

April 2003

SMALL BUSINESS

The National Veterans Business Development Corporation's Progress in Providing Small Business Assistance to Veterans



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-03-434](#), a report to the House and Senate Committees on Small Business and Veterans' Affairs.

Why GAO Did This Study

The Veterans Entrepreneurship and Small Business Development Act of 1999 (Act) created the National Veterans Business Development Corporation (The Veterans Corporation) to address perceived gaps in providing small business and entrepreneurship assistance to veterans. The Act requires GAO to review The Veterans Corporation. As agreed with committee staff, GAO described The Veterans Corporation's (1) efforts to provide small business assistance to veterans, including service-disabled veterans; (2) use of and controls over federal funds in providing these services; and (3) efforts to become financially self-sufficient.

www.gao.gov/cgi-bin/getrpt?GAO-03-434.

To view the full report, including the scope and methodology, click on the link above. For more information, contact William O. Jenkins, Jr. at (202) 512-8757, or JenkinsWO@gao.gov.

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What GAO Found

The Veterans Corporation is providing veterans with entrepreneurial training, on-line educational resources, micro loans, business insurance, and an on-line marketplace. The Veterans Corporation identified initial challenges that slowed program progress, including getting information on transitioning military personnel; and veteran-owned businesses; and delays in making management appointments. Because the programs are new, it is too early to determine their effectiveness.

During its first 2 years of operation, The Veterans Corporation spent about \$5 of \$8 million in total federal appropriations; about \$1 million in fiscal year 2001; and about \$4 million in fiscal year 2002, with the largest part of the increase due to salaries and program costs. An external audit for fiscal year 2001 identified internal control issues, such as the lack of adequate supporting documentation for disbursements and untimely reconciliation of bank accounts. According to the external auditor, all but one of the deficiencies was addressed in 2002.

The Veterans Corporation has developed a financial self-sufficiency plan based on four major revenue sources—an on-line marketplace, a credit card program, an insurance service program, and fund-raising. At the time of GAO's review, most of these efforts were just beginning to produce revenue. According to the plan, The Veterans Corporation is not expected to achieve self-sufficiency until the fourth quarter of fiscal year 2004. If outcomes do not meet projections, Veterans Corporation officials stated that they would explore alternatives.

Description and Status of Key Initiatives, as of March 2003

Initiative	Description	Status
Micro Loan Program	Loan referral program with regional banks.	Operational in February 2002. Three participating banks in eastern United States.
www.veteranscorp.org	Web site of The Veterans Corporation.	Launched in April 2002 and operational.
Veterans Marketplace	E-commerce platform that facilitates purchases between veteran-owned and other businesses.	Launched in June 2002.
Veterans Entrepreneurial Training Program	A business training program consisting of 30-45 hours of interactive training.	Launched in October 2002 with three pilot locations.
Veterans Business Success Seminars	One-day seminars on what veterans need to know before starting a business.	Two pilot seminars held in October and November 2002.
Insurance/Benefits Program	Business insurance products at group rates.	Launched in December 2002.
Veterans Corporation Platinum BusinessCard	Credit card for business use.	Launched in January 2003.
Veterans Capital Fund	Venture capital fund for veteran-owned and other businesses; proceeds fund veteran programs.	In planning. Expected to launch in 2003.

Source: GAO.

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Abbreviations

CCR	Central Contractor Registration
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DOD	Department of Defense
FAR	Federal Acquisition Regulations
OGC	Office of General Counsel
PCAB	Professional Certification Advisory Board
PCLAC	Professional Certification and Licensing Advisory Committee
PRO-Net	Procurement Marketing and Access Network
SBA	Small Business Administration
SBIC	Small Business Investment Corporation
UMET	Use Your Military Experience and Training
VA	Department of Veteran Affairs
VET	Veterans Entrepreneurial Training

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United States General Accounting Office
Washington, D.C. 20548

April 30, 2003

Congressional Committees:

A Congressional report released in January 1999, identified gaps in the federal government's delivery of entrepreneurial services to veterans.¹ Recognizing the need to assist the nation's veterans who choose to start or expand small businesses in their transition from military to civilian life, Congress created the National Veterans Business Development Corporation (The Veterans Corporation)—a chartered corporation—to provide small business and entrepreneurship assistance. The Veterans Entrepreneurship and Small Business Development Act of 1999 (Act), as amended, created The Veterans Corporation and, among other things, requires it to (1) improve access to technical assistance that promotes entrepreneurship, and (2) use public and private resources to assist veterans, including service-disabled veterans, with the formation and expansion of small businesses.² To carry out these activities, the Act authorized the appropriation of \$12 million in federal funds to The Veterans Corporation over a 4-year period. It also required that The Veterans Corporation implement a plan to raise private funds and become a self-sustaining corporation.

The Act also required GAO to evaluate the effectiveness of The Veterans Corporation in providing services to veterans. Because The Veterans Corporation's programs are still in their early stages, we agreed with the staffs of the House and Senate Committees on Small Business and Veterans' Affairs to describe (1) The Veterans Corporation's efforts in providing small business assistance to veterans, including service-disabled veterans; (2) the use of and controls over federal funds to provide these services; and (3) the efforts of The Veterans Corporation to become financially self-sufficient.

To complete our work, we obtained and analyzed program information and corporate documents provided by The Veterans Corporation. To meet our objective to describe The Veterans Corporation's use of federal funds, we interviewed officials at The Veterans Corporation. We also obtained and

¹Report of the Congressional Commission on Servicemembers and Veterans Transition Assistance, (Arlington, Virginia: January 1999).

²Public Law 106-50, 113 Stat. 233 (1999) (found at 15 U.S.C. §657c).

analyzed The Veterans Corporation's fiscal years 2001 and 2002 financial statements, obtained and reviewed minutes of board of directors meetings, and interviewed The Veterans Corporation's external auditors. We also interviewed officials from the staff and board of The Veterans Corporation, as well as officials from federal agencies, partnering organizations, and veteran service organizations. Please see appendix I for a more complete description of our scope and methodology.

We conducted our review from June 2002 through April 2003 in accordance with generally accepted government auditing standards. Written comments on a draft of this report from The Veterans Corporation appear in appendix VI. We also obtained technical comments from the Small Business Administration (SBA) and the Department of Veterans' Affairs (VA) that have been incorporated where appropriate.

Results in Brief

The Veterans Corporation has made progress toward providing entrepreneurial services to veterans, despite some initial challenges. The Veterans Corporation officials stated that they have been careful not to duplicate existing services. The Veterans Corporation has launched efforts to provide entrepreneurial education and training through classroom instruction, seminars, and on-line educational resources. It has also started to provide entrepreneurial services to veteran-owned small businesses such as micro loans, business insurance, and on-line buying and selling of veteran-owned products and services. Officials identified some initial challenges that they faced, such as the difficulty in obtaining information from government sources on transitioning military personnel and veteran businesses, limited government participation in The Veterans Corporation activities, and delays in management appointments. Because The Veterans Corporation programs and processes are relatively new, it is too early to determine their effectiveness. However, The Veterans Corporation plans to assess program effectiveness periodically. As required by the Act, The Veterans Corporation has established a Professional Certification Advisory Board (PCAB) to (1) assist in creating uniform guidelines for the professional certification of transitioning members of the military and (2) remove license and certification barriers.

In fiscal years 2001 and 2002, Congress appropriated a total of \$8 million for The Veterans Corporation. These funds remain available to The Veterans Corporation until expended. According to The Veterans Corporation's audited financial statements for these 2 years, the Corporation spent about \$4.7 million of the \$8 million primarily on start-up

costs, leaving an available balance of about \$3.3 million as of September 30, 2002. Management has stated that its approach is to spend conservatively on programs and operating expenses in the start-up period so that unused federal appropriations can be used in future years. In fiscal year 2001, The Veterans Corporation spent about \$985,000 for salaries, professional services, and other start-up costs, all funded by its federal appropriations and related interest earnings. In fiscal year 2002, The Veterans Corporation used federal funds to pay for salaries, professional services, start-up expenses, and program activities, including expenses related to The Veterans Marketplace—an on-line service that allows veteran-owned businesses to sell goods and services over the Internet. In fiscal year 2002, The Veterans Corporation began to realize other revenues, such as pledges, contributed services and in-kind contributions from nonfederal sources. As a result, federal appropriations accounted for about 57 percent of The Veterans Corporation's total revenues for fiscal year 2002. The Board of Directors is required to prescribe the manner in which the obligations of The Veterans Corporation may be incurred and how its expenses are allowed and paid. In The Veterans Corporation's first fiscal year, 2001, its external auditor identified some internal control issues, such as the failure to reconcile bank accounts on a timely basis and segregate cash duties, as well as the failure to maintain a filing system for accounting records. According to the external auditor, The Veterans Corporation has implemented corrective measures in fiscal year 2002 to address all but one of the identified deficiencies. The Veterans Corporation has acknowledged the remaining deficiency and plans to take corrective action in fiscal year 2003.

The Veterans Corporation has developed a plan to achieve financial self-sufficiency by September 30, 2004. The plan is based on four major sources of revenue: (1) an on-line electronic marketplace for veteran-owned business goods and services, (2) a credit card program targeted to veteran-owned businesses, (3) an insurance service program designed to meet the needs of veteran-owned small businesses, and (4) fund-raising. To calculate revenue assumptions, The Veterans Corporation relied on input from their partners on these efforts, which operate similar programs. It is too early to determine whether The Veterans Corporation will achieve its goal of becoming financially self-sufficient by September 30, 2004. At the time of our review, three of the efforts were just beginning to produce revenue. Further, according to the plan, The Veterans Corporation is not expected to achieve self-sufficiency until the fourth quarter of fiscal year 2004. Additionally, The Veterans Corporation earned about \$2.8 million in cash, cash pledges, contributed services, and in-kind donations in fiscal year

2002, fulfilling the Act's mandate that it raise an amount equal to one-half of its \$4 million fiscal year 2002 federal appropriation. The Veterans Corporation intends to evaluate the plan on a quarterly basis to assess whether its strategies are sufficient to meet targeted projections. If these projections are not met, The Veterans Corporation officials stated that they would then consider alternative revenue sources to allow them to meet their self-sufficiency goal.

Background

In the Veterans Entrepreneurship and Small Business Development Act of 1999, as amended, Congress established various programmatic requirements for The Veterans Corporation to address perceived shortfalls in federally provided services for veterans. The Veterans Corporation is required to, among other things, (1) expand the provision of and improve access to technical assistance regarding entrepreneurship; (2) assist veterans with the formation and expansion of small businesses by working with and organizing public and private resources; (3) establish and maintain a network of information and assistance centers for use by veterans; (4) establish a PCAB to create uniform guidelines and standards for the professional certification of members of the armed services; and (5) assume the duties, responsibilities, and authority of the Advisory Committee on Veterans Business Affairs from the SBA by October 1, 2004.³

To fund The Veterans Corporation, Congress authorized \$12 million in federal appropriations over 4 fiscal years—\$4 million in the first year, \$4 million in the second year, and \$2 million in each of the following 2 years—with the expectation that The Veterans Corporation would become financially self-sufficient. The Veterans Corporation received its first appropriation in March 2001. The Veterans Corporation is a nonprofit corporation chartered in the District of Columbia and has authority to, among other things, manage the manner in which it conducts business, enter into contracts, hire and dismiss officers and employees, and solicit, disburse, and manage its funds and assets.

³The Advisory Committee on Veterans Business Affairs was created by the same legislation that created The Veterans Corporation. The purpose of the Advisory Committee on Veterans Business Affairs is to serve as an independent source of advice and policy recommendations to the Administrator of the SBA, the Associate Administrator for Veterans Business Development of the SBA, the Congress, the President, and other policymakers. It consists of 15 members, who are veteran small business owners or representatives of veteran's organizations and appointed by the Administrator of the SBA to serve 3-year terms.

The Act requires The Veterans Corporation to raise funds in order to match its federal appropriations. For the first fiscal year (fiscal year 2001), no matching requirement applied. For the second fiscal year (fiscal year 2002), The Veterans Corporation was required to raise \$1 for every \$2 of federal appropriations. For the remaining 2 fiscal years, The Veterans Corporation is required to raise matching funds on a dollar-for-dollar basis.

A 12-member board of directors governs The Veterans Corporation. Nine voting members are presidential appointees, with not more than five members of the same political party. The three remaining members are nonvoting, representing the Administrator of the SBA, the Secretary of Defense, and the Secretary of Veterans Affairs. Voting members serve 6-year terms; however, the terms of the initial appointees are staggered: three for a term of 2 years and three for a term of 4 years. The chairperson is one of the nine voting members and is elected by these members for a 2-year term. The chairperson supervises and controls all affairs of The Veterans Corporation in accordance with policies and directives approved by the board of directors. The board is organized into four committees: (1) executive, (2) corporate governance, (3) audit, and (4) business development. The corporate governance committee is responsible for, among other things, overseeing the strategic and business plans. The Veterans Corporation staff, of which there are 14, use these plans to help define their overall strategy and assess how well they are achieving their goals and objectives. Goals and objectives are then evaluated at the board meetings. The board met for the first time in September 2000; the board currently meets approximately on a quarterly basis.

The Veterans Corporation Initiates Entrepreneurial Services to Veterans

The Veterans Corporation has several initiatives under way to provide small business education, training, and entrepreneurial services to veterans. Officials additionally have identified some initial challenges that have slowed the progress of these efforts, including (1) the inability to collect data on the veteran population, (2) limited government participation in The Veterans Corporation activities, (3) delays in appointing management, and (4) unclear corporate legal status of The Veterans Corporation. The Veterans Corporation has broad performance measures in place to monitor its programs at this early stage and are planning to develop more refined measures to assess effectiveness as the programs mature. The Veterans Corporation has established a PCAB—a body mandated by Congress to assist service members transition from the military to private-sector employment—but the issues surrounding private-

sector recognition of military experience and training are large and complex, according to some officials.

Educational and Training Programs Under Way and The Veterans Corporation Is Developing Entrepreneurial Services

According to an official at The Veterans Corporation, their corporate strategy has been to organize, coordinate, enhance, and expand existing business programs and services to military veterans interested in entrepreneurship. Additionally, their strategy is to provide programs not otherwise available to veteran-owned businesses. Officials at The Veterans Corporation said that they have been careful not to duplicate existing services but rather to leverage existing services whenever possible. The Managing Director of Operations and Government Relations at The Veterans Corporation stated that their approach is to develop public and private resources that may include coordinating with local business services where appropriate.

Education and Training

In response to veteran needs for small business education and training, The Veterans Corporation has offered classroom instruction, seminars, and on-line educational resources. The Veterans Corporation has hosted three initial Veterans Entrepreneurial Training (VET) programs, which produced 64 graduates, for veterans interested in starting a business or seeking to improve their current business. The initial locations included Riverside, California; Portland, Maine; and Arlington, Virginia. The VET program incorporates classroom instruction, mentoring, networking, and technology training. An official at The Veterans Corporation stated that program participants pay \$350 of the program's \$1,850 cost for 45 hours of classroom instruction and, as an added benefit, receive a voucher valued at \$675 to purchase a Gateway computer upon successfully completing the program. The Veterans Corporation officials said that the program is a partnership with the Ewing Marion Kauffman Foundation's FastTrac Program, a successful entrepreneurship-training program. Statistics from The Veterans Corporation's Web site makes reference to the Kauffman Foundation's overall success, which indicates that 60,000 people have completed the FastTrac program since 1987. Additionally, of this number, 88 percent were still in business 2 years later, and 77 percent were still in business and turning a profit 5 years later; overall, 64 percent have seen their sales increase. An official at The Veterans Corporation said that for fiscal year 2003, they are planning a total of 30 VET courses. The official added that the program draws support from local Service Corps of Retired Executives chapters and Small Business Development Centers, whose members and staff serve as either mentors or classroom speakers.

The Veterans Corporation has also piloted two, 1-day Veterans Business Success Seminars on the skills needed to start a business. The seminars were held in Boise, Idaho, and Cleveland, Ohio, and included discussions on business plans, marketing analysis, and financing. According to an official at The Veterans Corporation, 30 veterans participated in the first two seminars. The official explained that they are adopting a new strategy to more consistently meet the mandate to establish and maintain a network of information and assistance centers for use by veterans and the public. Under this strategy, The Veterans Corporation will utilize community-based organizations to provide veterans support with a combination of workshops, seminars and courses tailored to local needs. The official added that The Veterans Corporation is in discussions with the SBA on funding four test sites to be launched by May 2003.

On-Line Educational Resources

In April 2002, The Veterans Corporation's Web site became operational; it contains information on training, capital, and other business resources. A board member of The Veterans Corporation told us that The Veterans Corporation views this Web site as helping to fulfill the requirement under the Act to establish and maintain a network of information and assistance centers for use by veterans and the public. The board member explained that building brick and mortar development centers would be prohibitively expensive and that the board's initial goal was to focus on leveraging existing services rather than duplicating private-sector services. For example, the Web site has links to other small business resources, including Entreworld, an on-line small business resource library. Entreworld, which is sponsored by the Ewing Marion Kauffman Foundation, was one of the first Web sites assisting small businesses since 1996, according to the Entreworld Web site. Additionally, The Veterans Corporation's Web site has links to other on-line resources for veterans, such as those of the Department of Defense (DOD), SBA, and Department of Veterans Affairs (VA).

Services to Entrepreneurs

The Veterans Corporation has launched or started to develop various initiatives to provide entrepreneurial services, such as access to capital through a micro loan program, business insurance, and on-line buying and selling of veteran-owned goods and services. While these services are intended to assist veterans with formulating or expanding businesses, some of the services also provide revenue to The Veterans Corporation. (We discuss The Veterans Corporation's efforts to become self-sufficient later in this report.)

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- *Micro loan program.* To help veterans gain access to capital, The Veterans Corporation established a regional micro loan program⁴ for start-up businesses. The Veterans Corporation is working with regional banks to provide the loans. Participating banks in the micro loan program may also use SBA loan guarantees to help veterans obtain access to capital. An official told us that as of January 2003, the first early stage loan of \$25,000 was made to a start-up, veteran-owned business and two other SBA lines of credit up to \$150,000 were close to being finalized. As of April 2003, The Veterans Corporation has an agreement with Newtek Small Business Finance, Inc., to offer SBA loans and other services. The Veterans Corporation will be able to provide nationwide service in conjunction with its existing lenders.
 - *Veterans Marketplace.* The Veterans Marketplace is an on-line purchase program for products and services produced by veteran-owned small businesses. The Veterans Corporation is partnering with eScout, a company that operates a similar electronic procurement business. The Veterans Marketplace targets procurements of \$2,500 or less using an electronic purchase card system. Although the system is operational, The Veterans Corporation is in the process of building their customer lists of government and private companies. As of January 2003, there were 16 veteran-owned business sellers and 150 veteran-owned business buyers listed on The Veterans Marketplace. The Veterans Corporation plans to earn income from this effort through a revenue-sharing agreement with eScout that is based on volume of transactions, new member agreements, on-line purchases, and auction events hosted.
 - *Business Insurance Program.* In December 2002, The Veterans Corporation started offering insurance services through the Aon Financial Institution Alliance to veteran-owned businesses. The services include health insurance for employees, legal representation, and, for small businesses, computer protection assistance against viruses and hackers. The Veterans Corporation anticipates producing revenue from this effort by collecting commissions from the Aon Financial Institution Alliance. An official at The Veterans Corporation stated that as of April 2003, the first small group health insurance policy was sold as well as over 100 quotes requested or applications completed.

⁴The Veterans Corporation's micro loan program is not affiliated with SBA's micro loan program.

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- *Veterans Corporation Platinum BusinessCard.* The Veterans Corporation began offering a veterans business credit card in January 2003. The card includes features such as a business credit line and cash back on purchases. According to an official at The Veterans Corporation, 165 credit cards have been approved and issued, as of April 2003.
 - *Veterans Capital Fund.* The Veterans Corporation is also seeking to establish a venture capital fund to invest in both veteran-owned and other businesses. The fund will be structured as a Small Business Investment Company (SBIC), which is licensed by SBA and features opportunities to leverage private equity investments for government guarantees. Once operational, The Veterans Corporation will own 10 percent of the limited partnership and 17.5 percent of the general partnership. According to an official at Equisource, a management investment firm that is acting as a placement agent for the Veterans Corporation, the fund will seek to invest partly, but not only, in veteran-owned businesses. The official said that The Veterans Corporation would use profits realized from the fund to provide for veteran programs and services.

Figure 1 shows The Veterans Corporation's status of key initiatives. Additionally, appendix II contains a chronology of The Veterans Corporation's key activities, and appendix III lists The Veterans Corporation's activities that address the statutory requirements of the Act.

Figure 1: The Veterans Corporation: Description and Status of Key Initiatives, as of March 2003

Initiative	Description	Status
Micro Loan Program	Loan referral program with regional banks.	Operational in February 2002. Three participating banks in eastern United States.
www.veteranscorp.org	Web site of The Veterans Corporation.	Launched in April 2002 and operational.
Veterans Marketplace	E-commerce platform that facilitates purchases between veteran-owned and other businesses.	Launched in June 2002.
Veterans Entrepreneurial Training Program	A business training program consisting of 30-45 hours of interactive training.	Launched in October 2002 with three pilot locations.
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Insurance/Benefits Program	Business insurance products at group rates.	Launched in December 2002.
Veterans Corporation Platinum BusinessCard	Credit card for business use.	Launched in January 2003.
Veterans Capital Fund	Venture capital fund for veteran-owned and other businesses; proceeds fund veteran programs.	In planning. Expected to launch in 2003.

Source: GAO.

Note: GAO analysis of The Veterans Corporation data.

Outreach to Service-Disabled Veterans

Officials at The Veterans Corporation describe their outreach as targeting all veterans, including service-disabled veterans. Generally, they do not have separate efforts for the service-disabled population. The officials, however, referenced efforts to make certain programs and services available to the service-disabled population. For example, the VET program reserves 10 spaces in each class for the service-disabled. In the first three VET courses completed, 19 of 64 graduates, or 30 percent, registered as service-disabled veterans. In another effort just recently launched, service-disabled veterans who purchase insurance products through The Veterans Corporation will receive an additional discount. Officials further said that in the future, they would like to offer distance learning in their entrepreneurial training program to provide greater access to the physically disabled veteran.

Initial Challenges Slow Progress of The Veterans Corporation's Programs and Initiatives

The Veterans Corporation officials said that progress on programs has been hampered by their inability to collect information from government sources on military personnel transitioning to civilian life and existing veteran-owned businesses. One of the officials explained that the success of programs such as The Veterans Marketplace and VET program is largely dependent on their ability to identify and reach transitioning service members and veteran-owned businesses. The Veterans Corporation officials said that if they were not successful in obtaining this data, they would have to rely on developing data from attendance lists from their training and education programs and other available sources. Officials stressed that this would slow the development of a client database.

Privacy Issues Prevent Government Agencies from Sharing Information on Veterans; Publicly Available Data Are Limited

The Veterans Corporation has requested information from DOD and VA, respectively, on (1) military service members nearing retirement or separation and (2) veteran-owned and service-disabled, veteran-owned businesses. Both DOD and VA officials said that privacy laws prohibit them from providing personal information such as names and addresses of the military and veteran population. A DOD official stated that their policy prohibits them from releasing private information on enlisted military to any public or private organization. The DOD official further cited a November 9, 2001, memorandum for DOD Freedom of Information Act Offices that supports the withholding of personally identifiable information for security reasons in response to the events of September 11, 2001. VA's Office of the General Counsel (OGC) issued a legal opinion on December 12, 2002, which states that the Act does not direct the Secretary of VA to construct a database for use by The Veterans Corporation. Furthermore, VA's OGC stated that there are no provisions within existing confidentiality laws that would permit the sharing of information as proposed. However, in response to our draft report, VA concluded that it could disclose a list of names and addresses of veterans and their small businesses to the public, including The Veterans Corporation. Further, VA officials stated that arrangements are under way to make this information available on their Web site. However, it remains to be seen whether the information that will be available on VA's Web site will meet The Veterans Corporation's needs.

The Veterans Corporation has obtained access to some government databases as well as other publicly available information on veterans—for example, SBA's Procurement Marketing and Access Network (PRO-Net) database, which contains information on veteran-owned business. The Veterans Corporation has also gained access to DOD's Central Contractor Registration (CCR) database that contains information on prime and

subcontractors of the federal government. CCR contains over 200,000 business listings of which 30,000 were listed as veteran-owned. DOD has required that The Veterans Corporation sign a standard nondisclosure agreement. But, an official at The Veterans Corporation said that the agreement contains language that they “shall not use such data for commercial purposes;” the agreement is currently under legal review at The Veterans Corporation. According to SBA officials, PRO-Net is currently merging with CCR, and current registrants from both databases are being asked to reregister into the combined database.

The Veterans Corporation has also utilized some publicly available information on veterans, but the information is in aggregate form and does not enable them to identify individuals seeking entrepreneurial assistance. According to officials at The Veterans Corporation, they were not aware of any public sources of data with names and addresses that could be used to identify veterans who may be seeking entrepreneurial assistance. For instance, The Veterans Corporation officials said they used public data from the VA Web site for information on where veterans live, by state and county and for age and gender. This information was used to help determine locations for VET classes and Veterans Business Success Seminars. Additionally, The Veterans Corporation identified a private data source that lists about 190,000 veteran-owned businesses. An official said that the private data source does not collect E-mail addresses and questioned whether the records have current mailing addresses. Officials said that this effort has been put on hold because it was not viewed as worth the \$90,000 acquisition cost.

Government Agencies Had Limited Participation in The Veterans Corporation Activities

The Veterans Corporation is required to work with and organize public and private resources, including those of the federal government. An official at The Veterans Corporation indicated that collaboration with other federal agencies has been limited because of other priorities at these agencies and because agencies are not required to carry out these multiagency initiatives. As stated previously, due to privacy issues The Veterans Corporation has had difficulty in obtaining data from DOD on military personnel transitioning to civilian life and from VA on veteran-owned businesses. The Veterans Corporation official suggested that a federal directive, such as a presidential executive order or Office of Management and Budget guidance, would help federal agencies understand The Veterans Corporation’s mission and provide the agencies with instructions for assisting in these efforts.

Government officials with whom we spoke provided some examples of early collaboration with The Veterans Corporation. For instance, an SBA official stated that they have been active participants at board meetings, helped develop initiatives such as The Veterans Capital Fund (see fig. 1), and provided technical assistance. According to the official, SBA envisions that there will be additional, mutually beneficial relationships with other programs. A VA official stated that collaboration between VA and The Veterans Corporation has included establishing links on the respective Web sites, and invitations to speak at VA conferences. A DOD official also mentioned that the DOD Web site has a link to The Veterans Corporation's Veterans Entrepreneurial Training Program.

Delays in Management Appointments Slowed The Veterans Corporation's Activity

Officials at The Veterans Corporation said that progress on their programs was initially hampered by delays in management appointments for positions such as the Chief Executive Officer (CEO) and board members. The officials explained that much time was spent searching for a permanent CEO. The CEO was appointed in October 2001. Until August 2001, the staff at The Veterans Corporation were temporary employees, operating as contractors. Subsequently, the entire management team was hired in fiscal year 2002. Additionally, the Act called for the initial board members to be appointed by the President of the United States no later than 60 days after the legislation was enacted on August 17, 1999. The initial presidential appointments, however, did not occur until a year after enactment. Eight of the nine voting members were appointed between August and December 2000, while the ninth member was appointed in November 2001.

Although initial board members had diverse backgrounds such as banking, engineering, and social services, Veterans Corporation and board officials said they would like to have board members with specific qualifications such as connections to corporations for fund-raising or political clout, experience on other boards of successful businesses, or first-hand entrepreneurial experience. Further, The Veterans Corporation staff believes that once government funding ends, they may benefit from a board whose voting members are not wholly presidentially appointed. They explained that the discretion to recruit board members from the private sector would allow The Veterans Corporation to augment the board's membership with the required business expertise necessary for The Veterans Corporation's long-term success. The Act does not include any specific rules or guidance for how The Veterans Corporation is to make the transition from a largely government-funded to a private, self-sufficient corporation. As one step in this transition, The Veterans Corporation has

proposed that the Act creating the corporation be revised to give The Veterans Corporation input into the selection of the board after government funding ends. Specifically, the proposal calls for a board structure similar to that of Fannie Mae, a government-sponsored enterprise that engages in secondary loan market activity, in which only one-third of the directors are presidentially appointed.

Status of The Veterans Corporation as a Public Agency or Private Corporation Is Open to Interpretation

Officials at The Veterans Corporation have indicated that differences in interpretation regarding the legal status of The Veterans Corporation as either a public agency or private corporation have, at times, complicated organizational and program development efforts. The Veterans Corporation has obtained various legal opinions on its corporate legal status with respect to personnel and procurement requirements with differing results. They referenced an opinion from the Office of Personnel Management on whether the provisions of Title 5 of the U.S.C. applied to The Veterans Corporation. In a letter dated November 13, 2001, the Office of Personnel Management concluded that The Veterans Corporation was a government-controlled corporation and is subject to most provisions of Title 5, including provisions related to premium pay, awards, leave, and health benefits, among other things. In contrast, a law firm performing pro bono legal assistance to The Veterans Corporation—Fried, Frank, Harris, Shriver & Jacobson—issued a memorandum dated December 5, 2001, that stated “considering all the relevant factors, we believe that a court would find the NVBDC [Veterans Corporation] is not a Government-controlled corporation under 5 U.S.C. §103 to which the 5 U.S.C. §5373 pay cap applies.” In another instance, another law firm that also represents The Veterans Corporation—Hale and Dorr LLP—issued a memorandum dated April 2, 2002, that stated that The Veterans Corporation “does not meet the definition of an executive agency [executive department, military department, wholly-owned government corporation, or independent establishments] triggering FAR [Federal Acquisition Regulations] mandates for procurement.”

The Veterans Corporation Plans to Put Evaluative Performance Measures in Place

It is too early to determine the effectiveness of The Veterans Corporation programs to the veteran population because the programs are relatively new and, in some cases, just under way. Officials indicated that they have broad performance measures for programs such as participants’ satisfaction ratings of the VET program and quantitative measures, such as the number of credit cards and insurance policies issued, and dollar volume of transactions for the Veterans Marketplace, which are used to determine whether they are meeting early program objectives. The

Veterans Corporation's business plan has outlined some corporate objectives for fiscal year 2003, including delivering VET programs to at least 500 veterans and transitioning military personnel. Other objectives identified in the business plan include constructing a database that contains accurate information on at least 250,000 veteran business owners and expanding the micro loan program nationwide.

According to The Veterans Corporation officials, corporate objectives will be reviewed quarterly. As programs mature, The Veterans Corporation intends to assess program effectiveness periodically. Officials indicated that they do not yet have refined and tested measures to assess the extent their programs impact Veterans who seek to develop or expand their own businesses. The officials explained that at this early stage, there is a lack of historical [baseline] information against which to measure progress. Additionally, they plan to continue developing performance measures that assess overall program effectiveness.

Professional Certification Advisory Board Established but Progress Is Limited Because of Complex Issues

As mandated by the Act, The Veterans Corporation formed a Professional Certification Advisory Board (PCAB) to (1) create uniform guidelines and standards for the professional certification of military personnel transitioning to civilian occupations and (2) remove potential licensure and certification barriers. Officials from another certification group told us that veterans traditionally have a hard time transitioning into private-sector employment because prospective employers have difficulty understanding military experience and training. Private sector employers are increasingly requiring proof or certification of certain skills. Licensing and certification are the two primary types of credentialing for individuals seeking civilian positions that are equivalent to enlisted military occupations. Occupations within the military that require private-sector certification or licensing include, among other things, automotive mechanic, dental assistant, electrician, flight engineer, medical laboratory technician, plumber, police officer, and truck driver. Licenses are granted by federal, state, and local government agencies while certification is the process by which a nongovernmental agency, association, or private sector company recognizes certain qualifications. PCAB officials agreed that the task at hand is quite large, involving multiple government entities.

The PCAB held its first meeting in October 2001. Subsequent, initial meetings were spent identifying the scope of issues and key players. The PCAB meets quarterly and has 26 members that serve voluntarily. The board established three committees, including the (1) Barriers

Identification Committee, which is tasked with reviewing studies and research to identify barriers that affect transitioning military personnel; (2) Information Clearinghouse Committee, which is responsible for obtaining and disseminating certification, licensure, and small business development information; and (3) Research and Legislative Action Committee, which will analyze barriers and develop recommendations. According to the PCAB chairman, the committees are developing their goals and have not yet produced deliverables. The chairman explained that the Research and Legislation Action Committee would use information from the other two committees to develop recommendations.

One PCAB member acknowledged that while progress has been slow, he was uncertain whether the PCAB committees could work any faster. He stressed that the task at hand is quite large and that the pace of work is dependent on the collective efforts of 26 members who serve on a voluntary basis. For instance, one of the PCAB's committees established to identify certification and licensing obstacles is looking at which of the 105 identified military occupations have barriers, and it is reviewing the licensing procedures of 53 states and jurisdictions.

Some PCAB members also represent other certification groups, such as the Council of Licensure, Enforcement, and Regulation and the Commission for Certification in Geriatric Pharmacy. A few board members told us that representation from other certification efforts helps to avoid duplication and complements the efforts of other groups. For instance, one board member who also oversees the Department of Labor's "Use Your Military Experience and Training" (UMET) Web site on certification and licensing information stated that there is no overlap of effort. In fact, he said that the PCAB is utilizing UMET as a resource to obtain information on certification issues. Another board member, who also chairs VA's Professional Certification and Licensing Advisory Committee (PCLAC), agreed that the groups did not duplicate each other's efforts and explained that VA offers financial assistance to service members to cover the cost of certification, up to \$2,000. PCLAC advises VA on the certification requirements that entities must meet in order to qualify for payment.

A Veterans Corporation board member with whom we spoke identified some concerns about communication between the PCAB and The Veterans Corporation board of directors. For instance, the official commented that there has been limited interaction between the PCAB and The Veterans Corporation board of directors. Others, including an official at The Veterans Corporation and a veterans group with whom we spoke, question

whether The Veterans Corporation was the appropriate organization to carry out the PCAB's mission. They stated that the PCAB might distract The Veterans Corporation's management and board of directors from their principal activities. An official at The Veterans Corporation explained that producing uniform standards and guidelines for certification was a large and complicated task and inconsistent with the overall goals of The Veterans Corporation, which are to provide entrepreneurial services.

The Veterans Corporation's Use of and Controls over Federal Funds Received

In its first 2 years of operations, The Veterans Corporation received \$8 million in federal appropriations and spent about \$4.7 million of the federal funds primarily on start-up costs. In fiscal year 2001, The Veterans Corporation spent about \$985,000 for salaries, professional services, and other start-up costs.⁵ In fiscal year 2002, The Veterans Corporation spent approximately \$3.7 million in appropriations for that year on expenditures related to establishing its programs, as well as salaries, professional services, and other start-up costs. The Veterans Corporation has implemented various controls over its obligation and expenditure payment processes, including limits on the ability of management officials to make check disbursements without board of director approval. According to The Veterans Corporation's external auditor, The Veterans Corporation had internal control issues in fiscal year 2001. However, the external auditor determined that these deficiencies did not constitute material weaknesses and that all but one of the deficiencies had been corrected in fiscal year 2002.

Most of The Veterans Corporation's Expenditures to Date Have Been Start-up Costs

The Veteran Corporation's management officials stated that their approach was to spend conservatively on program and operating expenses in the start-up period so that unused federal appropriations could be spent in future periods. During fiscal year 2001, The Veterans Corporation's sole sources of funding were from federal appropriations and related interest earnings. Of the \$4 million in appropriations received during fiscal year 2001, it spent less than \$1 million on start-up costs such as salaries, professional services, and other administrative costs. In fiscal year 2002, The Veterans Corporation spent approximately \$3.7 million of its federal funds to establish its Veterans Marketplace—an on-line service for selling goods and services of veteran-owned businesses—as well as for other

⁵Professional services include accounting, auditing, legal, consultants, and writers.

program activities, salaries, professional services, and other start-up costs. Beginning in fiscal year 2002, The Veterans Corporation also began to receive other revenue, such as cash pledges, contributed services and in-kind contributions from nonfederal sources. As of September 30, 2002, The Veterans Corporation had approximately \$3.3 million in unexpended federal appropriations—approximately 40 percent of its \$8 million in total appropriations. The Veterans Corporation's federal appropriations are provided on a "no year" basis; therefore, unused appropriations can be carried forward and applied to expenses in future fiscal years.

Federal appropriations have been a major source of revenue to The Veterans Corporation since its inception. In fiscal year 2001, The Veterans Corporation's sole sources of funding were from federal appropriations and related interest earnings. Beginning in fiscal year 2002, The Veterans Corporation recognized cash contributions and pledges of approximately \$1.3 million and contributed services and in-kind contributions of approximately \$1.5 million as revenue from other sources. Contributed services included legal services, Web site design, and use of a proprietary Web site. As a result, the federal appropriations used in fiscal year 2002 made up approximately 57 percent of The Veterans Corporation's total revenues. Appendix IV provides more detail on The Veterans Corporation's revenue and expenses for fiscal years 2001 and 2002.

As shown in table 1, the Corporation incurred various start-up costs for its programs in 2001 and 2002. The Veterans Corporation's expenses increased significantly in 2002 primarily due to it hiring permanent employees and the fees related to establishing The Veterans Marketplace. Since its inception, The Veterans Corporation has spent about \$4.7 million of the \$8 million total received to date in federal appropriations. In fiscal year 2001, The Veterans Corporation spent approximately \$985,000 for salaries, professional services, and other start-up costs. In fiscal year 2002, The Veterans Corporation used federal funds to pay for expenses related to an on-line service for selling goods and services of veteran-owned businesses, as well as its other program activities, salaries, professional services, and other start-up costs. For further analysis of salaries, bonus, and payments to staff for fiscal years 2001 and 2002, see appendix V.

Table 1: The Veterans Corporation's Schedule of Expenses for Fiscal Years Ending September 30, 2001, and 2002

Dollars in thousands

Expenses	2001	2002	Combined total
Salaries and benefits	\$101	\$1,275	\$1,376
Professional services	500	596	1,096
Travel and recruitment	122	94	216
Marketplace fees and E-commerce	N/A	1,187	1,187
Rent	77	136	213
Other	185	467	652
Total expenses using federal appropriations	\$985	\$3,754	\$4,740
Nonfederal expenses:			
Donated Services ^a	N/A	1,417	1,417
Other	N/A	44	44
Total expenses	\$985	\$5,216	\$6,201

Source: The Veterans Corporation.

Notes: Numbers may not sum to total because of rounding.

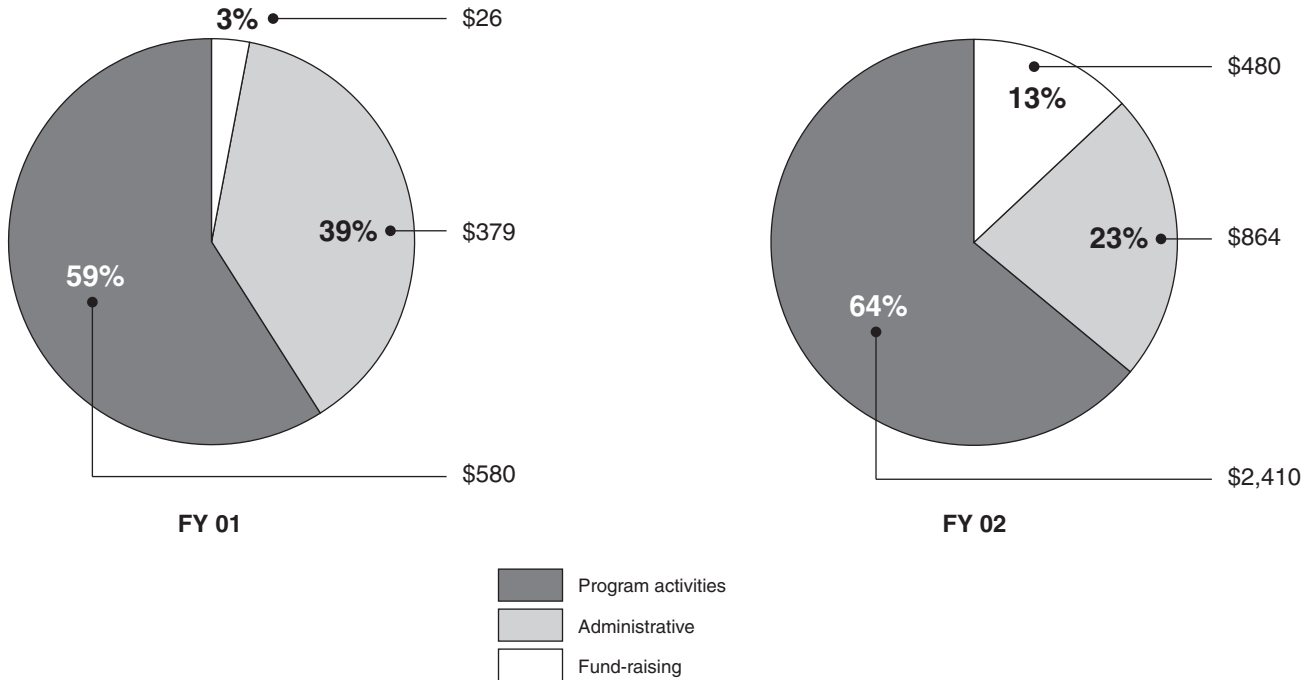
Information derived from audited financial statements.

N/A means not applicable.

^aUnder the American Institute of Certified Public Accountants' Audit and Accounting Guide, Not-for-Profit Organizations, donated services are a form of in-kind contribution and are recognized as revenues and expenses.

Figure 2 shows The Veterans Corporation's expenses for both fiscal years 2001 and 2002 by function (program, administrative, and fund-raising). Financial reporting under U.S. generally accepted accounting principles requires expenses by type and function.

Figure 2: The Veteran Corporation's Federally Funded Expenses by Function for Fiscal Years Ending September 30, 2001, and 2002 (dollars in thousands)



Source: GAO.

Notes: Analysis of The Veterans Corporation's audited financial statements. Percentages may not total to 100 because of rounding.

The majority of The Veterans Corporation's federally funded functional expenses pertain to program activities—59 percent for fiscal year 2001 and 64 percent for fiscal year 2002. Fund-raising costs were less than 20 percent for both fiscal years: 3 percent for fiscal year 2001 and 13 percent for fiscal year 2002. Administrative costs were 39 percent for fiscal year 2001, which primarily represented legal fees and recruitment costs, and were 23 percent for fiscal year 2002, which primarily represented salaries and board expenses. As The Veterans Corporation's operations expand, we expect that the amount of program activities relative to total expenses will grow and the ratio of administrative and fund-raising to total expenditures will decrease.

Board of Directors Vests Expense Approval Authority in Executive Staff

The board of directors is required to prescribe the manner in which the obligations of The Veterans Corporation may be incurred and how its expenses are allowed and paid. To fulfill this responsibility, the board approved a financial policy in December 2000, before it received its first appropriations; officials of The Veterans Corporation were unable to locate the text of the policy. However, minutes from the March 2001 board meeting show that the board established initial disbursement authority for executive-level staff in March 2001, the same month in which they were hired. The board authorized the acting CEO and the acting associate director to sign checks, drafts, or orders (1) in amounts no greater than \$50,000 without further action of the board; (2) in amounts greater than \$50,000 but less than \$100,000 with the additional signature of one member of the executive committee; and (3) in amounts greater than \$100,000 with the additional signature of one member of the executive committee and to notify all board members in writing of the disbursement, at least 7 days prior to issuance for checks, drafts, or orders.⁶

Minutes of an executive committee meeting in May 2001 show that the executive committee reduced the limit on expense authority from \$50,000 to \$10,000. All amounts in excess of \$10,000 would require the signature of one executive committee member and also require notification to the chair of the executive committee. In January 2002, the board again amended the expense authority based upon a proposal of the Chief Financial Officer (CFO). Since January 2002, the board has retained authority to approve expenditures in excess of \$25,000 and has delegated disbursement authority to executive-level staff. For example, the board authorizes the CEO to disburse up to \$25,000 per transaction; single transactions in excess of \$25,000 and contracts with a total value greater than \$25,000 require the approval of either the executive committee or the full board of directors. In addition, the board resolved that checks written in amounts of \$5,000 or less require one authorized signature; those in excess of \$5,000 require two authorized signatures. Both the CEO and the Managing Director of Operations are authorized to sign checks.

⁶The executive committee consists of four board members who generally may make decisions on behalf of the full board.

Early Financial Management Practices Showed Weaknesses, but Were Addressed by New Leadership

According to The Veterans Corporation's external auditor, The Veterans Corporation had internal control issues that could have adversely affected its ability to administer a major federal program in accordance with applicable laws, regulations, contracts, and grants.⁷ However, the external auditor determined that these conditions did not cause The Veterans Corporation to misrepresent its financial condition or operating results for fiscal year 2001. Specifically, the external auditor found in its fiscal year 2001 audit that The Veterans Corporation did not

- reconcile bank accounts on a timely basis and segregate cash duties;
- maintain adequate internal controls surrounding payroll processing;
- provide supporting documentation marked with an indication of review, approval, and payment for all cash disbursements;⁸ and
- maintain a filing system for accounting records.

⁷The financial audit of The Veterans Corporation was not designed to provide assurance on internal controls. However, in planning and performing the audit, the auditors considered The Veterans Corporation's internal controls sufficient to plan the audit to determine the nature, timing, and extent of its auditing procedures for the purpose of expressing an opinion on the Corporation's financial statements. The auditors also evaluated the effectiveness of controls relevant to preventing or detecting material noncompliance with requirements applicable to the Corporation resulting from its receipt of federal appropriations.

⁸The external auditor found that The Veterans Corporation initially lacked documentation to support \$212,800 in payments to consultants, but support was later located for \$115,000 of this amount. The auditor subsequently satisfied themselves as to the reasonableness of the remaining \$97,800 by conducting alternative procedures to justify the reported payments.

The external auditor classified these internal control matters as reportable conditions, and did not identify any instances of material weaknesses, which would indicate a potentially greater detrimental effect on an entity's internal controls.⁹ These reportable conditions were detailed in a letter to management.¹⁰ The partner of The Veterans Corporation's external auditor, who oversaw the audit, stated that such accounting deficiencies are not unusual for start-up small businesses. According to The Veterans Corporation's external auditor, the reported deficiencies have been addressed in fiscal year 2002, with one exception—reconciliation of bank accounts on a timely basis.

Financial Self-Sufficiency Plan in Place but Too Early to Determine the Likelihood of Success

To address the requirement to become a self-sustaining entity, The Veterans Corporation has developed a plan to become self-sufficient based on four major sources of revenue—an electronic marketplace, a credit card program, an insurance program, and fund-raising. According to an official at The Veterans Corporation, the revenue assumptions were developed based on discussions and input from their partners such as eScout, Advanta, and Aon Financial Institution Alliance. Revenue assumptions contained in the self-sufficiency plan cover fiscal years 2003 and 2004. At the time of our review, three of the four efforts—the electronic marketplace, credit card and insurance services—were just starting to produce revenue. According to the CFO, fund-raising goals are targeted toward supporting education and training efforts. In fiscal year 2002, The Veterans Corporation earned approximately \$2.8 million to satisfy federal matching requirements. Additionally, the plan calls for quarterly reviews to assess targeted projections. Officials said that if projections are not met, unsuccessful programs may be discontinued and alternative revenue sources will be developed.

⁹Reportable conditions are matters coming to the auditor's attention that, in his/her judgment, should be communicated to the board of directors because they represent significant deficiencies in the design or operation of internal controls, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

¹⁰The external auditor identified other internal control matters in the letter to management, such as the lack of a written procurement policy, but did not classify them as reportable conditions.

The Veterans Corporation Implements Self-Sufficiency Plan

The Act requires that The Veterans Corporation raise private funds and become a self-sustaining corporation. The Veterans Corporation has implemented a plan to achieve financial self-sufficiency by September 30, 2004, that is based on four major sources of revenue:

- *Veterans Marketplace.* According to the plan, The Veterans Marketplace is expected to generate the greatest share of revenue—approximately 43 percent—to The Veterans Corporation in fiscal year 2004, the final fiscal year of federal funding. The revenue sharing agreement between The Veterans Corporation and eScout, which operates the on-line marketplace, allows for The Veterans Corporation to collect 49 percent of revenues received from on-line purchases and other transactional services purchased by members of The Veterans Marketplace, as well as 20 percent of the fees paid by members who access products.
- *Veterans Platinum BusinessCard.* About 19 percent of fiscal year 2004 revenue will come from the credit card program for each new activated account as well as a share (0.2 percent) of eligible purchases made with the card.
- *Veterans Affinity Insurance Program.* Approximately 19 percent of revenue will come from sales of business insurance and other products to veteran-owned businesses. According to its agreement with Aon Financial Institution Alliance, The Veterans Corporation receives commissions or fees, which are structured differently for each insurance product.
- *Fund-raising.* The Veterans Corporation has implemented a multiyear, multimillion-dollar, fund-raising campaign primarily to support The Veterans Entrepreneurial Training program. The self-sufficiency plan includes only a part of their fund-raising goals (15 percent of funds raised that are retained for overhead costs) plus any interest income. In fiscal year 2004, this is expected to account for 19 percent of revenue.

Although The Veterans Corporation has other initiatives under way that are expected to generate revenue, such as The Veterans Capital Fund or micro loan program, they were not considered to be primary revenue sources for meeting self-sufficiency.

The CFO at The Veterans Corporation said that the revenue assumptions were based on input from partners that operate similar programs. For instance, revenue assumptions for The Veterans Marketplace were based on a discussion with eScout personnel on (1) building similar private exchanges and (2) customer and revenue projections. The process was similar for the credit card and insurance programs, and included discussions with Advanta and Aon Financial Institution Alliance, respectively. The official indicated that both Advanta and Aon were reluctant to offer revenue projections, but they provided enough information to enable The Veterans Corporation to project revenue. The self-sufficiency plan is based on revenue assumptions over fiscal years 2003 and 2004.

It is too early to determine if The Veterans Corporation will become financially self-sufficient by September 30, 2004. At the time of our review, three of its efforts were just beginning to produce revenue. For instance, The Veterans Marketplace, while operational since June 2002, was in the process of building a customer list. The other two efforts, the credit card and insurance services, were just launched in January 2003 and December 2002, respectively. Further, according to the plan, total revenue from these activities is not expected to exceed expenses until the fourth quarter of fiscal year 2004.

Because The Veterans Corporation's federal appropriations are provided on a "no year" basis, unused appropriations can be carried over into future fiscal years and, thus, are available to cover future years' expenses. An official at The Veterans Corporation stated that they expect to have a surplus of funds at the end of the fourth year of government support which, if necessary, would cover their operating costs in the following year.

Funds Raised Will Be Used to Support the VET Program

The Veterans Corporation has a fund-raising goal of \$2.5 million in fiscal year 2003 and \$3 million in fiscal year 2004 to support education and training efforts, primarily the VET program. In fiscal year 2002, The Veterans Corporation earned about \$2.8 million, exceeding its goal of \$2 million. To help raise funds, they contracted with Changing Our World, a fund-raising organization, and are establishing a fund-raising advisory board of approximately 12 to 15 individuals. A Veterans Corporation official explained that it initially planned to rely on fund-raising to support operations until other revenue sources were in place, but the corporation refocused in light of current economic conditions and limited success in raising funds for operations. The corporation's revised fund-raising strategy

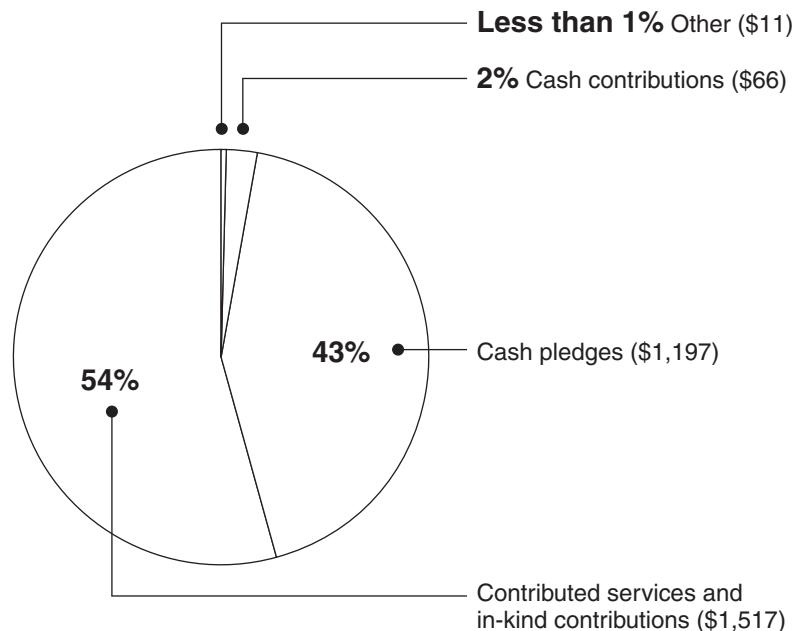
focuses on financing VET program costs. The official further explained that money raised would be used for direct program expenses and not for The Veterans Corporation administrative expenses. VET course administration and materials cost The Veterans Corporation about \$1,850 per student, of which enrollees pay \$350. As identified in its business plan, the VET corporate objective for fiscal year 2003 is to deliver the program to 500 participants.

The Veterans Corporation Is Developing Other Sources of Income

While The Veterans Corporation only had two sources of income for fiscal year 2001, which were federally appropriated funds and the interest earned on them, sources of income for fiscal year 2002 included federal appropriations and interest income plus cash donations, pledges for future cash donations, contributed services, in-kind donations, contract revenue from the federal government, and other sources. It is important to note however, that approximately \$1.2 million of The Veterans Corporation's fiscal year 2002 revenues were pledges for future payments to The Veterans Corporation.¹¹ Figure 3 shows The Veterans Corporation's income for fiscal year 2002, exclusive of federally appropriated funds and interest earned on those funds.

¹¹The Veterans Corporation recorded the pledges it expects to receive in future years as contributions receivable at their present value in accordance with U.S. generally accepted accounting principles for not-for-profit organizations.

Figure 3: Sources of Other Income from Fund-raising and Activities for Fiscal Year Ending September 30, 2002 (dollars in thousands)



Source: GAO.

Notes: Analysis of The Veterans Corporation's audited financial statements. Percentages may not total to 100 because of rounding.

Most of the other funds raised in fiscal year 2002 were in the form of contributed services, such as legal services and ability to provide the EntreWorld on-line library through The Veterans Corporation's Web site at no cost to The Veterans Corporation, as well as pledges for future payments of cash. Ten pledges were made, two of which are collectible over a period of 10 years. The Veterans Corporation raised approximately \$66,000 in cash, \$5,100 in contract revenue from the federal government, and \$5,900 in other funds in fiscal year 2002.

The Veterans Corporation Will Measure Progress Toward Self-Sufficiency in Fiscal Year 2003

The Veterans Corporation intends to evaluate the self-sufficiency plan on a quarterly basis to assess whether its strategies are sufficient to meet targeted projections. The CFO of The Veterans Corporation said that management would review the progress of the plan, including decisions to discontinue unsuccessful programs. In the event that projections are not

met for 2003, a Veterans Corporation official stated that they would then consider alternative revenue sources to allow them to meet their self-sufficiency goal. In addition, officials at The Veterans Corporation told us that they continuously look for potential business opportunities to complement their efforts and have had some early discussions on other possible ventures.

Agency Comments and Our Evaluation

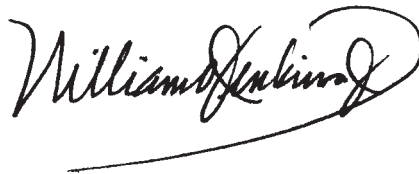
We received written comments on a draft of this report from The Veterans Corporation. We also obtained technical comments from SBA and VA that have been incorporated into this report where appropriate.

- The Veterans Corporation commented that their programs have broad measures, quantitative and/or qualitative, that are used to assess early program objectives. In addition, corporation representatives pointed out that they have not yet refined and tested measures to assess whether their programs ultimately have a positive effect on veterans who own or want to start their own businesses. We discussed this issue with The Veterans Corporation and obtained additional documentation supporting these broad measures and noted this in the report.
- Representatives of The Veterans Corporation expressed their concern with the inability to obtain information about transitioning service members and Veterans from federal agencies. In response to our draft report, VA concluded that they could disclose a list of names and addresses of veterans and their small businesses to the public, including The Veterans Corporation. Further, VA officials stated that arrangements are under way to make this information available on their Web site. However, it remains to be seen whether the information that will be available on VA's Web site will meet The Veterans Corporation's needs.
- The Veterans Corporation reiterated that the Professional Certification Advisory Board would be more appropriately led by an entity other than The Veterans Corporation and that it has not been provided adequate funding or appropriate authority to achieve the goal of creating uniform standards for professional certification. However, The Veterans Corporation stated their commitment to carrying out the Professional Certification Advisory Board's mission as mandated in the Act.
- In reference to The Veterans Corporation's reported accounting deficiency for fiscal year 2002, it submitted a copy of management's

response, which outlines the steps that it plans to take in response to this issue.

We will send copies of this report to interested congressional committees and the President and CEO of The Veterans Corporation. We will make copies available to others on request. In addition, this report will also be available at no charge on our homepage at <http://www.gao.gov>

If you or your staff have any questions on this report, please contact me at (202) 512-8678, jenkinswo@gao.gov or Harry Medina at (415) 904-2000, medinah@gao.gov. Key contributors are listed in appendix VII.

A handwritten signature in black ink that reads "William O. Jenkins, Jr." with a long horizontal flourish underneath.

William O. Jenkins, Jr.
Director, Financial Markets
and Community Investment

List of Committees

The Honorable Olympia Snowe
Chairwoman
The Honorable John Kerry
Ranking Minority Member
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Donald Manzullo
Chairman
The Honorable Nydia Velazquez
Ranking Minority Member
Committee on Small Business
House of Representatives

The Honorable Arlen Specter
Chairman
The Honorable Bob Graham
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate

The Honorable Christopher Smith
Chairman
The Honorable Lane Evans
Ranking Minority Member
Committee on Veterans' Affairs
House of Representatives

Scope and Methodology

To describe The Veterans Corporation's efforts in providing small business assistance to veterans, we collected and analyzed program information such as planning documents, contracts, legal opinions, and program literature. Additionally, we interviewed staff and board officials from The Veterans Corporation, as well as partnering organizations including officials from eScout, Changing Our World, Equisource, and Southern Financial Bank. We also interviewed officials from federal agencies, including the Small Business Administration, Department of Defense, Department of Veterans Affairs, and Department of Labor, and officials from a veteran service organization, the Vietnam Veterans of America, as well as a consultant—Halsey, Rains, and Associates.

To meet our objective to describe The Veterans Corporation's use of and controls over federal funds, we

- Obtained and analyzed The Veterans Corporation's fiscal year 2001 and 2002 financial statements and audit reports, and management letter for 2001. We did not evaluate the quality of the other auditor's work on the financial statement or conduct our own tests of the financial statement balances;
- Reviewed The Veterans Corporation's contract with the external auditor for the 2002 financial statement audit to understand the nature of the audit services to be provided and the extent of the auditor's proposed work on internal control;
- Obtained and reviewed minutes of meetings of the board of directors and the board's executive committee to determine the board's policies as they related to the disbursement and use of federal funds;
- Communicated with The Veterans Corporation's external auditor to, among other things, determine the extent of financial management deficiencies in The Veterans Corporation; and
- Interviewed the Chief Financial Officer (CFO) of The Veterans Corporation.

To determine what efforts The Veterans Corporation made to become financially self-sufficient, we reviewed their self-sufficiency plan and discussed it with The Veterans Corporation's CFO. We did not independently assess the financial assumptions presented in the plan.

Timeline of The Veterans Corporation's Key Efforts and Activities

Effective date	Efforts and activities
October 1998	Report of the Small Business Administration Veterans Affairs Task Force for Entrepreneurship, "Leading the Way: What Veterans Need From the SBA," presented to Congress
August 1999	Veterans Entrepreneurship and Small Business Development Act (Public Law 106-50) enacted
October 1999	National Veterans Business Development Corporation is incorporated in the District of Columbia
August - December 2000	President appoints eight board members First Board of Directors meeting in September 2000
March 2001	The Veterans Corporation receives initial federal funding (\$4 million)
October 2001	The Veterans Corporation receives second installment of federal funding (\$4 million) Charles R. Henry hired as CEO and president First meeting of the Professional Certification Advisory Board (PCAB)
November 2001	The President appoints ninth and final board member
December 2001	Kauffman Foundation grants The Veterans Corporation permission to use EntreWorld
January 2002	Agreement reached with eScout to develop the Veterans Marketplace Agreement reached with Equisource to create the Veterans Capital Fund
February 2002	Micro loan program initiated with Southern Financial Bank, Virginia
April 2002	www.veteranscorp.org Web site operational Brigadier General Robert Cocroft (United States Army Retired) appointed chairman of the PCAB
May 2002	Agreement signed with eScout to license the Veterans Marketplace Legacy Bank, Pennsylvania, enters micro loan program
July 2002	Changing Our World engaged to lead fund-raising effort First Tennessee Bank, Tennessee, enters micro loan program
August 2002	Public service announcements launched with Time-Warner Cable Television
September 2002	PCAB committees formed Memorandum of Understanding signed with National Defense Industrial Association (NDIA) to conduct joint meetings nationwide to emphasize business opportunities for veterans and NDIA Agreement reached with Advanta Bank to develop The Veterans Corporation Platinum BusinessCard Agreement reached with First American Engineering to sponsor Veteran Business Success Seminars Agreement reached with Defense Logistics Agency to enhance business assistance to veterans and service-disabled veterans
October 2002	Contract signed with Gateway Computer for computers and computer training for Veteran Entrepreneurial Training (VET) graduates Agreement reached with Aon Financial Institution for insurance/benefits program Agreement reached with Lee Wayne Inc., to promote independent business opportunities for veterans

Appendix II
Timeline of The Veterans Corporation's Key
Efforts and Activities

(Continued From Previous Page)

Effective date	Efforts and activities
	First Veteran Business Success Seminar, Idaho
	15 Facilitators trained to teach VET program
	Site agreement reached with George Mason University, Virginia, and Riverside Community District College, California for VET Program
	First 3 VET programs launched in Maine, California, and Virginia

Source: GAO.

Note: Analysis of The Veterans Corporation data.

The Veterans Corporation's Initiatives in Response to Statutory Requirements

Statutory requirement	Initiative
PROGRAMMATIC	
Expand provision of and improve access to technical assistance regarding entrepreneurship for veterans.	<ul style="list-style-type: none"> • www.veteranscorp.org • EntreWorld on-line small business resource library • Veterans Entrepreneurial Training program • Veterans Business Success seminars
Assist veterans, including service-disabled veterans, with the formation and expansion of small businesses.	<ul style="list-style-type: none"> • Micro loan program • Veterans Entrepreneurial Training program • Veterans Marketplace • Veterans Capital Fund • Veterans Corporation Platinum BusinessCard • Insurance/benefits program • America's Business Network • Develop business opportunities for veterans through alliances: Lee Wayne, Inc., Defense Logistics Agency, National Defense Industrial Association, First American Engineering
Organize public and private resources, including those of federal agencies.	<ul style="list-style-type: none"> • Meetings with federal agencies: DOL, DOD, SBA, VA • Veterans Capital Fund • Micro loan program
Establish and maintain a network of information and assistance centers for use by veterans and the public.	<ul style="list-style-type: none"> • www.veteranscorp.org
Establish Professional Certification Advisory Board.	<ul style="list-style-type: none"> • 26-member board • Three committees
Assume duties, responsibility, and authority of the Advisory Committee on Veterans Affairs on October 1, 2004.	<ul style="list-style-type: none"> • Business plan
ORGANIZATION DEVELOPMENT	
Institute and implement a fund-raising and self-sufficiency plan.	<ul style="list-style-type: none"> • Business plan • Self-sufficiency plan • Revenue-producing ventures: Veterans Marketplace, Veterans Corporation Platinum BusinessCard, Insurance/benefits, Veterans Capital Fund, Micro loan program
Raise matching funds to fulfill conditions for receipt of federal funds.	<ul style="list-style-type: none"> • Changing Our World • Fund-raising advisory board
Transmit an annual report to the President and to Congress.	<ul style="list-style-type: none"> • Annual reports
Board of Directors oversight of Corporation's obligations and expenses.	<ul style="list-style-type: none"> • Audit committee

Source: The Veterans Corporation.

Note: GAO analysis of 15 U.S.C. Sec. 657c and The Veterans Corporation data.

The Veterans Corporation's Revenue and Expenses for Fiscal Years 2001 and 2002

As noted in table 2, The Veterans Corporation received federal appropriations of \$4 million in each of fiscal years 2001 and 2002 and used approximately \$1 million and \$3.7 million in fiscal years 2001 and 2002, respectively. At the end of fiscal years 2001 and 2002, The Veterans Corporation had approximately \$3 million and \$3.3 million, respectively, in unexpended appropriations.

Table 2: The Veterans Corporation's Schedule of Appropriations for Fiscal Years Ending September 30, 2001, and 2002

Dollars in thousands

	2001	2002
Federal appropriations received	\$4,000	\$4,000
Federal appropriations used	985	3,754
Subtotal: current year's unused appropriations	3,015	246
Unexpended appropriations, beginning balance	N/A	3,015
Unexpended appropriations, ending balance	\$3,015	\$3,261

Source: The Veterans Corporation.

Notes: Data from audited financial statements.

N/A means not applicable.

As shown in table 3, federal appropriations were the major source of revenue to The Veterans Corporation in fiscal years 2001 and 2002. Beginning in fiscal year 2002, The Veterans Corporation began to realize revenue from cash contributions and pledges, as well as contributed services and in-kind contributions.

Appendix IV
The Veterans Corporation's Revenue and
Expenses for Fiscal Years 2001 and 2002

Table 3: The Veterans Corporation's Schedule of Revenue for Fiscal Years Ending September 30, 2001, and 2002

Dollars in thousands

Revenue	2001		2002		Combined total	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Federal appropriations used	\$985	93	\$3,754	57	\$4,739	62
Cash contributions and pledges	N/A	N/A	1,263	19	1,263	16
Contributed services and in-kind contributions	N/A	N/A	1,517	23	1,517	20
Interest income	71	7	63	1	134	2
Other	N/A	N/A	11	N/A	11	N/A
Total revenue	\$1,055	100	\$6,609	100	\$7,664	100

Source: The Veterans Corporation.

Notes: Data from audited financial statements.

Numbers may not sum to total because of rounding.

N/A means not applicable.

The Veterans Corporation reported approximately \$1.3 million in cash contributions and pledges in 2002 as revenue. The majority of the revenue, \$1.2 million, pertained to unconditional pledges that The Veterans Corporation recognized as temporarily restricted revenue when the corporation was notified of the pledges. The Veterans Corporation recorded the pledges it expects to receive in future years as contributions receivable at their present value in accordance with U.S. generally accepted accounting principles for not-for-profit organizations. See table 4 for a schedule of The Veterans Corporation's contributions receivable as of September 30, 2002.

Appendix IV
The Veterans Corporation's Revenue and
Expenses for Fiscal Years 2001 and 2002

Table 4: The Veterans Corporation's Schedule of Contributions Receivable as of September 30, 2002

Dollars in thousands

Contributions receivable to be received in	Dollars	Percent
Less than 1 year	\$262	22
One to 5 years	784	66
Greater than 5 years	303	25
Subtotal	\$1,349	113
Less: present value discount	152	13
Contributions receivable	\$1,197	100

Source: The Veterans Corporation.

Note: Data from audited financial statements.

Table 5 presents The Veterans Corporation's federally funded expenses by functional area for fiscal years 2001 and 2002. Expenses related to program activities represent the majority of the Corporation's expenses and we expect them to grow, as the percentage of fund-raising and administrative expenses would decrease over time relative to total expenditures.

Table 5: The Veterans Corporation's Federally Funded Expenses by Function for Fiscal Years Ending September 30, 2001, and 2002.

Dollars in thousands

Functional areas	2001		2002	
	Dollars	Percent	Dollars	Percent
Program activities	\$580	59	\$2,410	64
Fund-raising	25	3	480	13
Administrative	379	39	864	23
Total expenses	\$985	100	\$3,754	100

Source: The Veterans Corporation.

Notes: Data from audited financial statements.

Numbers may not sum to total because of rounding.

The Veterans Corporation's Salary, Bonus, and Payments to Staff for Fiscal Years 2001 and 2002

Table 6 shows The Veterans Corporation's aggregate compensation amounts for executive management and all other staff for fiscal years 2001 and 2002.¹ Six employees comprised executive management and all other staff consisted of 13 employees, however not all staff were employed concurrently. For fiscal year 2001, the data are disaggregated by salary and payments to contract workers for the provision of services. Prior to August 2001, the board of The Veterans Corporation did not hire permanent employees. Instead, they executed contracts with individuals to provide services. These payments are represented as payments to contract workers, as shown in table 6 below. For fiscal year 2002, the salary data is disaggregated by wage and bonus payments.

Table 6: The Veterans Corporation's Aggregate Compensation for Executive Management and All Other Staff for Fiscal Years Ending September 30, 2001, and 2002

Dollars in thousand

Employee classification	FY 2001			FY 2002		
	Payments to contract workers (March – July)	Salary ^a (August – September)	Total	Wage	Bonus	Total salary ^a
Executive management	\$131,000	\$55,793	\$186,793	\$557,000	\$137,500	\$694,500
All other staff	97,800	37,845	135,645	430,290	12,500	442,790
Total	\$228,800	\$93,638	\$322,438	\$987,290	\$150,000	\$1,137,290

Source: GAO analysis of The Veterans Corporation data.

^aSalary does not include benefits.

¹The Veterans Corporation's payments to consultants were \$403,291 in fiscal year 2001 and \$845,530 in fiscal year 2002.

Comments from The Veterans Corporation



**The
Veterans Corporation**

Charles R. Henry
President and CEO

April 11, 2003

Mr. William O. Jenkins, Jr.
Director, Financial Institutions and Community Investment
United States General Accounting Office
Washington, DC 20548

Re: GAO-03-434, The National Veterans Business Development Corporation's Progress

Dear Mr. Jenkins:

Thank you for providing a draft of the referenced report for our review. We have a few comments that we would like to make for the record. First, we commend and thank your audit team for the way this review was conducted. Your team was knowledgeable, courteous, and professional in their dealings with The Veterans Corporation Board and staff.

On page 6 of the Draft, and again later in the report, you state "The Veterans Corporation does not have evaluative performance measures in place to monitor the effectiveness of its programs, but is planning to put measures in place as programs mature". We believe this statement needs further clarification. Our current programs have broad measures, quantitative and/or qualitative, that management uses to evaluate whether we are meeting our near term objectives. We do not yet have refined and tested measures to assess whether, and to what extent, our programs ultimately have a positive effect on Veterans who own or want to start their own businesses. At this early stage of our development, we have insufficient history to support that our metrics accurately gauge performance objectives. We will continue to develop performance metrics that assess our overall effectiveness so that in time they will accomplish this end.

On page 12 you present DOD's and VA's responses to our requests for information about transitioning service members and Veterans. We are greatly concerned about the commitment of elements of the Federal Government to fulfilling their roles under PL 106-50 as it relates to the Corporation. It appears that some within the Government are interpreting privacy and other laws from the perspective of what they do not permit them to do, rather than looking for ways to cooperate with us to assist Veterans and future Veterans.

THE NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION
1800 Diagonal Road • Suite 230 • Alexandria, Virginia 22314
(703) 299-4390 voice • (703) 299-4394 fax

For example, even if privacy laws unequivocally prohibit the sharing of this information, there is nothing that would prohibit Government agencies from contacting Veterans and transitioning service members in their databases to inform them about the Corporation's programs and requesting permission to pass along their information to us. To date, we have not found Government elements willing to work with us to develop alternatives. We believe that stronger leadership and a sincere commitment in both Departments is necessary to provide access to this data if the full promise of PL 106-50 is to be attained.

On page 15 you accurately relate our conversations about the potential for a board structure similar to that of Fannie Mae and other Government-Sponsored Enterprises (GSE's). This notion was presented during our discussion on whether there were any rules or guidelines to govern how the Corporation would transition from an entity that was largely reliant on Government funds to a private, commercial enterprise. There are currently no such rules or guidelines. If Congress decides to draft transition rules, consideration should be given to a shift in the governance structure that better reflects the emerging commercial status of the Corporation.

On page 19 you accurately relate conversations with various Veterans Corporation and Veteran Service Organization officials about the Professional Certification Advisory Board (PCAB). We stand by our statements that the PCAB effort would more appropriately be led by an entity other than The Veterans Corporation, and that the Corporation has not been provided either adequate funding or appropriate authority to achieve the desired goal of creating uniform standards for professional certification. At the same time, we want to clearly state that as long as PCAB is part of our Congressionally mandated responsibility, we will make every effort to accomplish the PCAB's mission as described in PL 106-50.

On page 26 of the Draft, you referred to a reported deficiency related to bank account reconciliations that is contained in our independent CPA's management letter accompanying our fiscal 2002 audit report. A copy of Management's response to that issue is attached to this letter.

Again, we thank your team for their fine efforts in presenting our progress to date and I hope the discussion above helps clarify our position with respect to their observations.

Respectfully,



Charles R. Henry
Major General, USA (Ret)
President and CEO



The National Veterans Business Development Corporation

**ADDENDUM TO FILING WITH FEDERAL AUDIT CLEARINGHOUSE
For the Fiscal Year Ended September 30, 2002**

Management's Response – Finding 2002-01

Management agrees with the Auditors Recommendation. As you recognize in "Cause", the small staff size, particularly in the accounting function, makes an ideal separation of responsibilities very difficult to achieve. With the hiring of a full time controller, all bank reconciliations will now be completed on a timely basis, within fourteen days of the receipt of the monthly bank statements. The CFO will review, approve and sign the completed reconciliation within 48 hours of its completion. Once a quarter, the CFO will independently make a test reconciliation to help insure the adequacy of the controls.



GAO Contacts and Staff Acknowledgments

GAO Contacts

William O. Jenkins, Jr. (202) 512-8678
Harry Medina (415) 904-2000

Acknowledgments

In addition to the persons named above, Janet Fong, Jeanette M. Franzel, Marc W. Molino, Charles E. Norfleet, Julie T. Phillips, Barbara M. Roesmann, Kathryn M. Supinski, and Paul G. Thompson made key contributions to this report.

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