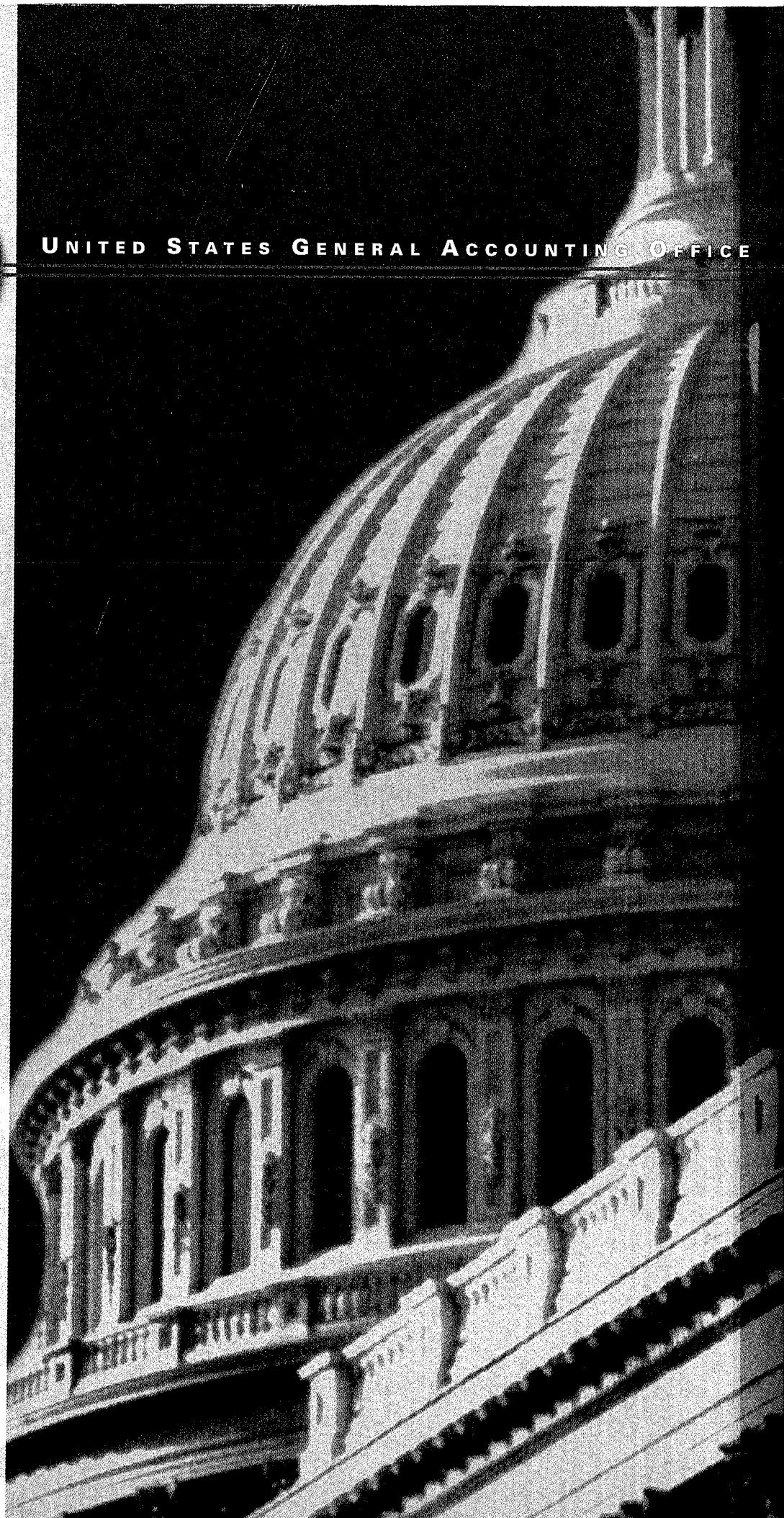
GAO

UNITED STATES GENERAL ACCOUNTING OFFICE

COMPTROLLER GENERAL'S 1997 ANNUAL REPORT



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MAKING GOVERNMENT ACCOUNTABLE

As citizens, Americans expect performance and accountability from their government in return for the taxes they pay. Today, thanks to a set of interrelated reforms put into place by the Congress, federal agencies have the opportunity and the means to meet this expectation. Like America's private sector and governments at the state and local level, the federal government is beginning to rise to the challenge of improving performance and becoming more accountable for results.

Since 1990, the Congress has passed a series of measures that, taken together, constitute a new framework for managing the federal government, one that imposes a common-sense, businesslike approach to fulfilling the public trust. Once implemented, these measures will help agencies operate with new discipline and accountability; agencies will be able to demonstrate what results they achieve and how much those results cost. The framework consists of three elements: financial management reform, information technology reform, and a basic shift in management emphasis from process to performance.

FINANCIAL MANAGEMENT REFORM

During the 1980s, GAO warned of long-standing financial management weaknesses that routinely cost the federal government billions of dollars and left it vulnerable to fraud, waste, abuse, and mismanagement. In 1990, the Congress passed the Chief Financial Officers (CFO) Act, creating chief financial officer positions in major executive branch agencies. Four years later, the Government Management Reform Act expanded this legislation to require that all major government entities produce annual audited financial statements. Federal agencies are now subject to the same kinds of financial reporting that had long been required of state and local governments and in the private sector.

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Since the passage of the CFO Act, work has proceeded on all facets of its implementation—from the appointment of chief financial officers, to the development of modern financial systems, to the reporting and auditing of financial results and management controls. This spring, the Secretary of the Treasury will issue the first-ever consolidated financial statements for the federal government, which will be subject to independent audit by GAO. This will be an important milestone toward successful implementation of the CFO Act and realization of its goal of providing congressional and executive branch decisionmakers with the reliable financial information that has been absent in the past.

Information Technology Reform

Federal agencies spend about $25 billion each year on their information technology infrastructure. Computer systems, networks, and electronic records are now vital to nearly every aspect of government operations and spending—from national defense and air traffic control to revenue collection and the payment of benefits. But the efforts that agencies have made to acquire and make use of information technology have suffered numerous setbacks: schedule delays; cost overruns; and a failure to live up to their potential to improve mission performance, lower administrative costs, and enhance service to the public.

Agencies' widespread problems with information technology led the Congress to pass the Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996. These reforms directed agencies to follow a new approach toward technology management—one based in part on GAO's study of the practices of leading public and private-sector organizations that have successfully used technology to improve their performance and meet their strategic goals.

Performance-based Management

At the core of the new management framework is the Government Performance and Results Act of 1993 (also known as GPRA or the Results Act). While the CFO Act is focused on improving agencies' management and financial accountability, the Results Act is aimed at improving program performance. Over the years, GAO's audits and evaluations have highlighted areas in which government programs have not achieved expected results, and traditionally agencies have used the amount of money directed toward programs or staff size as measures of program success. With the Results Act, the Congress recognized that if an agency reports only these kinds of measures, it has not answered the most important question of all: What are the taxpayers getting for their money?

Under the Results Act, accountability for performance would now mean accountability for results. Agencies would have to ask themselves some basic questions: What is our mission? What are our goals, and how can we achieve them? How can we measure our performance? How will we use performance information to make improvements?

The answers to these questions could not be expected to come quickly or easily. The Congress understood this when it passed the Results Act, and provided for a pilot program. About 70 federal entities, including components of most cabinet departments and major independent agencies, used the pilot phase to gain experience in the annual goal-setting and performance-measurement requirements of the act, and to provide lessons for other agencies.

In 1997, agencies prepared their first 5-year strategic plans, as required by the act. Later this year, they will issue their first annual performance plans.

ACCOUNTABILITY: THE HEART OF REFORM

Accountability, more than any other principle, underlies these governmentwide management reforms. The CFO Act, the Paperwork Reduction Act, the Clinger-Cohen Act, and the Results Act were adopted separately, but all were aimed at creating a more accountable government. In essence, these reforms require that the public's business be done in accordance with sound business practices. Sound strategic planning, for example, will help agencies better define their missions and set results-based goals in accordance with the interests and expectations of their stakeholders. Performance measurement will allow agencies to track their progress against the goals they have set, and give managers crucial information on which to base their organizational and management decisions.

Improvements in accountability will open a window onto federal agencies. Decisionmakers in the Congress, executive branch officials, and the public at large will be better able to oversee where tax dollars are going and what they buy. They will have better data with which to make and evaluate program and budgeting decisions.

Financial management reform, information technology reform, and the reorientation toward performance-based management reflect the Congress's growing insistence that federal entities be accountable for their actions and expenditures. The challenges that federal entities face are too great, and the government's resources are stretched too thin, to settle for good intentions; federal agencies and programs must demonstrate that they are getting results.

GAO's Continuing Contributions

Whether in formal audit and evaluation work or through its other contributions to legislative deliberations and oversight, GAO has long sought greater accountability in government, and it has worked with the Congress in creating this new framework for governmentwide management reform. It is now playing a continuing role in helping the Congress ensure that the reform is successful. For example, GAO developed a set of key questions for the Congress to ask when evaluating the strategic plans submitted by agencies this year in accordance with the Results Act, and staff throughout GAO assisted in a comprehensive review of the plans for the Congress. In addition, GAO is working with the executive branch on all facets of management reform. To help agencies better manage their information technology programs, GAO has issued guidance to the agencies on such critical concerns as information technology investment controls and information security. It is also working closely with inspectors general on financial audits of departments and agencies across the government.

As this report's next section, "Highlights of GAO Reports and Testimony," makes clear, these contributions to governmentwide management reform were only a part of GAO's work in 1997. The agency continues to produce information and analysis covering the full spectrum of federal agencies and programs to assist the Congress in carrying out its legislative and oversight responsibilities. GAO's work in the past year addressed such diverse issues as the Federal Aviation Administration's airline inspection program, the structure and financing of Social Security, the design of the 2000 census, and the role of federal agencies in protecting the nation from terrorism.

During fiscal year 1997, GAO produced 1,337 audit and evaluation products in support of the Congress's legislative and oversight needs, including 1,006 reports to Congress and agency officials, 149 formal congressional briefings, and 182 congressional testimony statements delivered by 65 GAO executives. GAO's work contributed to legislative and executive actions that resulted in about $21 billion in measurable financial benefits—a reflection of the value of GAO's audits, evaluations, and investigations.

Measurable financial benefits flowing from GAO's work in fiscal year 1997 were the highest of the past 5 years. But no less important a contribution were the benefits that could not be measured in dollars but which, by improving practices or operations, had the potential to increase taxpayer trust in government. For example, a

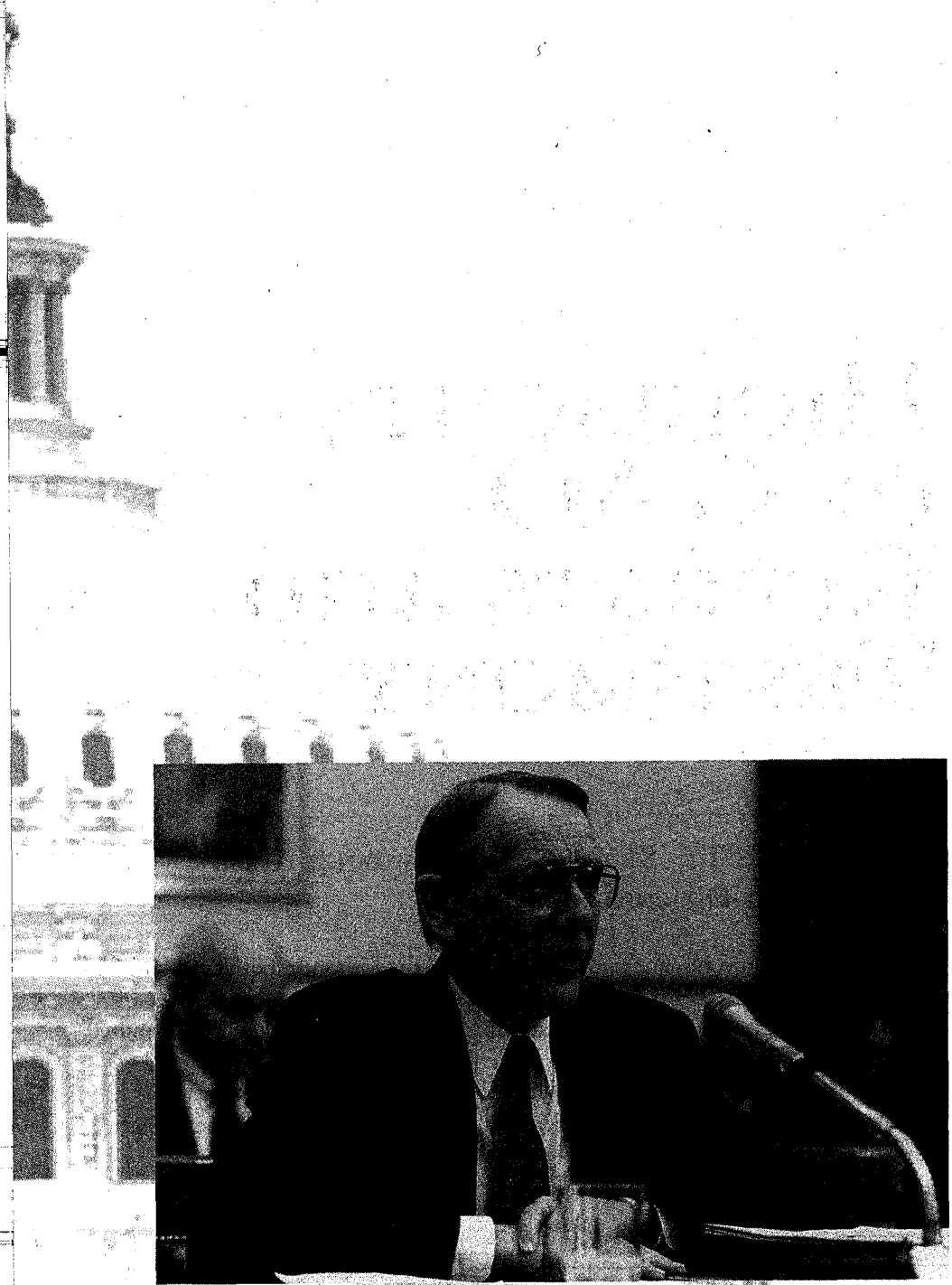
GAO report led the Congress to make unauthorized "browsing" of electronic tax records at IRS a criminal offense. And a GAO report that diabetics were not being adequately monitored helped persuade the Congress that Medicare recipients should receive more comprehensive preventive care.

Accomplishments such as these reflect GAO's continuing commitment to objective, fair and important work that contributes to honest, efficient management and greater accountability throughout government. The men and women of GAO take pride in this commitment and in their service to the Congress and the nation.

James F. Hinchman
Acting Comptroller General of the United States

HIGHLIGHTS OF GAO REPORTS AND TESTIMONY

In fiscal year 1997, GAO prepared 1,337 audit and evaluation products, including 1,006 reports to Congress and agency officials, 149 formal congressional briefings, and 182 congressional testimony statements delivered by 65 GAO executives. GAO also issued 2,386 legal decisions.



OCTOBER 1996

AVIATION SAFETY: NEW AIRLINES ILLUSTRATE LONG-STANDING PROBLEMS IN FAA'S INSPECTION PROGRAM

In this report GAO looks at the safety performance of new airlines, and the frequency with which the Federal Aviation Administration (FAA) inspects them compared with inspections of established airlines. Although not concluding that the new airlines sacrifice safety, GAO did find that during the first 5 years of operation, new airlines had higher rates of accidents, incidents, and enforcement actions than did established airlines. GAO urges FAA to study the feasibility of developing airline-specific safety-related performance measures that could be published for use by the traveling public. (RCED-97-2)

NUCLEAR SAFETY: STATUS OF U.S. ASSISTANCE TO IMPROVE THE SAFETY OF SOVIET-DESIGNED REACTORS

In 1992 the U.S. government initiated a program, the Lisbon Initiative on Multilateral Nuclear Safety, to help improve the safety of Soviet-designed reactors. As of February 1996, 22 donors, including the United States, had pledged or contributed more than $1.4 billion in assistance to this effort. While the U.S. nuclear safety assistance program seeks to reduce the risk of accidents and to encourage the shutdown of the Soviet-designed nuclear power reactors deemed at highest risk, none of these have been closed and one, in Armenia, has been restarted. (RCED-97-5)

AIRLINE DEREGULATION: BARRIERS TO ENTRY CONTINUE TO LIMIT COMPETITION IN SEVERAL KEY DOMESTIC MARKETS

Barriers to the entry of new airlines persist in the industry today. While access barriers, such as limited landing and takeoff slots and exclusive-use gate leases, can potentially affect any airline, they primarily affect new airlines—those begun after deregulation in 1978. The marketing practices of established airlines, such as bonuses to travel agents and frequent flyer plans, can also make it more difficult for new carriers to attract passengers. As a result, competition suffers, leading to higher airfares. (RCED-97-4)

SOCIAL SECURITY DISABILITY: Alternatives Would Boost Cost-Effectiveness of Continuing Disability Reviews

The current system of periodic disability reviews for Supplemental Security Income and Disability Insurance program beneficiaries is costly. An alternative approach would be to focus on beneficiaries whose cases are more cost-effective to review—that is, those with the greatest potential for medical improvement. The Social Security Administration could also contact beneficiaries to remind them of their responsibility to report medical improvements and to inquire about their interest in returning to work. (HEHS-97-2)

MEDICARE: HCFA Should Release Data to Aid Consumers, Prompt Better HMO Performance

Unlike leading private and public health care purchasers, Medicare, the nation's largest purchaser of managed care services, does not routinely provide its consumers with comparative information on benefits, premium rates, and member satisfaction. Medicare collects such useful data, and sharing it could help older Americans and their families make more informed health care decisions. As it stands, millions of Medicare beneficiaries are selecting plans and making health care choices with little or no comparative information to help them. (HEHS-97-23)

VA HEALTH CARE: Opportunities to Significantly Reduce Outpatient Pharmacy Costs

Unlike most public and private health care plans, the Department of Veterans Affairs (VA) provides over-the-counter products such as aspirin, vitamins, and hand creams to veterans at low or no cost. One reason it does so is because veterans may lack the funds to purchase them. In this report GAO suggests ways to limit VA pharmacy costs by using copayments and limiting quantities and products dispensed. Reducing the costs of its pharmacies could better direct VA resources to hospitals, nursing homes, and home health care. (HEHS-97-15)

NOVEMBER 1996

FEDERAL DEBT: ANSWERS TO FREQUENTLY ASKED QUESTIONS

This publication concisely presents information on the federal debt, including how debt is defined, how it is measured, how much it has grown, who holds federal debt, and its implications for the national economy. A large federal debt constrains economic growth, and thus living standards of future generations, by reducing U.S. savings available for private investment. Interest on the federal debt—15 cents of every federal budget dollar—was one of the three largest spending items in the 1996 federal budget, behind Social Security and defense spending. (AIMD-97-12)

RURAL HEALTH CLINICS: RISING PROGRAM EXPENDITURES NOT FOCUSED ON IMPROVING CARE IN ISOLATED AREAS

The Rural Health Clinic (RHC) program was adrift, without focus on its original goal of assisting underserved rural communities and without adequate controls over steadily increasing costs. Nonetheless, the program continued to grow, even in well-populated areas where established health care systems already existed. There was little evidence to show that such growth was improving access to health care in underserved populations. In the Balanced Budget Act of 1997, the Congress adopted GAO recommendations on specific ways to refocus the RHC program to meet its original purpose. (HEHS-97-24)

MULTIFAMILY HOUSING: EFFECTS OF HUD'S PORTFOLIO REENGINEERING PROPOSAL

The Department of Housing and Urban Development's (HUD) insured Section 8 portfolio has three basic problems: high subsidy costs, high exposure to insurance loss, and the poor physical condition of some properties. HUD has proposed portfolio reengineering to correct these problems. GAO's analysis found that although HUD's portfolio reengineering proposal would decrease subsidy costs over the long term, it would also generate $6-7 billion in claims against the Federal Housing Administration's insurance fund over the next 10 years. (RCED-97-7)

DEPARTMENT OF ENERGY: Opportunity to Improve Management of Major System Acquisitions

This report identifies four key factors affecting the Department of Energy's (DOE) ability to complete its largest and most significant projects, called major system acquisitions (MSA), within originally estimated cost and time schedules. Although there are no quick, easy solutions, DOE initiatives in contract reform, strategic systems and life-cycle asset management, strategic planning, information resources management planning, and financial planning may result in better management of MSAs. (RCED-97-17)

BANK OVERSIGHT STRUCTURE: U.S. and Foreign Experience May Offer Lessons for Modernizing U.S. Structure

During the congressional debate on U.S. banking regulation and the modernization of its oversight structure, questions were raised about how other countries structure and carry out their various bank regulation and central bank activities. This report discusses banking oversight in Canada, France, Germany, Japan, and the United Kingdom, and highlights characteristics of other nations that could be replicated here. (GGD-97-23)

BUDGET ISSUES: Budgeting for Federal Capital

Requiring that budget authority for the full cost of acquisitions be provided before an acquisition is made allows the Congress to better control capital spending. But agency officials see such initial funding as problematic because it requires the full cost of an asset to be absorbed in an agency's annual budget, although the benefits may accrue over many years. This report describes how five federal organizations plan and budget for capital assets, and their experiences with the budget process. (AIMD-97-5)

EXPORT CONTROLS: Sensitive Machine Tool Exports to China

Machine tools for manufacturing parts for commercial passenger aircraft in China were diverted to a facility that produces fighter aircraft and cruise missiles for the People's Liberation Army. The Department of Commerce had approved this export in 1994 after a review process that raised concerns over possible misuse of this export. Commerce amended the licenses, and the diverted equipment was relocated to a commercial aircraft facility in Shanghai before it could be misused. Commerce did not begin its investigation until 6 months after the reported diversion. The Department of Justice is conducting a criminal investigation. (NSIAD-97-4)

DECEMBER 1996

AIRPORT AND AIRWAY TRUST FUND: Issues Raised by Proposal to Replace the Airline Ticket Tax

This report examines a user-fee alternative proposed by a coalition of the 7 largest U.S. airlines that would replace the 10-percent tax on domestic airline tickets paid by all air travelers. The coalition proposal favors large airlines that operate hub-and-spoke systems at the expense of the low-fare and small airlines, which tend to offer direct, point-to-point service. By shifting most of the estimated $600 million financial burden from one segment of the industry to another, the coalition proposal could have substantial implications for domestic competition. (RCED-97-23)

SKILLED NURSING FACILITIES: Approval Process for Certain Services May Result in Higher Medicare Costs

This report discusses the growth in costs of skilled nursing facilities, which provide posthospital care for those needing a higher level of care than that which can be provided at home. Medicare payments to these facilities have grown rapidly, from $456 million in the early 1980s to nearly $11 billion in 1996. One cause of this huge cost increase is the growth of exceptions to routine cost limits. GAO recommends that Medicare revise the current exception process to differentiate nursing homes that provide atypical services from those that simply have higher costs. (HEHS-97-18)

AIR FORCE DEPOT MAINTENANCE: Privatization-in-Place Plans Are Costly While Excess Capacity Exists

GAO found that plans to privatize-in-place the depot maintenance workloads at the Sacramento, California, and San Antonio, Texas, air logistics centers would result in costly excess capacity at the remaining Air Force depots and violate the public-private competition requirements of federal law. Over $200 million could be saved annually by transferring the repair and maintenance work to other depots. Subsequent to the issuance of this report, the Department of Defense acknowledged that competition was required and began to use public-private competitions for repair and maintenance work at Sacramento and San Antonio. (NSIAD-97-13)

EXPORT-IMPORT BANK: Options for Achieving Possible Budget Reductions

GAO identifies two options for reducing the Export-Import Bank's subsidy costs while remaining competitive: raising fees and reducing program risks. These options would not require legislative change in the Bank's charter, but would need to be considered within the full context of their trade and foreign policy implications. Raising exposure fees, which are generally lower than those of other nations' export credit agencies, would be the least disruptive option. (NSIAD-97-7)

ENERGY SECURITY: Evaluating U.S. Vulnerability to Oil Supply Disruptions and Options for Mitigating Their Effects

This report assesses the effectiveness of the 1995 National Energy Policy Plan in reducing the vulnerability of the U.S. economy to oil supply disruptions and price shocks (oil shocks). It estimates the economic benefits of importing oil, and compares these benefits with economic costs of past disruptions. It also provides the views of oil experts and industry analysts on effective strategies for dealing with the economy's vulnerability to oil shocks. (RCED-97-6)

FOREIGN PHYSICIANS: Exchange Visitor Program Becoming Major Route to Practicing in U.S. Underserved Areas

Placing enough physicians in underserved areas remains a long-standing problem in the United States. To combat it, a growing number of underserved locations are receiving waivers of visa requirements to attract non-U.S. citizens who have just completed their graduate medical education in the United States. The growing use of these waivers is not without controversy. While the Department of Health and Human Services does not support that waivers be used as a means to address medical underservice in the United States, communities that need physicians say that they cannot recruit qualified doctors without them. (HEHS-97-26)

CHILD SUPPORT ENFORCEMENT: Early Results on Comparability of Privatized and Public Offices

Fifteen states have turned to full-service privatization of child support enforcement as a way to improve performance and handle growing caseloads. In three comparisons of performance, fully privatized offices performed at least as well as or, in some instances, better than public programs in locating noncustodial parents, establishing paternity and support orders, and collecting support owed. However, privatized offices were not always as cost-effective as public offices. (HEHS-97-4)

JANUARY 1997

ARMY RANGER TRAINING: SAFETY IMPROVEMENTS NEED TO BE INSTITUTIONALIZED

Army ranger training develops skills in infantry, airborne, air assault, platoon, mountaineering, and waterborne operations. It is conducted in difficult terrain and under mental and physical stresses that are intended to approach those found in combat. The Army has improved safety following the February 1995 accident that resulted in the hypothermia deaths of four trainees. To sustain these safety improvements, GAO believes that corrective actions need to be institutionalized and periodically inspected by units outside the chain of command. (NSIAD-97-29)

FDA's MAMMOGRAPHY INSPECTIONS: WHILE SOME PROBLEMS NEED ATTENTION, FACILITY COMPLIANCE IS GROWING

Inspections of mammography facilities appear to be progressing well. However, GAO found that the Food and Drug Administration (FDA) needed to strengthen equipment inspection procedures and institute follow-up reviews of clinics where problems of image quality were found, to ensure that violations are promptly and adequately corrected. At GAO's recommendation, FDA has taken action to establish procedures, guidance, and training to ensure that mammography facilities are in compliance with quality standards. (HEHS-97-25)

MILITARY ATTRITION: DOD COULD SAVE MILLIONS BY BETTER SCREENING ENLISTED PERSONNEL

About one-third of enlistees in the military services fail to complete their first tours of duty. Thousands of recruits are separated in the first 6 months because the services fail to screen applicants for disqualifying medical conditions or for preservice drug use. Thousands of recruits are separated because they are not physically prepared for basic training, and are judged to lack motivation. By reducing attrition, it is estimated that long-term cost savings in the range of $15-39 million could be realized. (NSIAD-97-39)

MEDICAL DEVICE REPORTING: Improvements Needed in FDA's System for Monitoring Problems With Approved Devices

Although the amount of information reported to the Food and Drug Administration (FDA) about medical device problems has increased dramatically since the Safe Medical Devices Act was enacted, FDA does not systematically ensure that reported problems receive prompt attention and appropriate resolution. As a result, FDA's adverse event reporting system is not providing sufficient early warnings about problem medical devices, as the law intended. Feedback to users and manufacturers could be helpful, yet FDA does not routinely communicate the results of problems and corrective actions. (HEHS-97-21)

AIR TRAFFIC CONTROL: Improved Cost Information Needed to Make Billion Dollar Modernization Investment Decisions

Weak cost-estimating processes and accounting practices undermine the ability of the Federal Aviation Administration and the Congress to make informed air traffic control (ATC) modernization decisions—especially critical when making multimillion-dollar investments in mission-critical ATC systems. GAO recommended that FAA implement a cost-accounting capability and define specific, agencywide processes for cost estimating, to incorporate, among other items, a historical database, audit trails, calibrated cost models, and structured approaches for estimating software size and complexity. (AIMD-97-20)

FEBRUARY 1997

HIGH-RISK SERIES

Begun in 1990, this is GAO's third series of reports on federal programs considered to be high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. This 14-volume series focuses on 25 areas that are costing the government billions of dollars, including 5 newly added areas—the Year 2000 problem, information security, defense infrastructure, supplemental security income, and the 2000 decennial census. GAO has made hundreds of recommendations to help improve these high-risk situations, which have at their core a lack of fundamental accountability. GAO has worked closely with the Congress in its efforts to address high-risk problems through oversight hearings and legislative initiatives. High-risk areas range from poor financial management at the Department of Defense—which lacks accurate financial information to manage an annual budget of about $250 billion and over $1 trillion in assets worldwide—to the Internal Revenue Service, which attempts to handle over a billion tax returns annually with antiquated information systems and outdated business processes. (HR-97-1 through 14)

MANAGING FOR RESULTS: USING GPRA TO ASSIST CONGRESSIONAL AND EXECUTIVE BRANCH DECISIONMAKING

Testimony of James F. Hinchman, Acting Comptroller General of the United States

Congress can use the Government Performance and Results Act to obtain the vital information it needs to better make important, difficult decisions. Consultation about strategic planning provides a useful opportunity for the Congress and the executive branch to work together to help ensure that agency missions are focused, goals are results-oriented, and strategies and funding projections are appropriate and reasonable. The Results Act's strategic planning process is a powerful vehicle for clarifying congressional expectations and expanding the focus on results over process. (T-GGD-97-43)

BLOOD SUPPLY: FDA Oversight and Remaining Issues of Safety

While the blood supply is very safe, no amount of federal regulation can entirely eliminate blood-transfusion risks because of human error, technological limitations of state-of-the-art tests, and the biological nature of the product itself. GAO did, however, find areas in which the Food and Drug Administration (FDA) could act to further improve the safety of the blood supply. For example, unlicensed facilities—those that do not sell or exchange blood across state lines—are not required to report errors or accidents, although they collect 10 percent of the U.S. blood supply. Without full reporting, FDA cannot monitor or control quality in the entire industry. (PEMD-97-1)

HOUSING AND URBAN DEVELOPMENT: Potential Implications of Legislation Proposing to Dismantle HUD

A legislative proposal to dismantle the Department of Housing and Urban Development (HUD), introduced in the 104th Congress, would fundamentally change the federal role in housing and community development by transferring some of HUD's functions to other federal agencies, the states, or the private sector, and eliminating other functions altogether. The proposal could have far-reaching effects on renters, communities, and would-be home buyers. (RCED-97-36)

EMPLOYMENT-BASED HEALTH INSURANCE: Costs Increase and Family Coverage Decreases

As the cost of health insurance has escalated, many employers have restructured the benefits they offer. Starting in the late 1980s to 1994, increases in employers' costs to provide health insurance to employees and their families have outpaced inflation—with costs jumping 18 percent in 1 year alone. Some employers dropped health insurance coverage entirely—particularly small employers—shifting the full burden to employees. More commonly, however, employers increased the amount employees had to contribute, particularly for family coverage. (HEHS-97-35)

SOCIAL SECURITY ADMINISTRATION: Significant Challenges Await New Commissioner

The Social Security Administration (SSA) faces dramatic challenges. It needs to take a more active role in the public policy debate on the future financing and structure of social security. SSA must refocus its disability income programs, emphasizing return to work. In the area of combating fraud and abuse, it must protect taxpayer dollars and dispel perceptions that SSA is not making cost-effective and efficient use of taxpayer funds. It must manage its technology investments, including its Year 2000 conversion. As an agency that touches the lives of virtually all Americans, SSA's success in meeting these challenges is critical. (HEHS-97-53)

YEAR 2000 COMPUTING CRISIS: An Assessment Guide

Many government computer systems, designed 20 to 25 years ago, contain millions of lines of software code, all of which need to be examined for date-coding problems. This assessment guide provides a structured approach to help organizations review the adequacy of their planning for the Year 2000. It is imperative that public- and private-sector entities identify their critical computer systems, develop conversion strategies and plans, and dedicate sufficient resources to replacing or converting and testing systems and programs in time to ensure that such systems will be prepared for the next century. (AIMD-10.1.14)

ASSESSING RISKS AND RETURNS: A Guide for Evaluating Federal Agencies' IT Investment Decisionmaking

This guide provides a structure for assessing how well a federal agency is selecting and managing its information technology (IT) resources and identifying specific areas for improvement. It assesses an organization from three perspectives: the *processes* it uses in selecting, managing, and evaluating IT investments; the cost, benefit, and risk *data* it uses in making IT decisions; and the *decisions* that result from using these processes and data. The guide focuses on common elements necessary for successful management of IT investments. (AIMD-10.1.13)

COOPERATIVE PURCHASING: Effects Are Likely to Vary Among Governments and Businesses

The potential effects of the cooperative purchasing program, which would allow state and local governments to purchase items through federal supply schedules, are variable. Since participation would be voluntary, state and local governments would use federal schedules only if they perceived benefits, such as lower prices. State contracting laws and preferences to purchase from in-state sellers may limit the extent of these benefits. This report also noted that the potential effects on industry, including small businesses, are likely to vary. (GGD-97-33)

DEFENSE HEALTH PROGRAM: Future Costs Are Likely to Be Greater Than Estimated

Key assumptions that the Department of Defense (DOD) made in estimating future health program costs are unrealistic. DOD assumed that no cost growth would be attributable to advances in medical technology and the intensity of treatment. Technological advances such as CAT scans, MRIs, organ transplants, and new drug treatments increase costs. These costs are often compounded when new procedures increase the intensity of treatment. DOD also assumed—unrealistically—that savings could be achieved through a new emphasis on utilization management. (NSIAD-97-83BR)

TELEMEDICINE: Federal Strategy Is Needed to Guide Investments

Telemedicine can improve, and perhaps change significantly, how health care is provided in the future. Nine federal departments and agencies have invested heavily in telemedicine. The Department of Defense, the largest federal investor, is considered the leader in developing this technology. Opportunities exist for federal agencies to share lessons learned and exchange technology, but a governmentwide strategy is needed to establish near- and long-term national goals and objectives to ensure the cost-effective development and use of telemedicine. (NSIAD/HEHS-97-67)

DRUG CONTROL: Long-Standing Problems Hinder U.S. International Efforts

Illegal drug use continues to be a serious health problem in the United States. Over the past 10 years, the United States has spent about $20 billion on international drug control and interdiction efforts in trying to reduce the supply of illegal drugs. Despite this activity, illegal drugs still flood this country. A key reason for the lack of success in counternarcotics action is that international drug cartels have become sophisticated, multibillion-dollar industries that quickly adapt to new U.S. drug control strategies. As success is achieved in one area, drug-trafficking organizations change tactics, thwarting American progress. (NSIAD-97-75)

FORCE STRUCTURE: Army Support Forces Can Meet Two-Conflict Strategy With Some Risks

The Army believes it can deploy sufficient support forces to meet the requirements of two nearly simultaneous major regional conflicts with moderate risk. Lacking adequate active-duty forces, the Army must rely on reserve forces that require additional time to deploy and would arrive late. High reliance on reserves for a second conflict may entail risk if the second one occurs without warning, or if mobilization is delayed. In this risk assessment, the Army used many favorable assumptions that understated risks. It assumed, for example, immediate deployment and ready access to overseas ports and airfields. (NSIAD-97-66)

MARCH 1997

CHEMICAL WEAPONS AND MATERIEL: KEY FACTORS AFFECTING DISPOSAL COSTS AND SCHEDULE

Testimony of Henry L. Hinton, Jr., Assistant Comptroller General, National Security and International Affairs Division

While there is general agreement about the need to destroy the chemical stockpile, progress has been slow due to a lack of consensus among the federal, state, and local governments as to how such destruction should take place. It now appears that disposal will cost more than the estimated $24 billion and take longer than currently planned. Key factors affecting the destruction program include public concern over the safety of incineration, compliance with environmental laws, and the introduction of alternative disposal technologies. (T-NSIAD-97-118)

TAX CREDITS: OPPORTUNITIES TO IMPROVE OVERSIGHT OF THE LOW-INCOME HOUSING PROGRAM

The low-income housing tax credit program gives developers and investors incentives to provide affordable rental housing for low-income households. The program is jointly administered by the Internal Revenue Service (IRS) and the states. While the program has stimulated low-income housing development and generally meets the requirements of the Internal Revenue Code, the procedures that some states and IRS use for oversight should be improved. GAO makes several recommendations, including that IRS ensures independent verification of information submitted by developers and that the program be subject to audits under the Single Audit Act. (GGD/RCED-97-55)

SUPERFUND: Times to Complete the Assessment and Cleanup of Hazardous Waste Sites

The time taken to evaluate hazardous waste sites for inclusion in the Superfund program and to complete their cleanup once they have been identified has increased. The Environmental Protection Agency (EPA) takes almost 10 years to evaluate sites for placement on the National Priorities List—the nation's worst hazardous waste sites. Increasing completion times are a concern because many listing and cleanup activities remain in the Superfund program. According to EPA, cleanups are taking longer because projects are more complex. (RCED-97-20)

FOOD-RELATED SERVICES: Opportunities Exist to Recover Costs by Charging Beneficiaries

The federal government spent nearly $1.6 billion in fiscal year 1995 to provide food-related services such as inspecting, testing, grading, and approving agricultural commodities and products. Some companies benefiting from these services paid user fees for the cost of the services, while in other cases no user fees were charged. The government could increase collections by charging the full cost of inspection services and by applying fees consistently. Charging for regulatory compliance inspections, such as meat and poultry inspections, would produce the most revenue. (RCED-97-57)

FEDERAL POWER: Issues Related to the Divestiture of Federal Hydropower Resources

A divestiture of the federal government's hydropower assets would consider many factors, such as how to balance the multiple uses of water, how to protect the environment, and how to regulate power generation after the sale. Further, the sale's objectives—for instance, to reduce or eliminate the government's presence in an activity that may be viewed as best left to the private sector or to improve the government's fiscal position—will help to determine subsequent decisions, such as what specific assets to sell, what conditions and liabilities to transfer with those assets, and what sales method to use. (RCED-97-48)

FOOD STAMPS: Substantial Overpayments Result From Prisoners Counted as Household Members

Despite federal regulations prohibiting inmates of correctional institutions from participating in the food stamp program, GAO used computerized records to identify over 12,000 inmates in California, Florida, New York, and Texas who were included in households receiving food stamps. Households in these jurisdictions, which account for about a third of food stamp program participation nationwide, improperly collected an estimated $3.5 million in food stamp benefits. Prisoner participation goes undetected because local agencies generally do not verify the information on household membership provided by food stamp applicants. (RCED-97-54)

MEDICAID FRAUD AND ABUSE: Stronger Action Needed to Remove Excluded Providers From Federal Health Programs

When providers of health services defraud federal or state health care programs or give poor quality care, they can be excluded from participation in Medicare, Medicaid, and other federal health programs. The process for excluding providers has operated successfully. Yet GAO found cases in which unacceptable providers in one state's Medicaid program continue to provide Medicare or Medicaid services in other states. This could be corrected by better tracking of exclusion referrals from the states, better staff training to reduce inconsistencies and improve timeliness, and improved outreach to states. (HEHS-97-63)

AIR TRAFFIC CONTROL: IMMATURE SOFTWARE ACQUISITION PROCESSES INCREASE FAA SYSTEM ACQUISITION RISKS

The Federal Aviation Administration (FAA) is modernizing the air traffic control (ATC) systems needed to ensure safe, efficient air travel. Because computer software is the most expensive and complex component of the ATC systems, FAA must use defined, disciplined processes when acquiring software. FAA's processes are ad hoc and sometimes chaotic. To address this situation, GAO recommended specific actions, including more rigorous software-acquisition processes, tightened accountability, formalized planning based on evaluation results, and adequate resource allocation. (AIMD-97-47)

UNITED NATIONS: LIMITATIONS IN LEADING MISSIONS REQUIRING FORCE TO RESTORE PEACE

The United Nations' record in effectively carrying out missions requiring the use of force has been mixed. This is because the United Nations cannot command resources and troops like sovereign nations, and its core principles—neutrality, impartiality, and seeking consent of warring parties for U.N. actions—are ill-suited for missions that may require force to restore peace and order. A single nation or coalition of nations with sufficient military capability and commitment may be more suited to lead such missions, especially where vital U.S. national interests are at stake. (NSIAD-97-34)

APRIL 1997

INTERCITY PASSENGER RAIL: AMTRAK'S FINANCIAL CRISIS THREATENS CONTINUED VIABILITY

Testimony of Phyllis F. Scheinberg, Associate Director, Transportation Issues, Resources, Community, and Economic Development Division

Amtrak's financial future has been staked on the ability to eliminate federal operating support by 2002 by increasing revenues, controlling costs, and providing customers with high-quality service. Amtrak faces significant challenges in accomplishing these goals, and due to its precarious financial condition, it is likely to require federal financial support—both operating and capital—well into the future. (T-RCED-97-147)

MEDICARE HMOs: HCFA CAN PROMPTLY ELIMINATE HUNDREDS OF MILLIONS IN EXCESS PAYMENTS

Contrary to expectations, studies have found that enrolling senior citizens in managed care plans costs more than their participation in the traditional fee-for-service Medicare. Recent legislation significantly changes the way Medicare sets HMO rates and slows the growth of future payments. However, the new rate-setting method contains certain inaccuracies that led to excess HMO payments under the previous rate-setting method. In this report, GAO recommends an equitable and easy-to-implement approach that could help reduce these excess payments. (HEHS-97-16)

CROP INSURANCE: OPPORTUNITIES EXIST TO REDUCE GOVERNMENT COSTS FOR PRIVATE-SECTOR DELIVERY

Federal crop insurance protects farmers against financial losses caused by droughts, floods, hurricanes, and other natural disasters. Private insurance companies sell, service, and share in the risk of federal crop insurance policies, and receive an expense reimbursement that covers their administrative costs. In this report GAO recommends that the expense reimbursement be reduced to reflect the appropriate and reasonable costs of selling and servicing crop insurance, and identifies different approaches to expense reimbursements that offer opportunities for additional cost savings. (RCED-97-70)

U.N. PEACEKEEPING: Status of Long-Standing Operations and U.S. Interests in Supporting Them

Eight long-standing U.N. peacekeeping operations are deployed in conflicts that have defied diplomatic resolution—sometimes for decades—and have become costly, open-ended commitments. To date these operations have cost about $6 billion—over one-third of total U.N. spending on peacekeeping over the past 50 years. Despite their cost and limited success in carrying out their mandates, the State Department supports continuing these operations indefinitely, given the potential harm to U.S. foreign policy interests if the underlying conflicts resumed. (NSIAD-97-59)

CONTRACT MANAGEMENT: Fixing DOD's Payment Problems Is Imperative

To achieve cost-effective control over its payment process, the Department of Defense (DOD) needs to act. Otherwise, it continues to risk hundreds of millions of dollars in potential overpayments and other financial management and accounting control problems. Improving its payment system will not be an easy or quick undertaking, and will require continued top management attention and support for many years. DOD could benefit from examining best practices of commercial organizations that have reengineered their contract payment processes. (NSIAD-97-37)

STATISTICAL AGENCIES: Consolidation and Quality Issues

Testimony by L. Nye Stevens, Director, Federal Management and Workforce Issues, General Government Division

In studying consolidation of the various U.S. statistical agencies, GAO compared the U.S. system with Statistics Canada and found that the centralized Canadian system has more flexibility to set and change priorities, better access to all government administrative records, and less burden on data users and providers. Yet disadvantages to consolidation exist as well. GAO also found that while U.S. statistical agencies generally adhere to professional standards, concerns about the quality of statistical data and their possible effects on the consumer price index and the upcoming decennial census may well be valid. (T-GGD-97-78)

DEFENSE IRM: INVESTMENTS AT RISK FOR DOD COMPUTER CENTERS

The Department of Defense recognizes the need to reduce the operating costs of its computer centers through consolidation, modernization, and outsourcing, but it has not yet established policies and procedures for making such decisions. GAO recommends that Defense develop a departmentwide plan to define such policies and procedures, including establishing targets for how many computer centers it needs, defining how operations should be consolidated, and identifying the optimum numbers and skill mix of operations staff at each location. Without better defined management principles to guide this decisionmaking, Defense at best will achieve optimization at the component level only, foregoing investment optimization for the Department as a whole. (AIMD-97-39)

FOREST SERVICE DECISIONMAKING: A FRAMEWORK FOR IMPROVING PERFORMANCE

The decisionmaking process used by the Forest Service is costly and time-consuming; further, the agency often fails to achieve its planned objectives. In GAO's examination of Forest Service decisionmaking, it found the inefficiency and ineffectiveness to be the result of a lack of attention to the process and lack of accountability for performance. To correct this and improve the agency's ability to deliver what is expected and promised, the Forest Service, in consultation with the Congress, needs to establish long-term strategic goals and clearly define mission priorities. (RCED-97-71)

MAY 1997

DOD HIGH-RISK AREAS: ELIMINATING UNDERLYING CAUSES WILL AVOID BILLIONS OF DOLLARS IN WASTE

Testimony of Henry L. Hinton, Jr., Assistant Comptroller General, National Security and International Affairs Division

GAO has identified six Department of Defense programs and operations as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement, and has made hundreds of recommendations to correct problems. Defense has begun correcting problems in each of the six high-risk areas, but eliminating the risks altogether will require that underlying causes be addressed—which has not yet been done. Top-level management within the Department needs to be given the authority and flexibility to achieve positive outcomes and held accountable for results. (T-NSIAD/AIMD-97-143)

NUCLEAR REGULATION: PREVENTING PROBLEM PLANTS REQUIRES MORE EFFECTIVE NRC ACTION

The Nuclear Regulatory Commission (NRC) is tasked with ensuring that the nation's 110 commercial nuclear power plants operate safely. To do so, NRC needs to take aggressive enforcement action and hold owners of nuclear plants accountable for correcting safety problems on a timely basis. Addressing safety issues at an early stage is key, because they are then easier and less costly to fix. Only by ensuring that nuclear power plants address safety deficiencies promptly and have high-quality management in place will NRC protect public safety from the dangers of such facilities. (RCED-97-145)

HOMEOWNERSHIP: Potential Effects of Reducing FHA's Insurance Coverage for Home Mortgages

The Federal Housing Administration (FHA) insures lenders against nearly all losses from foreclosures on single-family homes insured by the Department of Housing and Urban Development. The Department of Veterans Affairs (VA) also operates a single-family mortgage guaranty program. Unlike FHA, VA does not fully cover losses; its lenders assume more risk. If the FHA program were to become more similar to that of VA, it is likely that interest rates would rise and the volume of lending fall. As a result, it could become more difficult for low-income, first-time, and minority borrowers—who tend to be regarded as higher risks—to obtain home financing. (RCED-97-93)

WELFARE REFORM: States' Early Experiences With Benefit Termination

Terminating a family's Aid to Families With Dependent Children benefit represents the loss of a significant source of monthly income. At the time of GAO's review, states had seldom used such benefit termination provisions. Failure to comply with work requirements is the most significant reason for termination. Recipients' reasons for not complying include wanting to stay at home with their children and an unwillingness to perform community service or work for low wages. (HEHS-97-74)

SURFACE COMBATANTS: Navy Faces Challenges Sustaining Its Current Program

Surface combatants—cruisers, destroyers, and frigates—represent over one-third of the Navy's war-fighting fleet. The Navy currently spends about $3 billion each year to modernize its surface combatant force, a significant portion of the Navy's annual funding for new ships. This report discusses the Navy's basis for its current and planned surface combatant force, its plans to sustain the current force size into the next century, and key factors that could affect future force requirements. (NSIAD-97-57)

DEFENSE DEPOT MAINTENANCE: Uncertainties and Challenges DOD Faces in Restructuring Its Depot Maintenance Program

Testimony of David R. Warren, Director, Defense Management Issues, National Security and International Affairs Division

Waste and inefficiency in the Department of Defense's logistics system, including management of its $13-billion depot maintenance program, is one of the reasons GAO identified Defense infrastructure activities as a high-risk area. Privatization of depot maintenance is an option, but one that should be approached carefully, allowing for evaluation of economic and readiness needs. If not carefully carried out, privatizing depot maintenance could exacerbate existing capacity problems. (T-NSIAD-97-112)

BOSNIA PEACE OPERATION: Progress Toward Achieving the Dayton Agreement's Goals

NATO-led forces have created and sustained an environment that allows the peace process to move forward and Bosnians to return to normal life. The cease-fire has held, general security has improved, and some progress has been made in establishing political and economic institutions. The transition to an effective multiethnic government has not occurred, however, because political leaders of Bosnia's three major ethnic groups have not embraced political and social reconciliation. Based on the current state of political and social change in Bosnia, some sort of international military force will likely be needed there for many years to deter an outbreak of hostilities while Bosnians continue the reconciliation process. (NSIAD-97-132)

MEDICARE TRANSACTION SYSTEM: Success Depends Upon Correcting Critical Managerial and Technical Weaknesses

Medicare expects to process over 1 billion claims and pay $288 billion in benefits per year by 2000. To handle this expected increase, the Health Care Financing Administration (HCFA) planned to develop a unified claims processing system—the Medicare Transaction System (MTS). However, critical weaknesses placed the project at great risk of costing over $1 billion without obtaining intended benefits. GAO recommended that HCFA complete appropriate analyses before continuing MTS development. HCFA ultimately terminated the MTS contract after spending over 3 years and about $80 million. (AIMD-97-78)

VETERANS BENEFITS COMPUTER SYSTEMS: Risks of VBA's Year-2000 Efforts

Correcting the Year 2000 computer challenge is crucial if the Veterans Benefits Administration is to provide uninterrupted benefits and services to veterans and their dependents. Success will require a proactive strategy, whose linchpin must be completing the inventory and assessment of its information systems. To accomplish this and reduce risk, GAO made 10 recommendations—all of which were agreed to by the Department of Veterans Affairs. These included strengthening Year 2000 program management, prioritizing competing information technology projects, and developing contingency plans. (AIMD-97-79)

AGRICULTURAL INSPECTION: Improvements Needed to Minimize Threat of Foreign Pests and Diseases

The rapid growth in international trade and travel has dramatically increased the amount of cargo and number of passengers entering the United States. While the emphasis on facilitating trade and customer service is pressuring agricultural inspectors to speed the flow of passengers and trade, inspectors struggle to keep pace with increased workloads. In addition to visual inspections, x-ray technology and contraband-detector dogs are being used to pinpoint prohibited agricultural products from entering the country. (RCED-97-102)

DEFENSE HEALTH CARE: Medical Surveillance Improved Since Gulf War, but Mixed Results in Bosnia

The Department of Defense has taken steps to overcome the medical surveillance problems experienced during the Gulf War. Its record in implementing its medical surveillance plan in Bosnia for Operation Joint Endeavor has been mixed. Failures to assess all servicemembers' health in theater and after return to their home units and to document medical care provided in theater raise serious questions about Defense's ability to implement adequate medical surveillance should another high-conflict deployment such as the Gulf War occur. (NSIAD-97-136)

AUTOMATED TELLER MACHINES: Banks Reported That Use of Surcharge Fees Has Increased

About three-quarters of all banks in the United States operate automated teller machines (ATM). More than half of the ATMs operated by banks have a surcharge fee, and the average fee more than tripled from the end of 1995 to February 1997. About one-third of banks that operate ATMs impose surcharges on non-account holders. Of ATMs with surcharges, the most typical fee is $1.00, although fees range as high as $3.00. (GGD-97-90)

COURTHOUSE CONSTRUCTION: BETTER COURTROOM USE DATA COULD ENHANCE FACILITY PLANNING AND DECISIONMAKING

Building a courtroom is expensive. Depending on location, a typical trial courtroom could cost from $640,000 to $1.3 million. While the federal judiciary has embarked on a multibillion-dollar courthouse construction initiative, the Congress has become increasingly concerned that courtrooms are not fully utilized and that more courtrooms than are actually needed are being built. GAO's analysis of actual courtroom usage suggests many opportunities for reducing the cost of courthouse construction. (GGD-97-39)

EARNED INCOME CREDIT: CLAIMANTS' CREDIT PARTICIPATION AND INCOME PATTERNS, TAX YEARS 1990 THROUGH 1994

This report provides information on participation in the earned income credit (EIC) over a 5-year period. The EIC is a refundable tax credit available to low-income, working taxpayers. For tax years 1990 through 1994, GAO analyzes EIC claimants' patterns of claiming the credit, changes in income in the years following an EIC claim, and income and filing status once the EIC is no longer being claimed. The number of taxpayers claiming the EIC and the cost of the credit has increased steadily; this cost growth reflects the impact of expansion of EIC benefits. (GGD-97-69)

JUNE 1997

GULF WAR ILLNESSES: Improved Monitoring of Clinical Progress and Reexamination of Research Emphasis Are Needed

GAO's review found that neither the Department of Defense nor Veterans Affairs is currently able to determine whether ill Gulf War veterans are any better or worse today than when they were first examined. While the ongoing epidemiological research will provide descriptive data on veterans' illnesses, formidable methodological problems are likely to prevent researchers from providing precise, accurate, and conclusive answers regarding the causes of the veterans' illnesses. Evidence to support official conclusions on stress, leishmaniasis, and exposure to chemical agents was weak or subject to alternative interpretations. (NSIAD-97-163)

MEDICARE: Need to Hold Home Health Agencies More Accountable for Inappropriate Billings

Ten years ago, over 60 percent of home health claims were reviewed by Medicare claims-processing contractors. Today, despite the steady and rapid growth in home health expenditures, Medicare contractors review only 2 percent of all claims in this category. In this report, GAO suggests an approach that would identify and penalize providers who habitually bill Medicare inappropriately. Home care providers found to have excessively high billing errors would be required to pay the cost of follow-up audit work. (HEHS-97-108)

SUPPLEMENTAL SECURITY INCOME: Timely Data Could Prevent Millions in Overpayments to Nursing Home Residents

In 1995 about 1.8 million individuals in nursing homes whose care was being paid by Medicaid continued to receive Supplemental Security Income (SSI) benefits, contrary to law. The Social Security Administration (SSA), which administers SSI, estimates that overpayments to individuals in nursing homes may exceed $100 million annually. Actions to detect or prevent these overpayments have had little success, primarily because SSA relies on recipient self-reporting. To remedy this, SSA could obtain nursing home admissions data electronically from the states. (HEHS-97-62)

CHILD SUPPORT ENFORCEMENT: Strong Leadership Required to Maximize Benefits of Automated Systems

Welfare reform will reduce public assistance benefits, making it more important that automated child support enforcement systems work to help offset the loss in benefits to custodial parents. Since 1980 the federal government spent over $2 billion to help states develop such enforcement systems, yet a majority of state systems do not meet federal requirements. GAO recommended that the Department of Health and Human Services take steps to ensure that critical systems development milestones are attained before proceeding with development. (AIMD-97-72)

CHEMICAL WEAPONS STOCKPILE: Changes Needed in the Management of the Emergency Preparedness Program

After 9 years and funding of over $431 million, communities surrounding chemical stockpile storage sites still lack items critical to responding to an emergency. Progress has been slow because the Department of the Army and the Federal Emergency Management Agency—agencies charged with responsibility for emergency response in the event of an accident—disagree as to their respective roles and responsibilities. GAO recommends that unless these disagreements can be quickly resolved, the Army assume full control for emergency preparedness for chemical weapons stockpiles. (NSIAD-97-91)

PROPRIETARY SCHOOLS: Millions Spent to Train Students for Oversupplied Occupations

Under the Higher Education Act, the federal government spends billions of student financial aid dollars to help fund occupational training at proprietary schools. About $3 billion in student aid, primarily subsidized loans, financed this training for fiscal year 1995. Millions of dollars went to students who trained in fields with a surplus labor supply, such as barbering and cosmetology, legal assistant, respiratory therapy, and appliance repair. Information on employment of recent graduates and future demand for certain occupations should help students make informed career-training decisions. (HEHS-97-104)

OPERATION DESERT STORM: Evaluation of the Air Campaign

Air power clearly achieved many of Desert Storm's objectives, but fell short of fully achieving others. Many postwar claims made by the Department of Defense and manufacturers about weapon system performance were overstated, misleading, inconsistent with the best available data, or unverifiable. For example, the F-117 bomb hit rate ranged between 41 and 60 percent—considered highly effective, but still less than the 80-percent rate reported after the war by Defense and the primary contractor. (NSIAD-97-134)

INTERNATIONAL AVIATION: Competition Issues in the U.S.-U.K. Market

Testimony of John H. Anderson, Jr., Director, Transportation Issues, Resources, Community, and Economic Development Division

The current bilateral aviation agreement between the United States and the United Kingdom places substantial limits on competition. As a result, consumers in both countries have more limited service options and likely pay higher fares than they would in a more competitive environment. Only two U.S. airlines—American and United—may currently serve London's Heathrow Airport. Capacity constraints exist at Heathrow, and planned construction of a new terminal has been delayed, further postponing resolution of this issue for U.S. carriers. (T-RCED-97-103)

JULY 1997

YEAR 2000 COMPUTING CRISIS: TIME IS RUNNING OUT FOR FEDERAL AGENCIES TO PREPARE FOR THE NEW MILLENNIUM

Testimony of Joel C. Willemssen, Director, Information Resource Management, Accounting and Information Management Division

While federal agencies have made progress addressing the Year 2000 computer problem, they must speed up their pace to avoid widespread problems. Most agencies will not complete systems conversion or replacement until late 1999, leaving little margin of error for unexpected delays. If systems that millions of Americans rely on for benefits and services fail, the ensuing delays could be disastrous. Since the nonmonetary cost of systems failure can be very high, agencies must prepare contingency plans so benefits and services can continue to be provided even if systems are not Year 2000 compliant in time. (T-AIMD-97-129)

CRIMINAL ALIENS: INS' EFFORTS TO IDENTIFY AND REMOVE IMPRISONED ALIENS NEED TO BE IMPROVED

Testimony of Norman J. Rabkin, Director, Administration of Justice Issues, General Government Division

Through its Institutional Hearing Program, the Justice Department seeks to place incarcerated criminal aliens in deportation hearings so they can be readily deported upon their release from prison. The Immigration and Naturalization Service is not, however, fully utilizing this program and fails to identify many deportable criminal aliens before their release from prison. As a result, nearly 2,000 criminal aliens, including some aggravated felons, were released into U.S. communities during a 6-month period in 1995. Some were rearrested for crimes that included felonies. (T-GGD-97-154)

2000 CENSUS: Progress Made on Design, but Risks Remain

Required by the Constitution to reapportion seats in the House of Representatives, the decennial census will be the nation's most comprehensive and expensive statistical data-gathering program. GAO has repeatedly raised concerns about the need for the Census Bureau to consult with the Congress when making final decisions on design and funding of the 2000 census. The census has been designated one of GAO's high-risk areas because design delays could jeopardize the outcome, waste billions of dollars, and produce a flawed result. (GGD-97-142)

MILITARY BASES: Lessons Learned From Prior Base Closure Rounds

Lessons have been learned from prior base realignment and closure (BRAC) rounds that can be used to improve the BRAC process should future rounds be authorized. These lessons relate to the amount of savings and up-front costs associated with closing bases, and the economic impact on communities confronted with the loss of jobs. Savings from base closures are expected to be substantial. However, net savings were not generated as quickly as initially estimated because they were offset by high closing and environmental cleanup costs. (NSIAD-97-151)

COMBATING TERRORISM: Status of DOD Efforts to Protect Its Forces Overseas

American forces are better protected today from terrorist attacks. Security improvements are most evident in areas in which the risk of terrorism is the greatest, such as in Turkey and the Middle East. The Department of Defense has a number of initiatives aimed at combating terrorism, but it still lacks a comprehensive, consistent approach using common standards. This lack of prescriptive, measurable standards leaves commanders without an objective basis for determining if antiterrorism measures are sufficient. (NSIAD-97-207)

U.S. COMMISSION ON CIVIL RIGHTS: Agency Lacks Basic Management Controls

GAO's overall assessment of the U.S. Commission on Civil Rights suggests that its operations lack order, control, and coordination. Management is unaware of how federal funds appropriated to carry out its mission are being used. Projects embody a key component of the Commission's operations, yet project management is haphazard. No overall standard exists for assessing project timeliness. Finally, the lack of project documentation and coordination among offices that disseminate reports seriously hampers the Commission's ability to produce, issue, and disseminate reports. (HEHS-97-125)

MEDICARE HOME HEALTH AGENCIES: Certification Process Is Ineffective in Excluding Problem Agencies

Testimony of Leslie G. Aronovitz, Associate Director, Health Financing and Systems Issues, Health, Education, and Human Services Division

It is very easy to become a Medicare certified home health agency. The requirements are minimal, and the Health Care Financing Administration approves nearly all agencies seeking certification. While many home health agencies are drawn to the program with the intent of providing quality care, some are attracted by the relative ease with which they can become certified and participate in this lucrative, growing industry. Once certified, these agencies can remain active with little fear of losing their certification, even if repeatedly found to be providing substandard care. (T-HEHS-97-180)

HOUSING PRESERVATION: Policies and Administrative Problems Increase Costs and Hinder Program Operations

In creating the preservation program, the Congress wanted to keep multifamily housing affordable for lower-income families. Many of the preservation program's problems are due to its complexity and the frequent changes that have been made in program requirements. These problems are compounded by policies of the Department of Housing and Urban Development and internal control weaknesses. To strengthen the preservation program, GAO recommends a systematic reassessment of policies and internal controls; this would ensure that funds are being spent wisely and in accordance with legislative requirements. (RCED-97-169)

ENVIRONMENTAL PROTECTION: Challenges Facing EPA's Efforts to Reinvent Environmental Regulation

The Environmental Protection Agency maintains that what it terms its reinvention initiatives will reduce paperwork and eliminate obsolete rules, make it easier for businesses to comply with environmental laws, use innovation and flexibility to achieve better environmental protection, and/or engage communities in partnerships to protect the environment. Yet, unless the agency can achieve agreement among its internal and external stakeholders, it will continue to face significant challenges. (RCED-97-155)

AUGUST 1997

MANAGING FOR RESULTS: USING THE RESULTS ACT TO ADDRESS MISSION FRAGMENTATION AND PROGRAM OVERLAP

As summarized in this report, GAO work has documented widespread fragmentation and overlap covering nearly a dozen federal mission areas and involving over 30 programs and most departments and agencies. As the Government Performance and Results Act shifts the focus from inputs to results, each of its key stages—defining missions and desired outcomes, measuring performance, and using performance information—should present new opportunities for addressing crosscutting federal activities. (AIMD-97-146)

SOCIAL SECURITY DISABILITY: SSA MUST HOLD ITSELF ACCOUNTABLE FOR CONTINUED IMPROVEMENT IN DECISIONMAKING

This report evaluates the Social Security Administration's (SSA) decisionmaking process for disability determinations. Each year, about 2.5 million people apply to SSA for disability benefits. The state agencies that conduct disability determinations for SSA award benefits to 35 percent of initial applicants. Yet administrative law judges typically award benefits to two-thirds of applicants who appeal the initial negative decision. Such inconsistent decisions are costly and time-consuming. As a result, SSA is redesigning the disability determination process to produce more consistent decisionmaking. (HEHS-97-102)

DEFENSE HEALTH CARE: TRICARE RESOURCE SHARING PROGRAM FAILING TO ACHIEVE EXPECTED SAVINGS

The goal of TRICARE, the Department of Defense's (DOD) managed care program, is to improve the military community's access to health care while maintaining quality and controlling costs. A potential cost-saving feature is resource sharing, in which a civilian health care provider supplements the capacity of a military hospital or clinic by providing civilian personnel, equipment, or supplies. DOD expected resource sharing to save $700 million over 5 years, but GAO estimates that it will realize only 5 percent of that amount. (HEHS-97-130)

B-2 BOMBER: Cost and Operational Issues

The total cost of the Air Force's B-2 bomber appears to have stabilized, although costs could increase if more performance deficiencies are identified. The aircraft are more sensitive to climate and moisture than expected. Operational testing shows that the aircraft also need frequent and lengthy maintenance. The Air Force has said that it is unlikely that such operational issues will be resolved, even with improved materials and repair processes. Therefore, if B-2s are to be used, some form of aircraft sheltering will be a requirement. (NSIAD-97-181)

SEPTEMBER 1997

MANAGING FOR RESULTS: Critical Issues for Improving Federal Agencies' Strategic Plans

The Government Performance and Results Act seeks to shift the focus of government decisionmaking and accountability away from a preoccupation with process activities—such as grants and inspections—to a focus on the results of those activities—such as real gains in employability, safety, responsiveness, or program quality. GAO reviewed draft strategic plans of 27 cabinet departments and agencies, and found that many lacked sufficient information to serve as a basis for guiding agencies and helping the Congress make informed decisions about activities and programs. (GGD-97-180)

NUCLEAR NONPROLIFERATION AND SAFETY: Concerns With the International Atomic Energy Agency's Technical Cooperation Program

The United States is a leading financial donor to the International Atomic Energy Agency's (IAEA) technical cooperation program, which provides equipment, expert services, and training to countries that intend to upgrade and establish nuclear facilities. Contrary to U.S. policy goals, IAEA has provided technical assistance to Cuba, Iran, and North Korea—all countries for which concerns exist about nuclear proliferation and threats to nuclear safety. In this report GAO recommends that the State Department systematically review all proposed technical assistance projects and, where projects are inconsistent with U.S. nuclear nonproliferation and safety goals, make U.S. objections known. (RCED-97-192)

COMBATING TERRORISM: Federal Agencies' Efforts to Implement National Policy and Strategy

The threat of terrorist attacks against American citizens and property both at home and abroad is a high-priority concern, both from national security and criminal perspectives. This report provides information on national policy and strategy to combat terrorism, and federal agencies' roles and responsibilities in implementing them. It discusses programs and activities to prevent and deter terrorism, to respond to terrorist threats, and to manage the consequences of a terrorist act, especially one involving weapons of mass destruction. (NSIAD-97-254)

NORTH AMERICAN FREE TRADE AGREEMENT: Impacts and Implementation

Testimony of JayEtta Z. Hecker, Associate Director, International Relations and Trade Issues, National Security and International Affairs Division

It is difficult to evaluate the impact of NAFTA since 1994 because the agreement's provisions are generally being phased in over a 10- to 15-year period. It is clear, however, that U.S. trade with Mexico and Canada has accelerated. Even though estimates of NAFTA's impact on aggregate employment diverge widely—ranging from a gain of 160,000 jobs to a loss of 420,000 jobs—the agreement cannot be expected to substantially alter overall U.S. employment levels, which are determined largely by demographic conditions and macroeconomic factors such as monetary policy. (T-NSIAD-97-256)

SPACE STATION: Cost Control Problems Are Worsening

NASA and its international partners—Japan, Canada, the European Space Agency, and Russia—are together building the International Space Station. The partners are to provide station hardware and crew, and are expected to share operating costs and use of the station. Russia's ability to honor its financial commitments is a serious concern. Another concern is that the cost and schedule performance of the Boeing Corporation, the prime contractor, has continued to decline virtually unabated. In order to make informed decisions, the Congress will need NASA's complete and current information on the program's cost and schedule, and on likely future risks. (NSIAD-97-213)

AIRCRAFT ACQUISITION: Affordability of DOD's Investment Strategy

The Department of Defense needs to reorient its aircraft investment strategy to recognize the reality of a constrained overall defense budget for the foreseeable future. Instead of continuing to initiate aircraft procurement programs that are based on optimistic assumptions about available funding, Defense should determine how much procurement funding can realistically be expected and structure its aircraft investment strategy within those levels. (NSIAD-97-88)

BALLISTIC MISSILE DEFENSE: Improvements Needed in THAAD Acquisition Planning

The Theater High Altitude Area Defense (THAAD) program is an $18-billion ground-based weapon system designed to protect U.S. forces, population centers, and industrial facilities from theater missile attack. Because all four attempts at target intercept have failed, THAAD is currently undergoing a program review and evaluation. GAO suggested that the Secretary of Defense use this opportunity to delay low-rate initial production of the THAAD system until after sufficient testing provides assurances that key performance requirements can be met. (NSIAD-97-188)

INVENTORY MANAGEMENT: Vulnerability of Sensitive Defense Material to Theft

This report reviews the Department of Defense's oversight of its inventory of handheld category 1 (highly explosive and extremely lethal) missiles and rockets. Despite progress toward better oversight of handheld missiles, some weaknesses remain. Until the Department takes additional steps to further improve physical security and ensure accurate reporting of its inventory of missiles and rockets, vulnerabilities to theft from military arsenals will remain. (NSIAD-97-175)

FEDERAL ELECTRICITY ACTIVITIES: The Federal Government's Net Cost and Potential for Future Losses

The federal government incurs net costs of over a billion dollars annually to support the electricity-related activities of the Rural Utilities Service (RUS) and the power marketing administrations (PMAs); the GAO-estimated cost was $2.5 billion for fiscal year 1996. The financial difficulties faced by RUS borrowers, the PMAs, and the Tennessee Valley Authority create the risk of further losses given the federal government's $84 billion of direct and indirect financial involvement in these entities. The onset of competition in the electricity industry heightens this risk. (AIMD-97-110)

BUDGET ISSUES: Budgeting for Federal Insurance Programs

Cash-based budgeting does not adequately reflect the government's cost or the economic impact of federal insurance programs; this is because costs are recognized when claims are paid rather than when the underwriting commitment is made. In any given year, the cost of the government's insurance commitments may be understated or overstated because the time between receipt of program collections, the occurrence of an insured event, and the final payment of a claim can extend over many years. Despite significant implementation challenges, accrual-based budgeting is an alternative method which could improve cost recognition. The magnitude of federal insurance commitments—approximately $5 trillion in fiscal year 1995—and the risk for significant future costs, make this an important area for congressional consideration. (AIMD-97-16)

TAX ADMINISTRATION: TAXPAYER RIGHTS AND BURDENS DURING AUDITS OF THEIR TAX RETURNS

Testimony of James R. White, Associate Director, Tax Policy and Administration Issues, General Government Division

Taxpayers, tax professionals, and the Congress have criticized the Internal Revenue Service (IRS) for treating taxpayers improperly and imposing unnecessary burdens during taxpayer audits. Criticisms have focused on revenue agents subjecting compliant taxpayers to unnecessary audits, wasting taxpayers' time by asking for irrelevant documents, and treating taxpayers unprofessionally and even abusively. IRS recently developed a survey to determine taxpayer satisfaction with the audit process; GAO believes that the survey's usefulness will need to be evaluated. (T-GGD-97-186)

FOREIGN BANKS: INTERNAL CONTROL AND AUDIT WEAKNESSES IN U.S. BRANCHES

In 1995 one of the largest multinational banks in the world reported that it had incurred over $1 billion in losses from illegal securities trading at one of its New York branches over an 11-year period. Concerned about possible risks to the U.S. financial system, the Congress asked GAO to assess internal control and audit weaknesses at U.S. branches of foreign banks. Lack of adequate segregation of duties in trading and/or electronic funds transfer activities—considered one of the most serious internal control weaknesses—was identified at nearly one third of U.S. branches of foreign banks. (GGD-97-181)

Overview of Operations and Financial Management

This overview includes

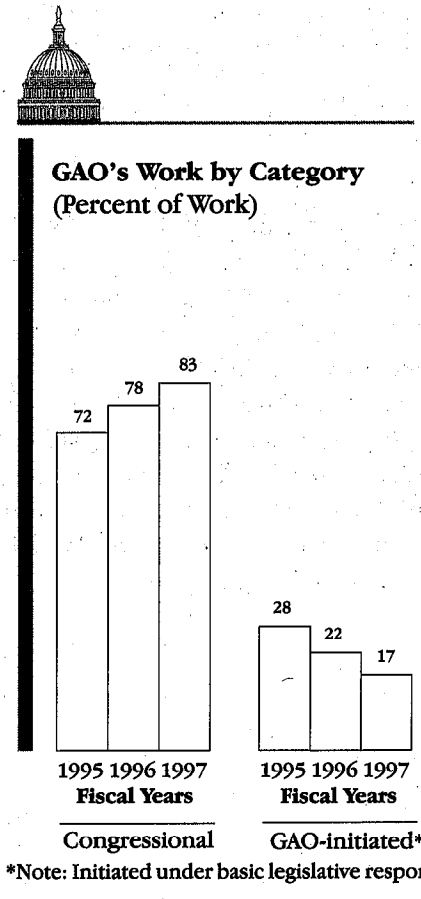
- a description of GAO and its mission,
- a discussion of GAO's performance measures,
- a summary of quality control efforts and a description of GAO's external Audit Advisory Committee,
- management's assessment of internal controls and report on financial systems, and
- a description of the scope of the audit of GAO's 1997 principal statements.

Immediately following the overview are GAO's principal statements for fiscal years 1997 and 1996, the report of the Audit Advisory Committee, and the independent auditors' report.

GAO and Its Mission

The General Accounting Office seeks to encourage honest, efficient management and full accountability throughout the federal government. It serves the public interest by providing the Congress, other policymakers, and the public with accurate information, unbiased analysis, and objective recommendations on the use of public resources.

A commitment to quality is the single most important principle governing GAO's work. GAO highly values its staff and the diversity and the skills they bring to serve the Congress and



the public. GAO staff concentrate on specific issues that enable them to become highly knowledgeable about the agencies and programs they audit. By maintaining expertise in key areas of interest, GAO can respond quickly and comprehensively to requests from the Congress.

As shown on the chart on the preceding page, about 83 percent of GAO's work during fiscal year 1997 was done at the specific request of the Congress. GAO is required to do work requested by committees; as a matter of policy, GAO assigns equal status to requests from committee chairs and ranking minority members. Also, to the extent possible, GAO responds to requests from individual members. Finally, GAO undertakes assignments independently in accordance with its basic legislative responsibilities. Details on cost and staff days of GAO audits, evaluations, and investigations for the past 3 fiscal years can be found in the Supplement to the Comptroller General's annual report.

GAO's audit work is managed through five audit divisions. The issues examined by GAO span the breadth of national concerns, including health care financing, financial management and accountability, law enforcement, banking, information technology, national security, energy and the environment, aviation security, defense procurement, education and employment, transportation, tax administration, income security, housing, and many others.

While audits, evaluations, and investigations are the most visible aspects of GAO's work and absorb the largest share of its resources, GAO has other important functions. GAO prescribes accounting standards for the entire federal government in conjunction with the Office of Management and Budget (OMB) and the Department of the Treasury, and issues generally accepted auditing standards for all levels of government entities. Finally, GAO issues legal decisions on matters involving government revenues and expenditures, and on protests against the award of federal government contracts.

GAO's Key Performance Measures

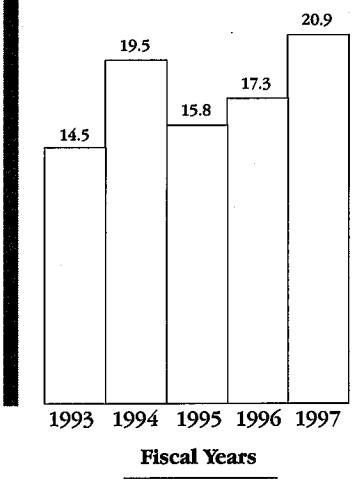
GAO monitors performance with a view toward continuously improving efficiency and effectiveness. GAO's key performance measures fall into two groups: (1) GAO's service to the Congress and the results of its work, as measured by financial benefits to the government, other improvements in government operations, the percentage of GAO recommendations

implemented, the number of testimony statements delivered, and overall product output; and (2) the efficiency and effectiveness of GAO's work processes, as measured by the duration and cost of jobs and timeliness in delivering work results. GAO's performance in all of these key measures improved during fiscal year 1997.

Financial Benefits

GAO recommendations and audit findings frequently contribute to significant financial benefits to taxpayers. These include budget reductions, costs avoided, appropriation deferrals, and revenue enhancements, all of which can be documented as either directly attributable to or significantly influenced by GAO's work. Although financial benefits fluctuate from year to year, GAO seeks to identify significant financial benefits annually. In fiscal year 1997, GAO's work contributed to legislative and executive actions that resulted in almost $21 billion in measurable financial benefits. During the last 5 years, financial benefits totaled $88 billion—nearly $44 for every dollar appropriated for GAO.

Financial Benefits by Year
(Dollars in Billions)



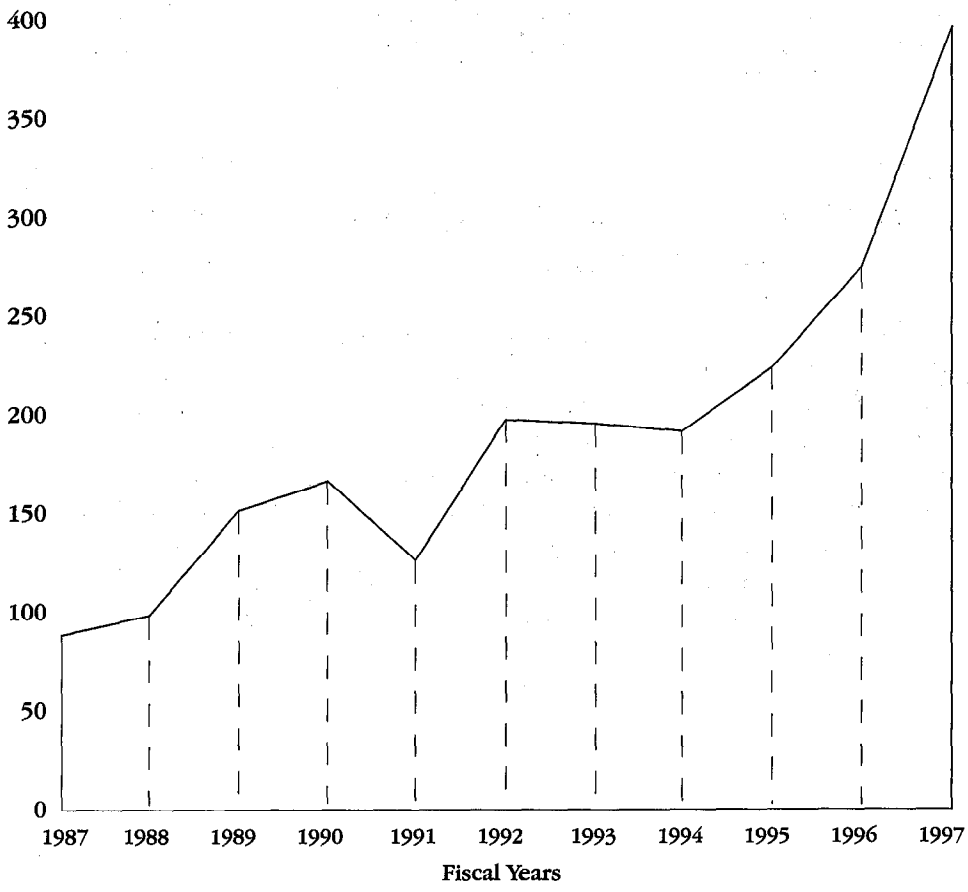
Improvements in Government Operations and Services

Many of GAO's recommendations and audit findings result in or contribute to improvements in the effectiveness and efficiency of government operations and services, although their impact cannot always be quantified in monetary terms. GAO documents these improvements with two performance measures.

First, GAO monitors corrective actions taken and program improvements made in response to either a GAO recommendation or an audit finding. GAO documented over 390 of these accomplishments in 1997, an increase of 45 percent from last year. The accomplishments that result in financial benefits that GAO can quantify are excluded from the chart that follows because they are reflected in the financial benefits performance measure.

Second, GAO follows up on its recommendations to determine whether they have been implemented. If past experience is a good indication, over 70 percent of the key recommendations GAO made in 1997 will be implemented within 4 years. The time needed to implement the recommendations depends on the passage of implementing legislation, the pace at which agencies take corrective action, and the scope of the corrective action recommended.

Actions Taken as a Result of GAO Recommendations or Audit Findings

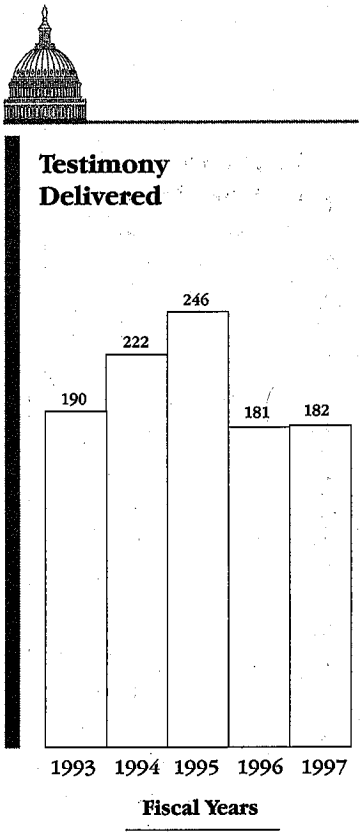


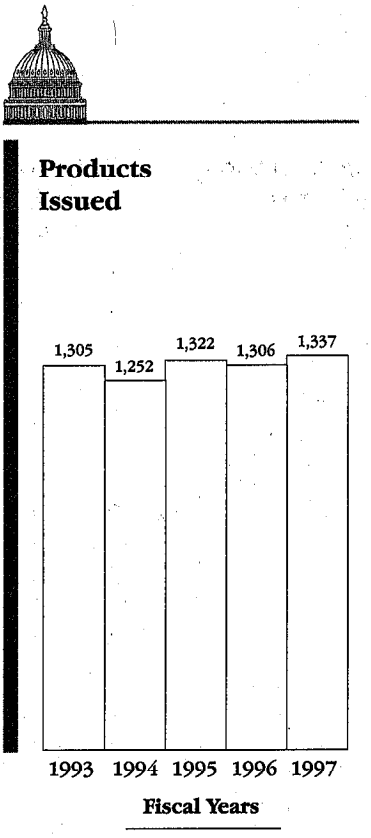
Congressional Testimony

Responding to congressional requests for testimony is one of GAO's most important services. Although the number of testimony appearances varies from year to year, congressional requests for GAO testimony are an indicator of the agency's contribution to the legislative process. In supporting Congress this year, 65 GAO witnesses testified 182 times before 84 congressional committees and subcommittees.

Product Output

In fiscal year 1997, GAO produced 1,337 audit and evaluation products, including 1,006 reports to the Congress and agency officials, 149 formal congressional briefings, and 182



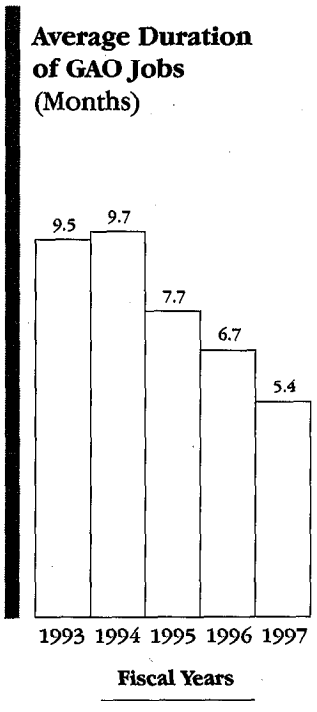


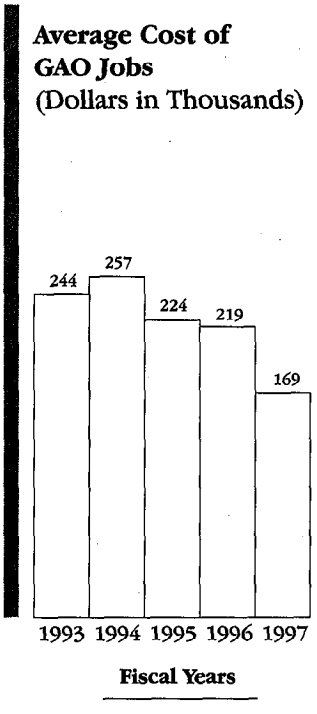
congressional testimony statements. This represents an increase of about 2 percent over last year.

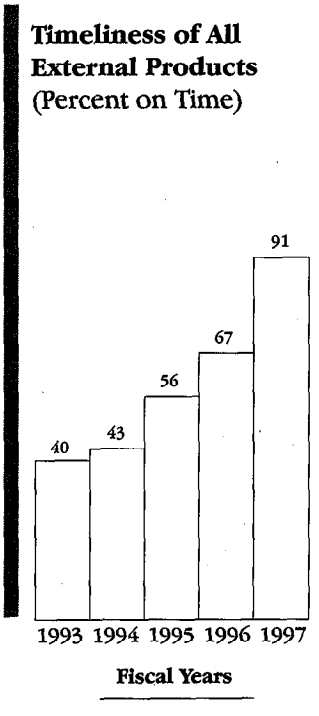
Duration and Cost of Jobs and Timeliness

GAO recognizes that success requires continuous improvement in both the quality of its work and the efficiency with which it is done. Accordingly, in June 1996 GAO reengineered its process for doing audits and producing reports in order to reduce job duration and cost, and improve timeliness relative to agreed-upon commitments.

Nineteen ninety-seven was the first full year under GAO's reengineered job process. During 1997 GAO's performance as measured against all three key







efficiency measures—duration, cost, and timeliness—improved significantly. The chart on the preceding page shows the average duration and cost of jobs, as well as GAO's timeliness in delivering the results of its work.

Quality and Internal Control

Quality is the hallmark of GAO's work. To ensure that GAO maintains a high level of quality, management maintains a quality control program and seeks advice and evaluation from both internal and external sources.

Through an internal Quality Control Assessment Program, GAO ensures that its quality control policies and procedures are providing reasonable assurances that its audit and evaluation work conforms with the applicable professional requirements, including generally accepted government auditing standards.

Audit Advisory Committee

The Comptroller General established an external group in 1992 to advise GAO on its internal financial operations and controls. The Audit Advisory Committee discusses, reviews, and reports to the Comptroller General on the effectiveness of GAO's financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with applicable laws and regulations relevant to GAO's operations. The Committee consists of the following three distinguished individuals:

- **Sheldon S. Cohen** (Chairman) is a CPA and a practicing attorney in Washington, D.C.; former Commissioner and Chief Counsel of the Internal Revenue Service; and Secretary and Trustee of the National Academy of Public Administration.
- **Alan B. Levenson** is a practicing attorney in Washington, D.C., and a former senior official at the Securities and Exchange Commission.
- **Katherine D. Ortega** is a CPA, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and former member of the President's Advisory Committee on Small and Minority Business.

Management Report on Internal Controls

GAO is committed to fulfilling the internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Although GAO is not subject to FMFIA, it has elected to comply with its requirements. GAO's internal control structure is

designed to provide reasonable assurance that

- obligations and costs are in compliance with applicable laws and regulations;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- revenues and expenditures applicable to GAO's operations are properly recorded and accounted for to enable GAO to prepare accounts and reliable financial reports and maintain accountability over its assets.

GAO management assesses compliance with its controls through a series of comprehensive internal reviews, applying the evaluation criteria in OMB's guidance (Circular A-123, Management Accountability and Control, and Circular A-127, Financial Management Systems) for implementing FMFIA. The results of these reviews are discussed with GAO's Audit Advisory Committee, and action is taken promptly to correct deficiencies as they are identified. It should be noted that any internal control structure has inherent limitations, including the possibility of circumvention or overriding of controls.

GAO has assessed its internal control structure as of September 30, 1997, based on criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, GAO believes that it has an effective internal control structure in place as of September 30, 1997.

GAO's independent auditors have provided

- an opinion on GAO's assertion on the internal control structure, and
- a report citing any material conflicts between the more-comprehensive GAO report on internal controls, dated December 12, 1997, voluntarily prepared under FMFIA, and the results of their examination of GAO's assertion.

The independent auditors' opinion can be found on page 77.

Management Report on Financial Systems

GAO is committed to fulfilling the objectives of the Federal Financial Management Improvement Act (FFMIA) of 1996. Although not subject to FFMIA, GAO has elected to comply with its requirements. GAO believes that it has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States

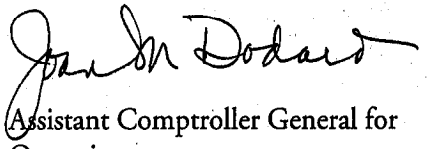
Government Standard General Ledger at the transaction level as of September 30, 1997, and for the year then ended. GAO made this assessment based upon criteria established under FFMIA, and OMB Memorandum dated September 9, 1997, Implementation Guidance for the Federal Financial Management Improvement Act of 1996.

GAO's independent auditors have provided an opinion on GAO's assertion on its financial systems. The independent auditors' opinion can be found on page 77.

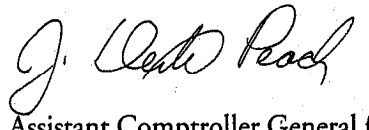
GAO's 1997 Principal Statements

The accompanying principal statements summarize GAO's financial position, show the net cost of operations and the changes in net position during fiscal years 1997 and 1996, provide information on budgetary resources, and reconcile the difference between accrual-based financial accounting and obligation-based budgetary accounting. GAO's 1997 principal statements have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990, federal accounting standards, and OMB Bulletin 97-01, Form and Content of Agency Financial Statements. The provisions of this bulletin are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 1998. However, GAO implemented the provisions of this bulletin with the preparation of its fiscal year 1996 principal statements, believing that doing so provided the user with information of greater relevance to the government environment.

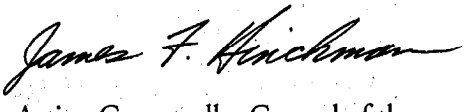
The audit of the statements was performed by the independent auditors Clifton Gunderson L.L.C. The independent auditors' report on the principal statements, internal controls, financial systems, and compliance with certain laws and regulations accompanies the principal statements.



Assistant Comptroller General for Operations



Assistant Comptroller General for Planning and Reporting



Acting Comptroller General of the United States

PRINCIPAL STATEMENTS

U.S. GENERAL ACCOUNTING OFFICE
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1997 AND 1996

Dollars in Thousands	*1997*	*1996*
Assets		
Entity Assets		
Intragovernmental		
Funds with the U.S. Treasury	$63,003	$65,562
Accounts receivable	2,009	1,354
Governmental		
Accounts receivable	22	33
Travel advances	6	18
Supplies	304	244
Property and equipment, net	68,261	70,391
Total entity assets	**133,605**	**137,602**
Total Assets	**$133,605**	**$137,602**
Liabilities		
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts payable	$3,381	$4,932
Governmental		
Salaries and benefits	12,749	11,919
Employee travel	788	947
Accounts payable	10,463	10,139
Total liabilities covered by budgetary resources	**27,381**	**27,937**
Liabilities Not Covered by Budgetary Resources		
Governmental		
Accrued annual leave	25,302	26,360
Workers' compensation	11,685	9,948
Comptrollers General retirement plan	2,531	2,546
Severance pay	6	563
Capital leases	288	278
Total liabilities not covered by budgetary resources	**39,812**	**39,695**
Total Liabilities	**$67,193**	**$67,632**
Net Position		
Unexpended appropriations	$37,659	$39,030
Cumulative results of operations	28,753	30,940
Total Net Position	**66,412**	**69,970**
Total Liabilities and Net Position	**$133,605**	**$137,602**

The accompanying notes are an integral part of these statements.

U.S. General Accounting Office
Statements of Net Cost
For Fiscal Years Ended September 30, 1997 and 1996

Dollars in Thousands	*1997*	*1996*
Net Costs by Program Area		
Financial Audits, Systems, Information Management and Technology Issues	$85,010	$80,836
Less reimbursable services	(3,102)	(3,534)
Net program cost	81,908	77,302
National Defense, Security and International Relations, and Other Related Issues	81,771	87,058
Less reimbursable services	(34)	(146)
Net program cost	81,737	86,912
Energy, Agriculture, Environment, Housing, Transportation, and Natural Resources Issues	64,264	74,635
Less reimbursable services	(82)	(47)
Net program cost	64,182	74,588
Education and Employment, Health Care and Income Security Issues	56,008	61,741
Less reimbursable services	(4)	—
Net program cost	56,004	61,741
Justice, Tax Policy, Financial Institutions, and General Management Issues	52,028	58,314
Less reimbursable services	(104)	—
Net program cost	51,924	58,314
Legal Services	22,825	27,480
Less reimbursable services	(15)	(149)
Net program cost	22,810	27,331
Special Investigations and Investigative Support	4,589	5,586
Less reimbursable services	—	(83)
Net program cost	4,589	5,503
Senior management and staff	3,405	3,949
Less reimbursable services not attributable to programs	(1,589)	(512)
Net Cost of Operations	**$364,970**	**$395,128**

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE
STATEMENTS OF CHANGES IN NET POSITION
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1997 AND 1996

Dollars in Thousands	*1997*	*1996*
Net Cost of Operations	**$364,970**	**$395,128**
Financing Sources (other than reimbursable services)		
Appropriations used	340,670	383,962
Pension and other retirement benefit costs paid by OPM and imputed to GAO	22,032	23,739
Other costs imputed to GAO	178	—
Intragovernmental transfer of property and equipment	(97)	(573)
Total Financing Sources	**362,783**	**407,128**
Net Results of Operations	**(2,187)**	**12,000**
Prior Period Adjustments	**—**	**—**
Net Change in Cumulative Results of Operations	**(2,187)**	**12,000**
Net Decrease in Unexpended Appropriations	**(1,371)**	**(12,203)**
Change in Net Position	**(3,558)**	**(203)**
Net Position - Beginning of Fiscal Year	**69,970**	**70,173**
Net Position - End of Fiscal Year	**$66,412**	**$69,970**

The accompanying notes are an integral part of these statements.

U.S. General Accounting Office
Statements of Budgetary Resources
For Fiscal Years Ended September 30, 1997 and 1996

Dollars in Thousands	*1997*	*1996*
Budgetary Resources Made Available		
Current year appropriations	$332,520	$374,406
Transfers of budget authority, net	9,148	(661)
Unobligated appropriations, beginning of fiscal year	11,964	14,083
Reimbursable services	4,930	4,471
Cost sharing and pass-through CPA contract reimbursements	9,914	4,519
Total Budgetary Resources Made Available	**$368,476**	**$396,818**
Status of Budgetary Resources		
Obligations incurred	$350,232	$382,868
Unobligated appropriations, end of fiscal year	15,874	11,964
Lapsed budget authority	2,370	1,986
Total, Status of Budgetary Resources	**$368,476**	**$396,818**
Outlays		
Obligations incurred	$350,232	$382,868
Less: Reimbursable services	(4,930)	(4,471)
Cost sharing and pass-through CPA contracts reimbursements	(9,914)	(4,519)
Obligated balance, net - beginning of fiscal year	53,598	80,354
Less: Obligated balance, net - end of fiscal year	(47,129)	(53,598)
Total Outlays	**$341,857**	**$400,634**

The accompanying notes are an integral part of these statements.

U.S. General Accounting Office
Statements of Financing
For Fiscal Years Ended September 30, 1997 and 1996

Dollars in Thousands	*1997*	*1996*
Obligations and Nonbudgetary Resources		
Obligations incurred	$350,232	$382,868
Less: Reimbursable services	(4,930)	(4,471)
Cost sharing and pass-through CPA contracts reimbursements	(9,914)	(4,519)
Financing imputed from OPM for pension and other retirement benefit cost subsidies	22,032	23,739
Other imputed financing	178	—
Intragovernmental transfer of property and equipment	(97)	(573)
Total obligations as adjusted, and nonbudgetary resources	357,501	397,044
Resources That Do Not Fund Net Cost of Operations		
Net decrease in unliquidated obligations	5,281	10,084
Costs capitalized on the balance sheet	(12,251)	(24,874)
Expenses to be funded by future appropriations (Appropriations provided to reduce unfunded liabilities)	107	(880)
Total resources that do not fund net cost of operations	(6,863)	(15,670)
Cost That Do Not Require Resources		
Depreciation	14,332	13,754
Net Cost of Operations	$364,970	$395,128

The accompanying notes are an integral part of these statements.

Notes to Principal Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying principal statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and a building expenditure fund. The principal statements, except for pension and other retirement benefit costs paid by the Office of Personnel Management (OPM) and imputed to GAO, do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as interest on the federal debt, which may in part be attributable to GAO; they also do not include activity related to GAO's trust function described in Note 10.

Basis of Accounting

Under the authority of the Chief Financial Officers (CFO) Act of 1990, GAO participated with the Office of Management and Budget (OMB) and the Department of the Treasury in the establishment of the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, Treasury, and OMB. The Comptroller General, the Secretary of the Treasury, and the Director of OMB (the three principals of FASAB) decide upon new principles, standards, and requirements after considering FASAB's recommendations. The resulting standards are concurrently issued by GAO and OMB. GAO prepared its principal statements based upon the following hierarchy of accounting principles and standards:

- the accounting principles, standards, and requirements approved by the three principals and issued by GAO and OMB;
- interpretations related to the standards issued by OMB in accordance with OMB Circular A-134, Financial Accounting Principles and Standards; and

- form and content requirements for financial statements included in OMB Bulletin 97-01 (Form and Content of Agency Financial Statements).

These principles differ from budgetary reporting principles. The differences relate principally to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities in the accompanying principal statements. Also, for purposes of the principal statements, budgetary appropriations are realized as a financing source as accrued expenses are recognized.

Basis of Presentation

GAO's 1997 principal statements have been prepared in accordance with the requirements of the CFO Act of 1990, federal accounting standards, and OMB Bulletin 97-01. The provisions of this bulletin, which incorporates federal accounting standards recommended by FASAB and issued by GAO and OMB, are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 1998. However, GAO implemented the provisions of this bulletin with the preparation of its 1996 principal statements.

Funds With the U.S. Treasury

GAO's receipts and disbursements are processed by the U.S. Treasury. Funds with the U.S. Treasury represent appropriated funds available to pay current liabilities and to finance authorized purchase commitments.

Accounts Receivable

GAO's accounts receivable are due principally from federal government corporations and other federal agencies for audit and other reimbursable services.

Property and Equipment

On October 28, 1988, Public Law 100-545 transferred control of the GAO building and land in Washington, D.C., from the General Services Administration to GAO without a monetary exchange. At the time of transfer, the depreciated value of

the building was $15,664,000 and the book value of land was $1,191,000. GAO recorded the building and the land as assets at the values stated above. The GAO building is listed in the National Register of Historic Places, and has been designated as a heritage asset. Statement of Federal Accounting Standards Nos. 6 and 8 require that heritage assets be reported in a separate stewardship reporting section and not on the Statement of Financial Position (SOFP). GAO removed the building and land from the SOFP with the preparation of its 1996 principal statements. Property and equipment costing more than $5,000 is capitalized at cost. Bulk purchases of lesser-value items that aggregate more than $100,000 are also capitalized at cost. These assets are depreciated on a straight-line basis over the estimated useful life of the property, ranging from 2 to 20 years.

Liabilities

Liabilities represent the amounts that are likely to be paid by GAO as a result of transactions that have already occurred; however, no liability is paid by GAO absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as liabilities not covered by budgetary resources. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

Pension and Other Retirement Benefits

Statement of Federal Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, requires that GAO recognize its share of the cost of providing future pension benefits to eligible employees over the period of time that services are rendered. The pension expense recognized in the principal statements equals the current service cost for GAO's employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions, with the factors applied by GAO provided by OPM, the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by GAO represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This amount is considered imputed financing to GAO.

The standard also requires that GAO recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. This expense is GAO's Other Retirement Benefit (ORB) expense. GAO accounted for and reported the ORB expense in its principal statements in a

manner similar to that used for pensions, with the exception that employees and GAO do not make current contributions to fund these future benefits.

Annual Leave, Sick and Other Leave

Annual leave is recognized as an expense and a liability as it is earned; the liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Sick leave and other types of leave are expensed as leave is taken.

Contingencies

GAO has certain claims and lawsuits pending against it. When claims are expected to result in payments, and the payment amounts can be reasonably estimated, appropriate provision is included in the accompanying principal statements. In the opinion of management and legal counsel, the resolution of other claims and lawsuits will not materially affect the financial position or operations of GAO.

Reclassifications

Certain amounts for 1996 have been reclassified to conform with the 1997 presentation of those amounts.

Note 2. Property and Equipment, Net

The composition of property and equipment as of September 30, 1997, is as follows:

Dollars in Thousands

Classes of Property and Equipment	***Acquisition Value***	***Accumulated Depreciation***	***Net Book Value***
Building improvements	$75,416	$34,738	$40,678
Computer and other equipment, and ADP software	52,748	26,280	26,468
Leasehold improvements	4,384	4,074	310
Assets under capital lease	2,559	1,754	805
Total Property and Equipment	***$135,107***	***$66,846***	***$68,261***

The composition of property and equipment as of September 30, 1996, is as follows:

Dollars in Thousands

Classes of Property and Equipment	*Acquisition Value*	*Accumulated Depreciation*	*Net Book Value*
Building improvements	$67,992	$28,902	$39,090
Computer and other equipment, and ADP software	50,311	20,401	29,910
Leasehold improvements	5,305	4,845	460
Assets under capital lease	2,589	1,658	931
Total Property and Equipment	***$126,197***	***$55,806***	***$70,391***

Note 3. Net Position

GAO's operations do not require permanent capital and are not expected to generate an operating surplus or deficit. Net Position is composed of two elements—unexpended appropriations and cumulative results of operations. Unexpended appropriations includes appropriations not yet obligated or expended, i.e., unobligated appropriations and unliquidated obligations. Unobligated appropriations were $15,874,000 as of September 30, 1997, and $11,964,000 as of September 30, 1996; unliquidated obligations were $21,785,000 as of September 30, 1997, and $27,066,000 as of September 30, 1996. Cumulative results of operations includes the amounts accumulated over the years by GAO from its financing sources less its expenses, including donations and transfers of capitalized assets and an amount representing GAO's liabilities not covered by budgetary resources. The former represents GAO's investment in capitalized assets, including supplies, net of capital lease liability.

Liabilities not covered by budgetary resources represent aggregate amounts of congressionally authorized long-term liabilities (annual leave, workers' compensation, retirement benefits for Comptrollers General, and severance pay) that are expected to be funded by future years' appropriations.

Note 4. Net Cost of Operations

The Statements of Net Cost show the full and net operating costs of GAO's major programs. Expenses for salaries and related benefits for fiscal years 1997 and 1996

amounted to $270,679,000 and $283,125,000, respectively. In fiscal years 1997 and 1996, salaries and related benefits were 74 percent and 72 percent, respectively, of GAO's net cost of operations. Included in the net cost of operations are pension and other retirement benefit costs paid by OPM and imputed to GAO of $22,032,000 in fiscal year 1997 and $23,739,000 in fiscal year 1996. Revenues from reimbursable services earned by a program area are shown as an offset against the full cost of the program to arrive at its net cost. These revenues consist primarily of billings to federal government corporations for financial statement audits performed by GAO, and to federal agencies for detailed GAO employees performing GAO mission-related work. Earned revenues that are insignificant or cannot be associated with a major program area are shown in total. Revenues from reimbursable services for fiscal years 1997 and 1996 amounted to $4,930,000 and $4,471,000, respectively. The net cost of operations represents GAO's operating costs that must be funded by financing sources other than revenues earned from reimbursable services. These financing sources are presented in the Statements of Changes in Net Position.

Note 5. Net Financing Sources

GAO's financing sources, other than reimbursable services, consist of appropriations used and imputed financing, less transfers-out. Appropriations are considered used as a financing source when goods and services are received or benefits are provided. This is true whether the goods, services, and benefits are paid prior to the reporting date or are payable as of that date, and whether the appropriations are used for items that are recorded as expenses or are capitalized. Imputed financing is the offset to the pension and other retirement benefit costs paid by OPM and imputed to GAO that are reported on the Statement of Net Cost. Transfers-out represent the book value of capitalized assets transferred from GAO to other federal agencies without reimbursement.

Note 6. Spending Authority from Budget Transfers and Reimbursements

Budgetary resources made available to GAO include spending authority from budget transfers and reimbursements arising from both revenues earned by GAO from providing services to other federal entities for a price (reimbursable services) and cost sharing and pass-through contract arrangements with other federal entities. Fiscal year 1997 budget transfers consist primarily of budget authority transferred-in from the Department of Health and Human Services for GAO-directed work related to medical savings accounts. Budget transfers in fiscal year 1996 consist of budget authority

transferred-out to executive branch agencies related to the transfer of GAO's claims functions. Reimbursements from cost sharing and pass-through contract arrangements consist primarily of collections from other federal entities for the support of the Joint Financial Management Improvement Program and FASAB, and collections from other federal entities that utilize standing GAO contracts for obtaining accounting and auditing services from CPA firms. The costs and reimbursements for these activities are not included in the Statements of Net Cost.

Note 7. Leases

Capital Leases

GAO has entered into several noncancelable capital leases under which the ownership of the equipment covered under the leases transfers to GAO when the leases expire. When GAO enters into these leases, the present value of the future lease payments is capitalized and recorded as a liability.

Operating Leases

GAO leases office space from the General Services Administration and has entered into various other operating leases for office communication and ADP equipment. Generally, leases are cancelable by either party without penalty, upon 120 days' notice, and future lease payments are not accrued as liabilities. Lease costs for office space and equipment for fiscal years 1997 and 1996 amounted to approximately $9,200,000 and $16,700,000, respectively. The decrease in lease costs from fiscal year 1996 to 1997 resulted primarily from the closing of audit sites in Washington, D.C., and the resulting relocation of affected employees into the GAO building. GAO's estimated future minimum lease payments are as follows:

Dollars in Thousands

Fiscal Year end September 30	Total
1998	$7,095
1999	5,674
2000	5,113
2001	4,164
2002	3,837
Thereafter	7,963
Total Estimated Future Lease Payments	***$33,846***

Note 8. Retirement and Other Benefits

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes matching contributions to the CSRS, FERS, and FICA and matches employee contributions to the thrift savings component of FERS up to 5 percent of basic pay. The pension expense recognized in GAO's principal statements for fiscal years 1997 and 1996 amounted to approximately $34,250,000 and $37,324,000, respectively. These amounts include pension costs financed by OPM and imputed to GAO of $14,535,000 and $17,006,000, respectively. To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's principal statements. However, the payments to FICA that GAO makes are recognized as operating expenses. These payments amounted to approximately $8,387,000 and $8,847,000 during fiscal years 1997 and 1996, respectively. Similarly, to the extent that GAO employees are covered by the thrift savings component of FERS, GAO payments to the plan are operating expenses. GAO's costs associated with the thrift savings component of FERS during fiscal years 1997 and 1996 amounted to approximately $3,813,000 and $3,867,000, respectively.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGLIP) and may continue to participate after retirement. GAO makes matching contributions to the FEHBP and FEGLIP for active employees to pay for their current benefits. GAO's contributions for active employees are recognized as operating expenses and, during fiscal years 1997 and 1996, amounted to approximately $8,392,000 and $9,002,000, respectively. Using the cost factors supplied by OPM, GAO has also recognized an ORB expense in its principal statements for the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately $7,497,000 and $6,733,000 during fiscal years 1997 and 1996, respectively, and are financed by OPM and imputed to GAO.

Comptrollers General and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are funded from current year appropriations and amounted to

approximately $239,500 and $102,300 during fiscal years 1997 and 1996, respectively. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits is recorded as an unfunded liability. The estimated present value of accumulated plan benefits was $2,531,000 as of September 30, 1997, and $2,546,000 as of September 30, 1996.

Note 9. Workers' Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by GAO.

GAO recorded an estimated liability for claims incurred as of September 30, 1997 and 1996 and expected to be paid in future periods. The estimated future liability for such claims was calculated using historical payment data and 10-year Treasury bond interest rate projections published by OMB to project future costs. GAO calculated the estimated future liability using an actuarially based model developed for DOL and modified for use by GAO. The increase in the estimated liability from fiscal year 1996 to 1997 of $1,737,000 resulted primarily from a 20-percent reduction in the interest rate projections used for the fiscal year 1997 calculation. Estimates of this nature are sensitive to changes in interest rates. Lower interest rates result in a higher estimated liability because, if the future liability were funded, a larger initial investment would be required to provide a given amount of future benefits. Likewise, higher interest rates require a smaller initial investment. Therefore, fluctuations in interest rate projections have an immediate effect on the estimated future liability even if historical payments remain relatively stable. The total liability also includes amounts paid to claimants by DOL as of September 30, 1997 and 1996 of $2,310,000 and $2,154,000, respectively, but not yet reimbursed to DOL by GAO.

Note 10. Davis-Bacon Act Trust Function

GAO is responsible for administering for the federal government the trust function of the Davis-Bacon Act receipts and payments. GAO maintains this fund to pay claims relating to the Davis-Bacon Act and Contract Work Hours and Safety Standards Act violations. Under these acts, DOL investigates violation allegations to determine if

federal contractors owe additional wages to covered employees. If DOL concludes that a violation has occurred, GAO collects the amount owed from the contracting federal agency, deposits the funds into an account with the U.S. Treasury, and remits payment to the employee. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trust. Trust assets under GAO's administration totaled approximately $4,937,000 on September 30, 1997. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1997, receipts and disbursements in the trust amounted to $894,000 and $1,646,000, respectively. Since the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying principal statements.

HERITAGE ASSETS

U.S. GENERAL ACCOUNTING OFFICE
ANNUAL STEWARDSHIP INFORMATION
AS OF SEPTEMBER 30, 1997

Heritage assets are property, plant, and equipment (PP&E) possessing one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics. In general, the cost of heritage assets is not often relevant or determinable, and the useful life of heritage assets is not reasonably estimable for depreciation purposes. Rather, the most relevant information about heritage assets is their existence and condition. Therefore, heritage assets are required to be reported only in terms of physical units. However, in the case of the GAO building, its value is known as described below.

On October 28, 1988, Public Law 100-545 transferred control of the General Accounting Office building and land in Washington, D.C., from the General Services Administration to GAO without a monetary exchange. At the time of transfer, the depreciated value of the building was $15,664,000, and the book value of land was $1,191,000. GAO recorded the building and the land as assets at the values stated above.

The GAO building is listed in the National Register of Historic Places as a symbol of a new age in federal office design. The building holds historical significance as the first structure erected exclusively for occupancy by the General Accounting Office. It is one of the first federal office buildings to be completely air-conditioned and artificially lit; and the first modern, block-type building to be constructed for the federal government. Its construction marked a distinct departure from the "fish-bone" type of office building, which used either interior courts or a series of wings branching from a central spine in order to provide both air and light.

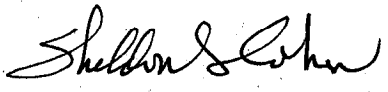
Statement of Federal Accounting Standards Nos. 6 and 8 require that heritage assets be reported in a separate stewardship reporting section and not on the statement of financial position (SOFP). GAO removed the building and land from the SOFP with the preparation of its 1996 principal statements.

Since acquiring control of the building, GAO has expended considerable resources for renovation and improvement of the building, including asbestos abatement, major redesign of office space, installation of communication wiring for local area network, upgrading of fire alarm system, and renovation of the parking garage—all to enhance use of the building for operating purposes. The costs of these projects have been capitalized as general PP&E and depreciated over their expected useful lives. Building improvement for operational efficiency is expected to continue.

Maintenance of the building has been kept on a current basis, and the expense is recognized as incurred. There is no significant deferred maintenance cost.

Report of the Audit Advisory Committee

The Audit Advisory Committee was established to advise the Comptroller General on the U.S. General Accounting Office's (GAO) financial operations. As part of that responsibility, the Committee meets with agency management and its internal and external auditors to review and discuss GAO's external financial audit coverage, the effectiveness of GAO's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact GAO's principal statements. The Committee reviews the findings of internal and external auditors, and GAO's responses to those findings, to ensure that GAO's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews and comments on drafts of GAO's annual report, including the principal statements. The Committee met twice during fiscal year 1997, including sessions with the Acting Comptroller General and with GAO's external auditors. On occasion, the Committee met with the external auditors without GAO management being present.



Sheldon S. Cohen
Chairman
Audit Advisory Committee

INDEPENDENT AUDITORS' REPORT

Clifton Gunderson L.L.C.
Certified Public Accountants & Consultants

Independent Auditor's Report

Comptroller General of the United States

We have audited the General Accounting Office's Principal Statements, referred to below, as of and for the years ended September 30, 1997 and 1996, and have examined management's assertions, included in the accompanying management reports on internal controls and financial systems, that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1997 and that the General Accounting Office has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level as of September 30, 1997 and for the year then ended.

In our opinion:

- The Principal Statements are presented fairly, in all material respects; and
- Management's assertion that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1997 is fairly stated, in all material respects, based upon criteria established under the Federal Managers Financial Integrity Act of 1982, and the Office of Management and Budget Circular A-123, *Management Accountability and Control.*
- Management's assertion that the General Accounting Office has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level as of September 30, 1997 and for the year then ended is fairly stated, in all material respects, based upon criteria established under the Federal Financial Management Improvement Act of 1996 (FFMIA), and the Office of Management and Budget Memorandum dated September 9, 1997, *Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996.*

We found:

- No material conflicts with the General Accounting Office's report on internal controls dated December 12, 1997, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982; and
- No instances of noncompliance with the selected provisions of applicable laws and regulations tested.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

Members Of
NEXIA INTERNATIONAL
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

ARIZONA COLORADO ILLINOIS INDIANA IOWA MARYLAND MISSOURI OHIO TEXAS VIRGINIA WISCONSIN

Opinion On Principal Statements

In our opinion, the accompanying Principal Statements including the notes thereto on pages 59 through 73 present fairly, in all material respects, the General Accounting Office's:

- financial position as of September 30, 1997 and 1996;
- net cost of operations;
- changes in net position;
- status of budgetary resources; and
- financing for the years then ended,

in conformity with federal generally accepted accounting principles as described in Note 1 to the Principal Statements.

Opinion on Management's Assertion on the Internal Control Structure Over Financial Reporting, Safeguarding of Assets and Compliance with Applicable Laws and Regulations

We have examined management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1997. These internal controls are designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

- obligations and costs are in compliance with applicable laws and regulations;
- funds, property and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- revenue and expenditures applicable to the General Accounting Office's operations are properly recorded and accounted for to enable the General Accounting Office to prepare accounts and reliable financial reports and to maintain accountability over its assets.

In our opinion management's assertion that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1997 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, *Management Accountability and Control*, insofar as the objectives stated above pertain to the prevention or detection of errors and irregularities in amounts that would be material to the Principal Statements. In addition, we found no material conflicts between the results of our examination and the General Accounting Office's report on internal controls dated December 12, 1997, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982.

Opinion on Management's Assertion on Financial Systems

We have examined management's assertion, included in the accompanying management report on financial systems, that the General Accounting Office has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level as of September 30, 1997 and for the year then ended.

In our opinion management's assertion that the General Accounting Office has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level as of September 30, 1997 and for the year then ended is fairly stated, in all material respects, based upon criteria established under the Federal Financial Management Improvement Act of 1996 (FFMIA), and the Office of Management and Budget Memorandum dated September 9, 1997, *Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996.*

Compliance With Laws and Regulations

As part of obtaining reasonable assurance about whether the Principal Statements are free of material misstatement, we performed tests of the General Accounting Office's compliance with selected provisions of laws and regulations. However, the objective of our audit of the Principal Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under *Government Auditing Standards.*

This conclusion with respect to our tests of compliance with selected provisions of applicable laws and regulations is intended solely for the information of Congress and the General Accounting Office's management. However, this report is a matter of public record and its distribution should not be limited.

Responsibilities and Methodology

Management has the responsibility for:

- preparing the Principal Statements in conformity with federal generally accepted accounting principles as described in Note 1 to the Principal Statements;
- establishing and maintaining an effective internal control structure; and
- complying with applicable laws and regulations.

Further, management has elected to comply with all of the relevant provisions of the Federal Managers' Financial Integrity Act of 1982 and the Federal Financial Management Improvement Act of 1996.

Our responsibility is to express an opinion on the Principal Statements, based on our audits and express opinions on management's assertions (1) that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations, and (2) that the General Accounting Office has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the U. S. Government Standard General Ledger at the Transaction level; based on our examinations. Accordingly, we planned and performed the audits and examinations to obtain reasonable assurance about whether (1) the Principal Statements are free of material misstatement and are presented in accordance with federal generally accepted accounting principles as described in Note 1 to the Principal Statements, (2) management's assertion that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1997 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Circular A-123, *Management Accountability and Control*, and (3) management's assertion that the General Accounting Office has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level as of September 30, 1997 and for the year then ended is fairly stated, in all material respects, based upon criteria established under the Federal Financial Management Improvement Act of 1996 (FFMIA), and the Office of Management and Budget Memorandum dated September 9, 1997, *Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996*. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the Principal Statements.

In order to fulfill these responsibilities, we

- examined on a test basis, evidence supporting the amounts and disclosures in the Principal Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Statements;
- obtained an understanding of the internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations;
- tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;
- tested compliance with selected provisions of the following laws and regulations that may materially affect the Principal Statements:
  - Antideficiency Act;
  - Fair Labor Standards Act;
  - Civil Service Retirement Act;
  - General Accounting Office Personnel Act of 1980;
  - Federal Employees' Compensation Act;
  - Federal Employees' Health Benefits Act of 1959;

- Federal Employees' Group Life Insurance Act of 1980: and
- Federal Managers' Financial Integrity Act of 1982;
- Federal Financial Management Improvement Act (FFMIA) of 1996.

- performed other procedures as we considered necessary in the circumstances; and
- compared, at management's request, the General Accounting Office's most recent Federal Managers' Financial Integrity Act of 1982 report on internal controls dated December 12, 1997 with the results of our examination of management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1997.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. We limited our work to accounting and other controls necessary to achieve the objectives identified in our opinion on management's assertion on the internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. We also caution that projecting the results of our examination to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

Our audits were conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Our examinations of management's assertions, included in the accompanying management reports on internal controls and financial systems, that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1997, and that the General Accounting Office has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level as of September 30, 1997 and for the year then ended, were conducted in accordance with standards established by the American Institute of Certified Public Accountants; *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. We believe that our audits and examinations provide a reasonable basis for our opinions.

Supplemental Information. Our audit was made for the purpose of forming an opinion on the Principal Statements taken as a whole. The accompanying annual stewardship information on pages 74 and 75 is presented for purposes of additional analysis and is not a required part of the Principal Statements but is required supplementary information. Such information has been subjected to the auditing procedures applied in the audit of the Principal Statements and in our opinion, is presented fairly, in all material respects, in relation to the Principal Statements taken as a whole.

Consistency of Other Information. The *Overview of Operations and Financial Management* and other supplemental information in *"Highlights of GAO Reports and Testimony"* and in *"Supplement to the Comptroller General's 1997 Annual Report"* contain a wide range of data, some of which is not directly related to the Principal Statements. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the Principal Statements. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the Principal Statements, the report, or the other information require revision. Nothing came to our attention to indicate that this information is materially inconsistent with the Principal Statements.

Clifton Gunderson L.L.C.

Greenbelt, Maryland
December 12, 1997

Photo Index

Pages 6 & 7 Highlights of GAO Reports and Testimony

Photo 1 James F. Hinchman, Acting Comptroller General of the United States

Photo 2 Henry L. Hinton, Jr., Assistant Comptroller General, National Security and International Affairs Division

Photo 3 Lynda D. Willis, Director, Tax Policy and Administration Issues, General Government Division

Photo 4 William J. Scanlon, Director, Health Financing and Systems Issues, Health, Education and Human Services Division

Photo 5 Cynthia M. Fagnoni, Acting Associate Director, Veterans' Affairs and Military Health Care Issues, Health, Education and Human Services Division

Photo 6 Gerald L. Dillingham, Associate Director, Transportation Issues, Resources, Community, and Economic Development Division

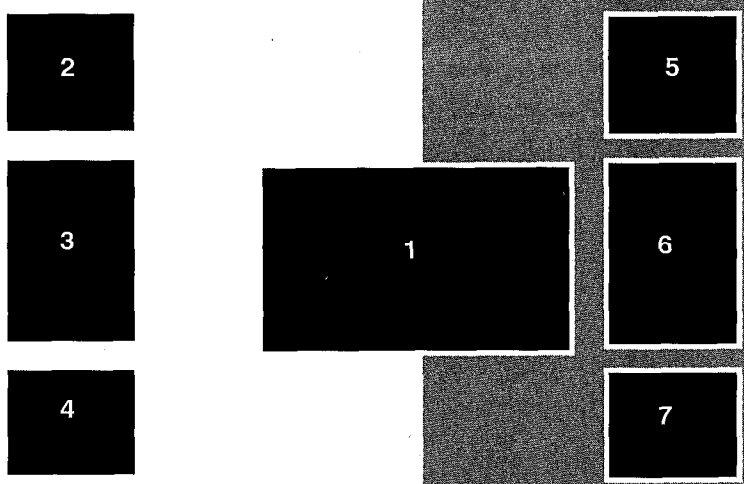
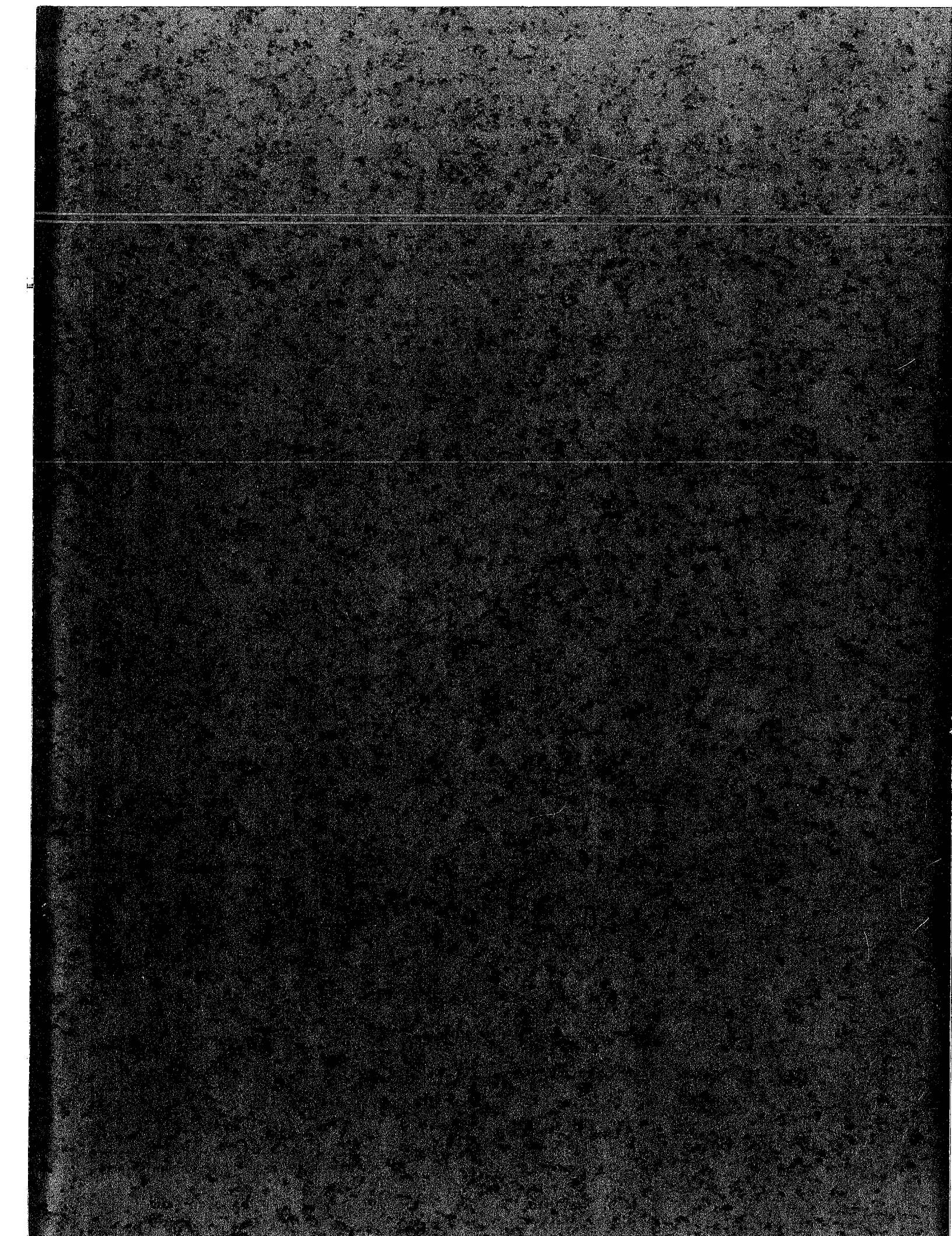



Photo 7 Joel C. Willemssen, Director, Information Resource Management, Accounting and Information Management Division