

123384

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, DC 20548

FOR RELEASE ON DELIVERY
EXPECTED ON
WEDNESDAY, FEBRUARY 1, 1984

STATEMENT OF
DENNIS J. DUQUETTE
ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION
BEFORE THE
HOUSE SUBCOMMITTEE ON ADMINISTRATIVE
LAW AND GOVERNMENTAL RELATIONS
COMMITTEE ON THE JUDICIARY

ON

COMMENTS ON H.R. 3115

Mr. Chairman and members of the Subcommittee:

We are pleased to appear today to comment on H.R. 3115, a bill to relieve the U.S. General Accounting Office of duplicative audit requirements with respect to the Disabled American Veterans (DAV).

WHY REQUIREMENT WAS ESTABLISHED

The Disabled American Veterans was created by an act of Congress in 1932 as a privately funded, nonprofit corporation devoted to advancing the interests of wounded, injured, and disabled American veterans. DAV is a "federally chartered corporation" as opposed to a "government corporation." Therefore, it is a private enterprise and not an agency of the Federal Government. In accordance with Public Law 88-504 (36

U.S.C. 1103), federally chartered corporations are typically required to undergo only an annual audit by an independent public accountant and submit a report of the audit to the House Committee on the Judiciary. The committee then forwards these reports to GAO to determine if they meet the requirements of the law and the audit standards of the profession. However, in 1967, Public Law 90-208 (36 U.S.C. 90i(b)) amended DAV's authorizing legislation and required GAO to annually audit DAV's accounts. The legislative history of this amendment reveals that the Congress enacted this provision not simply to have GAO audit DAV, but more to relieve DAV, by means of a Federal audit, from the burden of having to comply with divergent state and municipal statutes and regulations applicable to DAV's nationwide fund raising.

GAO'S POSITION

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

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

to private organizations even at their own request, which we understand is the situation here involved."

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

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

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

DAV'S POSITION ON GAO AUDIT

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

In a July 1977 letter sent to Representative Peter W. Rodino, Jr., chairman of the House Judiciary Committee, William B. Gardiner, DAV's National Director of Legislation, stated that

enactment of Public Law 90-208 had materially assisted in making the fund raising reporting procedures uniform, both at the State and municipal levels. Because of this benefit, he requested that the act chartering the Disabled American Veterans remain unchanged and that the annual audit of DAV's accounts by the Comptroller General be continued. However, Mr. Gardiner noted that DAV would not oppose elimination of annual GAO audits if their continuation would result in governmental intrusion in the internal affairs of the organization. DAV's position on the annual GAO audit was reversed in a second letter Mr. Gardiner sent to the chairman of the House Judiciary Committee in July 1977. The second letter said that DAV felt the expense of the duplicate audit performed by GAO outweighed its usefulness and that DAV supported the Comptroller General's recommendation that the requirement for an annual audit of DAV's accounts be deleted from DAV's authorizing legislation.

In response to our June 1981 draft report on a review of DAV's 1980 financial statements (appendix III of GAO report AFMD-82-8, dated October 15, 1981, provided for the record) in which we presented our recommendation on this matter, DAV stated that it still believed such audits were duplicative and that their expense outweighed their usefulness. DAV then favored deleting the requirement for annual audits of its accounts by GAO.

CONCLUSION

The provisions of H.R. 3115 are consistent with our recommendation that DAV's authorizing legislation (36 U.S.C. 90i(b)) be amended to eliminate the requirement for an annual audit of DAV's financial statements by GAO. We believe this duplicative effort provides little additional benefit to DAV and other users of the audit report. It also consumes GAO resources which we believe could be more effectively used elsewhere.

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

Finally, the provisions, if adopted, would not impose any regulatory burden on GAO.

In summary, the proposed provisions are consistent with GAO's 1981 recommendation and our present position. We therefore support enactment of H.R. 3115.

Mr. Chairman, that concludes my statement. We would be happy to answer any questions you or the Subcommittee members might have.