United States Government Accountability Office

GAO

Report to Congressional Requesters

August 2004

SMALL BUSINESS

The National Veterans Business Development Corporation Faces Challenges in Planning for and Achieving Financial Self-sufficiency

GAO-04-893

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Highlights

Highlights of GAO-04-893, a report to congressional requesters

August 2004

SMALL BUSINESS

The National Veterans Business Development Corporation Faces Challenges in Planning for and Achieving Financial Self-sufficiency

Why GAO Did This Study

The National Veterans Business Development Corporation (The Veterans Corporation) was created under Pub. L. No. 106-50 to provide veterans with small business and entrepreneurship assistance. The Act authorized, and Congress has appropriated to the corporation, $12 million in funding over 4 years, ending September 30, 2004. The Act also required that The Veterans Corporation implement a plan to raise private funds and become a self-sustaining corporation. GAO evaluated the corporation's: (1) efforts in providing small business assistance to veterans; (2) internal controls, including strategic planning; and (3) progress in becoming financially self-sufficient.

What GAO Recommends

To help improve its management and external oversight, GAO recommends that the Chairman of the Board of Directors for The Veterans Corporation and its staff: (1) develop measurable, outcome-oriented goals and objectives that take into account the increasing availability of outcome data over time and (2) include in its annual report to Congress information and data relating to its progress in achieving financial self-sufficiency and the key assumptions underlying its self-sufficiency revenue projections. GAO obtained comments on a draft of this report from the corporation, which did not object to the recommendations, but provided further explanation on some of the issues.

www.gao.gov/cgi-bin/getrpt?GAO-04-893.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

Since GAO's April 2003 report (GAO-03-434), The Veterans Corporation has continued to expand programs and refocus services in its efforts to provide small business assistance to veterans while achieving financial self-sufficiency. The centerpiece of The Veterans Corporation's efforts remains its Veterans Entrepreneurial Training program, which offers classroom instruction to veterans on how to successfully start and expand their own businesses. It also has expanded or added several services primarily in the areas of finance, accounting, and contracting. However, The Veterans Corporation reported that it continues to face ongoing challenges to fulfilling its mission. These problems stem from its responsibility for the Professional Certification Advisory Board, difficulties in identifying the veteran-owned business population, and conflicting views about its legal status as a private versus public entity.

Additionally, The Veterans Corporation lacked important internal or operational controls. Specifically, its strategic plan and annual report to Congress lacked measurable goals and outcome-oriented measures. Without outcome-oriented measures, such as the number of new veteran-owned businesses or the amount of revenue generated for veteran-owned businesses, it was difficult to determine what the impact of the programs on veterans has been. In the same vein, without meaningful performance measures, The Veterans Corporation has been unable to provide Congress with significant data on its progress or the outcomes of its efforts.

Finally, The Veterans Corporation faces a number of challenges in achieving self-sufficiency. Dramatically lower-than-expected revenues have resulted in the corporation revising its currently estimated date for achieving self-sufficiency from fiscal year 2004 to fiscal year 2009. Its self-sufficiency strategy is heavily dependent on its ability to develop a database of veteran-owned businesses and successfully marketing its services to these businesses. However, the plan did not discuss how The Veterans Corporation will identify this population or contain meaningful information on key assumptions underlying revenue projections. As such, it would be difficult for Congress and other stakeholders to judge the feasibility or reasonability of the corporation's estimates and projections.

Contents

Figures

Abbreviations

CBO	community-based organization
CCR	Central Contractor Registration
CEO	Chief Executive Officer
CVE	Center for Veterans Enterprise
DOD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
OLC	Office of Legal Counsel
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OVBD	Office of Veterans Business Development
PCAB	Professional Certification Advisory Board
PRO-Net	Procurement Marketing and Access Network
SBA	Small Business Administration
SSA	Social Security Administration
VA	Department of Veterans Affairs
VET	Veterans Entrepreneurial Training

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United States Government Accountability Office
Washington, D.C. 20548

August 30, 2004

Congressional Requesters

Each year approximately 200,000 military service personnel transition to civilian life. Some of these veterans will choose to start or expand a small business. To help them, Congress enacted the Veterans Entrepreneurship and Small Business Development Act of 1999 (Act), which created the National Veterans Business Development Corporation (The Veterans Corporation)—a federally chartered corporation—to provide veterans with small business and entrepreneurship assistance.[1] The Act, as amended, requires that The Veterans Corporation use public and private resources to assist veterans, including service-disabled veterans, with the formation and expansion of small businesses. It authorized $12 million in federal funds for fiscal years 2001–2004 and required that The Veterans Corporation implement a plan to raise private funds and become financially self-sufficient.

Because The Veterans Corporation is in the last year of federal funding authorized by the Act, you asked us to provide an update to our April 2003 report on The Veterans Corporation.[2] After consultation with your staff of the House and Senate Committees on Small Business and Veterans' Affairs, we confirmed that this report would evaluate The Veterans Corporation's (1) efforts in providing small business assistance to veterans; (2) internal controls, including strategic planning; (3) use of federal funds; and (4) progress in becoming financially self-sufficient.[3]

[1]Pub. L. No. 106-50, 1999, as amended, 15 U.S.C. § 657c (2000 & Supp. 2004).

[2]GAO, *Small Business: The National Veterans Business Development Corporation's Progress in Providing Small Business Assistance to Veterans*, GAO-03-434 (Washington, D.C.: Apr. 30, 2003).

[3]Internal controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting errors and minimizing the risk of fraud. In short, internal controls, which are synonymous with management controls, help program managers achieve desired results and thus support performance-based management. There are three categories of internal controls: financial reporting controls relate to an entity's ability to prepare financial statements and other reports for internal and external use; operational controls address the entity's basic business objectives, including performance goals and safeguarding of resources; and compliance controls deal with the entity complying with laws and regulations to which the entity is subject.

To address these objectives, we obtained and reviewed program information and corporate documents provided by The Veterans Corporation, including its income projections, expense data, and fiscal year 2003 audited financial statements. We also interviewed officials from the staff and board of The Veterans Corporation, as well as officials from federal agencies, partnering organizations, veteran service organizations, and The Veterans Corporation's external auditors. Please see appendix I for a more complete description of our scope and methodology.

We conducted our work in Washington, D.C.; San Francisco, California; and Alexandria, Virginia; from December 2003 through July 2004 in accordance with generally accepted government auditing standards.

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. For example, The Veterans Corporation is to (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 Professional Certification Advisory Board (PCAB) to create uniform guidelines and standards for the professional certification of members of the armed services;[4] and (5) assume the duties,

[4]Licensing and certification are the two primary types of credentialing for individuals seeking civilian positions that are equivalent to enlisted or officer military occupations. For example, occupations within the military that require private-sector certification or licensing include 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.

responsibilities, and authority of the Advisory Committee on Veterans Business Affairs, a body created by the Act, by October 1, 2004.[5]

The Veterans Corporation is a nonprofit corporation chartered in the District of Columbia and according to its enabling legislation has authority to solicit, receive, and disburse funds from private, federal, state, and local organizations. To fund The Veterans Corporation, Congress authorized $12 million in federal appropriations over 4 fiscal years—$4 million in each of the first 2 years 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 Act also contains a matching funds provision, applicable to fiscal years 2002 through 2004, that limits the availability of appropriated funds to amounts The Veterans Corporation certifies it will provide from sources other than the federal government.[6] For fiscal year 2002, the amount of appropriated funds made available to The Veterans Corporation was limited to not more than twice the amount the corporation certified it would provide for that fiscal year from sources other than the federal government. In effect, The Veterans Corporation received $2 in federal appropriations for every $1 it raised from nonfederal sources. For the remaining 2 fiscal years, the matching requirement was on a dollar-for-dollar basis.

Results in Brief

Since our last report, The Veterans Corporation has continued to add, refocus, and expand its programs and services to meet its mission of providing small business assistance to veterans while achieving self-sufficiency. The centerpiece of The Veterans Corporation's efforts has remained its Veterans Entrepreneurial Training (VET) program, which offers classroom instruction to veterans on how to successfully start and

[5]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 Small Business Administration (SBA), the Associate Administrator for Veterans Business Development of the SBA, Congress, the President, and other policymakers. It has 15 members, who are veteran small business owners or representatives of veterans' organizations and appointed by the Administrator of the SBA to serve initial appointments of 3, 4, or 5 years.

[6]15 U.S.C. §657c(k) (2).

grow their own businesses. Additionally, The Veterans Corporation generally offered services to veterans that complemented rather than duplicated federal programs at agencies such as the Department of Veterans Affairs (VA) and Small Business Administration (SBA). The Veterans Corporation's programs were either targeted specifically to veterans or not offered elsewhere. For example, although SBA provides loan guarantees for small business owners including veterans, veterans generally do not receive discounts from lenders when qualifying for financing. In contrast, The Veterans Corporation works with a private lender to provide veterans with a discount on the lender's normal loan rates and assists veterans with obtaining SBA loan guarantees. According to a Veterans Corporation official, collaboration with federal agencies that serve veterans has improved as evidenced by the mutually beneficial ventures it has undertaken with these agencies. However, we did identify one program offered by The Veterans Corporation—its Business Directory, an online database of veteran-owned businesses—that appeared to be duplicative with the Vendor Information Pages run by VA's Center for Veterans Enterprise (CVE). The Veterans Corporation continues to face challenges discussed in our last report that have hindered its progress in fulfilling mandates such as making the PCAB operational, identifying the veteran-owned business population, and addressing concerns regarding its legal status as a private versus public entity.

The Veterans Corporation financial statement audit identified no material internal control weaknesses, but we found that the organization lacked some important operational controls. The Veterans Corporation's external auditor and GAO identified some financial reporting control issues. For example, the auditor found that The Veterans Corporation did not consistently enforce its expense reimbursement policy, and we identified duplicate payments to a vendor totaling approximately $12,000. According to officials at The Veterans Corporation, they have taken corrective actions to address the financial reporting control deficiencies identified by both the external auditor and GAO. However, The Veterans Corporation lacked some important operational controls for its planning and report processes. In particular, The Veterans Corporation's strategic plan and annual report, which are the principal documents the organization uses for both planning and reporting on its programs, lacked measurable and outcome-oriented performance measures. As a result, it was difficult to determine if goals and objectives were achieved. Also, without outcome-oriented measures such as the amount of revenue generated for veteran-owned businesses, it was difficult to determine what the impact of the programs on veterans has been. In the same vein, without meaningful performance measures, The

Veterans Corporation has been unable to provide Congress, through its annual report, with significant data on its progress or the outcomes of its efforts.

During fiscal year 2003, The Veterans Corporation used its federal funds primarily on salaries and professional services. More specifically, of the $3.3 million of federal appropriations used in fiscal year 2003, the organization spent $1.9 million (about 58 percent) on salaries and professional services, which included payments for activities such as fund-raising, public relations, and legal services. Executive-level salaries were lower in fiscal year 2003 than in the prior year and were projected to decline further in fiscal year 2004. In fiscal year 2003, The Veterans Corporation spent about $652,000 for professional services, of which about $208,000 went to a fund-raising consultant. The Veterans Corporation spent its remaining federal appropriations primarily on programs for veterans such as the VET and the Veterans Marketplace, an online service that allows veteran-owned businesses to sell goods and services over the Internet. Specifically, fiscal year 2003 expenses for the VET program totaled about $551,000. Although the fees that enrolled veterans paid for taking VET courses covered a portion of the program costs, The Veterans Corporation absorbed the bulk of the expenses including about $217,000 related to vouchers for the purchase of a computer or other business tools provided to each veteran that completed a VET course. Finally, during fiscal year 2003, revenue from nonfederal sources declined and federal appropriations accounted for about 78 percent of The Veterans Corporation's total revenues in fiscal year 2003.

The Veterans Corporation continues to face significant challenges in its efforts to become financially self-sufficient—the point at which its program revenues exceed expenditures. Its self-sufficiency plan was based on three major sources of revenue: (1) the Veterans Marketplace, an online purchase program for goods and services offered by veteran-owned businesses; (2) affinity programs including credit cards, loans, and insurance targeted to veteran-owned small businesses;[7] and (3) other cash sources such as fund-raising. However, the organization's self-sufficiency plan was not comprehensive in that it did not contain meaningful information on key assumptions underlying the revenue projections from these sources. As a result of lower-than-projected program revenues, The Veterans

[7]These are programs that provide business services to veteran-owned businesses and from which The Veterans Corporation receives a commission based on sales volume.

Corporation has revised its estimated date for achieving financial self-sufficiency from fiscal year 2004 to fiscal year 2009. The revised goal was based on receiving an additional $2 million in federal appropriations in fiscal year 2005 to help maintain its current programs and activities. Moreover, The Veterans Corporation's strategy for achieving self-sufficiency is heavily dependent on its ability to develop a comprehensive database of veteran-owned businesses and market its services successfully to these businesses. However, the organization faces several challenges in developing such a database and successfully marketing its services. In our previous report, we noted that The Veterans Corporation had difficulty in identifying the veteran-owned business population through federal data sources. To address this challenge, The Veterans Corporation is working on a pilot effort with a direct marketing firm to identify veteran-owned businesses from private data sources. A Veterans Corporation official explained that the business model the organization adopted requires it to identify at least 250,000 veteran-owned businesses to which it could direct marketing efforts in order to generate sufficient revenues (commissions) to support its self-sufficiency plan. As of June 30, 2004, The Veterans Corporation had about 12,000 veteran-owned and potential veteran businesses in its database. The Veterans Corporation also has had difficulty in meeting its fund-raising goals, which may also affect its ability to finance its marketing efforts. The organization was able to meet the mandated dollar-for-dollar matching requirement in fiscal year 2003 by applying excess matching funds generated in the prior fiscal year to the $1 million generated in fiscal year 2003. However, it is questionable whether it will be able to meet its fiscal year 2004 matching requirement based on the approximately $296,000 it has been able to generate as of June 30, 2004.

We make three recommendations in this report. Two recommendations are to improve strategic planning and reporting and provide a comprehensive self-sufficiency plan. These recommendations are intended to facilitate The Veterans Corporation's management of its program efforts and congressional oversight. We also recommend a reduction in certain program expenses.

We obtained written comments on a draft of this report from the President and Chief Executive Officer of The Veterans Corporation. These comments are discussed near the end of this report, and The Veterans Corporation's letter is reprinted in appendix IV. While The Veterans Corporation had no objections to our recommendations, it offered information that it believed would explain, clarify, or correct points made in the draft report related to strategic planning and financial self-sufficiency. With respect to strategic planning, The Veterans Corporation stated that (1) it has not been in business long enough to determine the benefits of its programs and (2) the strategic goals set by the board should not be outcome-specific, as the goals provided a general framework for the corporation. In response to the first point, although many of its programs are still getting under way, we believe it is useful to identify and articulate specific metrics as an operational control to evaluate the benefits The Veterans Corporation provides to veterans. Second, we believe that outcome-oriented metrics are needed somewhere in the strategic plan, whether developed by the board or not. With respect to financial self-sufficiency, The Veterans Corporation stated that its strategy was sound and that sound execution of its plan would result in achieving its self-sufficiency goal. Our analysis focused on the current state of federal funding and The Veterans Corporation's self-sufficiency projections, and we concluded that there is a reasonable amount of uncertainty regarding The Veterans Corporation's attainment of self-sufficiency.

Veterans Corporation Has Continued to Add, Refocus, and Expand Programs and Services to Fulfill Its Mission

The Veterans Corporation has continued to add, refocus, and expand its programs and services to veterans to better respond to its entrepreneurial assistance and training mandates under the Act. The VET program has remained, however, at the center of the organization's business assistance and training efforts. Additionally, The Veterans Corporation's services generally complemented federal programs in that they were either targeted specifically to veterans or not offered elsewhere. Although in one instance, the efforts of The Veterans Corporation and VA to create separate veterans business directories appeared to be largely duplicative. According to an official at The Veterans Corporation, collaboration with federal agencies has improved as evidenced by the mutually beneficial ventures it has undertaken with these agencies. However, The Veterans Corporation faces several challenges, described in our previous report, that still impede its progress in fulfilling other mandates under the Act. They include lack of staff and funding for the PCAB and the question of whether the PCAB mission can be accommodated within The Veterans Corporation, identification of veteran-owned businesses, and how to address its legal status concerns.

The Veterans Corporation Has Continued to Add, Refocus, and Expand Programs, but VET Program Has Remained the Focus of Its Services

At the time of our last report, many of The Veterans Corporation entrepreneurial services, such as a microloan program, business insurance, and online buying and selling of veteran-owned goods and services, had started. Since then, The Veterans Corporation has expanded or added several services primarily in the areas of finance, accounting, and contracting-related opportunities:

- *Veterans Marketplace.* The Veterans Corporation has pilot efforts under way to allow veterans to sell goods and services online to a VA hospital and a school district. Also, since our last report, The Veterans Corporation has expanded this program to include a separate trading directory in which veteran-owned businesses can be listed as suppliers within a private business directory. The directory is managed by The Veterans Corporation's partnering organization, Perfect Commerce.

- *Veterans Small Business Finance Program.* The Veterans Corporation has partnered with Newtek Small Business Finance, Inc., a provider of loans and other financing options to small businesses throughout the United States.[8] Newtek provides loans (ranging from $50,000 to $2 million) at discounted rates from the lender's normal loan rates and assists in making SBA loan guarantees available to qualified veteran businesses nationwide.[9] Loan applications are completed electronically through The Veterans Corporation's Web site. As of June 30, 2004, The Veterans Corporation helped create 473 applications and 9 SBA-approved loans.

- *Accounting and Tax Services.* The Veterans Corporation is partnering with Newtek Business Services, Inc., to offer services such as bill payment, periodic financial statements and reports, and tax filing and planning services for veteran-owned small businesses at a discount.

- *Merchant Processing Services.* In partnership with Newtek Merchant Solutions, The Veterans Corporation is offering credit card and debit

[8]According to its Web site, Newtek Business Services, Inc., and its subsidiaries are providers of financial products and business services to small and medium-sized businesses. See http://www.newtekbusinessservices.com.

[9]According to The Veterans Corporation, the lender determines the loan rate for which the veteran business would normally qualify and then reduces that rate by 1/8 of a percentage point under this program.

card processing and check verification for veteran-owned small businesses.

- *Veterans Corporation Business Directory.* In May 2003, The Veterans Corporation created this directory with assistance from SBA to help veteran-owned businesses and businesses owned by Army Reserve and National Guard service members advertise their services. The directory contains information such as company profiles and is available on the Internet to anyone interested in working with veteran-owned businesses. The directory listed approximately 2,668 businesses as of June 30, 2004.

- *Veterans Pipeline.* In partnership with ePipeline, this subscription service targets veteran small business owners interested in federal or state contracting opportunities.[10] Veteran subscribers may access research on more than 7,000 contracting opportunities, including information on who received prior awards and subcontracts.

- *Veterans Purchase Net.* The Veterans Corporation put in place a bid-and-response system for buyers and sellers of products or services in partnership with Diversity Vendors, Inc.[11] The sellers receive nightly e-mails related to contracting opportunities; the sellers can then submit bids to compete for these contracts. This is a subscription service for veteran-owned small businesses.

While The Veterans Corporation has expanded and added programs, the VET program has continued to be the focal point of its efforts. As mentioned in our earlier report, the program is a partnership with the Ewing Marion Kauffman Foundation's FastTrac Program, a successful entrepreneurship-training program. The VET program incorporates classroom instruction, mentoring, networking, and technology training. Officials at The Veterans Corporation told us that the VET program was their most successful effort to date. Since our last report, The Veterans

[10]According to its Web site, ePipeline is an online source for research and business intelligence on federal contracting opportunities. It uses proprietary short and long-lead contracting research for business development professionals. See http://www.epipeline.com.

[11]According to its Web site, Diversity Vendors is a veteran-owned corporation that seeks to level the procurement playing field for minorities, women, veterans, disabled veterans, and disadvantaged communities. Diversity Vendors accomplishes this by enabling them to access opportunities through the Internet. See http://www.diversityvendors.com.

Corporation has expanded the number of class sites and locations for its three VET courses: (1) The New Venture, which focuses on starting a business; (2) The Planning Program, which focuses on expanding a business; and (3) Listening to Your Business, a seminar which focuses on assessing the health and market share of an existing business. In fiscal year 2003, The Veterans Corporation hosted 33 courses in eight states; 506 veterans participated in the program. Of the 506 participants, 458 graduated in fiscal year 2003, which included 77 veterans that graduated from VET courses held at local SBA-sponsored Small Business Development Centers. These centers provide one-stop management and technical assistance to individuals and small businesses at locations such as colleges and universities.

Additionally, some programs and services were still evolving to better address Veterans Corporation mandates. For example, the organization has refocused the Veterans Business Success Seminars, mentioned in our previous report, to use community-based organizations (CBO), to help veterans with training and services not currently available to veteran entrepreneurs. A Veterans Corporation official stated that this new strategy more consistently meets the mandate to establish and maintain a network of information and assistance centers that veterans and the public can use.

However, the refocused program, now called the National Veterans Community-Based Organization Initiative, was still in its early stages. An official at The Veterans Corporation stated that the purpose of the program is to direct veterans to existing local service providers that offer assistance to small businesses and identify and address gaps in service. For example, The Veterans Corporation initially funded two CBOs, the Veteran Advocacy Foundation in St. Louis, Missouri, and the American Veterans Coalition in San Francisco, California, to survey the extent of entrepreneurial services to veterans in their communities.[12] After completing its survey, the St. Louis CBO also received additional funding to implement its plan to enhance entrepreneurial opportunities for veterans. A third CBO, Robert Morris University in Pittsburgh, Pennsylvania, was also funded to survey the availability of local business services to veterans in its community.

According to officials at The Veterans Corporation, they were also developing another program intended to address their mandate to organize public and private resources to assist veterans with the formation and

[12]Under this program, CBOs are expected to raise matching funds from local sources.

expansion of small businesses. Officials first met to discuss the new program, the National Veterans Entrepreneurial Education Initiative, in April 2004. The intent of this effort is to leverage resources from the private and public sectors to coordinate and focus (at a national level) entrepreneurial education and educational assistance. The initial participants included, but were not limited to, VA, SBA, and Small Business Development Centers. The Veterans Corporation board chair explained that besides education, other elements of this initiative might include mentoring, counseling, and early-stage and advanced small business training. At the time of our review, The Veterans Corporation was developing a detailed concept paper on this initiative.

Figure 1 shows the status of key initiatives that The Veterans Corporation has undertaken. Additionally, appendix II lists activities that address statutory requirements under the Act (Pub. L. No. 106-50).

Figure 1: Status of The Veterans Corporation's Key Initiatives, as of June 2004

Initiative	Description	Status
www.veteranscorp.org	Web site of The Veterans Corporation.	Launched in April 2002. Members: 11,506.
Veterans Marketplace	E-commerce platform that facilitates purchases between veteran-owned and other businesses.	Launched in June 2002. Two pilots under way with VA and St. Louis, Missouri School District.
Veterans Entrepreneurial Training program	A business training program consisting of 30-45 hours of interactive training.	Launched in October 2002. Graduates since inception: 879.
Veterans Insurance program	Business insurance products.	Launched in December 2002. Health plans sold: 5.
Veterans Corporation Platinum BusinessCard	Credit card for business use.	Launched in January 2003. Cards issued: 203.
Veterans Corporation Business Directory	Online directory of veteran-owned businesses, highlighting mobilized members of the Reserve and Guard.	Launched in April 2003. Members: 2,668.
Veterans Purchase Net	Subscription service utlizing a bid-and-response system for buyers and sellers of products and services.	Launched in April 2003. Accounts: 57. Registered veteran-owned businesses: 1,280.
Veterans Small Business Finance program	Small business loans nationwide offering SBA loan guarantees from $50,000 to $2 million.	Launched in May 2003. Loans approved: 9.
Veterans Pipeline	Subscription service that provides federal contracting research for companies seeking to sell to the government.	Launched in July 2003. Sales to date: 0.
Accounting and Tax Services	Services include bill payment, maintaining general ledgers, financial report preparation, and tax services.	Launched in July 2003. Sales to date: 0.
Merchant Processing Services	Merchant processing services such as credit card and debit card transactions.	Launched in November 2003. Sales to date: 3.
National Veterans Community-Based Organization Initiative	Comprehensive local delivery system of entrepreneurial education and services.	Launched in June 2004. Initial test site locations: San Francisco, St. Louis, and Pittsburgh.

Source: GAO analysis of The Veterans Corporation data.

Veterans Corporation Services Generally Complemented Federal Efforts

The services offered by The Veterans Corporation generally complemented services offered by federal agencies, including VA and SBA. As noted in our previous report, Veterans Corporation officials said that they have been careful not to duplicate existing services. Most of The Veterans Corporation's programs were intended to fill gaps in federal services by offering services that were either targeted specifically to veterans or unavailable elsewhere. For example, the VET program provides small business training to veterans. Although such training is widely available in both the public and private sectors, The Veterans Corporation's program is unique because it limits enrollment to veterans and their spouses, subsidizes course fees for veterans, and tailors curricula to the needs and experiences of veterans. The Veterans Corporation's small business finance program is another program that complements existing federal programs and efforts. While SBA provides loan guarantees for many small business owners, including veterans, veterans generally receive no discounts from their lenders when qualifying for this financing. In contrast, The Veterans Corporation collaborates with a private lender to obtain reduced loan rates for veterans on SBA-guaranteed loans. We were unable to identify any other loan program specifically targeting veterans in this manner.

We also identified several instances of collaboration between The Veterans Corporation and federal agencies that serve veterans. Although, as indicated in our previous report, such collaboration was limited, an official at The Veterans Corporation explained that collaboration has improved since then to include mutually beneficial ventures with federal agencies that also provides veteran entrepreneurial services. For example, SBA's Office of Veterans Business Development (OVBD) provided The Veterans Corporation with support for the VET and CBO programs, including assistance with program design and a $45,000 grant to help initiate the VET program in three pilot locations. These activities support the missions of both The Veterans Corporation and OVBD to assist veterans. Furthermore, The Veterans Corporation entered into an agreement with SBA's OVBD and a Florida Small Business Development Center to provide resources in exchange for the opportunity to promote its services to veterans that complete the course. The Veterans Corporation was also collaborating with CVE to link their online veteran-owned business directories. Thus, veterans who register for one directory would access the registration page of the other directory by clicking a single button.

While the work of The Veterans Corporation generally has complemented the work of federal agencies, based on our analysis it appeared that there was substantial duplication between The Veterans Corporation's online Business Directory and CVE's online business directory, the Vendor Information Pages. The directories both (1) aid federal and private-sector purchasing agents by identifying the goods and services offered by veteran-owned and service-disabled veteran-owned businesses; (2) are of similar size, were developed from similar information sources, and employ similar methods to identify and register veteran-owned businesses on their sites; and (3) actively seek the agreement of purchasing agents or prime contractors to use the directory before using any other source of information about veteran-owned businesses.

While officials from The Veterans Corporation and VA acknowledged that their directories were similar, they did not believe they were in competition. According to these officials, some differences exist between the two directories, including different registration requirements and different emphases on public versus private purchasing. Differences we identified are listed in figure 2.

Figure 2: Differences between the Business Directory and Vendor Information Pages

The Veterans Corporation's Business Directory	Center for Veterans Enterprise's Vendor Information Pages
Allows all National Guard and Army Reserve service members to register their businesses.	Only allows National Guard and Army Reserve service members who have been activated to duty to register.
Allows businesses to provide federal procurement codes but does not require them.	Requires businesses to provide a North American Industrial Classification Code to identify the type of product or service they offer. This code is one of the identifiers used by federal procurement agents.
Greater emphasis on private sector purchasing.	Lesser emphasis on private sector purchasing.

Sources: CVE and The Veterans Corporation.

Additionally, each agency had a different motivation for creating its directory. CVE built its database to fulfill a mandate to provide federal agencies with information about service-disabled veteran-owned small businesses.[13] The Veterans Corporation's primary motive was to provide a service that would attract veteran entrepreneurs to whom The Veterans Corporation could later market its products and services. Neither agency believes that its databases could be merged because The Veterans Corporation markets its services to its database members, and CVE is prohibited from releasing information for this purpose. As mentioned previously, The Veterans Corporation and CVE have links on both their Web sites to encourage veterans to sign up for both databases.

[13]In addition to The Veterans Corporation, Pub. L. No. 106-50 also established certain requirements for other entities.

Continuing Challenges Have Slowed Progress of The Veterans Corporation's Programs and Initiatives

In our earlier report, we noted several challenges that hindered The Veterans Corporation from fulfilling its mandates under the Act. They included achieving the complex goals derived from the PCAB's mission, identifying the veteran-owned business population, and clarifying the unclear legal status of The Veterans Corporation. According to Veterans Corporation officials, the organization still faces these challenges.

PCAB Has Plans to Recommend That Another Federal Agency Assume Its Responsibilities

In our earlier report, The Veterans Corporation officials expressed their opinion that the PCAB would be more appropriately led by another entity and that The Veterans Corporation had not been provided the funding or authority to achieve the PCAB mandates. During our review, The Veterans Corporation officials reiterated these same concerns. The PCAB chair pointed out that the mandate to address certification and licensing guidelines and barriers did not directly relate to The Veterans Corporation's core mission to assist veterans with entrepreneurship activities. The PCAB chair also questioned the board's ability to carry out mandated activities without a paid professional staff. PCAB members serve on a volunteer basis with no operating budget.

In response to these concerns, the PCAB drafted an issue paper that provides an overview and assessment of licensure and certification resources, organizations, and tools available to assist active-duty and transitioning military personnel seeking employment. Moreover, the paper provides recommendations to The Veterans Corporation's board of directors, requesting that Congress eliminate its requirement to create uniform guidelines and standards for the professional certification of armed services members and expand an existing Army certification and licensing effort to the entire Department of Defense (DOD). According to the PCAB chair, the PCAB mission would better fit with the missions of DOL or DOD because these two departments have been involved in licensing and certification issues. Moreover, the two departments signed a memorandum of understanding in July 2003 that included a provision to promote cooperative efforts relating to licensing and certification issues.

Lack of Comprehensive Information on Veteran-Owned Businesses Has Been a Major Obstacle

We noted in our earlier report that The Veterans Corporation experienced difficulties in obtaining information from government sources on military personnel transitioning to civilian life and existing veteran-owned businesses because of privacy law restrictions. As a result, as of June 30, 2004, The Veterans Corporation identified approximately 12,000 veteran-owned and potential veteran businesses, primarily through its Web site or Business Directory registrations. According to Veterans Corporation officials, they would need to identify about 250,000-300,000 veteran business owners to effectively carry out its mission of providing services and achieving self-sufficiency. One of the officials explained that the industry guidance related to its business model (marketing to an affinity group) suggested that at least 250,000 names would be needed to generate desired revenue from commissions based on sales volume. Specifically, based on this model, The Veterans Corporation could expect to generate between $10-$20 for each affinity member—money that would help it achieve its self-sufficiency goals. (We discuss efforts to achieve self-sufficiency in more detail later in this report.)

The officials with whom we spoke explained that they have not been able to mount a comprehensive, targeted effort to identify this population. Other efforts to identify veteran-owned businesses have all had limited success. According to these officials, they have tried to identify veterans through (1) advertising in journals aimed at veterans, (2) issuing press releases in newspapers, (3) making public service announcements on television and radio, (4) undertaking speaking engagements at trade associations, (5) participating at government-sponsored small business fairs, and (6) communicating with veterans through The Veterans Corporation's Web site and its VET program. Additionally, The Veterans Corporation has acquired some information through two other databases, SBA's Procurement Marketing and Access Network (PRO-Net) and DOD's Central Contractor Registration (CCR) database.[14] In June 2004, The Veterans Corporation began a marketing effort to identify the veteran-owned business population. It is using a direct marketing firm to reach this population through e-mail, telemarketing, and direct mail. A Veterans Corporation official stated that its initial marketing effort indicated that direct mail was the most effective way of obtaining new members. The Veterans Corporation plans to meet with the direct marketing firm in September 2004 to discuss additional work.

Legal Status of The Veterans Corporation Has Continued to Affect Its Operations

During our work on our last report, officials at The Veterans Corporation indicated that questions about the legal status of The Veterans Corporation as either a public agency or private corporation had, at times, complicated organizational and program development efforts. An official at The Veterans Corporation expressed concerns that if The Veterans Corporation

[14]On January 1, 2004, DOD's CCR database assumed all of SBA's PRO-Net's search capabilities and functions in an effort to simplify the contracting process for small businesses.

were a federal agency, its ability to raise private funds and become self-sustaining, as contemplated in the Act, would be compromised. On the other hand, according to The Veterans Corporation official, federal agencies such as DOD and DOL had not been willing to share nonpublic information and resources (that they could share with other federal agencies) because of concerns that The Veterans Corporation was a private entity. As we discussed in our last report, The Veterans Corporation received conflicting opinions from the Office of Personnel Management (OPM) and private law firms, with OPM concluding that the corporation is a government-controlled corporation subject to most provisions of Title 5 of the United States Code, and the law firms concluding that the corporation is not a government-controlled corporation or executive agency for purposes of certain laws applicable to federal agencies, including provisions of Title 5 and the Federal Acquisition Regulations.[15]

In March 2004, the Department of Justice's Office of Legal Counsel (OLC) issued a memorandum in response to an Office of Management and Budget (OMB) request to further clarify The Veterans Corporation's legal status. The OLC opinion concluded that The Veterans Corporation is a "government corporation" under 5 U.S.C. § 103 (2000) and an "agency" under 31 U.S.C. § 9102 (2000). According to officials of The Veterans Corporation, based on the OLC opinion, OMB has advised The Veterans Corporation that it must comply with laws, regulations, and guidance applicable to executive branch agencies. The Veterans Corporation officials observed that this would mean, among other things, compliance with OPM personnel reporting and other personnel-related requirements, as well as budget and accounting requirements.

[15]GAO-03-434, p. 14.

Financial Statement Audit Identified No Internal Control Weaknesses, but Veterans Corporation Lacked Some Operational Controls

Although the external audit did not identify material weaknesses in The Veterans Corporation's internal controls, The Veterans Corporation lacked some key operational controls.[16] Specifically, based on its fiscal year 2003 external audit, The Veterans Corporation did have internal control deficiencies over financial reporting; however, its external auditor determined that these were not material weaknesses. According to Veterans Corporation officials, the corporation implemented corrective actions for the issues the external auditor identified and also implemented controls to prevent duplicate payments identified by GAO. Additionally, 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. However, The Veterans Corporation lacked some important operational controls for its planning and reporting processes. More specifically, although The Veterans Corporation adopted some strategic planning best practices, it did not use others. For instance, the strategic plan generally did not contain outcome-oriented or measurable goals and objectives, which prevented The Veterans Corporation from assessing the effectiveness of its program and services. Additionally, without meaningful performance measures, The Veterans Corporation has been unable to provide Congress, through its annual report, with an assessment of its progress or outcomes of its efforts.

Veterans Corporation Has Addressed Identified Financial Control Weaknesses

According to its external auditor, The Veterans Corporation's had internal control issues that could have adversely affected its ability to administer a major federal program in accordance with applicable laws, regulations,

[16]The American Institute of Certified Public Accountants standards define a material weakness as a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

contracts, and grants.[17] Specifically, the external auditor found in its fiscal year 2003 audit that The Veterans Corporation did not consistently enforce its expense reimbursement policy. The external auditor classified the internal control matter as a reportable condition and did not identify any instances of material weaknesses.[18] This reportable condition was detailed in a letter to management.[19] According to Veterans Corporation officials, they have addressed the reported deficiencies.

In our review of The Veterans Corporation fiscal year 2003 expenditures, we found that The Veterans Corporation made two duplicate payments—one payment in the amount of $3,142 and the other in the amount of $8,976 to the same vendor. The amounts were not material to the financial statements. According to The Veterans Corporation officials, The Veterans Corporation has taken steps to prevent future duplicate payments and pursued reimbursement from the vendor.

Board of Directors Revised Disbursement Authorities while Board Chair Took More Active Role in Veterans Corporation Operations

According to The Veterans Corporation officials, in May 2003, the board of directors significantly restructured its operations, responsibilities, and procedures and those of its committees. The board has primary responsibility for the governance of The Veterans Corporation and exercises that governance, both directly and indirectly, through delegation of authority to the chief executive officer (CEO). To accomplish the restructuring, the board passed a series of resolutions, which transferred many of the previous authorities vested in the executive committee to the

[17]The 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 for planning the nature, timing, and extent of the auditing procedures they would perform 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.

[18]Reportable conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal controls that 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.

[19]The external auditor identified other internal control matters in the letter to management—lack of adherence to the requirement for two signatures on certain checks and lack of updates on personnel files to reflect changes in employee status or salary—but did not classify them as reportable conditions.

full board.[20] Among other things, the board amended the CEO's expense authority based upon a recommendation from the executive committee. Specifically, it authorized the CEO to sign all contracts or expenditures that relate to strategies and business initiatives previously discussed with and approved by the board or executive committee up to and including $100,000. However, the board retained authority to approve new expenditures in excess of $25,000. As we previously reported, the board first established disbursement authorities for executive–level staff in March 2001, but from March 2001 to April 2003, the executive committee was responsible for making time-sensitive decisions on behalf of the board between quarterly board meetings.[21] Additionally, as stated in our previous report, 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. Moreover, both the CEO and the senior vice president were authorized to sign checks.

Since the restructuring, the board chair has taken a more active role in the operations of The Veterans Corporation. While day-to-day management is the responsibility of the CEO and management, the board chair meets weekly with the CEO to discuss the corporation's activities. Additionally, the board reviews monthly activity reports and quarterly financial data such as income statements and balance sheets.

Strategic Plan Lacked Key Operational Controls—Measurable and Outcome-Oriented Goals and Objectives

We identified weaknesses in The Veterans Corporation's planning and reporting processes that primarily resulted from a lack of measurable, outcome-oriented performance measures. The Veterans Corporation relied on its strategic plan, an important operational control, for both planning and reporting on its programs. It prepared a 5-year strategic plan, which outlined the corporate mission, goals, and priorities; and an annual business plan, which contained more detailed objectives and action plans for each division within the organization. Additionally, as required by the Act, The Veterans Corporation submitted an annual report to Congress, which was based on its strategic plan. Staff members also prepared periodic reports for the board of directors and a public annual report.

[20] The executive committee consists of four board members who generally make decisions on behalf of the full board.

[21] GAO-03-434.

We evaluated The Veterans Corporation's planning and reporting processes according to best practices identified by government and nonprofit strategic planning literature and experts, including the following:

- The mission statement should identify what makes the organization unique and define the outcomes of its activities.
- Goals should be aligned with the mission statement, as well as with strategies for achieving goals.
- Goals and objectives should be measurable and outcome-oriented, rather than process-oriented. Thus, rather than measuring the number of activities, they should measure the end results of activities on the target population.
- The plan should identify and discuss internal and external factors that could affect the performance of the organization.
- The plan should be developed in consultation with key stakeholders, including, in this case, Congress.

The Veterans Corporation has adopted several of these practices. For instance, its mission statement defined the outcomes of its activities—the formation and expansion of small business concerns by veterans, including service-disabled veterans. The strategic plan also had long-term corporate goals that were aligned to the mission statement. According to The Veterans Corporation officials, these long-term corporate goals established broad board directives for its staff. Furthermore, the strategic plan also contained annual objectives that supported the corporate goals, and the business plan contained action plans to meet these annual objectives. For example, for fiscal year 2004, The Veterans Corporation wanted to increase the number of VET graduates to 750 and have VET programs with certified facilitators and administrators in at least 15 states. The action plan indicated that staff would analyze historical results to date and project the numbers by fiscal year quarters and locations to achieve this objective. Moreover, The Veterans Corporation's business plan included an analysis of internal and external factors that might affect the performance of the corporation, and officials told us that they regularly consulted with veterans groups and other stakeholders.

However, many of the goals and objectives in The Veterans Corporation's strategic plan were not measurable. Thus, they generally did not define specific methods for measuring success over the short and long term. While a few of its annual objectives had some performance measures in place, such as the target number of participants in the VET program and fund-raising amounts, The Veterans Corporation had only two measurable long-term goals, including achieving financial self-sufficiency. The other goals and many of the objectives lacked performance measures to indicate the expected progress over the 5 years covered by the strategic plan. For example, one fiscal year 2004 objective was to conduct the affairs of The Veterans Corporation in an effective, efficient, and responsible manner. However, the objective did not define how effectiveness or efficiency would be measured. Without measurable goals and objectives, The Veterans Corporation will have difficulty ensuring and demonstrating the success of its programs.

Additionally, most of the goals and objectives in The Veterans Corporation's strategic planning documents were process-oriented, rather than outcome-oriented. Thus, they tended to focus on program outputs and activities, such as the number of veterans receiving training, rather than on their impact on veterans, such as the number of new businesses opened by program participants or the amount of revenue generated by veteran-owned businesses. For example, one goal was to develop and implement programs that provide veterans access to knowledge, tools, and resources necessary to succeed in their entrepreneurial efforts. However, there were no performance measures to gauge how well the programs are providing necessary tools and resources or whether those resources are helping veterans succeed in their businesses. Without outcome-oriented goals, The Veterans Corporation will have difficulty demonstrating that achieving all its goals and objectives would lead to the fulfillment of its mission to assist veteran entrepreneurs.

We also reviewed examples of measurable, outcome-oriented performance measures from federal agencies such as the Department of Transportation (DOT) and the Social Security Administration (SSA). For instance, one of DOT's goals was to reduce highway fatalities to not more than 1.0 per 100 million vehicle-miles traveled by 2008. Similarly, by 2008 SSA intends to increase the number of disability beneficiaries who achieve employment by 50 percent from 2001 levels. Both of these goals focused on the outcomes on citizens rather than the activities of their programs and provide a measurable point of success.

The chair of The Veterans Corporation's board of directors acknowledged that The Veterans Corporation would need to do more work to develop outcome-oriented performance measures. Other officials from The Veterans Corporation noted that many of their programs were too new for outcomes on veteran entrepreneurs to be apparent. However, the strategic plan, which spans fiscal years 2004 to 2008, also has not defined which outcomes will be measured when data become available. At the time of our review, The Veterans Corporation was beginning to collect outcome data for the first three groups of participants in the VET program, including surveys of former participants to determine if they began a new business or expanded their existing business after taking the training. These data should prove helpful in determining the outcomes of this program, but the strategic plan contained no performance measures against which to measure these statistics. Officials from The Veterans Corporation told us that they were monitoring the performance of the affinity programs by counting the number of veterans who signed up for services. They said that service usage was an indication that the services were of value to veterans.

Annual Report to Congress Also Lacked Outcome-Oriented Information

The Veterans Corporation's fiscal year 2003 annual report to Congress consisted of descriptions of programs, along with some data on the growth of programs. It lacked any estimate of the benefits these programs provided to veteran entrepreneurs. Thus, it was output-, rather than outcome-oriented. Also, in reviewing The Veterans Corporation's annual report to Congress for fiscal year 2003, we found that The Veterans Corporation had not incorporated its plans for, and progress toward, self-sufficiency in this report. (We discuss the self-sufficiency plan in greater detail later in this report.) According to the Government Performance and Results Act, an annual report to Congress should include

- a clear demonstration of how the corporate goals are aligned to the mission of the organization,
- the year's performance targets,
- whether the targets were met, and
- explanations and plans for corrective action when targets were not met.[22]

[22]Pub. L. No. 103-62 sec 4(b).

Additionally, management provided monthly activity reports to the board of directors to help them fulfill their responsibilities for oversight, guidance, and direction. According to the board chair, the board also used the information contained in the activity reports to inform congressional committees of corporate activities. The chairman added that the activity report format evolved over the last year to also include a snapshot of the cumulative results of several efforts. For example, the July 2004 monthly activity report indicated that since its inception the Veterans Small Business Finance program created 473 applications and had 9 loans approved.

The Veterans Corporation Relied on Federal Funds to Pay for Salaries and Services and Establish and Operate Programs

Federal appropriations have been The Veterans Corporation's primary source of funding. The Veterans Corporation used approximately $3.3 million in federal appropriations in fiscal year 2003 to cover expenditures related to paying for salaries and professional services and establishing and operating programs. More specifically, payments for salaries and professional services accounted for 58 percent of its expenditures in that year and program-related activities accounted for the rest. Additionally, as revenue levels from other sources declined, The Veterans Corporation used proportionately more federal money for fiscal year 2003 expenditures. Appendix III provides more detail on The Veterans Corporation's revenue and expenses for fiscal years 2002 and 2003.

Most of The Veterans Corporation Expenditures Related to Salaries and Professional Services

During fiscal year 2003, The Veterans Corporation's primary source of funding was from federal appropriations. As of September 30, 2002, The Veterans Corporation had about $3.3 million of unexpended appropriations available for future spending. Because The Veterans Corporation federal appropriations are provided on a "no year" basis, this amount was carried forward to apply to expenses in future fiscal years. In addition, during fiscal year 2003, The Veterans Corporation received $2 million in appropriations. Of the nearly $5.3 million available, it used approximately $3.3 million of its federal funds.

It used approximately $1.9 million (58 percent) of the $3.3 million to pay for salaries and professional services to establish and run programs.[23]

[23]Salaries, including benefits and payroll taxes, represented compensation for all staff. Professional services included accounting, auditing, legal, fund-raising, and public relations.

Executive salaries at The Veterans Corporation in fiscal year 2003 appeared consistent with the information sources it consulted regarding salaries at other organizations, although these sources did not provide information on comparable organizations. For example, the Veterans Corporation used federal pay schedules and Web sites such as Salary.com, which rarely distinguished between nonprofit and for-profit positions. Additionally, the Internal Revenue Service applies three conditions when evaluating whether nonprofit salaries are reasonable: (1) approval by a board of directors that does not have a conflict of interest with respect to the compensation arrangement, (2) reliance on comparable data such as salary surveys, and (3) adequate documentation of the basis for the determination. Although The Veterans Corporation fulfilled these requirements to some extent, it relied on data that were not entirely comparable and also did not fully document the basis for its decisions. The salary that The Veterans Corporation paid in fiscal year 2003 to the previous CEO was somewhat higher than the range of salaries suggested by its information sources. The salaries of other positions we evaluated, including Director of Information Systems and Program Director, were within the ranges suggested by these sources.

Caution is advisable when evaluating appropriateness of salaries paid by The Veterans Corporation due to the variable nature of nonprofits and a lack of data on relevant variables. In conducting this work, we spoke with representatives of the Center on Nonprofits and Philanthropy of the Urban Institute who referred us to a November 2001 study on executive compensation in the nonprofit sector.[24] The study concluded that salary determinations are defined largely by the characteristics and circumstances of individual nonprofits. The study also stated that the variability in nonprofit wages and benefits suggests that generalizations concerning compensation patterns are difficult. To accurately assess the reasonableness of The Veterans Corporation's executive compensation, it would be necessary to obtain information from organizations of the same type (for example, religion-based versus nonreligion-based), size, activities, and sources of revenue (for example, fees versus donations). As noted previously, the data sources used by The Veterans Corporation were limited in terms of information on comparable organizations. We were also unable to locate reliable sources of data that provided information on the

[24]Eric C. Twombly and Marie G. Ganz, *Executive Compensation in the Nonprofit Sector: New Findings and Policy Implications*, The Urban Institute, November 2001.

compensation paid by similar organizations that included the duties of the position.

The Veterans Corporation has made several recent changes in staffing that should reduce its expenses for executive compensation. In our previous report, we stated that the total compensation, including salary and bonus, paid to The Veterans Corporation's executive management in fiscal year 2002 was $694,500. In fiscal year 2003, this amount was reduced to $446,488. In fiscal year 2004, The Veterans Corporation eliminated one executive position by consolidating the CEO and chief financial officer positions.[25] As a result, The Veterans Corporation projects that executive compensation will total $310,153 for fiscal year 2004, a reduction of $136,335 from the previous year's expenditures.

In fiscal year 2003, The Veterans Corporation spent about $652,000 for professional services, of which $270,000 went to fund-raising consultants. The primary fund-raising organization for The Veterans Corporation, Changing Our World, received about $208,000. In fiscal year 2003, Changing Our World, along with other fund-raising consultants, raised approximately $258,000 in contributed cash and pledges, which fell significantly short of the $1.3 million goal for fund-raising. At the time of our review, The Veterans Corporation had not renewed its agreement with Changing Our World for fiscal year 2004. The Veterans Corporation officials told us they decided to change their fund-raising strategy from focusing on corporations and foundations to wealthy individuals, ideally veterans themselves. In May 2004, The Veterans Corporation also hired a new staff member to conduct fund-raising.

Expenses for program activities related primarily to the VET and Veterans Marketplace programs. Of the $1.4 million spent on program-related activities, approximately $551,000 represented costs for the 506 participants in the VET program. Of the 506 participants, 300 graduated from the program during fiscal year 2003 at a cost of about $1,382 per

[25]We did not evaluate the impact of The Veterans Corporation's consolidation of these executive positions on its progress toward achieving financial self-sufficiency.

graduate.[26] Nonrecurring start-up expenses such as consulting, advertising, and staff training accounted for about $114,000 of VET program costs. The Veterans Corporation also provided each VET program graduate with a voucher, good for the purchase of a computer or business tools, which accounted for approximately $217,000 of the program costs. The officials stated that The Veterans Corporation offered the vouchers to veterans in order to be competitive in the market. They added that its per-participant cost was lower than that of other small business courses being offered, yet none of its competitors offered vouchers as a benefit. One official further stated that because participant costs were low, The Veterans Corporation could probably compete without offering the computer vouchers. At the time of our review, The Veterans Corporation was performing a market analysis to determine whether or not to raise the participant's share of the cost. According to one official, The Veterans Corporation contacted two of its VET program facilitators to discuss increasing the participants' share of the cost or reducing the amount of the vouchers. As a result of this analysis, management has proposed reducing the amount of the voucher in its fiscal year 2005 budget. A corporation official stated that the board is not expected to vote on the proposed fiscal year 2005 budget until November 2004.

The $250,000 expense charged to the Veterans Marketplace program represented a negotiated annual licensing fee paid to Perfect Commerce, its partner organization. A Veterans Corporation official pointed out that this fee would be reduced to $100,000 in fiscal year 2004 and $50,000 in fiscal year 2005, at which time The Veterans Corporation could renew its contract with Perfect Commerce. While the Veterans Marketplace was established as a way of generating revenue, the revenue it generated in fiscal year 2003 was negligible. Veterans Corporation officials stated that they were still in the process of building a directory of veteran-owned businesses that could provide goods and services through this effort. (Later in this report, we discuss the Veterans Marketplace as a component of the self-sufficiency plan). As shown in table 1, The Veterans Corporation's

[26]Each participant contributes $250 to $350 depending on the course taken. Although participants cover a portion of the costs, the program is primarily an expense to The Veterans Corporation rather than a revenue-generating activity. Also, while The Veterans Corporation indicated that 300 veterans (the basis for our calculation on cost-per-graduate) received vouchers in fiscal year 2003, 458 veterans "completed" courses in that fiscal year. The Veterans Corporation classifies all those participants who started courses in fiscal year 2003, even if they completed them in fiscal year 2004, as having graduated in fiscal year 2003.

expenses decreased in fiscal year 2003, primarily due to a reduction in the Veterans Marketplace fee.

Table 1: The Veterans Corporation's Schedule of Expenses for Fiscal Years Ending September 30, 2002, and 2003

Dollars in thousands

Expenses	2002	2003
Salaries and benefits	$1,275	$1,289
Professional services[a]	596	652
Travel and recruitment	94	96
Marketplace fee and e-commerce	1,187	358
Rent	136	151
Veterans Entrepreneurial Training	N/A	551
Other	467	215
Total expenses using federal appropriations	**$3,754**	**$3,312**
Nonfederal expenses:		
Donated services[b]	1,417	440
Other	44	300
Total expenses	**$5,216**	**$4,052**

Source: GAO analysis of The Veterans Corporation's audited financial data.

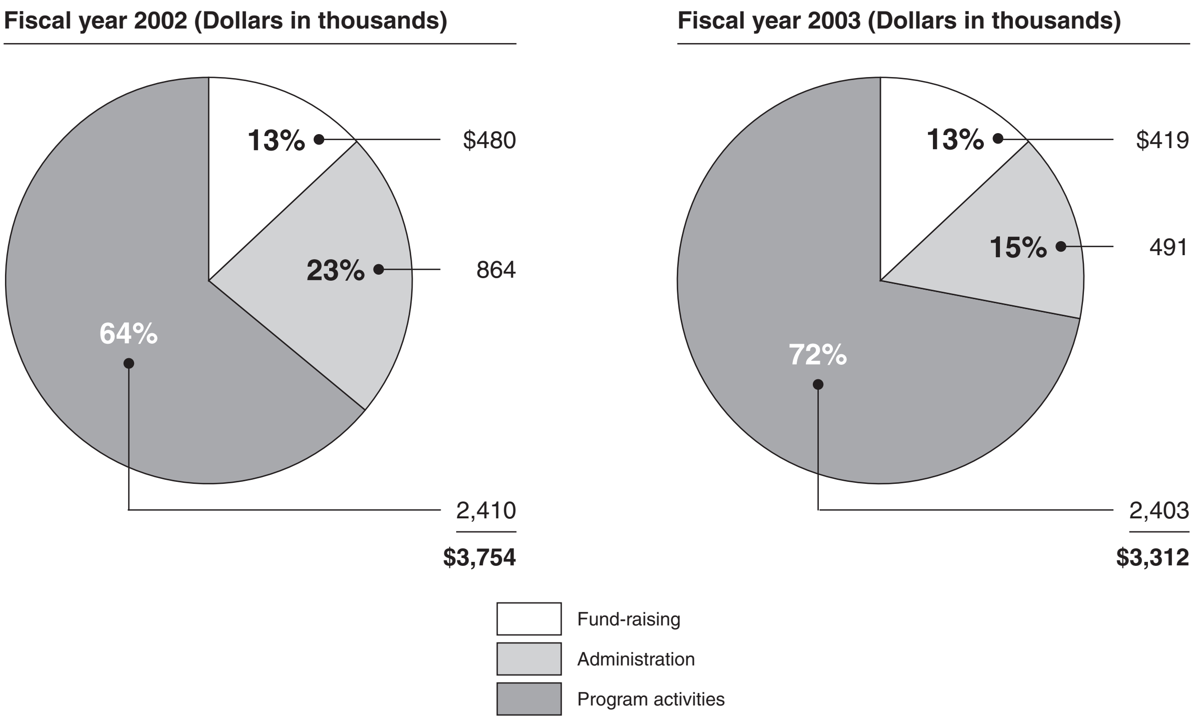
Notes: Numbers may not add up to total because of rounding. N/A means not applicable.

[a]Amounts for professional services were understated and salaries were overstated by $46,002 in The Veterans Corporation's fiscal year ending September 30, 2003, financial statements due to a misclassification in the schedule of functional expenses. The Veterans Corporation has agreed to correct the misclassification in the fiscal year ending September 30, 2004, statements, which will include, for comparative purposes, the financial statements for fiscal year 2003.

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

Figure 3 shows The Veterans Corporation's expenses for both fiscal years 2002 and 2003 by function (program, fund-raising, and administrative). Financial reporting under U.S. generally accepted accounting principles requires reporting expenses by type and function. Most of The Veterans Corporation's federally funded functional expenses pertained to program activities—64 and 72 percent for fiscal years 2002 and 2003, respectively. Fund-raising costs represented 13 percent of total expenses in both fiscal years. Administrative costs were 23 percent of the total for fiscal year 2002, primarily for salaries and board expense, and 15 percent of total expenses for fiscal year 2003, primarily for salaries and rent expenses. As mentioned in our earlier report, the amount of program activity expenses relative to total expenses increased, and the ratio of administrative expenses to total expenses decreased.

Figure 3: The Veterans Corporation's Federally Funded Expenses by Function for Fiscal Years Ending September 30, 2002, and 2003



Source: GAO analysis of The Veterans Corporation's audited financial statements.

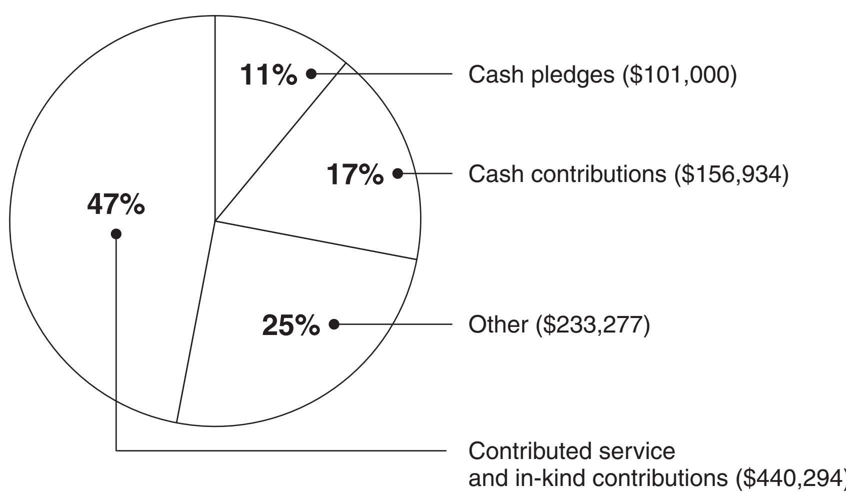
Note: Numbers may not add up to total because of rounding.

Use of Federal Appropriations Increased As Other Sources of Income Declined

Beginning in fiscal year 2002, The Veterans Corporation recognized revenue (income) from sources other than federal appropriations and interest income; however, such revenues declined significantly in fiscal year 2003. While contract and other revenue increased, total revenue declined due to a reduction in revenue from donated pledges and contributed services. Specifically, The Veterans Corporation generated approximately $45,000 from SBA, $184,000 from the VET program, and $4,000 in other funds. However, while cash contributions were higher in fiscal year 2003 than in fiscal year 2002, pledges and contributed services were significantly lower than in fiscal year 2002. The Veterans Corporation recognized approximately $258,000 in cash contributions and pledges and approximately $440,000 in contributed services and in-kind contributions as revenue.[27] Of the $258,000, $157,000 was cash, and $101,000 was pledges for future payments of cash. As a result of the decline in revenue from other sources, the $3.3 million of federal appropriations used in fiscal year 2003 made up approximately 78 percent of The Veterans Corporation's $4.3 million in total revenues. Figure 4 shows The Veterans Corporation's revenue for fiscal year 2003, exclusive of federally appropriated funds and interest earned on those funds.

Figure 4: Sources of Income from Fund-raising and Other Activities for Fiscal Year Ending September 30, 2003

(Dollars in thousands)



Source: GAO analysis of The Veterans Corporation's audited financial statements.

[27]Contributed services included legal services and preparation of a plan to identify veteran entrepreneurs nationwide.

Challenges to Achieving Financial Self-sufficiency Included Lack of Comprehensive Self-sufficiency Plan

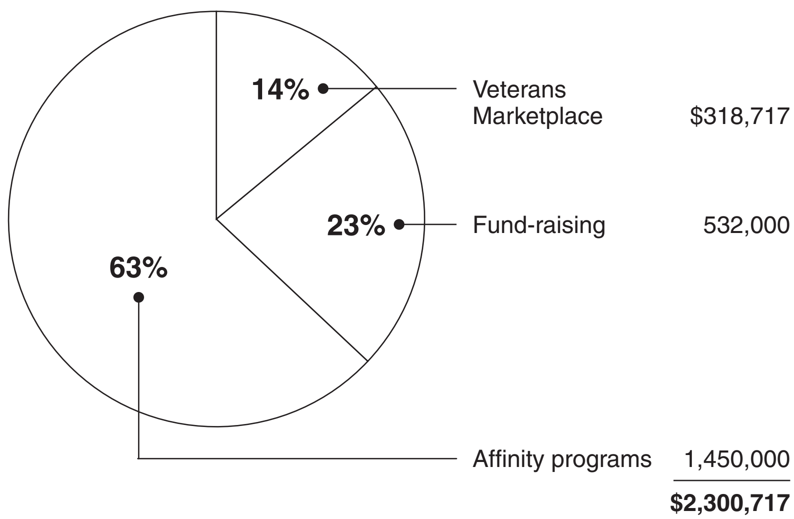
The Veterans Corporation continues to face several challenges in achieving financial self-sufficiency. To address some of these difficulties, The Veterans Corporation has revised its plan to become financially self-sufficient. In its current plan, The Veterans Corporation has pushed back its estimated date for becoming self-sufficient from fiscal year 2004 to 2009 and based its revenue assumptions on three major sources—an electronic marketplace for veteran-owned goods and services; affinity programs including a credit card, loans, and insurance offered to veteran-owned businesses; and fund-raising. However, the self-sufficiency plan was not comprehensive in that it did not contain meaningful information on the key assumptions (such as the basis for each revenue component) underlying its revenue projections. Moreover, The Veterans Corporation faces a number of obstacles in meeting this goal including (1) identifying a sufficient number of veteran-owned businesses, (2) successfully marketing its services to this group, and (3) meeting overall fund-raising goals. For example, although The Veterans Corporation raised about $1 million to meet its mandated matching requirement in fiscal year 2003, it did so by combining the $1 million with excess matching funds generated in the prior fiscal year. Additionally, The Veterans Corporation officials indicated that the recent Department of Justice opinion on the organization's legal status would likely affect its self-sufficiency goals.

The Veterans Corporation Has Revised Its Self-sufficiency Plan

The Act requires that The Veterans Corporation implement a plan to generate private funds and become a self-sustaining corporation. Since our last report, The Veterans Corporation has revised its self-sufficiency plan. First, The Veterans Corporation pushed back the estimated date for achieving financial self-sufficiency from fiscal year 2004 to fiscal year 2009, based on lower-than-anticipated program revenues. Second, the revised plan also assumed an additional $2 million in federal appropriations in fiscal year 2005. Veterans Corporation officials explained that legislation, which seeks to provide these additional funds, was under congressional review. According to the plan, this additional revenue would allow The Veterans Corporation to build a database of veteran-owned businesses to which to market its services, the database being one of the key revenue generators presented in the plan. Third, to help assure future sustainability, The Veterans Corporation officials stated that they also were planning to substantially reduce overall expenses by about $500,000 beginning in fiscal year 2005. The officials added that the reduction would be accomplished through eliminating or scaling back certain positions and reducing travel-related expenses.

Finally, The Veterans Corporation has changed the self-sufficiency plan to focus on three major sources of revenue, from which it expected to generate about $2.3 million in fiscal year 2009. Figure 5 shows The Veterans Corporation's projected revenue by sources for fiscal year 2009. The self-sufficiency plan indicated that The Veterans Corporation is expected to have a positive cash flow of about $81,000 in fiscal year 2009.

Figure 5: Projected Self-sufficiency Revenue in Fiscal Year 2009



Source: GAO analysis of The Veterans Corporation's Self-sufficiency Plan.

Veterans Marketplace. In fiscal year 2009, The Veterans Corporation expects that approximately 14 percent of its total revenue will come from The Veterans Marketplace, or approximately $319,000. As described earlier in this report, the Marketplace has expanded into two components in which veteran-owned businesses would supply goods and services through an electronic format to government entities and private businesses. The Veterans Corporation plans to earn income from this effort through a revenue-sharing agreement with Perfect Commerce that is partly based on volume of transactions and online purchases.

Affinity programs. These are programs that provide business services to veteran-owned businesses and from which The Veterans Corporation receives a commission based on sales volume. The affinity programs include:

- *The Veterans Corporation Platinum BusinessCard.* About 9 percent of fiscal year 2009 revenue or about $200,000, would come from the credit card program. More specifically, the revenue would be generated from each newly activated account, as well as a share (0.2 percent) of eligible purchases made with the card.

- *The Veterans Small Business Finance program.* The single largest source of revenue—approximately 33 percent—which would total about $750,000 for fiscal year 2009 is expected to come from loans made to small businesses through a partner organization, Newtek Small Business Finance, Inc. These SBA-guaranteed loans range from $50,000 to $2 million and are made to qualified businesses nationwide. The Veterans Corporation receives 37 ½ basis points on all disbursed loans.

- *The Veterans Insurance program.* Approximately 7 percent of revenue, or $150,000 for fiscal year 2009, would come from sales of business insurance and other products to veteran-owned businesses. The Veterans Corporation would receive commissions or fees, which are structured differently for each insurance product, as outlined in its agreement with Aon Financial Institution Alliance.

- *Other efforts.* Other services are expected to account for an additional 15 percent of total revenues, approximately $350,000, in fiscal year 2009. These services include tax, accounting, and merchant services for small businesses and subscription sales for a bid-and-response system for veteran-owned business contracts.

- *Fund-raising.* In fiscal year 2009, fund-raising is expected to account for 23 percent of revenue, which totals about $532,000 and includes interest income. However, the self-sufficiency plan did not incorporate all of the funds The Veterans Corporation will raise. The self-sufficiency plan included only the portion retained for overhead costs, 15 percent of funds raised.

Revenue-Generating Assumptions Rest on Creating a Comprehensive Database of Veteran-Owned Businesses

The Veterans Corporation's revenue-generating strategy relies to a great extent on first identifying the veteran-owned business population and then successfully marketing its services to this population. The Veterans Corporation officials explained that its self-sufficiency strategy is modeled on AARP, an organization that markets goods and services to a specific population (affinity group) and receives commissions based on sales volume.[28] The Veterans Corporation's goal to achieve financial self-sufficiency in fiscal year 2009 is based on identifying about 250,000-300,000 veteran-owned businesses. An official at The Veterans Corporation told us that this number was based on industry guidance for an e-commerce business and represents the minimum number needed to successfully market its products. As of June 2004, The Veterans Corporation had identified approximately 12,000 veteran-owned and potential veteran businesses, which represented about 5 percent of its goal. As previously reported, The Veterans Corporation has been unsuccessful in obtaining names of veteran-owned businesses through government sources. Earlier in this report, we discussed The Veterans Corporation's difficulty in identifying its affinity group, the population of veteran-owned businesses—an ongoing problem because of privacy concerns among federal agencies. According to a Veterans Corporation official, the success of its marketing programs (and thus the key to its financial self-sufficiency) was dependent on its ability to identify and reach transitioning service members and veteran-owned businesses to market their products. As a result, The Veterans Corporation has developed another strategy in an effort to identify this population.

Veterans Corporation Tests New Strategy to Identify Veteran Businesses

To assist in identifying veteran business owners, in June 2004 The Veterans Corporation began testing a new marketing strategy with the help of Mal Dunn Associates, a direct marketing firm. Using Mal Dunn Associates' database, The Veterans Corporation is soliciting about 15,000 veterans through e-mail, telemarketing, and direct mail. According to an official at The Veterans Corporation, the testing of the marketing strategy indicated that the direct mail approach was the most effective way of gaining new members and they plan to meet with Mal Dunn Associates in September 2004 to discuss the possibility of performing some additional market analysis. An official at The Veterans Corporation further explained that the goal of at least 250,000 names was based on developing an affinity relationship through The Veterans Corporation's Web site membership. This would require identifying a larger population since not all veteran-owned businesses identified would choose to sign up for membership through the Web site. The Veterans Corporation's self-sufficiency plan estimated that developing the veteran-owned business database would take a minimum of 24 months; however, the plan did not show the relationships between the growth of its membership and its revenue projections for any

[28] AARP was formerly known as the "American Association of Retired Persons." In November 1998, the board of directors changed the name to "AARP."

given year. Further, because this marketing effort was still in its testing stages, it would be difficult to predict the rate at which The Veterans Corporation could increase membership or overall success of the effort. Veterans Corporation officials explained that the development speed also depended on the level of financial commitment made to the marketing efforts that would identify this population.

Revenue–Generating Programs Have Not Been Widely Marketed

The Veterans Corporation recognized that in addition to building a database of veteran-owned businesses, the organization must also successfully market its services to this group. An official at The Veterans Corporation told us that before developing services, they would first consult with both public and private veteran service organizations to identify needs. However, the extent to which veteran-owned businesses would utilize The Veterans Corporation's products and services is not fully known because of its limited marketing efforts to this population to date. As mentioned previously, The Veterans Corporation has identified and marketed its products to about 12,000 veteran-owned and potential veteran businesses, which represents about 5 percent of its targeted goal. For instance, the Veterans Marketplace, an electronic exchange of veteran-owned goods and services, has yet to produce any meaningful revenue. Although two pilots are currently under way, The Veterans Corporation officials explained that they were reluctant to aggressively market this effort until they had a sufficient variety of veteran-owned suppliers to meet the production needs of potential buyers. The officials also pointed out that the Veterans Insurance program had not realized much revenue to date and attributed this to an inability to offer a wider range of products such as a pool for businesses to self insure their worker's compensation or health insurance plans.

Fund-raising Has Not Met Expectations

The Veterans Corporation's enabling legislation requires it to match on a dollar-for-dollar basis the $2 million it received in federal appropriations for fiscal years 2003 and 2004. In fiscal year 2003, The Veterans Corporation generated about $1 million in matching funds, of which about $698,000 was in the form of cash contributions and in-kind contributions. The Act however, does not specify how or when the funds are to be generated. Thus, to meet the matching requirement for 2003, The Veterans Corporation applied funds generated in the prior fiscal year, about $1 million, which represented the excess of its fiscal year 2002 match.

Additionally, The Veterans Corporation officials told us that they have had difficulty in meeting their overall fund-raising goals, which amounts are intended to cover the expenses of the VET program, CBO activities, and overhead costs identified in the self-sufficiency plan. Initially, Veterans Corporation officials attributed this difficulty to economic downturns during the first years of the organization's existence, which resulted in an overall reduction in financial donations to charitable organizations. The officials also cited difficulties convincing private corporations to donate to veteran causes because of a widely held belief that the federal government was taking care of veterans financially.

However, since our last report, The Veterans Corporation has formed a fund-raising advisory board of 23 individuals. The Veterans Corporation's current strategy is to focus more on wealthy veteran entrepreneurs who can identify with other veterans, and less on corporations and foundations. In May 2004, The Veterans Corporation refocused its fund-raising effort, releasing its outside consultant and hiring an in-house fund-raising staff.

Veterans Corporation officials acknowledged that the recent change to an in-house fund-raiser has had an impact on its overall fund-raising goals for fiscal year 2004. The Veterans Corporation has a fund-raising goal of $2.5 million in cash and pledges, with at least $1.4 million in cash for fiscal year 2004. As of June 30, 2004, it did not appear that The Veterans Corporation was going to be able to raise funds sufficient to match the $2 million made available under the matching fund certification provision. As of that date, The Veterans Corporation had generated nearly $296,000 in nonfederal dollars, which included $172,000 in cash and in-kind donations. The corporation's inability to raise the certification amount is something that Congress could take into consideration in any future appropriation.

Veterans Corporation Officials Asserted That the Corporation's Legal Status Likely Would Affect Self-sufficiency Goals

The Veterans Corporation's corporate management indicated that they did not know the full impact of the Department of Justice's recent legal opinion (that is, that The Corporation is a "government corporation" and an "agency")—specifically the cost and burden of complying with federal administrative laws applicable to the corporation because of its status as an agency. However, the officials believed that the corporation's self-sufficiency efforts likely would be significantly slowed or even stopped if the corporation were subject to such requirements. As mentioned previously, OMB has notified The Veterans Corporation that it was required to comply with laws, regulations, and guidance applicable to all executive branch agencies (unless specifically exempt), including OPM requirements on reporting government employees, laws pertaining to federal employees and budget and accounting requirements. This, according to The Veterans Corporation, likely would result in a significant increase in workload and expenses. Further, the officials stated that the corporation's status as an agency could raise uncertainties about its ability to raise private funds as a source of revenues because of restrictions on federal agency collection and use of nonappropriated funds.[29] At the time of our review, The Veterans Corporation was seeking legislative relief to address this issue.[30]

Nonprofit Experts Also Acknowledged The Veterans Corporation's Difficulties in Achieving Self-sufficiency

We spoke to representatives of the Urban Institute's Center on Nonprofits and Philanthropy to gain insight on how The Veterans Corporation compares with similar nonprofits. Based on information we provided on The Veterans Corporation's mission, business model, and self-sufficiency projections, the representatives provided some of their perspectives. First, they pointed out that a private business model such as that of The Veterans Corporation is riskier than organizational models based on receiving a government subsidy. Second, in terms of The Veterans Corporation's self-sufficiency projections, including revisions, they questioned its ability to generate $2 million annually without federal appropriations and stated that it was a daunting, if not unlikely task, given its mission to create and implement a new business model. However, they suggested that programs that provide veteran entrepreneurial services could be considered a public good and that, even if they did not become self-supporting, their purpose and public benefits might justify both public and private financial contributions. We believe these observations are pertinent and important considerations that might provide Congress with some additional insight as The Veterans Corporation strives to serve veteran entrepreneurs and achieve financial self-sufficiency.

Limitations in the Annual Report to Congress May Hinder Congressional Oversight

While we discussed The Veterans Corporation's strategic planning and reporting efforts earlier in this report, self-sufficiency was also one of the corporate goals identified in its strategic plan. However, in reviewing The Veterans Corporation's annual report to Congress for fiscal year 2003, we found that The Veterans Corporation did not incorporate its plans for and

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[29]See, e.g., Miscellaneous Receipts Act, 31 U.S.C. § 3302(b). Under the Miscellaneous Receipts Act, "an official or agent of the Government receiving money for the Government from any source" is required to "deposit the money as soon as practicable without deduction for any charge," except as provided by another law.

[30]On July 22, 2004, the Senate considered and passed S. 2724 which amends Section 33 (a) of the Small Business Act (15 U.S.C. 657c(a)) by adding "Notwithstanding any other provision of law, the corporation is a private entity and is not an agency, instrumentality, authority, entity, or establishment of the United States Government." The bill was then referred to the House Committee on Small Business.

progress toward self-sufficiency in this report. According to The Veterans Corporation's board, the March 2004 revision of the self-sufficiency plan was the first version that contained written information about programs and other activities and plans for generating revenue to achieve self-sufficiency. Prior to this, the plan only provided revenue projections.

The Veterans Corporation's current self-sufficiency plan has been revised but did not contain meaningful information on key assumptions addressing program outcomes, participation, and revenues. For example, the current self-sufficiency plan did not provide information on the basis for expected revenue growth for its affinity programs—credit cards, loans, insurance, and other efforts involving private-sector partners—which is expected to go from $33,000 in fiscal year 2004 to $1,450,000 in fiscal year 2009. The current self-sufficiency plan also did not discuss how The Veterans Corporation would build a database of sufficient size to market its services. As we previously discussed, The Veterans Corporation has faced continued challenges in building its database and is testing an approach that may or may not be successful. However, the self-sufficiency plan did not contain alternative scenarios that would allow a more comprehensive understanding of the reasonableness of its projections. As one result, an annual report to Congress derived from the current plan would still lack information that could assist Congress in its oversight of The Veterans Corporation and help it to obtain a clearer picture of the organization's progress toward achieving its self-sufficiency mandate.

Conclusions

In creating The Veterans Corporation, Congress created broad mandates for the organization to address. The Veterans Corporation is working to fulfill its business training and assistance mandates by starting new programs and expanding and refocusing others to serve veteran entrepreneurs. However, The Veterans Corporation continues to face challenges—such as making the PCAB operational, identifying the veteran population through government sources, and addressing concerns related to its legal status—that have hindered its initial progress in marketing services to veteran businesses and working with public and private entities.

Moreover, the Veterans Corporation was not effectively utilizing operational controls—that is, those policies and procedures that would allow it to obtain the reliable and timely information necessary to achieve intended results and goals. For instance, measurable, outcome-oriented goals and objectives in the strategic plan and annual report could help staff to track the performance of their programs, make improvements from year to year, and ensure that their programs succeed and remain aligned with their corporate mission. Furthermore, outcome-oriented goals would improve The Veterans Corporation's reports to Congress and the public by providing clear evidence that the mission of the organization was being accomplished.

As a nonprofit organization with limited sources of income, finding opportunities to reduce expenses also would benefit The Veterans Corporation as a whole. We recognize that The Veterans Corporation has not yet realized significant revenue from its programs; however, we note that it could reduce expenses in some programs. A key program, the VET program, is an expense-related activity rather than a revenue-generating activity. In fiscal year 2003, The Veterans Corporation spent approximately $1,382 for each veteran who graduated from the program; more than half of this amount went for vouchers, provided to each course graduate, to purchase a computer or business tools. Providing each course graduate with such a voucher increases the cost to the organization of operating the program and could deny The Veterans Corporation added funds to enhance course offerings or marketing.

While The Veterans Corporation's revised financial self-sufficiency plan indicated it should reach its goal of self-sufficiency by fiscal year 2009, it is only a predictor of what could occur based on several key assumptions. Those assumptions were difficult to assess because the plan was not comprehensive in that it did not contain meaningful information on the key assumptions underlying revenue projections. Moreover, the plan is fundamentally dependent on the ability to build a database of veteran-owned businesses and then successfully market The Veterans Corporation's products and services to that population—goals that will not be easy to achieve, given the challenges we have described in this and our previous report. Finally, including information about self-sufficiency in its annual reports to Congress would help Congress better assess the progress of the organization and make informed decisions about the future of The Veterans Corporation.

Recommendations for Executive Action

We recommend that the Chairman of the Board of Directors for The Veterans Corporation and its staff take the following three actions:

- To help guide programs and measure their effectiveness, develop measurable, outcome-oriented goals and objectives that take into account the increasing availability of outcome data over time.

- To potentially reduce overall expenses and aid in efforts to achieve self-sufficiency, analyze the extent to which The Veterans Corporation could reduce or eliminate the amount of the voucher given to graduates of its VET program without undermining demand for the program.

- To improve congressional oversight, include in its annual report to Congress comprehensive information and data relating to progress in achieving financial self-sufficiency, and key assumptions underlying self-sufficiency revenue projections.

Agency Comments and Our Evaluation

We requested and obtained comments on a draft of this report from the President and Chief Executive Officer of The Veterans Corporation that are reprinted in appendix IV. We also provided a draft of this report to DOD, SBA, and VA. We received technical comments from The Veterans Corporation and SBA that we incorporated where appropriate. While The Veterans Corporation had no objections to our recommendations, it offered information that it believed would explain, clarify, or correct points made in the draft report.

First, on the extent of duplication between The Veterans Corporation's Business Directory and VA's VetBiz Vendor Information Pages, The Veterans Corporation stated that, although we accurately portrayed many of the differences between the two sources, we understated the importance of its directory to its operations and self-sufficiency efforts. The Veterans Corporation also stated that it believed that, as the two databases grew, they would continue to differ in their composition, customers, and beneficiaries. In our report, we acknowledged that both The Veterans Corporation and VA had different motivations for creating their directories. We also stated that the directories were of similar size, were developed from similar information sources, and employed similar methods to identify and register veteran-owned businesses on their sites.

The second and third points were directed toward strategic planning. In the second point on developing outcome-oriented metrics that could be used in reporting to Congress, The Veterans Corporation indicated that it had not been in existence long enough to determine whether its programs and services were helping businesses owned by veterans and service-disabled veterans. It also indicated it had begun the process of developing metrics in some areas that, over time, would help it build outcome-oriented performance measures into its reporting. Although many of its programs are still getting under way, we believe it is useful to identify and articulate specific metrics as an operational control and as a means to evaluate the benefits being provided by The Veterans Corporation to veterans. This information would also help The Veterans Corporation ensure that the correct data will be collected in the future. In the third point, The Veterans Corporation indicated that it believes that the strategic goals set by the board should not be outcome-specific, as they were meant to provide a general framework for the corporation. The staff, however, are required to develop specific objectives, initiatives, and performance metrics in support of the strategic goals. We do not intend to imply that these goals are necessarily the responsibility of the board, but we do believe they need to exist somewhere in the strategic plan and that they should form the basis for the annual report, both to provide Congress with better accountability and The Veterans Corporation with a better mechanism for demonstrating organizational effectiveness and outcomes for veterans.

Finally, in its fourth point, The Veterans Corporation indicated that, although its long-term survival was not guaranteed, it believed that its strategy was sound and that sound execution of its plan would result in achieving its self-sufficiency goal. We focused our analysis on the current state of federal funding, The Veterans Corporation's self-sufficiency projections, and the likelihood that the funding would no longer remain needed based on our belief that Congress would want to consider different perspectives on The Veterans Corporation's ability to become self-sufficient, particularly in the event that The Veterans Corporation's self-sufficiency projections were revised again. With this focus, we have concluded that there is a reasonable amount of uncertainty regarding The Veterans Corporation's attainment of self-sufficiency. The uncertainty about self-sufficiency is reflected in The Veterans Corporation's revision in its target date for achieving financial self-sufficiency from fiscal year 2004, as we reported in April 2003, to fiscal year 2009—with the addition of $2 million of federal appropriations in fiscal year 2005. As noted in this report, The Veterans Corporation faces several challenges in its efforts to becoming a self-sustaining organization. Notably, its self-sufficiency plan, which did not contain meaningful information on the key assumptions underlying revenue projections, is dependent on building an extensive database of veteran-owned businesses and marketing its services effectively to this population. Based on our analysis of these challenges, it is not certain whether The Veterans Corporation's current estimate for achieving self-sufficiency will be met as planned.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Ranking Minority Members of the Senate Committee on Small Business and Entrepreneurship, the House Committee on Small Business, the Senate and House Committees on Veterans' Affairs, and other appropriate congressional committees. We also will send copies to the President and CEO of The Veterans Corporation; the Administrator of SBA; and the Secretaries of the Departments of Veterans Affairs, Defense, and Labor. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

William B. Shear

William B. Shear
Director, Financial Markets
and Community Investment

List of Congressional Requesters

The Honorable Olympia Snowe, Chair
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Donald Manzullo, Chairman
Committee on Small Business
House of Representatives

The Honorable Arlen Specter, Chairman
Committee on Veterans' Affairs
United States Senate

The Honorable Christopher Smith, Chairman
Committee on Veterans' Affairs
House of Representatives

Scope and Methodology

To evaluate 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, program literature, and activity reports. Additionally, we interviewed staff and board officials from The Veterans Corporation, as well as partnering organizations including officials from Perfect Commerce and Aon Financial Institution Alliance. 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 two veteran service organizations—the Vietnam Veterans of America and the American Legion. We also reviewed program information and Web sites of these organizations.

To evaluate The Veterans Corporation's internal controls including strategic planning and its use of federal funds, we

- obtained and analyzed The Veterans Corporation's fiscal year 2003 financial statements, audit reports, and management letter for 2003; we did not evaluate the quality of the external auditor's work on the financial statement or conduct our own tests of the financial statement balances;
- analyzed 10 functional expenses to determine the nature of the expense and a description of how the expense benefited The Veterans Corporation;
- obtained and reviewed The Veterans Corporation's check registers for duplicate payments;
- reviewed The Veterans Corporation's contract with the external auditor responsible for the 2003 financial statement audit to understand the nature of the audit services to be provided and what work the auditor proposed to assess internal controls;
- communicated with The Veterans Corporation's external auditor to determine the audit procedures performed to assess internal controls during its audit of The Veterans Corporation;
- 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;

- interviewed The Veterans Corporation's Chief Executive Officer/Chief Financial Officer, Senior Vice President, and staff to obtain an understanding of internal controls related to cash disbursements;
- tested relevant internal controls over cash disbursements to determine if the controls were operating effectively;
- interviewed members of the board of directors to determine the board's oversight roles and responsibilities;
- reviewed The Veterans Corporation's planning and reporting documents;
- consulted with government and nonprofit strategic planning experts;
- reviewed strategic planning literature;
- gathered and analyzed salary surveys and literature about nonprofit compensation; and
- interviewed representatives from the Urban Institute's Center on Nonprofits and Philanthropy to discuss executive compensation in the nonprofit sector.

To evaluate The Veterans Corporation efforts to become financially self-sufficient, we reviewed its self-sufficiency plan and discussed it with the Veterans Corporation's Chief Executive Officer/Chief Financial Officer, Senior Vice President and members of its board of directors. We also spoke to representatives of the Urban Institute's Center on Nonprofits and Philanthropy to gain insight on how The Veterans Corporation compares with similar nonprofits. We did not independently assess the financial assumptions presented in the self-sufficiency plan.

We conducted our work between December 2003 and July 2004 in accordance with generally accepted government auditing standards in Washington, D.C.; San Francisco, California; and Alexandria, Virginia.

Programs and Initiatives The Veterans Corporation Undertook in Response to Statutory Requirements

Statutory requirement	Program or initiative
Programmatic	
Expand provision of and improve access to technical assistance regarding entrepreneurship for veterans.	• www.veteranscorp.org • EntreWorld, an online small business resource library • Veterans Entrepreneurial Training[SM] program • National Veterans Community-Based Organization Initiative
Assist veterans, including service-disabled veterans, with the formation and expansion of small businesses.	• Veterans Small Business Finance program • Veterans Entrepreneurial Training[SM] program • Veterans Marketplace • Veterans Capital Fund • Veterans Corporation Platinum BusinessCard • Veterans Insurance program • Veterans Corporation Business Directory • Veterans Purchase Net • Veterans Pipeline • Accounting and Tax Services • Merchant Processing Services • Develop business opportunities for veterans through alliances: Lee Wayne, Inc., Defense Logistics Agency, National Defense Industrial Association
Organize public and private resources, including those of federal agencies.	• Meetings and collaboration with federal agencies: Department of Labor, Department of Defense, Small Business Administration, Department of Veterans Affairs, Service Corps of Retired Executives Association • Meetings and collaboration with private-sector organizations: American Legion, Veterans of Foreign Wars, Disabled American Veterans, Paralyzed Veterans of America, American Veterans, Vietnam Veterans of America, Association of The United States Army, Military Officers Association of America, Employer Support of the Guard and Reserve, Reserve Officers Association, National Military Family Association, National Guard Association of the United States • Veterans Capital Fund • Veterans Small Business Finance program • National Veterans Entrepreneurial Education Initiative
Establish and maintain a network of information and assistance centers for use by veterans and the public.	• www.veteranscorp.org • National Veterans Community-Based Organization Initiative
Establish Professional Certification Advisory Board.	• 21-member board • Three committees
Assume duties, responsibility, and authority of the Advisory Committee on Veterans Affairs on October 1, 2004.	• Business plan • Ongoing liaison with advisory committee

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Statutory requirement	Program or initiative
Organizational development	
Institute and implement a fund-raising and self-sufficiency plan.	• Business plan • Self-sufficiency plan • Revenue-producing ventures: Veterans Marketplace, Veterans Corporation Platinum BusinessCard, Veterans Insurance program, Veterans Capital Fund, Veterans Small Business Finance program
Raise matching funds to fulfill conditions for receipt of federal funds.	• Fund-raising advisory board
Transmit an annual report to the President and to Congress.	• Annual reports
Have board of directors conduct oversight of corporation's obligations and expenses.	• Audit committee

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

Veterans Corporation's Revenue and Expenses for Fiscal Years 2002 and 2003

As noted in table 2, the Veterans Corporation received federal appropriations of $4 million in fiscal year 2002 and $2 million in fiscal year 2003; it also had unexpended appropriations available. The Veterans Corporation used approximately $3.7 million and $3.3 million in fiscal years 2002 and 2003, respectively, thus leaving it with a balance of approximately $3.3 million and $1.9 million in unexpended appropriations at the end of fiscal years 2002 and 2003, respectively.

Table 2: Veterans Corporation's Schedule of Appropriations for Fiscal Years Ending September 30, 2002, and 2003

Dollars in thousands

	2002	2003
Unexpended appropriations, beginning balance	$3,015	$3,261
Federal appropriations received	4,000	2,000
Subtotal: unexpended appropriations available	**7,015**	**5,261**
Less: federal appropriations used	3,754	3,312
Less: miscellaneous reconciling items	N/A	5
Total: unexpended appropriations, ending balance	**$3,261**	**$1,944**

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 for The Veterans Corporation in fiscal years 2002 and 2003. In fiscal year 2003, The Veterans Corporation did not realize much revenue from cash contributions and pledges and contributed services and in-kind contributions.

Table 3: Veteran Corporation's Schedule of Revenue for Fiscal Years Ending September 30, 2002, and 2003

Dollars in thousands

	2002		2003		Combined total	
Revenue	**Dollars**	**Percentage**	**Dollars**	**Percentage**	**Dollars**	**Percentage**
Federal appropriations used	$3,754	57	$3,312	78	$7,066	65
Cash contributions and pledges	1,263	19	258	6	1,521	14
Donated services	1,517	23	440	10	1,957	18
Interest income	63	1	29	1	92	1

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Dollars in thousands

	2002		2003		Combined total	
Revenue	**Dollars**	**Percentage**	**Dollars**	**Percentage**	**Dollars**	**Percentage**
Fast Trac Revenue[a]	5	N/A	184	4	189	2
Other	6	N/A	49	1	55	N/A
Total revenue	**$6,609**	**100**	**$4,273**	**100**	**$10,882**	**100**

Source: The Veterans Corporation.

Notes: Data from audited financial statements. Numbers may not add up to total because of rounding.

N/A means not applicable.

[a]Fast Trac revenue is revenue associated with the VET program.

The Veterans Corporation reported approximately $258,000 in cash contributions and pledges in 2003 as revenue. More than half of the revenue, $157,000 was cash contributions. The remaining $101,000 was recorded as pledges that The Veterans Corporation expected 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, 2003.

Table 4: Veterans Corporation's Schedule of Contributions Receivable As of September 30, 2003

Dollars in thousands

Contributions receivable to be received in	**Dollars**
Less than 1 year	$394
1 to 5 years	728
Greater than 5 years	201
Subtotal	**$1,323**
Less: present value discount	123
Contributions receivable	$1,200

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 2002 and 2003. Expenses related to program activities represent the majority of The Veterans Corporation's expenses. The percentage of total expenses accounted for by program activities increased, fund-raising expenses remained the same, and administrative expenses decreased.

Table 5: Veteran Corporation's Federally Funded Expenses by Function for Fiscal Years Ending September 30, 2002, and 2003

Dollars in thousands

	2002		2003	
Functional areas	**Dollars**	**Percentage**	**Dollars**	**Percentage**
Program activities	$2,410	64	$2,403	72
Fund-raising	480	13	419	13
Administrative	864	23	491	15
Total expenses	**$3,754**	**100**	**$3,312**	**100**

Source: The Veterans Corporation.

Notes: Data from audited financial statements. Numbers may not add up to total because of rounding.

Comments from The Veterans Corporation

The Veterans Corporation
Capital • Training • eCommerce • Services

Martin A. Berkowitz
President and Chief Executive Officer

August 3, 2004

Mr. William B. Shear
Director, Financial Markets and Community Investment
United States General Accounting Office
441 G Street, NW, Room 2440B
Washington, DC 20548

Re: GAO-04-893 The National Veterans Business Development Corporation Faces Challenges in Planning for and Achieving Financial Self-Sufficiency

Dear Mr. Shear:

There are several key points in the above GAO Report that we believe require explanation, clarification and/or correction. We appreciate the opportunity to be able to do so, while the report is in draft form.

First, we want to acknowledge the professionalism of your team and the manner in which they conducted their review. They were both courteous and mindful of the time required to respond to their questions. They were always reasonable in their approach to the review, given the tasks and timeline that was set for them. It should be noted, however; that the review, just nine short months after the last GAO review, again necessitated a significant expenditure of time and effort by the team and our small staff, adversely impacting our ability to serve Veterans.

The key points we wish to make are:

1. Of great concern to us is the discussion of duplication of services (pages 12 through 15 of the draft report). The report discusses the extent of duplication between the VetBiz Vendor Information Pages and The Veterans Corporation's Veteran Business Directory. It also accurately portrays many of the differences between the two. We do not believe, however; that it sufficiently emphasizes the importance of the Veteran Business Directory to our operations.

   In June 2003 we responded to a 16 May 2003 notice in the Federal Register announcing VA's intent to create a Veteran Business Database. On 16 June 2003, our President & CEO wrote to Secretary Principi offering to give our Directory to VA and thereby save VA funds. VA replied that they would use our Directory "as one of the many sources that [their] personnel will use to identify veterans in business". They continued with the development of their own tool, which they subsequently launched on 17 September 2003.

THE NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION
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The Veterans Corporation has a congressional mandate to provide Veteran and Service Disabled Veteran Businesses with business opportunities. The directory is central to this purpose and our long-range plans of becoming self-sufficient. We additionally recognized the need to include Guard and Reservists in our database. This decision now appears prescient as more than 70% of these service members have since been deployed to combat zones. We are attempting to grow a large database of Veterans and Service Disabled Veterans, not just involved in doing business in the public sector, as VA is doing, but the even larger marketplace of veterans in the private commercial sector. Conversely, VA's congressional mandate is to solely provide federal agencies with information about service-disabled, veteran-owned small businesses.

We believe that we have not duplicated VA's database but that VA has replicated our database after being offered an opportunity to share our database. Regardless, we believe as the two databases grow they will continue to differ in their composition, customers and beneficiaries.

2. The report takes us to task for not having developed outcome-oriented metrics that can be used in our reporting to Congress (pages 24, 25, of the draft report). We believe that the report should also stress that in servicing small businesses, and particularly in the area of start-ups, outcomes do not occur overnight. The data on small businesses shows that 80% or more of start-ups fail in their first five years of operation. We have not been in existence long enough to be able to determine whether our programs and services are improving the odds for Veteran and Service Disabled Veteran businesses. We have begun the process of developing metrics that will allow us to make these determinations when we have more time and experience under our belt. The report acknowledges that we have developed outcome-oriented metrics in some areas. For example, we are now surveying the 150 graduates of our VET program that graduated in the 2D quarter of 2003, to see if their businesses performed better after the Veterans/owners completed our training courses. We will continue to monitor their success in business, over time, and this will help us build an outcome-oriented, performance measured report card to provide to Congress in our Annual Reports.

   We have also developed a cost/benefit approach to analyzing our affinity programs. This not only looks at the revenues TVC earns; but also looks at how much we are able to save the Veteran business owner on the products and services for which we have been able to negotiate discounts, on their behalf.

3. Both the staff and Board of Directors of TVC do not believe that strategic goals set by our Board of Directors should be specific in outcomes (pages 21 – 24, of the draft report). The strategic goals support TVC's strategic vision and mission, and thus help provide an overall framework for the Corporation. TVC's Strategic Planning also requires that the corporate staff develop specific objectives and initiatives, as well as performance metrics in support of these strategic goals. As such, the corporate staff then translates this strategic goal framework into specific operation objectives and initiatives that are measurable and are supported by specific metrics. The Board of Directors reviews these objectives and metrics quarterly and annually, and can and does ask for

modifications, as they deem necessary. The staff then executes against these objectives. This is, to our experience, a standard and accepted practice of business planning, and one that we believe works well in our environment.

4. Notwithstanding the skepticism expressed by representatives of the Urban Institute's Center on Nonprofits and Philanthropy (page 40 of the draft) we are committed to obtaining self-sufficiency. We do not know what information these representatives were given about The Veterans Corporation, but second-guessing in this area is a lot easier than executing. Please remember that we are a start-up business, particularly as it relates to the self-sufficiency requirement. We are an unusual start-up in that our angel venture capital came from the United States Congress; and we are grateful for their support, which has enabled us to advance the cause of Veteran entrepreneurship.

   We also recognize that along with that capital came requirements and restrictions that most start-ups do not have to deal with. As we said earlier, 80% or more of all start-ups fail within the first five years of operation. Our near term survival is assured because of the government support. While our long-term survival is not guaranteed, we believe that our strategy is sound and that sound execution of our plans will result in our achieving this goal.

   It is important to point out that P.L. 106-50 did not require that we be self-sufficient by a particular date. It did require that we produce a plan for self-sufficiency. The exact verbiage of the law is:

   "(3.) Privatization

   The Corporation shall institute and implement a plan to raise private funds and become a self-sustaining corporation." [Title 15, Chapter 14A, sec.657c., K (3)]"

   We believe the drafters of the legislation understood the difficulties faced by all new businesses, and so they wisely did not foreclose the possibility of additional federal support beyond year four. We do not believe that self-sufficiency and additional federal funding are mutually exclusive.

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,

Martin A. Berkowitz
President and Chief Executive Officer

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In addition to the persons named above, Elizabeth H. Curda, Janet Fong, Yola Lewis, Brittni Milam, Marc W. Molino, Julie T. Phillips, Barbara M. Roesmann, and Paul G. Thompson made key contributions to this report.

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