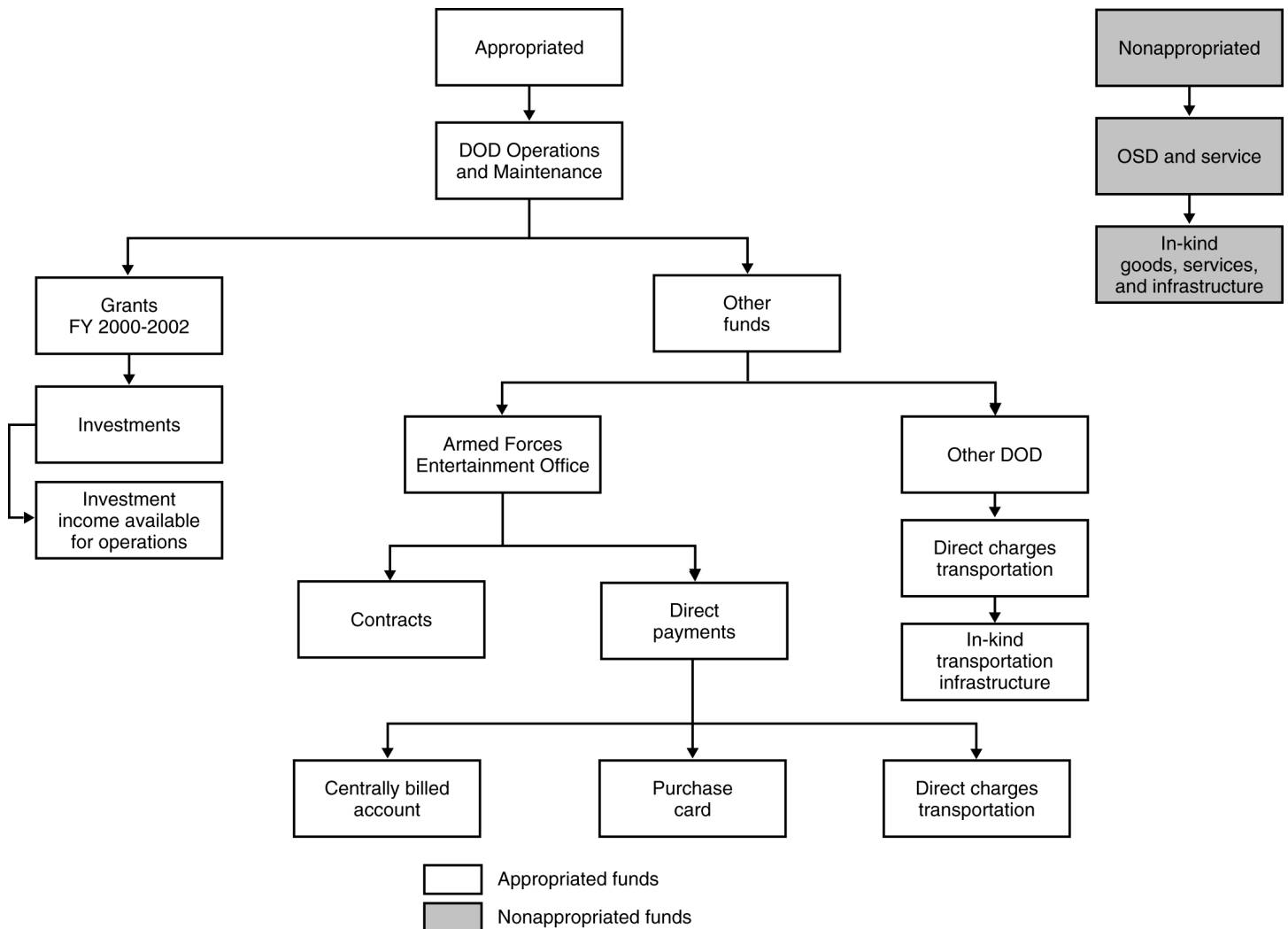
During fiscal years 2000 through 2002, DOD provided substantial appropriated and nonappropriated support, but the total amount cannot be determined because of limitations in DOD's and USO's record-keeping systems. For this 3-year period, we identified at least \$34.7 million in appropriated funds that DOD provided to support USO activities in the form of grants, contract reimbursements, and direct payments. DOD also provided other appropriated support such as lodging, transportation, and use of some facilities. However, we could not identify the total monetary value of DOD's support derived from appropriated funds because neither DOD nor USO has record-keeping systems to aggregate or report the needed information. While DOD also provides nonappropriated support, largely in the form of in-kind goods (e.g., food and refreshments), services (e.g., Internet and telephone access), and infrastructure support (some performance facilities), to help sustain USO's overseas operations, the same limitations precluded us from determining the total monetary value for this support.

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### **USO Received Appropriated and Nonappropriated Support from Many DOD Sources**

During fiscal years 2000 through 2002, USO received appropriated and nonappropriated support from a variety of DOD sources. As figure 1 shows, this appropriated money flowed to USO in the form of grants awarded by the Office of the Secretary of Defense (OSD) and from contract reimbursements and direct payments provided by AFEO and other DOD components. Nonappropriated support was provided largely through in-kind contributions that included goods (e.g., food and refreshments), services (e.g., Internet and telephone access), and infrastructure support (some performance facilities), contributed by various DOD components.

**Figure 1: Flow of DOD Funds to Support USO Activities during Fiscal Years 2000 through 2002**



Source: GAO analysis of DOD data.

### Appropriated Funds

We identified at least \$34.7 million in appropriated funds that DOD provided to support USO's activities during fiscal years 2000 through 2002. As table 1 shows, this funding included grants and contract reimbursements to USO and direct payments by DOD.

**Table 1: Appropriated Funds Provided by DOD to Support USO Activities for Fiscal Years 2000 through 2002**

Dollars in millions

| Funding resource                | Fiscal year 2000 | Fiscal year 2001 | Fiscal year 2002 | Total         |
|---------------------------------|------------------|------------------|------------------|---------------|
| Grants                          | \$4.8            | \$7.5            | \$8.5            | \$20.8        |
| Contract reimbursements         | 4.3              | 3.5              | 4.3              | 12.1          |
| Direct payments                 | <sup>a</sup>     | <sup>a</sup>     | 1.8              | 1.8           |
| <b>Total appropriated funds</b> | <b>\$9.1</b>     | <b>\$11.0</b>    | <b>\$ 14.6</b>   | <b>\$34.7</b> |

Source: GAO analysis of DOD data.

<sup>a</sup>AFEO officials could not provide a total amount for direct payments made to support USO's activities during fiscal years 2000 and 2001, because of limitations in AFEO's record-keeping system; therefore, there are no entries for those fiscal years.

We also found that DOD components often provide in-kind support, derived from appropriated funds, to USO for its overseas tours such as transportation, free lodging, and some office and performance facilities.

Grants

During fiscal years 2000 through 2003, the Congress authorized DOD to provide a total of \$23.8 million in grants to support USO's activities. As of September 2003, in fiscal years 2000 through 2002, DOD had provided a total of \$20.8 million in grants to USO as seed money to fund the Spirit of Hope Endowment Fund, which is intended to ensure the continued existence of USO's programs and services. The Congress provided the funds through DOD's O&M appropriation in four annual defense appropriations acts.<sup>3</sup> The funds, appropriated only for grants to USO, were first allocated to the Deputy Assistant Secretary of Defense for Personnel Support, Families and Education. In 1998, USO established the Spirit of Hope Endowment Fund and, after receiving the grants from DOD, transferred the funds into the endowment fund. According to USO policy, the USO Board of Governors established the Spirit of Hope Endowment Fund, which is a restricted account. Money placed into the fund is to be considered as principal and must remain in the account. USO can use the

<sup>3</sup> Department of Defense Appropriations Act, 2000, Pub. L. No. 106-79, § 8143, 113 Stat. 1212, 1270 (1999); Department of Defense Appropriations Act, 2001, Pub. L. No. 106-259, § 8112, 114 Stat. 656, 699 (2000); Department of Defense and Emergency Supplemental Appropriations for Recovery From and Response to Terrorist Attacks on the United States Act, 2002, Pub. L. No. 107-117, § 8111, 115 Stat. 2230, 2272 (2002); and Department of Defense Appropriations Act, 2003, Pub. L. No. 107-248, § 8129, 116 Stat. 1519, 1567 (2002).

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income (e.g. interest and dividends) that accrues on the balance held in the endowment fund to support its operations. USO used about \$333,000 in investment income in calendar years 1999 and 2000 for its operations.

## Contracts

AFEO provided USO with about \$12.1 million in contract reimbursements during fiscal years 2000 through 2002. In September 1999, AFEO awarded an \$8.7 million sole source, indefinite delivery, indefinite quantity contract to USO.<sup>4</sup> The purpose of this contract was to provide celebrity entertainment for U.S. armed forces at military installations overseas. The contract performance period was for 3 years (October 1, 1999, to September 30, 2002) with five 1-year option periods (October 1, 2002, to September 30, 2007). According to AFEO and Air Force contracting officials, AFEO spent the entire \$8.7 million before the end of the first 3-year period, and it is currently amending the contract to increase the amount of funding. In addition to the \$8.7 million contract, AFEO negotiated separate purchase orders for costs associated with specific USO tours. The terms of the \$8.7 million contract applied to each of these separately negotiated purchase orders. Specifically, the contract provided reimbursements to USO for

- administrative support services—accounting and administrative services needed to plan and execute overseas tours, including compiling and submitting voucher packages to AFEO for expense reimbursements;
- celebrity honoraria—payments to celebrity entertainers or groups and their production and/or tour managers to help defray day-to-day expenses; and
- other direct costs—tour production and equipment rental costs; travel costs to include commercial airfare, car rental or bus fares; lodging and per diem if authorized by DOD's Joint Travel Regulations; miscellaneous expenses such as shipping, visas, and equipment repair or replacement for celebrity tours; and a 19 percent management fee, calculated using the total of other direct costs expended for noncelebrity tours.<sup>5</sup>

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<sup>4</sup>This type of contract does not specify a firm quantity of supplies or services (other than a minimum or maximum quantity) and provides for the issuance of orders for the delivery of supplies or the performance of tasks during the period of the contract.

<sup>5</sup>According to AFEO officials, USO generally does not produce noncelebrity tours. However, USO provides the funds to pay those who are not celebrities about 70 percent of their honoraria just prior to tour commencement. USO requests reimbursement for the payments plus a 19 percent fee, after the tours are completed.

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## Direct Payments

AFEO and the Air Mobility Command used appropriated O&M funds to pay directly for USO tour-related expenses, such as commercial airfares, visas and passports, and military airlift services. As table 2 shows, during fiscal year 2002 alone, we identified direct payments that totaled at least about \$1.8 million. However, because of record-keeping limitations, AFEO officials could not assure that these amounts represented all direct payments.

**Table 2: Appropriated Funds Provided Via Direct Payments by DOD for USO Activities as Identified by GAO for Fiscal Year 2002**

| Funding source                              | Fiscal year 2002   |
|---|--------------------|
| <b>Direct payments—AFEO</b>                 |                    |
| Centrally billed account                    | \$783,684          |
| Purchase card <sup>a</sup>                  | 2,466              |
| Appropriated funds cite                     | 602,212            |
| <b>Direct payments—Air Mobility Command</b> |                    |
| Appropriated funds cite                     | 412,227            |
| <b>Total direct payments</b>                | <b>\$1,800,589</b> |

Source: GAO analysis of DOD data.

<sup>a</sup>AFEO could not assure that this total includes all funds used in support of USO overseas tours.

AFEO used its centrally billed account to pay about \$783,000 for its personnel travel expenses and commercial airfares for USO personnel and tour entertainers; its purchase card account to pay around \$2,500 for visas, passports, and shipping expenses for entertainment equipment; and its appropriated funds cite to make direct payments totaling about \$602,200 for its personnel travel expenses and airlift services provided by the U.S. Air Force, Air Mobility Command. We also identified about \$412,000 that the Air Mobility Command paid directly for airlift services for one USO tour. According to AFEO and Air Mobility Command officials, the command's airlift services included the movement of passengers and baggage either on regularly scheduled flights or on special assignment airlift missions from designated U.S. stateside military locations to overseas military locations. These special assignment airlift missions involve chartering a military aircraft for a specific purpose.

## Nonappropriated Support

DOD components provide nonappropriated support largely in the form of in-kind goods, services, and infrastructure, such as food and refreshments, Internet and telephone access, and free office space, lodging, and some performance facilities, to help sustain USO's overseas tours.

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## Total Amount of Support Could Not Be Determined Because of Limitations in DOD's and USO's Record-keeping Systems

We could not determine the total amount of appropriated and nonappropriated support to USO's activities because of limitations in DOD's and USO's record-keeping systems. Specifically, we were unable to identify the total value of appropriated support for the fiscal year 2000 through 2002 period because DOD's records were incomplete. For example, AFEO could not readily provide an accurate accounting of contract reimbursements or direct payments for charges to its centrally billed and purchase card accounts, primarily because it did not track and identify which transactions were for USO celebrity tours and which transactions were for noncelebrity tours that did not involve USO. (Most federal funds that are provided to support USO's activities are provided for celebrity tours. The cost of noncelebrity tours is paid by AFEO.) Our audit of AFEO's purchase card transactions confirmed that one could not distinguish between USO and non-USO activities. Without such detail, AFEO could not provide complete reports on funding for USO's activities.

During our audit, AFEO provided us with total amounts for contract reimbursements and some direct payments for fiscal year 2002, but it could not ensure that the totals included all appropriated funds provided in support of USO's overseas tours. Moreover, AFEO could not provide the same information for fiscal years 2000 and 2001 because the records for those years were less complete, and the time and resources required to gather and verify the information were more than AFEO could expend given the unit's workload.

Additionally, AFEO could not provide data on how much appropriated funds were spent for military airlift services to support USO's overseas tours because neither AFEO nor the Air Mobility Command has record-keeping systems to aggregate or report the needed information. For example, the command's records can track and report all airlift services charged to AFEO, but those records do not indicate whether the services were provided to support USO's tours, nor do they differentiate between celebrity and noncelebrity tours. Furthermore, neither AFEO nor the Air Mobility Command maintains records of the cost of airlift services that other U.S. military units (such as the Army and the Navy) provided in support of USO's tours.

We also could not identify the monetary value for other support derived from appropriated funds, such as transportation, free lodging, and some office and performance facilities provided by military units other than the Air Mobility Command. We could not identify the value of this support because neither DOD nor its components have record-keeping systems to aggregate or report the needed information.

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Finally, we could not identify the value of DOD's nonappropriated support to USO, provided largely through in-kind contributions that included goods (e.g., food and refreshments), services (e.g., Internet and telephone access), and infrastructure support (some performance facilities) again, because neither DOD nor its components have record-keeping systems to aggregate or report the needed information. Furthermore, USO's records for in-kind contributions do not clearly identify all private sector and DOD contributions.

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## Sufficient Financial and Management Controls Did Not Exist to Assure Appropriate Use of Appropriated Funds

DOD and USO did not have sufficient financial and management controls in place to provide reasonable assurance that all appropriated funds were used appropriately. DOD properly awarded grant funds to USO, and USO appropriately administered these funds. However, USO did not require its independent auditor to fully test internal controls over grant funds or funds reimbursed by DOD, as required under grant and contractual agreements with DOD. For support provided through contract reimbursements and direct payments, AFEO lacked clearly written supplemental guidance regarding allowable expenses, effective management oversight in reviewing USO invoices, and adequate procedures for capturing reimbursable expenses. In some cases, these weaknesses resulted in inappropriate expenditures of funds. Specifically, we found problems with expenditures totaling about \$433,000, including approximately \$86,000 in improper expenditures, \$3,000 in questionable expenditures, and \$344,000 for unsupported expenditures. As a result of our audit, AFEO officials told us they have initiated several actions to improve financial and management controls and to recover funds from USO.

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## DOD and USO Had Sufficient Procedures for Administering Grants, but USO Did Not Fully Comply with Audit Requirements

During fiscal years 2000 through 2002, DOD awarded about \$20.8 million in congressionally appropriated grants to USO. DOD properly transferred these funds. Specifically, before transferring funds, it entered into grant agreements with USO that included conditions for the use of these funds. For example, these agreements allowed USO to deposit the funds in the Spirit of Hope Endowment Fund or use any investment income earned from the funds for operational expenses.

The agreements also set forth administrative and accounting requirements, to include compliance with the Office of Management and Budget (OMB)

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Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as revised June 1997, which implements the Single Audit Act, as amended.<sup>6</sup> The Single Audit Act is intended to promote sound financial management, including effective internal controls over federal funds. The single audit is an important tool utilized by federal agencies—including DOD—to monitor federal awards to nonprofit organizations and ensure that the federal funds are properly used.<sup>7</sup> OMB Circular A-133 §.500 requires an audit of the financial statement(s) for the program receiving federal funds in accordance with generally accepted government audit standards. The audit should be an organizationwide audit that focuses on the recipient's internal controls and compliance with laws and regulations governing federal awards and be designed to test the program's internal controls in a manner sufficient to illustrate that a low level of risk exists for the program.<sup>8</sup>

Furthermore, OMB Circular A-133, subpart B, §.200, requires nonfederal entities expending \$300,000 or more a year in federal awards to have a single or program-specific audit conducted for that year in accordance with the provisions of the circular. Specifically, §.205 states that the determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to the expenditure or expense transactions associated with grants. Specifically, the cumulative balance of federal awards for endowment funds, which are federally restricted, is considered expended in each year in which the funds are restricted.

Consistent with the grant agreements, USO deposited the entire \$20.8 million in grant funds in investment accounts designated specifically for the Spirit of Hope Endowment Fund, and used investment income earned on these funds for operational expenses. With respect to these deposits, USO invested the funds in income-producing assets such as stocks, bonds and U.S. Treasury bills. USO used about \$333,000 drawn

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<sup>6</sup> 31 U.S.C. § 7501-7507; Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

<sup>7</sup> Federal awards include grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and federal cost reimbursement contracts.

<sup>8</sup> According to GAO standards, management and employees should establish and maintain a control environment throughout the organization that sets a positive and supportive attitude toward internal control. See *GAO's Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999).



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from investment income for operational expenses, and the entire amount of deposited grant funds remained invested. However, USO did not fully comply with the agreements' audit requirements in identifying the scope of work to be performed by its independent auditor in performing annual audits. While USO arranges for its independent auditor to perform an annual audit, this audit focuses on verifying the sources and accuracy of amounts included in USO's financial statements and does not comprehensively test internal controls on the receipt and use of grant funds or document tests performed as required by OMB Circular A-133. USO officials initially believed there was no need for an audit that complied with the Single Audit Act, since it spent only investment income from the grant funds and none of the actual grant funds. Based on our review, USO officials now agree that the act applies and that the annual audit should be performed in accordance with the act's requirements and OMB Circular A-133.

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### Internal Control Weaknesses Led to Problem Expenditures for Contract Reimbursements and Direct Payments

For contract reimbursements and direct payments, we found significant problems with DOD and USO controls over these funds. For example, AFEO lacked clearly written supplemental guidance regarding allowable expenses, effective management oversight in reviewing USO's invoices, and adequate procedures for capturing reimbursable expenses. Also, similar to the grant funds, USO did not fully comply with audit requirements contained in its contracts with DOD.

### Lack of Clear and Current Written Supplemental Guidance

At the time of our audit, the guidance in effect concerning the expenses AFEO will pay in support of USO's overseas tours was not sufficiently detailed to provide clear, consistent instructions to be followed by AFEO or USO. This guidance included the contract agreement between AFEO and USO, general rules regarding AFEO's direct payment accounts, federal acquisition and travel regulations, and DOD Instruction 1330.13.

AFEO refers to the aforementioned guidance in paying for USO overseas tour expenses through contract reimbursements and direct charges to its centrally billed and purchase card accounts. However, as described below, we found several weaknesses in the guidance.

- **Contract reimbursements.** The contract between AFEO and USO identifies the general categories of tour-related expenses for which USO can be reimbursed to include administrative support services; honoraria; and other direct costs such as production support/equipment rental, travel, lodging, and miscellaneous expenses. The contract contains numerous clauses and statements that indicate reimbursements will be made in the

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accordance with Joint Travel Regulations and the Federal Acquisition Regulation. However, the contract is not specific concerning the types of costs—such as the type of production support and other incidental direct costs—and the supporting documentation needed to ensure that AFEO only pays for costs that are allowable and proper. AFEO officials stated that they follow additional policies related to the allowable contract reimbursements for tour-related expenses, such as “thank you” dinners, but these policies are not documented in writing.

- **Centrally billed account.** AFEO stated that it uses the account primarily to pay for commercial airfares for USO personnel and entertainers covered under invitational travel orders.<sup>9</sup> Federal travel regulations contain stringent circumstances under which first-class and business-class travel can be authorized. However, according to AFEO and USO officials, neither has more detailed, written, and program specific guidance to determine when and how USO will pay for first- or business-class travel.
- **Other direct charges.** AFEO provides additional support to USO by directly charging the cost of travel-related expenses, such as visas and passports, to its purchase card account, and by allowing its O&M funds account cite to be charged for Air Mobility Command airlift services. However, AFEO has no specific program guidance regarding how USO should be billed for unauthorized travelers on Air Mobility Command flights.

Furthermore, DOD Instruction 1330.13, last updated September 8, 1985, establishes policy and assigns responsibility for carrying out the Armed Forces Professional Entertainment Program for entertaining troops overseas. This instruction states that the Secretary of the Army has responsibility for administering the program; however, the Air Force assumed responsibility in fiscal year 1997. An AFEO official acknowledged that this instruction is out of date. Also, this policy lacks clear statements regarding expenses that should be paid by AFEO and USO, respectively.

## Insufficient Management Oversight

The lack of sufficient management oversight of funds provided to USO was also a key internal control problem. For example, AFEO officials generally did not closely review or question expenses USO submitted for reimbursement. Additionally, AFEO’s review and reconciliation process for its centrally billed account and billings from the Air Mobility Command

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<sup>9</sup> Invitational travel orders are prepared for individuals not employed by the U.S. government who are traveling for official government business. Individuals taking part in the entertainment program are authorized to tour based on these orders. These orders contain guidance governing the conditions under which the individual or group is touring.

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was not sufficient to identify airlift expenses that should be charged to USO. Furthermore, during our audit of contract files at the Air Force contracting office responsible for administering the contracts between AFEO and USO, we found no evidence of contract reviews. An Air Force contracting official stated its office sometimes questioned the need for some expenses for celebrity tours when modifications to the contracts were requested. At these times, the expenses were questioned because the supporting documentation provided to the contracting office by AFEO was not always adequate. However, according to the Air Force contracting officer currently responsible for the contracts, the existing workload and higher priorities require her to perform more detailed oversight of high-dollar defense contracts. Because celebrity tour costs generally ranged from \$10,000 to \$300,000, they are given lower priority for contract oversight.

Furthermore, we found that USO did not perform the type of audit required under the terms of its contracts with AFEO. Similar to the grant agreements, the contracts contain a requirement for a single audit that would focus on USO's internal controls as they relate to the federal funds provided through contracts to USO to support the Armed Forces Entertainment Program. USO signed the contracts with AFEO. These contracts were to provide celebrity entertainment for U.S. armed forces at military installations overseas, on a fixed price and cost reimbursable basis. When USO signed these contractual agreements, it agreed to comply with all contractual requirements. These contractual agreements set forth accounting requirements to be met in accordance with Federal Acquisition Regulation 52.215-2, Alternate II, which requires compliance with OMB Circular A-133. As previously discussed, this circular implements the Single Audit Act, as amended, and is intended to promote sound financial management, including effective internal controls over federal funds.

Our review of USO's audited financial statements, discussions with the independent auditor responsible for performing the audit, and discussions with USO officials indicated that the single audit requirement set forth in the contractual agreements was not met. As discussed previously, USO arranges for an annual audit of its financial statements, but this audit does not include comprehensive testing of internal controls and the documentation of tests performed that is required by OMB Circular A-133. USO officials initially believed there was no need for an audit that complied with the Single Audit Act, since USO is merely a vendor providing services for AFEO, but now, based on our audit, it agrees that such an audit is required.

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Payment of Improper,  
Questionable, and Unsupported  
Expenses

In the absence of strong internal controls, we found numerous instances where AFEO paid for improper, questionable, and unsupported expenses in support of USO's overseas celebrity tours. Based on our limited testing of six celebrity tour files, our analysis of AFEO's centrally billed account, and our examination of Air Mobility Command records, we identified a total of about \$433,000 in problem expenditures during fiscal years 2000 to 2002 including improper and questionable expenses totaling around \$89,021 and unsupported expenses totaling approximately \$344,000. We defined an expense as improper when an item was not authorized or properly justified in accordance with the contracts between AFEO and USO, the Joint Travel Regulations and the Joint Federal Travel Regulations issued by DOD, and the Federal Travel Regulation issued by the General Services Administration.<sup>10</sup> For example, we found improper reimbursements for expenses such as alcoholic beverages, meals, lodging, and duplicate billings for administrative services. AFEO also inappropriately paid for first-class and business-class travel and some military airlift services. We identified numerous examples of questionable payments of USO tour costs by AFEO for items such as limousine services, hotels, and airport VIP lounge services. We defined a questionable payment as any item that was reimbursed without documentation showing that the item was necessary for official government business under the Armed Forces Entertainment Program. We also identified numerous unsupported payments. We defined an unsupported payment as any item that was reimbursed without documentation detailing the nature of the expense and the way the price for the expense was determined.

Improper Expenses

We found payments for improper expenses for items such as unallowable alcoholic beverages, meals, and lodging, honorarium, and production support for an entertainer who did not participate in a tour for which expenses were reimbursed, and a duplicate billing for administrative services. Moreover, AFEO inappropriately paid for first-class and business-class travel and some military airlift services. AFEO acknowledged that these expenses should not have been reimbursed or paid. For example, AFEO explained that meal expenses for celebrities receiving honorarium are not reimbursable because the honorarium is intended to help defray the cost of meals and other essentials, and the invitational travel orders we reviewed specifically stated that meal expenses were not authorized. Expenses for alcoholic beverages are never allowable in conjunction with

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<sup>10</sup> The Joint Federal Travel Regulations apply to uniformed service members and the Joint Travel Regulations applies to DOD civilian personnel.

government travel. The cost for first-class travel, and the cost for unauthorized travelers on Air Mobility Command airlifts, should have been borne by USO. Table 3 highlights the improper payments we identified.

**Table 3: Examples of Improper Payments for Items Reimbursed or Paid by AFEO for USO Tours for Fiscal Year 2002**

| <b>Improper expenses</b>                      | <b>Reason item was improper</b>  | <b>Amount</b>   |
|---|--|-----------------|
| Alcoholic beverages                           | Not allowed under DOD and federal travel regulations   | \$ 56           |
| Hotel meals                                   | Per diem was not authorized for travelers  | 252             |
| Lodging for one individual                    | No travel orders authorizing lodging expenses  | 61              |
| Celebrity honorarium                          | Traveler did not participate in tour   | 600             |
| Production support                            | Traveler did not participate in tour   | 300             |
| Duplicate billing for administrative services | Expense already paid   | 8,894           |
| First-class travel                            | First-class travel was not authorized or properly documented in accordance with DOD and federal travel regulations       | 29,586          |
| Business-class travel                         | Justification for travel was not authorized or properly documented in accordance with DOD and federal travel regulations | 37,153          |
| Air Mobility Command airlift services         | No travel orders authorizing payment of airlift services   | 9,065           |
| <b>Total improper expenses identified</b>     |  | <b>\$85,967</b> |

Source: GAO analysis of DOD data.

Improper expenses of particular note are explained in more detail below:

- Duplicate billing for administrative services.** In calendar year 2002, AFEO paid USO twice for administrative expenses associated with overseas tours. We identified improper payments totaling about \$9,000. A USO contract employee, responsible for preparing the expense reports for overseas tours, included invoices for these services in several of the tour files we audited. According to the contract employee, USO officials directed that the invoices be submitted to AFEO for payment. The Air Force contracting officials responsible for managing the contract stated that in accordance with the terms of the contract between AFEO and USO, USO is paid a monthly administrative fee that covers numerous administrative tasks, including preparing the expense reports for USO tours.<sup>11</sup> Contracting officials stated that the monthly administrative fee

<sup>11</sup> The monthly administrative fee was \$3,647 from fiscal years 1999 through 2002. It increases incrementally through fiscal year 2007. The fiscal year 2003 fee is \$3,868 per month.

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included the cost for all accounting services, including those performed by the contractor.<sup>12</sup> Neither AFEO nor USO could provide an estimate of how long the double billings occurred. However, one USO official believed that the contract employee started to submit the invoices with the inception of the contract in 1999 and ended with the termination of the contractor's services in May 2003. Based on our review of documentation provided by USO for calendar years 2001 and 2002, the amount billed could have totaled \$78,000. We found no indication that the individual was paid twice for the services performed.

- **Improper payments for first-class and business-class travel.** Our analysis of AFEO's centrally billed account<sup>13</sup> for fiscal year 2002 and selected tour files revealed numerous instances of improper payments by DOD for first-class and business-class travel totaling about \$66,000. These first-class and business-class airline tickets were considered improper because they were not authorized and/or properly justified in accordance with the Joint Travel Regulations<sup>14</sup> and the Joint Federal Travel Regulations issued by DOD and the Federal Travel Regulation<sup>15</sup> issued by the General Services Administration (GSA).

AFEO's policy, while not written, is to authorize up to business-class travel for overseas flights for USO celebrity tours. According to an AFEO official, AFEO's policy is to not authorize first-class travel, and the Director of Services, Air Force Office of Installations & Logistics, the office to which AFEO reports, is required to approve business-class travel. If first-class travel is requested, USO is supposed to pay for the cost of the upgrade from business-class to first-class. However, contrary to the stated policy and statements made by AFEO officials, this was not always the case. In each case, we found AFEO purchased and paid for either the unauthorized first-class or business-class ticket. We found no instances in which AFEO requested reimbursement from USO for the cost difference between business-class and first-class airline tickets. Further, neither AFEO nor USO could provide any documentation that indicated that USO paid the additional cost of first-class travel at the time the tickets were purchased.

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<sup>12</sup> The contractor performed additional tasks for USO, but her primary role was to prepare invoice packages. According to USO, this comprised the majority of the individual's work.

<sup>13</sup> DOD activities use centrally billed accounts for transportation purchases such as airline tickets, train tickets, and other travel-related items.

<sup>14</sup> The Joint Travel Regulations authorize travel and transportation allowances for non-DOD employees on the same basis as DOD employees.

<sup>15</sup> 41 C.F.R. Parts 300-304.

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USO officials stated that they were unaware that first-class airline tickets were charged to AFEO's centrally billed account for USO tours. USO officials stated they would have reimbursed AFEO for the cost of the upgrade from business-class to first-class if AFEO had notified them or if they were provided documentation of the first-class charges. AFEO officials acknowledged that closer scrutiny of the documentation received from USO should have identified those instances in which first-class and business-class airline tickets were improperly paid by AFEO. Additionally, AFEO noted that the monthly reconciliation of the centrally billed account statement to the individual airline ticket transactions<sup>16</sup> should have identified the discrepancies we found. Our review of the monthly reconciliations showed that first-class travel was clearly identified, but AFEO failed to seek reimbursement from USO. A more in-depth discussion of our analysis of the improper first-class and business-class travel we identified is detailed in appendix II.

- **Improper payments for Air Mobility Command Airlift Services.** Our analysis of AFEO-issued invitational travel orders and Air Mobility Command billing data for airlift services showed that AFEO paid around \$9,000 for airlift services provided by the Air Mobility Command, for individuals traveling on "no cost" travel orders. According to AFEO, no cost travel orders are issued to USO tour support personnel and some entertainers in those cases where AFEO has stated the government will not pay the transportation costs. These orders enable certain support personnel or guests of entertainers to utilize government transportation with the costs of their transportation being the ultimate responsibility of USO. In cases where AFEO has paid for travel conducted on no cost orders, it is necessary for USO to reimburse AFEO.

According to AFEO, these improper charges and payments occurred because it was unaware that the travel was being billed to its appropriated fund cite. An AFEO official believed that the Air Mobility Command was billing USO directly for the airlift services. According to an Air Mobility Command official, its billing system recognizes airlift charges incurred by AFEO personnel and personnel traveling in support of AFEO's mission, but the system does not identify if the travel is USO related. Nor can the Air Mobility Command bill a nongovernmental entity for airlift services unless that entity has an account in the command's billing system.

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<sup>16</sup> As part of the reconciliation process, AFEO includes the travelers' itineraries to match the airline ticket transactions in the summary statement. The itinerary document identifies the type of airline fare taken by the traveler (i.e., first-class, business-class, or coach).

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Questionable Expenses

We identified numerous examples of questionable payments of USO tour costs by AFEO totaling about \$3,000, as shown in table 4.

**Table 4: Examples of Questionable Payments for Items Reimbursed or Paid by AFEO for USO Tours for Fiscal Year 2002**

| Questionable expenses                         | Reason item was questionable  | Amount         |
|---|---|----------------|
| Limousine services                            | Appears to be excessive with no explanation or documentation showing why it was necessary | \$1,656        |
| Miscellaneous hotel expenses for tour members | No existing guidance consistent with DOD and GSA regulations                              | 579            |
| Airport VIP lounge                            | Appears excessive with no explanation or documentation showing why it was necessary       | 375            |
| USO dinner                                    | No existing guidance consistent with DOD and GSA regulations                              | 330            |
| USO tour producer meals                       | No existing guidance consistent with DOD and GSA regulations                              | 114            |
| <b>Total questionable expenses identified</b> |   | <b>\$3,054</b> |

Source: GAO analysis of DOD data.

More specifically, we found that AFEO paid for

- 19 hours of limousine services from hotels in the Washington, D.C., area to Andrews Air Force Base, Maryland, at a cost of \$1,656 before an overseas tour began and
- several USO thank you dinners for the USO entertainers at the end of a tour.

We could find no documentation to indicate why these expenses were necessary. For example, concerning the thank you dinners, AFEO officials said it was their policy, although unwritten, to reimburse USO for one dinner per tour. Our audit of the documentation indicated that this practice was inconsistently applied. In one instance, we found that AFEO disallowed a thank you dinner for one tour, but it paid for several meals that were classified as thank you dinners for another tour. Additionally, the documentation was not always adequate to identify whether these expenses were for meals for celebrities or for other individuals on the tour. For example, we found that tour managers and a USO tour producer's meals were reimbursed over a number of days. An AFEO official acknowledged that there was no existing guidance that identified these items as allowable expenses. AFEO officials told us that they plan to discontinue the practice of reimbursing USO for thank you dinners.



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## Unsupported Expenses

We identified numerous examples of unsupported payments by AFEO totaling approximately \$344,000 for production support for USO tours. Table 5 highlights the unsupported payments we identified.

**Table 5: Examples of Unsupported Payments for Items Reimbursed by AFEO for USO Tours for Fiscal Year 2002**

| Unsupported expenses                         | Reason item was unsupported               | Amount           |
|--|---|------------------|
| Production support <sup>a</sup>              | Lack of detailed supporting documentation | \$260,660        |
| Production tour manager expense              | Lack of detailed supporting documentation | 56,250           |
| Celebrity honorarium                         | Lack of detailed supporting documentation | 27,000           |
| <b>Total unsupported expenses identified</b> |   | <b>\$343,910</b> |

Source: GAO analysis of DOD data.

<sup>a</sup>We identified four instances of unsupported production support. The total amount includes the unsupported expenses for all four instances.

We found that supporting documentation for the six celebrity tour files we audited was inadequate for a number of invoices, and therefore AFEO had no assurance that the reimbursed costs were proper. We asked AFEO to provide additional documentation on these invoices. AFEO could not provide the necessary documentation and stated that this was the only documentation USO provided. We asked USO for detailed support for a number of selected invoices. USO did not have support readily available in its records. In response to our request for additional documentation, USO contacted the vendors and received details on several invoices. USO provided additional support for \$43,910 of the \$343,910 included in table 5.

For the largest case in our testing, AFEO reimbursed \$216,750 for production support based on a single entry on an invoice. In contrast, our examination of another invoice for production support included an itemized list of specific items such as microphone stands, speakers, and stage supports. Additionally, based on our audit of five noncelebrity tours, we found that documentation was far more comprehensive in support of the expenses paid by AFEO.

Additionally, in some instances we were unable to identify which individuals received celebrity honoraria. We traced names from the invitational travel orders on the six tours audited but were unable to verify which individuals were being paid honoraria and which ones were not. In

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some cases, individuals who were part of a celebrity's entourage were classified as celebrities and received honoraria while others were not. AFEO agreed that it was not always possible to identify which names listed on invitational travel orders received honoraria. In one instance, honoraria and production support costs were charged for 13 individuals, but the supporting documentation indicated that only 12 individuals participated in the tour. An AFEO official stated that the individual's itinerary must have changed and acknowledged that this should have been documented in the file. Based on available documentation, AFEO was charged \$900 in honoraria and production support costs for an individual who did not participate in the tour. As a result of our analysis, AFEO verified that this individual did not participate in the tour, and it is seeking reimbursement from USO.

USO officials acknowledged the problems we identified with the transactions we reviewed. They stated they did not have a clear understanding of AFEO's policy as to which expenses were reimbursable and which ones were not. They stated that they submitted invoices based on prior verbal agreements and past practices with AFEO. USO officials stated that AFEO's practice over the last several years was inconsistent and that reimbursement for certain expense items was "hit or miss" from one tour to the next. According to USO officials, it was their intention to submit invoices and vouchers for expenses in accordance with federal laws and regulations. However, because they had no specific instructions identifying which costs were allowable and which costs were not allowable, it was sometimes frustrating for them to decide what to include as an expense item in an invoice package.

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### **Actions Taken to Improve Controls over Support Provided to USO**

USO and AFEO acknowledged that they need better policies and procedures to provide reasonable assurance that expenses are authorized in an appropriate manner and are reimbursable based upon the contracts between the organizations. As a result of our audit, USO and AFEO officials told us they have initiated some actions to improve accountability and controls over federal funds used to support USO's activities and to recover funds paid by AFEO that USO should have paid. For example, a USO official told us USO is in the process of developing written guidance for its celebrity tour managers and accounting staff that specifies those expenses that are reimbursable under the contracts with AFEO and those that are not.

AFEO officials told us that to improve financial and management controls, their office, in conjunction with the Air Force Directorate of Services, is in

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the process of drafting an operating instruction for AFEO. They stated that this operating instruction will address AFEO roles and responsibilities, overseas areas served, points of contact, promotional package selection process, tour projections, authorized reimbursements, invitational travel orders, passports, visas, immunizations, military and commercial transportation, final payment process, and tour evaluation forms. Additionally, according to AFEO officials, they have taken the following actions.

- Established procedures to track those contract reimbursement and purchase card transactions used to fund USO celebrity tours versus noncelebrity tours.
- Created a listing of reimbursable items, specified by contract line item number, allowed and the required documents needed for final payment processing. The listing was provided to USO, as well as to the U.S. Air Force contracting office responsible for administering the contracts between AFEO and USO for a modification to the basic contract.
- Improved controls over the purchase of airline tickets charged to the centrally billed account by implementing procedures for processing requests for approval of upgrades to business-class travel through the U.S. Air Force, Director of Services. According to AFEO officials, they now document cost comparisons of economy-class airline tickets versus business-class travel in the AFEO business-class authorization letter. A copy of the approved upgrade letter will be provided to the contract travel office and maintained in the individual tour folders with copies of the annotated invitational travel orders.<sup>17</sup> For those portions of overseas travel that are upgraded to business-class because no other class of travel is available, the commercial travel office will certify these circumstances by entering a statement on the itinerary as required by the Joint Travel Regulations. No prior approval is necessary under these circumstances. USO will fund any domestic portion of travel that incurs additional costs above economy- and/or coach-class standards. If any other type of upgrade is provided, at no additional cost to AFEO, the change in travel class will be noted with a memorandum for the record and filed in the tour folder.
- Improved oversight of expenses reimbursed to USO for overseas tours. According to AFEO officials, now, at least three individuals are reviewing expense packages for payment certification. First, the applicable AFEO circuit manager reviews the voucher package to assure receipts and requests for reimbursement match the itinerary and are appropriate.

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<sup>17</sup> The commercial travel office is the travel agent contracted by AFEO and is authorized to issue tickets for commercial transportation.

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Second, the AFEO financial advisor reviews the package to assure reimbursements are authorized and properly documented, then signs the package as the acceptance officer. Third, either the AFEO administrative assistant or the AFEO deputy director performs a final review and certifies the package for payment. The Defense Finance and Accounting Form 250 is prepared and certified by two signatures. Additionally, as of September 2003, AFEO had recovered about \$19,000 in improper and questionable payments it made to support USO overseas tours.

We have not audited any transactions since AFEO officials stated these actions have been taken and thus cannot conclude whether these actions have actually taken place or have resulted in improved financial and management controls.

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## Conclusions

As U.S. armed forces continue to be actively engaged in operations throughout the world, it is important that troop morale is maintained at high levels. USO's overseas entertainment tours have provided quality entertainment to the troops, and DOD's financial and in-kind support has been key to the Armed Forces Professional Entertainment Program's continued success. When a nongovernmental organization, such as USO, receives federal funds to assist a government organization, such as DOD, that organization is accountable for the proper use of the funds. A key factor in helping achieve that accountability is to implement appropriate internal controls. However, our audit found that DOD's program lacks effective financial and management controls to provide reasonable assurance that federal funds are used consistent with the terms specified in grant and contract agreements. Neither AFEO nor USO can determine the total amount of financial or in-kind support DOD provides to sustain USO's overseas tours. Furthermore, without adequate supplemental guidance to identify allowable costs for overseas tours and effective management oversight, AFEO does not have reasonable assurance that it is paying for only allowable costs and that appropriated funds are being spent in accordance with federal laws and regulations. Moreover, USO's failure to fully comply with audit requirements in grant and contract agreements reduces DOD's assurance that USO has adequate internal controls over federal program funds, leaving the program vulnerable to fraud, waste, and abuse. Had USO's independent auditor fully tested internal controls, the problems we identified might have surfaced. AFEO officials stated they have taken action to improve management oversight during the review of invoice packages and to develop written policies and procedures consistent with DOD and federal travel regulations. Although these actions, if implemented, should assist AFEO in achieving a stronger

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control environment, an earnest commitment by DOD and USO management is also needed to ensure proper controls and use of DOD funds.

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## Recommendations for Executive Action

To improve financial and management controls over support provided to USO, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in consultation with the Secretary of the Air Force, to take the following actions.

- Develop and implement a record-keeping system capable of reporting all appropriated and nonappropriated funds, including all in-kind goods, services, and infrastructure provided by DOD in support of USO overseas tours and operations. Among other things, this system should clearly identify airlift services provided in support of USO tours.
- Take steps to ensure USO complies with the Single Audit Act as stipulated in its grant and contractual agreements with DOD, which require an annual audit that tests internal controls over federal funds to assess control risk.
- Develop and consistently implement supplemental guidance, in accordance with contract terms, and federal travel and acquisition regulations, to identify allowable expenses and reimbursements and appropriate documentation for
  - travel-related USO expenses, including commercial air travel,
  - honoraria, and
  - services and equipment provided for USO.
- Identify all expenses AFEO inappropriately paid, which should have been paid by USO, and request that USO fully reimburse AFEO for the expenses.
- Arrange for DOD's Inspector General to perform internal control audits periodically to determine if the control weaknesses we identified are resolved, and report the results of these audits to the Secretary of Defense and the Secretary of the Air Force.

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## Agency Comments and Our Evaluation

In commenting on a draft of this report, the Principal Deputy Under Secretary of Defense for Personnel and Readiness concurred with four of our recommendations and partially concurred with the fifth. The Principal Deputy Under Secretary indicated that actions are underway or completed to address our recommendations and correct the deficiencies noted in our report. Furthermore, although he concurred with our first recommendation, he acknowledged that DOD financial systems do not support an automated means for reporting the type of information we suggested. However, he noted that AFEO continues to implement and

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improve its record-keeping systems to clearly identify and report USO tour costs by establishing

- a separate Bank of America centrally billed account for all commercial transportation costs associated with USO celebrity tours;
- a separate purchase card account for visas, excess baggage, printing, shipping, and miscellaneous costs associated with USO celebrity tours; and
- an accounting line in the Air Mobility Command billing process to identify, where possible, military airlift transportation costs associated with USO celebrity tours.

The Principal Deputy Under Secretary further indicated AFEO has taken action to identify and recoup expenses inappropriately reimbursed to USO, and that DOD Instruction 1330.13, Armed Forces Entertainment, will also be revised to require the military services to submit to AFEO an annual report identifying appropriated funds, nonappropriated funds, and in-kind goods or services provided to USO. According to the Principal Deputy Under Secretary, all actions are to be completed by April 30, 2004.

Finally, the Principal Deputy Under Secretary partially concurred with our final recommendation, agreeing that periodic internal control audits are necessary to determine whether control weaknesses we identified are resolved. He believes, however, that USO's independent auditor's annual audit, performed in accordance with the Single Audit Act, rather than audits performed by the DOD Inspector General, would meet the requirement to test internal controls over federal funds to assess control risk, and that the DOD Inspector General would provide periodic oversight of the single audits performed for USO. We agree that these actions meet the intent of our recommendation.

The Principal Deputy Under Secretary's comments are included in appendix III of this report.

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Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of this letter. At that time, we will send copies of this report to interested congressional committees with jurisdiction over DOD's budget, as well as to the Secretary of Defense, the Secretary of the Air Force, and the President and Chief Executive Officer of USO. We will make copies available to others

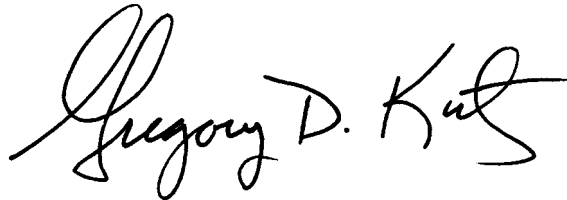
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on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact Sharon L. Pickup on (202) 512-9619 or Greg D. Kutz on (202) 512-9505 if you or staff have any questions. You may also contact George F. Poindexter, Assistant Director, on (202) 512-7213, or Darby W. Smith, Assistant Director, on (202) 512-7803. Major contributors to this report are listed in appendix IV.



Sharon L. Pickup  
Director  
Defense Capabilities and Management



Gregory D. Kutz  
Director  
Financial Management and Assurance

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# Appendix I: Scope and Methodology

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We reviewed the Department of Defense's (DOD) Armed Forces Entertainment Program and its partnership with the United Services Organization (USO) in providing U.S. armed forces with celebrity entertainment overseas. We collected, reviewed, and analyzed relevant program information and conducted interviews with DOD and USO officials responsible for administering the Armed Forces Entertainment Program, specifically officials from the Office of the Under Secretary of Defense (Personnel and Readiness), Morale, Welfare and Recreation Policy; Armed Forces Entertainment Office (AFEO); Defense Supply Service—Washington, Department of the Army; 11th Contracting Squadron, Department of the Air Force, Bolling Air Force Base, District of Columbia; and USO. Additionally, we interviewed personnel with the Deloitte and Touche Accounting Firm, the independent auditing firm responsible for auditing USO's annual consolidated financial statements and supplemental schedules.

To determine the source and amount of federal funding provided to support USO, we reviewed and analyzed relevant congressional authorization and appropriations acts. We also reviewed and analyzed applicable grant agreements; contract negotiation files; DOD and Air Force operations and maintenance budget data; USO's annual audited financial statements and supporting documentation and annual financial reports; AFEO financial records, including the centrally billed and purchase card accounts; and Air Mobility Command billing data for passengers and baggage for selected airlift missions. We discussed discrepancies that existed among the various financial records with AFEO, USO, Air Force Contracting Squadron, and Air Mobility Command officials. Other than for the grants, we were unable to obtain complete appropriated funding data for fiscal years 2000 through 2002 for federal funds provided to USO for overseas tours. We could not obtain complete funding data because of limitations in DOD's record-keeping systems, which did not differentiate between costs for celebrity versus noncelebrity tours. Therefore, AFEO officials agreed to take the steps necessary to provide, to the extent possible, complete funding data for fiscal year 2002. However, AFEO officials could not assure us that the totals included all appropriated funds provided in support of USO overseas tours. Additionally, they told us they could not provide the same information for fiscal years 2000 and 2001, because the records for those years were less complete, and the time and resources required to gather and verify the information were more than could be expended given the unit's current workload. DOD officials could not provide sources and amounts for total nonappropriated support provided to USO because their recording-keeping systems do not aggregate or report the needed information. We reviewed USO records for



in-kind contributions, but those records do not clearly distinguish private sector contributions from federal contributions.

To assess the adequacy of internal controls in place to provide reasonable assurance that appropriated federal funds are used consistent with the terms specified, we reviewed applicable federal laws and regulations, DOD policies and procedures, and *GAO's Standards for Internal Control in the Federal Government*.<sup>1</sup> Additionally, we audited the contract between USO and AFEO. We interviewed USO and AFEO officials to gain an understanding of internal controls, and reviewed the payment process for celebrity and noncelebrity tours. In gathering this information, we concluded that internal controls over the payment process were ineffective, and therefore we limited our auditing to a nonrepresentative selection of tours. We audited selected USO tour transactions to evaluate the design and implementation of key internal control procedures and activities. We selected 11 tours—6 celebrity and 5 noncelebrity tours. We traced expenses that were paid by AFEO to supporting invoices and receipts, requesting additional documentation from AFEO as well as from vendors for certain transactions. In addition to our audit of selected transactions, we looked at whether indications existed of potentially improper and questionable transactions as well as invoices that were reimbursed without adequate documentation. We discussed discrepancies with AFEO, USO or contract officials at Bolling Air Force, District of Columbia, who were responsible for administering the contract between USO and AFEO. Additionally, we interviewed the USO contract accountant to determine the relationship between accounting fees collected under the contract and those billed as part of tour expenses that were submitted to AFEO by USO for reimbursement. Based on our initial review of the tour files, we also audited AFEO's centrally billed and purchase card accounts for fiscal year 2002.

We audited AFEO's centrally billed account for fiscal year 2002 to determine if the amount spent on first-class and business-class airline travel in support of USO tours was in accordance with DOD and federal policies and procedures. To assess the magnitude of first-class and business-class travel, we isolated those transactions billed to AFEO's centrally billed account specifically related to airline travel. We created a new file that contained only the first-class and business-class travel billed to AFEO's centrally account. The airline industry uses certain fare and

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<sup>1</sup> *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1).

service codes to indicate the class of service purchased and provided. The database contained transaction specific information, including the fare and service code to price the tickets AFEO purchased. Using data-mining techniques, we identified the fare basis codes that corresponded to the issuance of first-, business-, and coach-class travel. Using these codes, we selected all airline transactions that contained at least one leg in which AFEO paid for first-class and business-class travel accommodations. We estimated the cost of coach travel using the government rates established by General Services Administration (GSA). For flights not covered by GSA, we estimated coach travel using the lowest current rates identified from Expedia.com. We also analyzed purchase card transactions for fiscal years 2001 and 2002 to provide reasonable assurance that charges were in accordance with DOD policies and procedures and in support of USO tours.

We also reviewed USO's independent auditor's reports and management letters for calendar years 1996 through 2001, as well as the independent auditor's work papers for audit work related to USO transactions with AFEO for calendar year 2001. The 2001 audit was the most recently completed audit that was available through the end of our field work.

In performing this audit, we used the same accounting records and financial reports DOD and USO use to manage the Armed Forces Entertainment Program. We did not independently determine the reliability of all the reported financial information. However, our recent audits addressing the reliability of DOD's financial statements question the reliability of reported financial information.<sup>2</sup> Furthermore, our recent audits of DOD's travel card and purchase card accounts identified weaknesses in the overall control environments and breakdowns in key

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<sup>2</sup> U.S. General Accounting Office, *Department of Defense: Status of Financial Management Weaknesses and Progress Toward Reform*, [GAO-03-931T](#) (Washington, D.C.: June 25, 2003); U.S. General Accounting Office, *DOD Financial Management: Important Steps Underway But Reform Will Require a Long-term Commitment*, [GAO-02-784T](#) (Washington, D.C.: June 4, 2002); U.S. General Accounting Office, *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, [GAO-02-537T](#) (Washington, D.C.: Mar. 20, 2002).

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controls relied on to manage these programs, leaving them vulnerable to fraud, waste, and abuse.<sup>3</sup>

We performed our audit from March 2003 through September 2003 in accordance with generally accepted government auditing standards.

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<sup>3</sup> U.S. General Accounting Office, *Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel*, [GAO-04-88](#) (Washington, D.C.: Oct. 24, 2003); U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse*, [GAO-03-292](#) (Washington, D.C.: Dec. 20, 2002); U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, [GAO-03-169](#) (Washington, D.C.: Oct. 11, 2002); U.S. General Accounting Office, *Purchase Cards: Navy Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses*, [GAO-03-154T](#) (Washington, D.C.: Oct. 8, 2002).

# Appendix II: Details of Improper First-Class and Business-Class Travel

Table 1 details our analysis of the improper first-class and business-class travel we identified based on our limited testing. Without authorization or adequate justification, these cases illustrate the improper use of first-class and business-class travel and the resulting increase in travel costs. Following the table is more detailed information on some of these cases.

**Table 6: Examples of Improper First-Class and Business-Class Travel Paid by the Armed Forces Entertainment Office Identified by GAO for Fiscal Year 2002**

| Example number | Type of tour | Itinerary  | Class of tickets purchased | Cost of tickets paid | Estimated pretax cost of coach fare tickets | Reason travel was improper                                      |
|----------------|--------------|--|----------------------------|----------------------|---|---|
| 1              | Celebrity    | Los Angeles to Washington, D.C., and back; San Francisco to Washington, D.C.; Philadelphia to Cincinnati; Philadelphia to Dallas       | 8 first-class tickets      | \$16,658             | \$1,680                                     | First-class travel was not authorized.                          |
| 2              | Celebrity    | Los Angeles to Washington, D.C., and back; San Francisco to Washington, D.C.; Philadelphia to Cincinnati; Philadelphia to Dallas       | 6 first-class tickets      | 8,397                | 1,901                                       | First-class travel was not authorized.                          |
| 3              | Celebrity    | Washington, D.C., to Atlanta to Las Vegas; Dallas to Washington, D.C.; Boston to Washington, D.C., and back; and Albuquerque to Dallas | 7 business-class tickets   | 13,488               | 1,400                                       | Business-class was not authorized.                              |
| 4              | Noncelebrity | Washington, D.C., to Atlanta to Las Vegas; Dallas to Washington, D.C.; Boston to Washington, D.C., and back; and Albuquerque to Dallas | 3 business-class tickets   | 2,193                | 2,193 <sup>a</sup>                          | Lacked specific documentation justifying business-class travel. |
| 5              | Celebrity    | Los Angeles to Washington, D.C., and back; Pittsburg to Washington, D.C.   | 2 first-class tickets      | 1,556                | 720 <sup>b</sup>                            | Only business-class was authorized.                             |
| 6              | Celebrity    | Los Angeles to Washington, D.C.; Frankfurt, Germany; Cairo, Egypt, and back  | 2 business-class tickets   | 15,660               | 7,694                                       | Lacked specific documentation justifying business-class travel. |

**Appendix II: Details of Improper First-Class  
and Business-Class Travel**

| <b>Example number</b> | <b>Type of tour</b> | <b>Itinerary</b>  | <b>Class of tickets purchased</b> | <b>Cost of tickets paid</b> | <b>Estimated pretax cost of coach fare tickets</b> | <b>Reason travel was improper</b>                               |
|-----------------------|---------------------|---|-----------------------------------|-----------------------------|--|---|
| 7                     | Celebrity           | Los Angeles to Vancouver, British Columbia; London, England; Doha, Qatar; Amman, Jordan, and back | 1 business-class ticket           | 8,005                       | 4,085  | Lacked specific documentation justifying business-class travel. |
| 8                     | Noncelebrity        | Cairo, Egypt, to Istanbul, Turkey, to Athens, Greece, to various cities in Italy                  | 4 business-class tickets          | 5,052                       | 4,863  | Lacked specific documentation justifying business-class travel. |
| 9                     | Noncelebrity        | Cairo, Egypt, to Istanbul, Turkey   | 13 business-class tickets         | 4,441 <sup>c</sup>          | 3,650  | Lacked specific documentation justifying business-class travel. |
| 10                    | Celebrity           | Atlanta and Little Rock, to Washington, D.C.; New York and Chicago to Tulsa, Okla.                | 2 first-class tickets             | 2,975 <sup>d</sup>          | 1,402  | First-class travel was not authorized.                          |
| <b>Total</b>          |                     |   |                                   | <b>\$78,425</b>             | <b>\$29,588</b>                                    |   |

Source: GAO analysis of DOD data.

<sup>a</sup>Estimated leg of business-class travel.

<sup>b</sup>Estimated business-class fare.

<sup>c</sup>Estimated legs of first-class fare.

<sup>d</sup>Estimated legs of first-class fare.

Example 1 involved five individuals traveling first class at a cost to the government of \$16,658. An audit of the tour files and the travel order indicated that the travel order specifically states that travel at government expense shall not exceed the cost of common carrier (i.e., the rate authorized under the government contract). However, the individuals were issued first-class tickets for this trip, resulting in an additional cost to the government of \$14,978 compared to an estimated total cost of about \$1,680 for eight coach tickets.

Example 2 involved six individuals traveling first class at a cost to the government of \$8,397. An audit of the tour files and the travel order indicated that the travel order specifically states that travel at government expense shall not exceed the cost of common carrier. However, the individuals were issued first-class tickets for this trip, resulting in an additional cost to the government of \$6,496 compared to an estimated total cost of about \$1,901 for six coach tickets. This tour also had seven

individuals traveling business-class at a cost to the government of \$13,488 for domestic flights. According to AFEO, business-class is only authorized for overseas flights, not domestic flights. This resulted in an additional cost to the government of \$12,088 compared to an estimated cost of about \$1,400 for coach-class tickets.

Example 5 involved two individuals who traveled first class from New York–LaGuardia to Jacksonville, Florida. Supporting documentation indicates that business-class was authorized. The cost of two business-class tickets amounted to \$720<sup>1</sup> compared to the two first-class tickets of \$1,556. Without authorization or valid justification, the additional \$836 spent on the first-class ticket was improper. Furthermore, our audit showed that the difference in the cost of first-class travel and the cost of economy class can be significant. For example, during a review of one tour, we found that the cost of one first-class round trip ticket was \$3,982, whereas an economy-class airline ticket for the same trip cost \$280.

GSA and DOD travel regulations specify stringent circumstances under which premium-class travel (e.g., first-class, business-class) can be authorized. For example, the Joint Travel Regulations (JTR)<sup>2</sup> and the Joint Federal Travel Regulations (JFTR) limit the authority to authorize first-class travel to the Secretary of Defense, his Deputy, or another authority as designated by the Secretary of Defense. Further, the delegation of authority to authorize and/or approve first-class travel is to be held at “as high an administrative level as practicable to ensure adequate consideration and review of the circumstances necessitating the first-class accommodations.” A DOD directive<sup>3</sup> on transportation and management specifically states that the secretaries for personnel within the military services and secretariats are the approving authorities for first-class travel. The military service secretaries may delegate approval authority for first-class travel to under secretaries, service chiefs of staff or their vice and/or deputy chief of staff, and four-star major commanders or their three-star vice and/or deputy commander. The directive explicitly states that approving authority cannot be delegated to anyone lower than these officials. DOD and GSA policies also require that authorization for premium-class airline accommodations be made in advance of the actual

---

<sup>1</sup> We derived the estimated coach fares from an online Web site, [www.expedia.com](http://www.expedia.com).

<sup>2</sup> JTR ¶2204 A3 – A5.

<sup>3</sup> DOD Directive 4500.9, December 29, 1993.

travel unless extenuating circumstances or emergency situations make advance authorization impossible.

Specifically, JTR and JFTR require that first-class accommodation be authorized only when:

- coach-class airline accommodations or premium-class other than first-class airline accommodations are not reasonably available;
- first-class airline accommodations are necessary because the employee and/or dependent is so handicapped or otherwise physically impaired that other accommodations cannot be used, and such condition is substantiated by competent medical authority; or
- first-class airline accommodations are needed when exceptional security circumstances require such travel.

JTR and JFTR allow the transportation officer, in conjunction with the official who issued the travel order, to approve premium-class travel (i.e. business-class) other than first-class travel. DOD restricts premium-class travel to the following eight circumstances:

- Regularly scheduled flights between origin and destination provide only premium-class accommodations and it is certified on the travel voucher.
- Coach-class travel is not available in time to accomplish the purpose of the official travel, which is so urgent it cannot be postponed.
- The traveler's disability or other physical impairment requires use of other than first-class service and the condition is substantiated in writing.
- Premium-class accommodations are required for security purposes or because exceptional circumstances make the use essential to the successful performance of the mission.
- Coach-class service on authorized and/or approved foreign carriers does not provide adequate sanitation or meet health standards.
- Premium-class accommodations would result in overall savings to the government because of subsistence costs, overtime, or lost productive time that would be incurred while awaiting coach-class accommodations.
- Transportation is paid in full by a nonfederal source.
- Travel is to or from a destination outside the continental United States, and the scheduled flight time (including stopovers) is in excess of 14 hours. However, a rest stop is prohibited when travel is authorized by premium-class accommodations.

Both GSA and DOD regulations allow a traveler to upgrade to premium-class, other than first-class travel at personal expense, including through redemption of frequent traveler benefits. GSA also identified agency mission as one of the criteria for premium-class travel.

# Appendix III: Comments from the Department of Defense



PERSONNEL AND  
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-4000

NOV 13 2003



Ms. Sharon Pickup  
Director, Defense Capabilities  
and Management  
U.S. General Accounting Office  
Washington, DC 20548

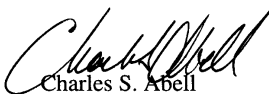
Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-04-56, "DEFENSE MANAGEMENT: DoD Needs to Strengthen Internal Controls Over Funds Used to Support USO Activities," dated September 29, 2003 (GAO Code 350320).

The DoD concurs with recommendations one through four in the draft report and is already taking action to correct the noted deficiencies. Responses to the specific recommendations are provided in the attachment. The Department partially concurs with recommendation five. The fact that the USO's independent auditors will perform their annual audit in accordance with the Single Audit Act would meet the requirement to test internal controls over federal funds to assess control risk. The DoD Inspector General will provide periodic oversight of the Single Audits performed for the USO.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,

  
Charles S. Abell  
Principal Deputy

Enclosure:  
As stated





GAO-04-56/GAO CODE 350320

“DEFENSE MANAGEMENT: DOD NEEDS TO STRENGTHEN INTERNAL  
CONTROLS OVER FUNDS USED TO SUPPORT USO ACTIVITIES”

DEPARTMENT OF DEFENSE COMMENTS  
TO THE RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in consultation with the Secretary of the Air Force, to develop and implement a record keeping system capable of reporting all appropriated and non-appropriated funds, including all in-kind goods, services, and infrastructure provided by DoD in support of USO overseas tours and operations. Among other things, this system should clearly identify airlift services provided in support of USO tours. (Page 25/Draft Report)

**DoD RESPONSE:** Concur, with comment.

- The DOD financial systems do not support an automated means for reporting other support to USO tours, such as non-appropriated funds, in-kind goods, services, infrastructure, and military airlift provided with installation assets. However, Armed Forces Entertainment (AFE) has implemented and continues to implement changes to existing AFE record-keeping systems in order to clearly identify and report USO tour costs.
  - AFE will establish a separate Bank of America centrally billed account for all commercial transportation costs associated with USO celebrity tours. Estimated Completion Date (ECD): 30 Nov 03
  - A separate purchase card account will be established for any visas or other official travel permits, printing, shipping and miscellaneous costs associated with USO celebrity tours. ECD: 30 Nov 03
  - AFE will work with Air Mobility Command (AMC) to establish accounting lines in the AMC billing process to identify, where possible, military airlift transportation costs associated with USO celebrity tours. ECD: 31 Jan 04
- DODI 1330.13 Armed Forces Entertainment will be revised to require the military Services to submit to AFE an annual report identifying appropriated funds, non-appropriated funds, in-kind goods or services provided to the USO. ECD: 30 Apr 04

**RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in consultation with the Secretary of the Air Force, to take steps to ensure USO complies with the Single Audit Act as stipulated in its grant and contractual agreements with DoD, which require an annual audit that tests internal controls over federal funds to assess control risk. (Page 25/Draft Report)

**DoD RESPONSE:** Concur.

- AFE, by letter on 2 Oct 03, requested that the 11<sup>th</sup> Contracting Squadron, Bolling Air Force Base ensure the USO complies with the contract requirement to perform an annual audit in accordance with the Single Audit Act and that USO provide a copy of the annual audit to AFE. The USO has instructed their independent auditors to perform their annual audit in accordance with the Act's requirements. Closed.

**RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in consultation with the Secretary of the Air Force, to develop and consistently implement supplemental guidance, in accordance with contract terms, and federal travel and acquisition regulations, to identify allowable expenses and reimbursements and appropriate documentation for

- travel-related USO expenses, including commercial air travel
- honoraria, and
- services and equipment provided for USO. (Page 25/Draft Report)

**DoD RESPONSE:** Concur.

- Armed Forces Entertainment, on 10 Sep 03, requested that the 11<sup>th</sup> Contracting Squadron, Bolling Air Force Base, modify the contract with USO to include detailed descriptions of authorized reimbursable items, to include travel, honoraria, services and equipment. The modification describes the appropriate documentation to be submitted with invoices for reimbursement of USO tour expenses.
  - AFE provided this detailed list of authorized reimbursable items to the USO on 14 Jul 03 to incorporate into their billing process. Closed.
  - AFE finalized an operating instruction on 10 October 2003 issued by the Director of Services that provides clear, written guidance for what are allowable reimbursable expenses and outlines AFE's internal processes and procedures. Closed.

- AFE Chief or Deputy will periodically review the files to ensure compliance with established guidance. Closed.
- DODI 1330.13 Armed Forces Entertainment will be revised to reflect the above guidance and also designate AFE as the single coordinating focal point for all armed forces entertainment overseas. ECD: 30 Apr 04

**RECOMMENDATION 4:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in consultation with the Secretary of the Air Force, to identify all the expenses AFE inappropriately paid, that should have been paid by USO, and request that USO fully reimburse AFE for the expenses. (Page 25/Draft Report)

**DoD RESPONSE:** Concur.

- AFE has taken action to identify and recoup expenses inappropriately reimbursed to the USO.
  - Reimbursements for alcohol, celebrity honorarium, first-class travel and Air Mobility Command airlift services have been received from the USO. Closed.
  - AFE will review files to identify any remaining unauthorized expenses for meals, production support, duplicate billing for administrative assistant and lodging and prepare a request for reimbursement from the USO to be paid within 30 days of receipt. ECD: 15 Dec 03

**RECOMMENDATION 5:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness, in consultation with the Secretary of the Air Force, to arrange for DoD's Inspector General to perform internal control audits periodically to determine if the control weaknesses we identified are resolved, and report the results of these audits to the Secretary of Defense and the Secretary of the Air Force. (Pages 25-26/Draft Report)

**DoD RESPONSE:** Partially concur.

- The fact that the USO's independent auditors will perform their annual audit in accordance with the Single Audit Act would meet the requirement to test internal controls over federal funds to assess control risk. The DoD Inspector General will provide periodic oversight of the Single Audits performed for the USO.

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# Appendix IV: Staff Acknowledgments

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Claudia J. Dickey, Stephen P. Donahue, Johnny R. Bowen, Wayne A. Ekblad, Kenneth E. Patton, M. Jane Hunt, Nancy L. Benco, and Julio A. Luna made significant contributions to this report.

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