

GAO

COMPTROLLER

GENERAL'S

1990 ANNUAL
REPORT



GAO serves a unique role in the American system of government. A nonpartisan agency within the legislative branch, it evaluates federal programs, audits expenditures, offers legal opinions, and provides Congress and the public with accurate analysis and objective recommendations on how to improve the effectiveness and efficiency of the federal government. To accomplish this mission, it calls upon the multidisciplinary skills of 5,000 career employees who work throughout the world. GAO routinely saves the taxpayers many times what is invested to support the agency.

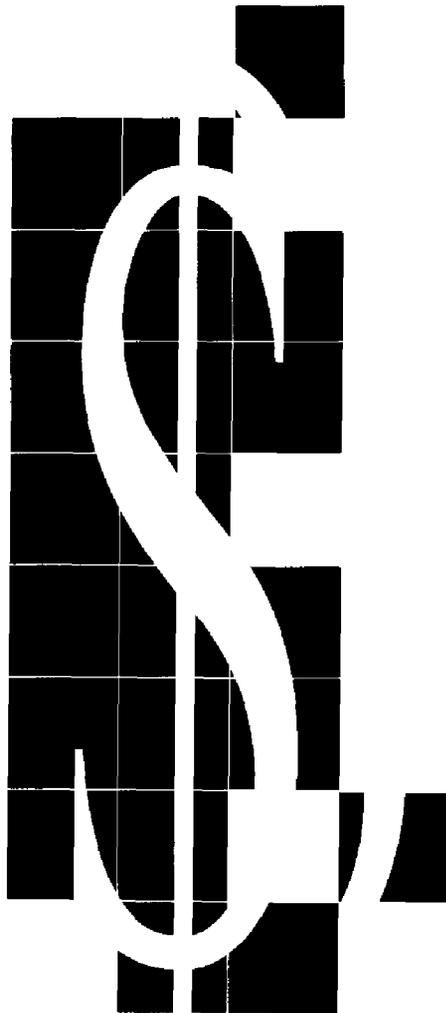




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A Message from the Comptroller General

THE OCTOBER 1990
BUDGET LEGISLATION WILL
HELP CONSTRAIN THE
DEFICIT, BUT WILL BY NO
MEANS ELIMINATE IT.
MUCH REMAINS TO
BE DONE.

Nineteen-ninety was the year in which the budget crisis came to dominate the nation's political agenda. Both in the administration and on Capitol Hill, policymakers finally faced the facts about the deficit.

First, it wasn't getting any better. Five years following passage of Gramm-Rudman-Hollings, the government was no closer than it had been to balancing the books.

Second, the hemorrhage of red ink was depriving lawmakers of both the flexibility and the resources to respond to national problems. The deficit was getting in the way of governing.

Third, and perhaps most significant, the long-term economic security of the United States was in jeopardy. The prospect of an endless piling-on of debt held serious implications for domestic savings and investment. Over the long run, it meant slower growth, a weakened competitive position in the world economy, and an erosion of the nation's standard of living.

The new resolve to deal earnestly with the budget crisis was spurred by a series of progressively troubling deficit projections. The Office of Management and Budget (OMB) estimated in January 1990 that the fiscal year 1991 baseline deficit would total \$100.5 billion. An update in July made it \$231 billion. Still another, at the time of the September Budget Summit agreement, made it \$294 billion. In just 9 months, the anticipated federal budget deficit had *tripled*, with no letup in sight.

People were becoming aware of another fact as well: Even the highest deficit projections understated the size of the problem. The projections were arrived at by merging the enormous deficit in the government's operating, or general, fund with the surpluses

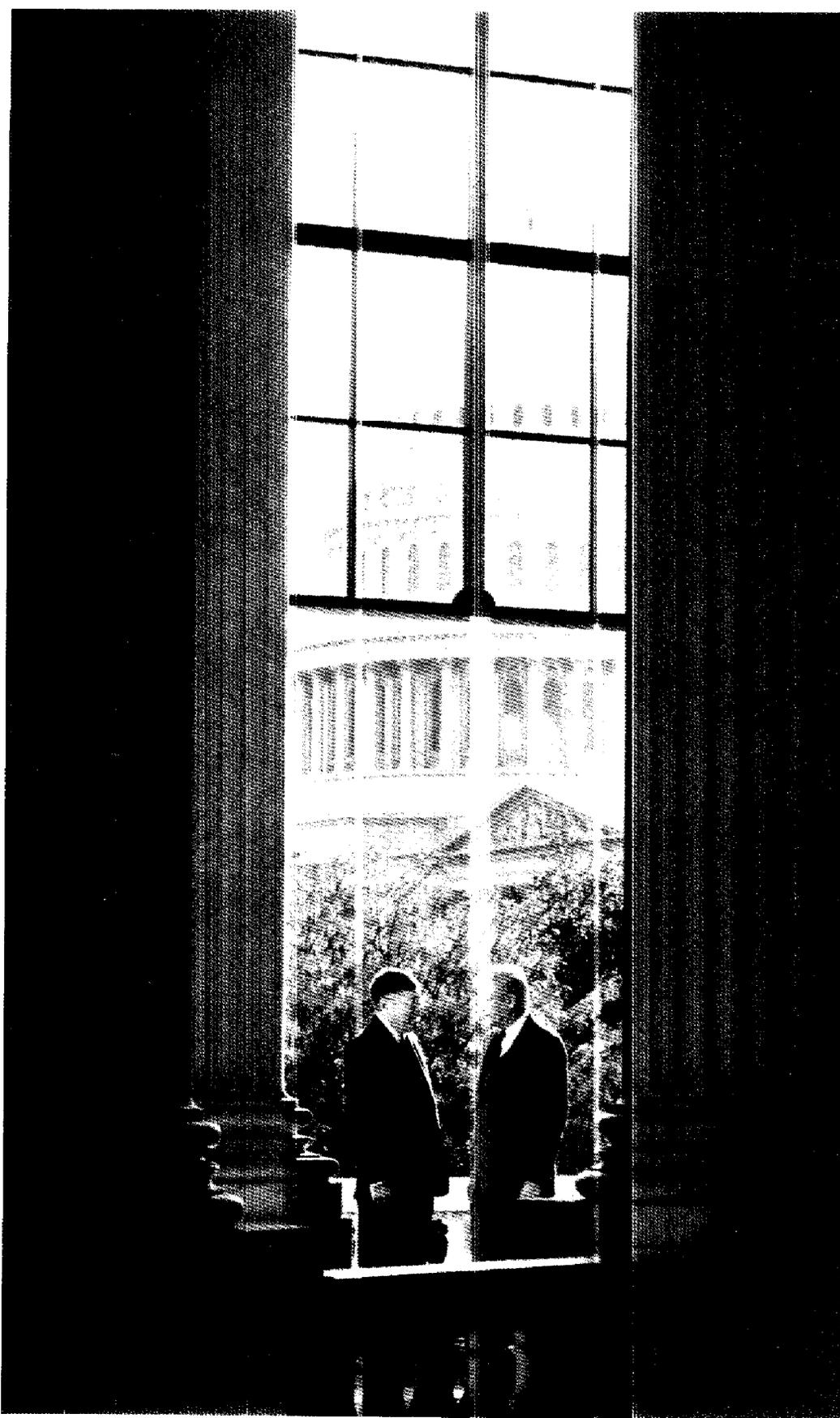
in the Social Security and other retirement trust funds. The effect was to mask the vast structural general fund deficit—no mere \$294 billion, but in reality, more than \$400 billion.

Interest payments on an ever-expanding national debt—which already exceeds \$3 trillion and could be headed for \$5 trillion by 1995—are claiming an inordinate share of the government's revenues. Ten years ago, debt service consumed 21 percent of general fund income. Today, 39 percent. Debt service is the fastest growing federal expenditure. By 1992, defense spending (excluding Operation Desert Shield) will no longer be the biggest item in the federal budget. Debt service will.

Expressed as a percentage of Gross National Product (GNP), the federal budget deficit has doubled every decade for 40 years. General fund receipts have dropped as a share of GNP; general fund outlays have grown. So it is in the general fund—where revenues now cover only 67 percent of expenditures—that the structural imbalance has developed.

The October 1990 budget legislation will help constrain the deficit, but will by no means eliminate it. Certain anticipated costs are not subject to the spending caps provided by the legislation. For example, the cost of the savings and loan rescue continues to rise. The eventual cost of Operation Desert Shield is unknown. In addition, the economic assumptions on which the budget agreement is based—such as projected interest rates and rates of GNP growth—are extremely optimistic, especially those covering the fourth and fifth years of the agreement. The legislation itself comes late and doesn't go far enough.

Yet the fact remains that an agreement *was* reached, and that the nation's leaders did not abandon the politically painful task of



*Comptroller General of the
United States Charles A. Bousher
and Special Assistant to the
Comptroller General
Milton J. Socolar.*

reaching one goal is to find constructive measures *can* be used. The next step is to summon the will and determination to finish the job.

The Budget Deficit Report

Last May, Senators Jim Inhofe and Charles Grassley asked us to talk about the budget deficit and present the choices facing the

During 1990, the budget deficit was a continual subject for discussion when the Comptroller General met with his management team. (Left to right): Comptroller General Charles A. Bousher, Assistant Comptroller General for Planning and Reporting Donald J. Horan, Assistant Comptroller General for Operations Ira Goldstein, General Counsel James F. Hinchman, Assistant Comptroller General Harry S. Havens, and Assistant Comptroller General for Policy Werner Grossbans.

Congress and the American people. Senators Daniel Moynihan and Bill Bradley subsequently joined in the request, and on September 12, 1990, we issued *The Budget Deficit: Outlook, Implications, and Choices* (GAO/OCG-90-5). Our report analyzes the causes of the deficit, explains its implications for the future, and outlines various options for reversing it. At the heart of our report is a recommendation on the scope of that reversal. We do not recommend what actions be taken in order to accomplish it; that is for the people's elected representatives to decide. But we do strongly urge that the federal government, presently running a yearly deficit of about 4 percent of GNP, fashion a program that would achieve, by the end of 6 years, a yearly surplus of 2 percent of GNP. Entailing about \$1 trillion in fiscal policy changes, such a program would bring the general fund roughly into balance. By contrast, the October 1990 budget legislation provides for \$492 billion in fiscal policy changes over 5 years.

As the provisions of the budget legislation take effect, GAO will help the Congress assess what was achieved and what still needs to be done, and determine the alternatives that remain available in the quest to further reduce the deficit.

The Year's Accomplishments

The deficit dilemma was not, of course, the only area in which GAO was involved this year. In the next section of this *Annual Report*, we portray the breadth of our activities in a section we call "The Year's Accomplishments," which highlights the work of our headquarters divisions and regional offices and includes a timeline of some of the year's most important reports and congressional testimonies.

Looking over the timeline, it is not

surprising to find that the year's work begins and ends with major reports on the budget. But in between are more than a hundred wide-ranging titles that represent, not just a continuing effort to assist the Congress in its oversight of federal programs, but an expanding responsibility to help it examine the larger issues and trends that affect every area of governing.

In November 1988—a little more than 2 years ago—we issued a series of 26 *Transition Reports* to help the Congress and the new administration focus on the policy, management, and program issues they would soon be facing. *The Comptroller General's Fiscal Year 1989 Annual Report* called for renewed attention to the kinds of problems—the savings and loan rescue, the health of the federal deposit insurance program, the failures of accountability in government, and the need to reappraise our approach to national defense—that would simply not go away on their own. As fiscal year 1990 unfolded, we stayed involved in all of them.

For example, we produced *Financial Audit: Federal Savings and Loan Insurance Corporation's 1989 and 1988 Financial Statements*, which raised the possibility that the price of the savings and loan rescue might reach \$500 billion, and *Bank Insurance Fund: Additional Reserves and Reforms Needed to Strengthen the Fund*, which warned that the insurance fund may not be sufficiently capitalized to deal with the potential for bank failures in the event of a recession. We also issued *Government Financial Vulnerability: Fourteen Areas Needing Special Review*, which designated "high-risk" areas for pursuing waste, fraud, and abuse, and testimony entitled *Department of Defense: Improving Management to Meet the Challenges of the*



1990s, which called for a critical reexamination of future defense spending and greater attention to long-standing defense management problems.

In all, we issued 921 reports to the Congress, congressional committees, and individual members; 54 reports to federal agency officials; and over 3,500 legal opinions. We continued, as always, to assess the cost and effectiveness of federal programs: During fiscal year 1990, our work contributed to legislative

and executive actions resulting in over \$15 billion in measurable financial benefits to the government.

Our *Annual Report* pictures almost all the GAO staff members who testified this year before the Congress. They fill a lot of photographs. That they do is a measure of the evolution of GAO—both the broadening of our responsibilities and the expansion of our capacity to meet them. It comes down to the

An important factor in the unprecedented number of testimonies and briefings to Congress that GAO provided this fiscal year was the work of the Office of Congressional Relations. (Left to right): Director of the Office of Congressional Relations M. Thomas Hagenstad; legislative attorney T. Vincent Griffith; and legislative advisors Helen H. Hsing, Richard P. Roscoe, and William A. Gerkins.



quality of our people—not just of the 70 GAO staff members who testified a total of 306 times in fiscal year 1990, or of the 100 or so who accompanied them in their appearances before the Congress, but of the several thousand who contributed directly to the fulfillment of our mission.

Financial Information

Our report's final section consists of GAO's fiscal year 1990 financial statements. We think every major federal agency should produce a set of audited financial statements each year. The reason is simple: Reliable financial

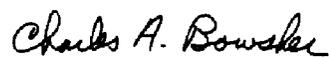
systems and the data they produce are essential to responsible financial management. This year, for example, we completed an examination of the Air Force's financial statements, the first such statements ever produced by a military service branch. What we found were billions of dollars in misstated costs, major internal control weaknesses, and extensive financial management deficiencies. It is never enjoyable for an agency to bring its problems to light, but doing so is the first, essential step toward solving them. Recognizing this fact, the Congress passed the Chief Financial Officers Act of 1990, requiring a set of pilot financial statements and audits for 10 departments and major component agencies. Some federal entities—among them the Department of Veterans Affairs, the General Services Administration, and the Social Security Administration—already produce auditable financial statements regularly. Others ought to as well.

The Chief Financial Officers Act contains a variety of important reforms. The act establishes, within OMB, a Deputy Director for Management and an Office of Federal Financial Management headed by a presidentially appointed Controller. It establishes Chief Financial Officers in the federal departments and nine major agencies who are also presidentially appointed. And, among other things, it requires the conduct of long-range planning to guide financial management improvement.

Financial management reform holds the promise of real progress in the way the federal government operates. But it also has special significance in light of the weakening of public confidence in government that the budget problem has provoked. The whole budget crisis, after all, is about money. Over

the long haul, regaining the taxpayers' confidence in the way their money is being handled can be achieved only by putting reliable financial systems in place throughout the government. Only then, when policymakers can see exactly where we are and how we are doing, will they be able to decide responsibly where we ought to go and how we can get there.

One more word on the deficit. There is reason to be encouraged now that so many of the nation's leaders are willing to struggle with the deficit dilemma and hammer out a compromise. The nation is not done with this problem. But there is, at last, some room for hope.

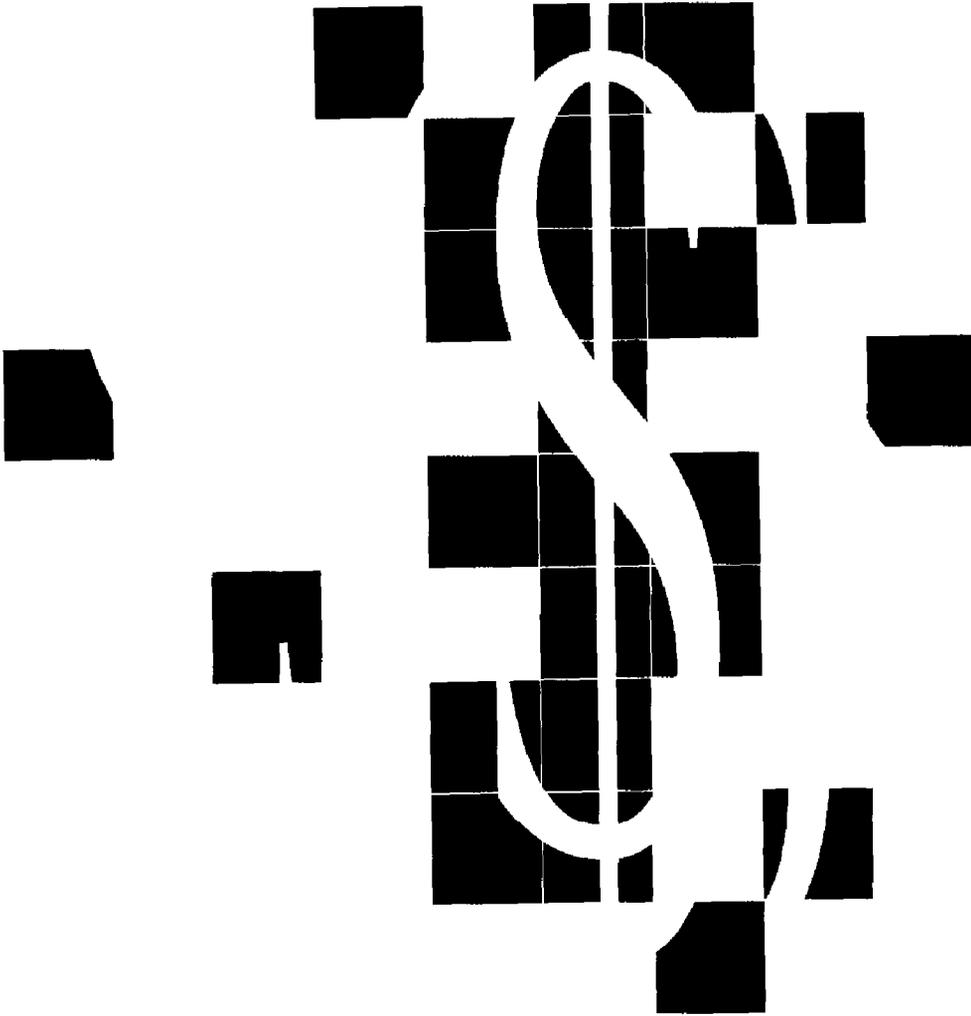


CHARLES A. BOWSLER
*Comptroller General
of the United States*



IT ALL COMES DOWN TO
THE QUALITY OF OUR
PEOPLE—FROM THE 70
WHO APPEARED BEFORE
CONGRESS ON OUR BEHALF,
TO THE SEVERAL THOUSAND
WHO CONTRIBUTED
DIRECTLY TO THE
FULFILLMENT OF OUR
MISSION.

The Years
Accomplishments



Accounting and Financial Management Division

GAO's Accounting and Financial Management Division (AFMD) works to improve the quality of financial management throughout the federal government. AFMD evaluates federal accounting and budgeting systems, AFMD audits—or reviews the audits—of financial statements prepared by federal agencies and other organizations using federal funds. In addition, AFMD promulgates federal accounting and government auditing standards and provides guidance to other agencies in financial management training.

In fiscal year 1990 . . .

. . . the Congress and the Federal Deposit Insurance Corporation responded to an AFMD warning that Bank Insurance Fund reserves were dangerously low, taking steps to increase the Fund's reserves and implement other reforms to guard against potential shortfalls. Similarly, the Export-Import Bank established reserves to cover AFMD-identified losses on its *portfolio of foreign loans*.

. . . AFMD provided the Congress with the first warning that the savings and loan crisis could

cost up to \$500 billion and that funds provided to the Resolution Trust Corporation would not cover these costs.

. . . AFMD completed the Air Force audit—the largest financial audit in history and the first financial audit of a military service. AFMD's examination of Air Force financial statements disclosed billions of dollars in misstated costs, major internal control weaknesses, and extensive financial management deficiencies. As a result, the Department of Defense (DOD) received support for its management improvement initiatives and acknowledged financial management deficiencies in other DOD components.

. . . AFMD issued a study documenting the government's exposure in credit assistance and insurance programs at more than \$5 trillion. The Office of Management and Budget began to monitor these exposures, and the Congress took action to control loan guarantees and *government sponsored enterprises*.

. . . the Congress cut \$1.3 billion from the Defense budget after AFMD found that DOD

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

Highlights of GAO Reports & Testimony

In Fiscal Year 1990, GAO prepared 921 reports to Congress, congressional committees, and individual members; 54 reports to federal agency officials; and over 3,500 legal decisions and opinions. GAO also testified 306 times before congressional committees.

The following list of selected reports and testimonies reflects the range of significant issues with which GAO was involved over the course of the year.



Assistant Comptroller General for Accounting and Financial Management Programs Donald H. Chapin (center) with (left to right): Associate Director for Financial Management Systems and Audit Oversight David L. Clark, Director of Financial Audits Dennis J. Duquette, Director of AFMD Planning and Reporting Brian P. Crowley, and Director for Financial Management Systems and Audit Oversight Jeffrey C. Steinboff.

had more cash than necessary to operate its stock funds.

... a comprehensive AFMD report on the condition of federal internal controls and accounting systems led GAO to focus on federal programs or activities in which there exists a "high risk" of major costs due to fraud, waste, and abuse. The report was part of AFMD's 1990 efforts to build governmentwide support for legislation to reform federal financial management, including passage of the Chief Financial Officers Act of 1990. □



Comptroller General Charles A. Bowsler and Assistant Comptroller General Donald H. Chapin testify on the Office of Management and Budget's role in improving government performance before the Senate Committee on Governmental Operations chaired by Senator John Glenn.



R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

OCTOBER 1989

*54 Reports to Congress
18 Testimonies*

MANAGING THE COST OF GOVERNMENT: Proposals for Reforming Federal Budgeting Practices

The federal budget needs to be restructured to provide policy makers and the public with a clearer and more accurate picture of the nation's finances. (AFMD-90-1)

FINANCIAL AUDIT: Federal Savings & Loan Insurance Corporation's 1988 & 1987 Financial Statements

FSLIC incurred the largest net loss (\$66 billion) and deficit (\$75 billion) ever reported by a public or private corporation. Ultimately, the cost to the public will be even higher. (AFMD-90-31)

MILITARY PRESENCE: U.S. Personnel in NATO Europe

A description of the U.S. military presence in the 14 NATO countries during 1989. (NSIAD-90-1)

Testimonies:

BUDGET: Comptroller General Charles A. Bowsler on the treatment of trust funds in the budget, especially the use of Social Security funds to mask the overall budget deficit. (T-AFMD-90-1, T-AFMD-90-3, and T-HRID-90-10)

BANK CAPITAL STANDARDS:

Assistant Comptroller General Harry S. Havens on GAO's concerns about the lowering of capital requirements for U.S. banks. (T-GGD-90-5)

TAX POLICY: Director of Tax Policy and Administration Issues

Jennie S. Stathis on the advantages of some methods of levying income taxes on mutual life insurance companies. (T-GGD-90-3)

SOUTH KOREA: Director of Logistics Issues

Donna M. Heivilin on the black marketing of U.S.-provided goods and efforts to prevent it. (T-NSIAD-90-1)

General Government Division

The General Government Division (GGD) is concerned with the effective management of key government functions, such as tax collection, the administration of justice, the regulation of financial institutions, the acquisition and maintenance of federal office space, and the hiring and compensation of federal workers. Among the agencies GGD reviews are the federal government's management agencies (the Office of Management and Budget, the General Services Administration, and the Office of Personnel Management); the Department of the Treasury; the Department of Justice; regulators of the financial services industry, such as the Federal Reserve, the Federal Deposit Insurance Corporation, the Securities and Exchange and Commodity Futures Trading Commissions, and the Resolution Trust Corporation; and the Postal Service. In addition, GGD assesses the effects of changes in tax laws on individuals and corporations.

In fiscal year 1990 . . .

. . . responding to growing concerns over the costs and causes of the savings and loan crisis, as well as the financial condition of commercial banks, GGD recommended to the Congress ways of improving the safety and soundness of U.S. financial institutions and markets in order to help better protect investors.

. . . on behalf of the Congress, GGD monitored the planning and conduct of the 1990 census, and recommended actions that resulted in financial benefits of about \$36 million.

. . . the General Services Administration and the Government Printing Office began making management improvements after deficiencies were brought to light by GGD's general management reviews.

. . . a GGD report required by the Immigration Reform and Control Act noted that the employer sanctions provision of the law had prompted a widespread pattern of employment

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

NOVEMBER 1989

68 Reports to Congress

37 Testimonies

**FINANCIAL INTEGRITY ACT:
Inadequate Controls Result
in Ineffective Federal
Programs and Billions
in Losses**

GAO recommends actions to improve the government's financial management system. (AFMD-90-10)

**FEDERAL CREDIT AND
INSURANCE: Programs May
Require Increased
Assistance in the Future**

Growing federal credit assistance and insurance programs have exposed taxpayers to more than \$5 trillion in potential liabilities. (AFMD-90-11)

**MILITARY BASES: An
Analysis of the Commis-
sion's Realignment and
Closure Recommendations**

While the commission's methodology was generally sound, savings were exaggerated and miscalculations were made in recommending bases to be closed. (NSIAD-90-42)

**COAST GUARD: Adequacy
of Preparation and
Response to Exxon Valdez
Oil Spill**

The response to the oil spill was clearly inadequate. A single authority should be responsible for national prevention measures. (RCED-90-44)

**GENERAL SERVICES
ADMINISTRATION:
Sustained Attention
Required to Improve
Performance**

GAO's management review assesses whether a centralized or decentralized approach is most appropriate to



Assistant Comptroller General for General Government Programs Richard L. Fogel (right) with (left to right): Director for Administration of Justice Issues Lowell Dodge, Associate General Counsel Robert P. Murphy, Director for Tax Policy and Administration Issues Jennie S. Stathis, and Director for Government Business Operations Issues L. Nye Stevens.

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

GSA's mission. Major management problems need to be overcome before GSA can adopt the decentralized approach. (GGD-90-14)

Testimonies

MEDICAL DEVICES: Comptroller General Charles A. Bowsher and Assistant Comptroller General Eleanor Chelinsky on the public health risks of recalled medical devices. (T-PEMD-90-2 and T-PEMD-90-3)

DEPARTMENT OF ENERGY: Assistant Comptroller General J. Dexter Peach on DOE's 5-year plan for environmental restoration and waste management. (T-RCED-90-16)

PUERTO RICO: Director of Intergovernmental and Management Issues Linda G. Morra on the future political status of Puerto Rico. (T-HRD-90-7)

HOUSING: Director of Housing and Community Development Issues John M. Ols Jr. on the financial impact of policy changes on the Federal Housing Administration's mortgage insurance fund. (T-RCED-90-17)

RAILROAD SAFETY: Director of Transportation Issues Kenneth M. Mead on the Federal Railroad Administration's hazardous materials inspection program. (T-RCEI-90-13)

DECEMBER 1989

*52 Reports to Congress
3 Testimonies*

PRISON CROWDING: Issues Facing the Nation's Prison Systems

Unprecedented growth of the inmate population in federal prisons already outdistances plans to double prison capacity. (GGD-90-IBR)

(Left to right): Director for Federal Human Resource Management Issues Bernard L. Unger, Director for Federal Management Issues J. William Gadsby, Senior Associate General Counsel Henry R. Wray, Associate Director for Tax Policy and Administration Paul L. Posner, and Director for GGD Planning and Reporting Johnny C. Finch.



Senators William V. Roth Jr. and John Glenn with Comptroller General Charles A. Bousher and Assistant Comptroller General Richard L. Fogel prior to testimony before the Senate Committee on Governmental Affairs.



discrimination. The finding led the Congress to consider improvements in the law's employment verification system.

... GGD examined ways of making government more competitive with the private sector in recruiting and retaining a quality work force. GGD's findings helped the Congress develop legislation establishing locality-based pay for federal workers. □

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

**FEDERAL OFFICE SPACE:
Increased Ownership Would
Result in Significant Savings**

The federal budget structure hinders the government from building its own office space, costing taxpayers billions for more expensive leasing arrangements. (GGD-90-11)

**AVIATION SECURITY:
Training Standards Needed
for Extra Security Measures
at Foreign Airports**

The Federal Aviation Administration cannot be assured that U.S. airlines are applying the necessary security measures at high-risk foreign airports. (RCED-90-66)

A review of the requirements, schedule, performance, cost, and funding support for 13 defense acquisition programs. (NSIAD-90-30)

**HOUSING PROGRAMS:
Increased Use of
Alternatives to Foreclosure
Could Reduce VA's Losses**

The Department of Veterans Affairs could save millions of dollars each year if it used alternatives to loan foreclosures more often. (RCED-90-4)

**FOOD ASSISTANCE: The
National WIC Evaluation:
Reporting and Follow-up
Issues**

Department of Agriculture reporting of a 1986 evaluation of the nutrition program for needy women, infants, and children was misleading since it diluted favorable conclusions about the program. (RCED-90-3)

**DEFENSE ACQUISITION
PROGRAMS: Status of
Selected Programs**

**ICBM MODERNIZATION:
Rail Garrison Production
Decision and Launch Car
Decision Should Be Delayed**

Human Resources Division

Federal health, education, employment, and income security programs are the focus of the Human Resources Division (HRD). Through its reviews and evaluations in these areas, HRD assists the Congress in its oversight of the Departments of Health and Human Services (HHS), Labor, Education, and Veterans Affairs (VA).

In fiscal year 1990 . . .

. . . acting on HRD recommendations, the Congress and HHS took steps to reduce the government's Medicare costs for fiscal years 1990 and 1991 by over \$1.2 billion. One HRD review, for example, led the Congress to put limits on Medicare payments to suppliers of home dialysis equipment, resulting in financial benefits to the government of \$276 million.

. . . also acting on HRD recommendations, VA took steps to recover from private insurers its costs for services to non-service-connected veterans—an action that could lead to recoupments of about \$230 million in the next 2 years. In addition, the Secretary of VA, responding to the initial findings of HRD's general management review of the Department,

developed a strategic management plan to improve VA's provision of services to 27 million veterans.

. . . the National Institutes of Health (NIH) adopted all of HRD's recommendations to fully implement a policy of encouraging the inclusion of women in study populations used in NIH-funded research.

. . . several health care professionals cited HRD's study of infection control programs in government and private sector hospitals as the foremost study of the subject in recent times. As part of the study, a list was prepared of the factors contributing to the successful control of infection; the list was reprinted by GAO and distributed to the more than 5,400 member hospitals of the American Hospital Association. In addition, a Spanish language edition was provided to an international infection control symposium in Mexico and distributed internationally by the World Health Organization.

. . . the Social Security Administration (SSA) completed a 6-year 17,000-position reduction in

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

The Air Force should give fuller consideration to operational test and evaluation results before deciding to begin production of this system. (NSIAD-90-19)

JANUARY 1990

52 Reports to Congress
8 Testimonies

GOVERNMENT FINANCIAL VULNERABILITY: Fourteen Areas Needing Special Review

Noting costly breakdowns in the federal government's internal control and

financial management systems, GAO targets for special scrutiny 14 areas that are especially vulnerable to waste, fraud, and abuse. (OCG-90-1)

ELECTRONIC FUNDS TRANSFER: Oversight of Critical Banking Systems Should Be Strengthened

Given the international banking industry's reliance on these systems for \$1 trillion in transfers every day, GAO believes oversight efforts should be intensified. (IMTEC 90-14)

FINANCIAL AUDIT: Farmers Home Administration's Financial Statements for 1988 and 1987

Multibillion dollar delinquencies and losses continue to grow in FmHA lending programs despite the improved agricultural economy. Fiscal year 1988 losses were \$13.8 billion and delinquencies totalled \$12.5 billion. (AFMD-90-37)



Director of Education and Employment Issues Franklin Frazier testifies on case processing by the National Labor Relations Board before the House Subcommittee on Employment and Housing, chaired by Representative Tom Lantos.



its work force. A series of HRD reports throughout the period documented the fact that SSA's services were not being impaired, and persuaded the Congress that the cuts should not be curtailed. The financial benefits to the government amounted to about \$1.1 billion. □

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INFECTION CONTROL: VA Programs Are Comparable to Nonfederal Programs but Can Be Enhanced

GAO lists 56 basic elements of an effective infection control program and uses the list to assess VA medical centers. (HRD-90-27) List: (HRD-90-25)

Testimonies

MEDIGAP INSURANCE: Director of Health Financing and Policy Issues Janet Shikles on anticipated 1990 premiums following repeal of the Medicare Catastrophic Coverage Act. (T-HRD-90-9)

CENSUS: Director of Government Business Operations Issues L. Nye Stevens on the timing and data quality of the post enumeration survey. (T-GGD-90-15)

NAVY SHIPBUILDING: Director of Navy Issues Martin M. Ferber on the cost and schedule problems of the DDG-51 AEGIS Destroyer program. (T-NSIAD-90-14)

FINANCIAL MARKETS: Director of General Government Information Systems Howard G. Rhile on the need for tighter computer security in the securities markets. (T-IMTEC-90-2)

FEBRUARY 1990

*74 Reports to Congress
28 Testimonies*

STRATEGIC BOMBERS: B-2 Program Status and Current Issues

Faced with huge cost overruns, slipped schedules, and design problems, the B-2 "Stealth" bomber program's funding and pace of produc-

Assistant Comptroller General for Human Resources Programs Lawrence H. Thompson (second from left) with (left to right): Director for Education and Employment Issues Franklin Frazier, Associate Director for National and Public Health Issues Mark V. Nadel, Associate Director for Income Security Issues Gregory J. McDonald, Director for Health Financing and Policy Issues Janet Shibles, and Director for Income Security Issues Joseph Delfico.

(Left to right): Director of the Office of Program Planning William J. Gainer, Director for Intergovernmental and Management Issues Linda G. Morra, Manager of the Detroit Regional Office John R. Luke, Director for Federal Health Care Issues David P. Baine, Director for HRD Operations Sarah F. Jaggard, and Director for HRD Planning and Reporting Edward A. Densmore.



R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

tion should be reduced until critical performance elements have been fully tested. (NSIAD-90-120)

FINANCIAL AUDIT: Air Force Does Not Effectively Account for Billions of Dollars of Resources

Inadequate accounting systems have caused the Air Force to misstate by billions of dollars the costs of buying

and operating weapons and maintaining equipment inventories. (AFMD-90-23)

HAZARDOUS MATERIALS: Inadequate Safeguards over Sales Pose Health and Environmental Problems

DOD and the General Services Administration have sold hazardous materials to buyers who stored and used them improperly. (NSIAD-90-70)

TAX SYSTEM MODERNIZATION: IRS's Challenge for the 21st Century

The Internal Revenue Service has several projects underway to modernize its tax processing, but still needs a strategic plan. (IMTEC-90-13)

Testimonies

DEPOSIT INSURANCE: Comptroller General Charles A. Bowsher on the decisions facing the Congress in reforming the nation's deposit insurance system. (T-GGD-90-20)

NUTRITION: Associate Director for Food and Agriculture Issues Flora H. Milans on the adequacy of nutrition programs on Indian reservations. (T-RCED-90-30)

STUDENT LOANS: Director of Education and Employment Issues Franklin Frazier on the status of the Stafford Student Loan Program—a major source of loans for students seeking postsecondary education. (T-HRD-90-13)

Information Management and Technology Division

As agencies try to acquire and put to good use the latest information technology, GAO's Information Management and Technology Division (IMTEC) reviews the federal government's activities involving automated data processing (ADP), telecommunications, and information management. IMTEC evaluates how well the government's major information systems are performing; how well agencies are managing their hardware, software, personnel, and data; and whether agencies are acquiring the most effective, economical, and efficient information technology to accomplish their missions.

In fiscal year 1990 . . .

. . . IMTEC's wide-ranging reviews of ADP acquisitions resulted in financial benefits to the government of nearly \$1.1 billion this year. IMTEC reports on major systems acquisitions that were poorly planned or designed, such as the multibillion-dollar systems for the Strategic Defense Initiative, the Forest Service's nationwide geographic information program, and the Federal Aviation Administration's computer resources project, led the Congress and the agencies to delay or improve these procurements.

. . . the Federal Reserve corrected a number of internal control weaknesses in its electronic funds transfer system, which processes over \$250 trillion in transfers for the banking community each year. IMTEC had identified these weaknesses for the Federal Reserve and warned of their effects on the system's security and operations.

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

PUBLIC LANDS: Director of Natural Resources Management Issues James Duffus III on the stewardship of the public lands by the Bureau of Land Management and the U.S. Forest Service. (T-RCED-90-24)

MARCH 1990

*91 Reports to Congress
46 Testimonies*

IMMIGRATION REFORM: Employer Sanctions and the Question of Discrimination

The Immigration Reform and Control Act has produced a widespread pattern of hiring discrimination against people with foreign appearances or accents. (GGD-90-142)

LAWN CARE PESTICIDES: Risks Remain Uncertain While Prohibited Safety Claims Remain

EPA is doing little to protect consumers from false and misleading claims made by the lawn pesticide industry. (RCED-90-134)

SPACE OPERATIONS: NASA Is Not Properly Safeguarding Valuable Data from Past Missions

Magnetic tapes containing scientific data from more than 260 NASA space missions face a serious risk of becoming unusable due to deplorable storage conditions. (IMTEC-90-1)

U.S. WEAPONS: The Low- Intensity Threat Is Not Necessarily a Low- Technology Threat

GAO examines the recent history of low-intensity warfare and the technology required for this type of conflict. (PEMD-90-13)



Assistant Comptroller General for Information Management and Technology Programs Ralph V. Carlone (third from left) with (left to right): Senior General Counsel Seymour Efros; Director for General Government Information Systems Howard G. Rhile Jr.; Director for Resources, Community, and Economic Development Information Systems Jaylita Z. Hecker; Senior Associate General Counsel Robert H. Hunter; and Director of Government Information and Financial Management Jack L. Brock.

... following IMTEC recommendations, the Internal Revenue Service, the Resolution Trust Corporation, the Department of Veterans Affairs, and the U.S. Coast Guard all took specific organizational and policy actions to improve the planning and management of their information resources systems and programs.

... the Securities and Exchange Commission and some stock exchanges took steps to improve security in the exchanges' automated information networks after IMTEC reviews pointed out the possibilities of security intrusions. □

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

**DEFENSE INVENTORY:
Top Management Attention
Is Crucial**

GAO summarizes 20 years of reports critical of DOD inventory management, compares DOD's management activities with those of the private sector, and makes recommendations for improvements. (NSIAD-90-145)

**SECURITIES TRADING:
Action Needed to Address
National Market System
Issues**

GAO recommends measures to the Securities and Exchange Commission to improve efficiency, effectiveness, and fairness of U.S. securities markets. (GGD-90-52)

Testimonies

DEFENSE BUDGET: Comptroller General Charles A. Bowsher on

defense spending and program issues in the fiscal year 1991 budget. (T-NSIAD-90-18)

FOOD SAFETY & QUALITY: Director of Food & Agriculture Issues John W. Harman on the efforts of five Latin American countries to meet U.S. requirements on imported produce. (T-RCEID-90-57)

COMPREHENSIVE QUALITY MANAGEMENT: Director of International Trade and Finance Issues Allan I. Mendelowitz on the impact of comprehensive quality

management systems on American companies. (T-NSIAD-90-22)

MILITARY HEALTH CARE: Director of Federal Health Care Delivery Systems Issues David P. Baine on access to health care at overseas military hospitals. (T-HRD-90-20)

MILITARY PROCUREMENT: Director of Research, Acquisition, and Procurement Issues Paul F. Math on legislative proposals to establish a professional acquisition corps in each military service. (T-NSIAD-90-27)

National Security and International Affairs Division

Programs aimed at protecting the United States and advancing its political, economic, and military interests are reviewed by the National Security and International Affairs Division (NSIAD). Its focus includes the activities of the Department of Defense, the Department of State, the National Aeronautics and Space Administration (NASA), the Agency for International Development, and the defense and international programs of dozens of other federal agencies.

In fiscal year 1990 . . .

. . . changing East-West relations and the Iraqi invasion of Kuwait prompted significant changes in NSIAD's work. In response to congressional concerns, NSIAD began reviews and studies in such areas as the restructuring of U.S. armed forces, arms control, the changing U.S. role in NATO, future economic relations with Eastern Europe, the cost and efficiency of Operation Desert Shield, and the effects of international economic sanctions on Iraq.

. . . NSIAD continued to examine the cost growth, delivery schedule slippages, and operational capacities of many major weapon systems now in development or production. NSIAD evaluators found that some systems—the B-1 Bomber and the Apache Helicopter, for example—had been rushed into production without adequate testing and, as a result, had significant operational shortcomings. NSIAD cautioned that production of other systems—among them the B-2 Bomber, the C-17A aircraft, and the Advanced Combat System for Submarines—had been scheduled along a similar pattern.

. . . actions in response to NSIAD recommendations resulted in about \$8.8 billion in measurable financial benefits to the United States. For example, NSIAD recommendations led the Congress to pare the fiscal year 1990 Defense budget by \$375 million for Airborne Self-Protection Jammers for Air Force and Navy aircraft and by \$200 million for ammunition for the Army.

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

CHILD LABOR: Director of Education and Employment Issues Franklin Frazier on child labor violations and the proliferation of "sweat shops." (T-HRD-90-18)

APRIL 1990

*71 Reports to Congress
35 Testimonies*

GASOLINE MARKETING: Consumers Have Limited Assurance That Octane Ratings Are Accurate

The federal government is doing little to prevent gas stations from selling low-octane fuel at high-octane prices. (RCEID-90-50)

1990 FARM BILL: Opportunities for Change

Major changes should be considered in price and income support programs to encourage greater opportunities for marketing. (RCEID-90-142)

CREDIT MANAGEMENT: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program

Despite an increased emphasis by federal agencies on credit manage-

ment, delinquent debts owed to the federal government remain high and the risk of loss on receivables and guaranteed loans continues to grow. (AFMD-90-12)

NAVY SHIPS: Status of SSN-21 Ship Construction Program

The Seawolf Nuclear Attack Submarine construction program may face further cost increases and schedule slippages. (NSIAD-90-163)



(Seated, left to right): Associate Director for Research, Development, Acquisition, and Procurement Issues Michael E. Motley; Director of Air Force Issues Nancy R. Kingsbury; Director for Army Issues Richard A. Davis; and Director for Command, Control, Communication, and Intelligence Issues Louis J. Rodrigues. (Standing, left to right): Associate Director for Air Force Issues Norman J. Rabkin; Director for Navy Issues Martin M. Ferber; and Director for International Trade, Energy, and Finance Issues Allan I. Mendelowitz.

(Near): NSIAD and Dallas Regional Office staff observe field operations of the Army's Apache helicopter.



(Far): Assistant Comptroller General for National Security and International Affairs Programs Frank C. Conahan.



R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

Testimonies

S&L CRISIS: Comptroller General Charles A. Bowsher on the substantial and rapid growth of the estimated cost of the savings and loan bailout and the need to give the taxpayers a complete and accurate accounting of this cost. (T-AFMD-90-15)

MEDICAL MALPRACTICE: Comptroller General Charles A. Bowsher on the far-reaching implications of medical malpractice on health care costs. (T-HRD-90-24)

FEDERAL FINANCIAL MANAGEMENT: Assistant Comptroller General Donald H. Chapin on the federal government's internal control and financial management system weaknesses. (T-AFMD-90-14)

EMBEDDED COMPUTER SYSTEMS: Assistant Comptroller General Ralph V. Carlone on the importance of embedded computer systems in military weaponry and the need for oversight by the Office of the Secretary of Defense. (T-IMTEC-90-8)

METRIC CONVERSION: Assistant Comptroller General J. Dexter Peach on plans, progress, and problems related to the federal government's conversion to the metric system. (T-RCEI-90-61)

APACHE HELICOPTER: Director of Army Issues Richard A. Davis on the many operational and maintenance problems of the Army's most advanced helicopter gunship. (T-NSIAD-90-33)

MAY 1990

*100 Reports to Congress
35 Testimonies*

FDA DRUG REVIEW: Post-Approval Risks 1976-1985

Serious drug side effects not detected in FDA preapproval testing led to the withdrawal or relabeling of more than half of the drugs approved for marketing between 1976 and 1985. (PEMD-90-15)

(Left to right): Associate Director for Army Issues Henry L. Hinton; Director for Foreign Economic Assistance Issues Harold J. Johnson; Director for Defense Force Management Issues Paul L. Jones; Director for Logistics Issues Donna N. Heivilin; Director for Security and International Relations Issues Joseph E. Kelley; and Director for Research, Development, Acquisition, and Procurement Issues Paul F. Math.



... production of the U.S./German Rolling Airframe Missile was terminated as a result of a joint NSIAD/German Court of Audit review of the program, resulting in financial benefits for the United States of about \$88 million during fiscal year 1990. In fiscal year 1991, benefits will amount to about \$70.5 million for the United States and about \$90 million for Germany.

... NSIAD's examination of aid to Somalia led the Congress and the administration to cut these programs by about \$65 million.

... responding in part to NSIAD's questioning of the cost-effectiveness of developing the Orbital Maneuvering Vehicle, NASA terminated the program and avoided estimated future costs of about \$476 million. □

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

PEACE CORPS: Meeting the Challenges of the 1990s

The Peace Corps enters its fourth decade facing serious problems in recruiting, assigning, and keeping volunteers. (NSIAD-90-122)

TRADE and HEALTH ISSUES: Dichotomy Between U.S. Tobacco Export Policy and Antismoking Initiatives

While discouraging smoking in the United States, the federal government promotes the sale of U.S. cigarettes overseas. (NSIAD-90-190)

NATIONAL COINAGE PROPOSALS: Limited Public Demand for New Dollar Coin or Elimination of the Penny

While the United States could potentially save about \$318 million annually by replacing dollar bills with coins,

widespread public acceptance is unlikely. (GGD-90-76)

EUROPEAN COMMUNITY: U.S. Financial Services' Competitiveness under the Single Market Program

An examination of the extent to which U.S. financial firms participate in European Community markets and the efforts of U.S. government agencies to ensure full and fair access to European markets. (NSIAD-90-99)

TRAINING STRATEGIES: Preparing Noncollege Youth for Employment in the U.S. and Foreign Countries

Compared with England, Germany, Japan, and Sweden, the United States gives insufficient attention to employment preparation for noncollege youth. (HRD-90-88)

Program Evaluation and Methodology Division

The Program Evaluation and Methodology Division (PEMD) develops and applies state-of-the-art evaluation methods and gathers, synthesizes, and analyzes data on federal programs. PEMD evaluations cover such diverse program areas as weapon systems, environmental protection, transportation, agriculture, health, income security, education and training, immigration, and urban development. PEMD's work is intended to complement that of other GAO divisions and to advance program evaluation in both the public and private sectors.

In fiscal year 1990 . . .

. . . the cancellation of the Bigeye bomb weapon system, under a bilateral accord between the United States and the Soviet Union, culminated over 4 years of PEMD evaluations and reports on the program. The termination of this highly problematic weapon system will result in financial benefits for the United States of about \$560 million.

. . . the Office of Personnel Management and the Merit Systems Protection Board implemented PEMD recommendations for evaluating the quality of the federal work force.

. . . the Department of Agriculture began to target its outreach efforts under the Food Stamp program toward specific populations of eligible household participants. PEMD had recommended this action, based on an evaluation finding that the Department was using a "blanket" approach to outreach—a key reason that only about 50 percent of eligible households were participating in the Food Stamp program.

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

FOREIGN AID: Efforts to Improve the Judicial System in El Salvador

Despite some positive effects from U.S. aid to the Salvadoran judicial system, the system still does not routinely deliver fair and impartial justice to Salvadorans. (NSIAD-90-81)

FAA PROCUREMENT: Major Data-Processing Contract Should Not Be Awarded

FAA's proposal for a \$1.5 billion computer resources project was not properly planned and has major unresolved problems. (IMTEC-90-38)

Testimonies

CONGRESSIONAL OVERSIGHT:

Assistant Comptroller General Richard L. Fogel on ways in which congressional oversight of federal agencies and programs can be enhanced. (T-GGD-90-40)

BATTLESHIP EXPLOSION:

Assistant Comptroller General Frank C. Conahan on issues arising from the April 1989 explosion aboard the U.S.S. Iowa. (T-NSIAD-90-46)

WEAPONS SYSTEMS:

Assistant Comptroller General Frank C. Conahan on the problems stemming from concurrency—the overlap between the development and production phases—in the acquisition process. (T-NSIAD-90-43)

SOCIAL SECURITY: Director of Income Security Issues

Joseph F. Delfico on the accuracy of the information provided to the public over the Social Security Administration's 800 service line. (T-HRD-90-30)

RADON TESTING: Director for Environmental Protection Issues Richard L. Hembra on improvements needed in EPA's testing program for companies that measure radon. (T-RCED-90-54 and T-RCED-90-81)

(Left to right): Director for PEMD Planning and Reporting Carl E. Wisler, Assistant Comptroller General for Program Evaluation and Methodology Eleanor Chelimsky, and Director for Program Evaluation in Human Service Areas Lois-Ellen Datta.



... PEMD findings on the number of losses that could be expected among low-income housing units due to the process of mortgage prepayment under the Housing Act prompted legislation to provide incentives for owners of these units to stay in the program.

... PEMD findings and recommendations concerning the public health risks of certain medical devices became the bases for many provisions of the Safe Medical Devices Act of 1990. □

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

RESOLUTION TRUST

CORPORATION: Director of Federal Management Issues J. William Gadsby on the elements that must be in place before RTC begins its asset marketing and sales efforts. (T-GGD-90-38)

FEDERAL FIRE MANAGEMENT:

Director of Natural Resources Management Issues James Duffus III on changes in the Federal government's fire management program resulting from the 1988 fires in Yellowstone National Park. (T-RCED-90-84)

TECHNOLOGY TRANSFER:

Director for Planning and Reporting, Program Evaluation and Methodology Division, Carl E. Wisler, on GAO's preliminary assessment of the implementation of the Technology Transfer Act. (T-PEMD-90-4)

JUNE 1990

*81 Reports to Congress
34 Testimonies*

DRUG-EXPOSED BABIES: A Generation at Risk

Drug-exposed babies generate enormous future financial and social costs for taxpayers, yet less than one percent of the federal drug war budget is targeted at women's substance abuse and treatment efforts. (HRD-90-138)

TELECOMMUNICATIONS: Follow-up National Survey of Cable Television Rates and Services

Since deregulation of rates in 1986, there has been a 29 percent increase in cable subscribers' average monthly bills for basic services. (RCED-90-199)

PROMISING PRACTICE: Private Programs Guaranteeing Student Aid for Higher Education

Resources, Community, and Economic Development Division

Government programs involving energy, food and agriculture, transportation, environmental protection, housing and community development, and natural resources are reviewed by the Resources, Community, and Economic Development Division (RCED). The Division assists the Congress in its oversight of the Departments of Agriculture, Commerce, Energy, Housing and Urban Development, the Interior, and Transportation, as well as the Environmental Protection Agency (EPA), the National Science Foundation, the Federal Emergency Management Agency, the Small Business Administration, and the Nuclear Regulatory Commission.

In fiscal year 1990 . . .

. . . the Department of Transportation, acting on a long-standing RCED recommendation, issued a comprehensive National Transportation Policy. In addition, the Federal Aviation Administration followed RCED recommendations to improve security measures at high-risk foreign airports and to ensure the airworthiness of aging aircraft. Also in response to an RCED recommendation, the National

Highway Traffic Safety Administration began requiring that light trucks and vans be equipped with passive restraints—a ruling that is expected to save some 2,000 lives each year.

. . . RCED advised the Congress and the Department of Energy on the need for a national energy strategy, focusing on such issues as the Strategic Petroleum Reserve, demand restraints on oil, transportation efficiency, and the environmental effects of energy consumption. In addition, RCED's examination of the Exxon Valdez disaster and other oil spills contributed to legislation requiring oil spill contingency plans.

. . . A variety of RCED studies documented the extent of the nation's unmet environmental needs. RCED reported, for example, that EPA was not effectively monitoring the lawn pesticide industry. RCED also reported that many water systems around the nation were violating federal drinking water standards, and that EPA enforcement was often ineffective.

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

Several guaranteed aid programs for disadvantaged students have shown promise, particularly "sponsorship" programs that include early intervention, personal mentoring, and intensive academic help in addition to financial assistance. (PEMD-90-16)

**RENTAL HOUSING:
Inefficiencies from
Combining Moderate
Rehabilitation and Tax
Credit Subsidies**

Developers of low-income rental housing projects can use government subsidies to realize cash proceeds far in excess of their costs. (RCED-90-168)

Testimonies

NATIONAL INSTITUTES OF HEALTH: Associate Director for National and Public Health Issues Mark V. Nadel on problems surrounding the implementation of NIH's policy to encourage the inclusion

of women in study populations. (T-HRD-90-38)

NUCLEAR WEAPONS COMPLEX: Director of Energy Issues Victor S. Rezendes on correcting environmental problems facing the nuclear weapons complex. (T-RCED-90-85)

PENSIONS: Director of Income Security Issues Joseph F. Delfico on the federal government's oversight of pension and welfare funds. (T-HRD-90-37)

AIRCRAFT PRODUCTION: Director of Air Force Issues Nancy R. Kingsbury on the status of the Air Force's C-17 aircraft program. (T-NSIAD-90-48)

ENDANGERED SPECIES: Director of Natural Resources Management Issues James Duffus III on issues involving the Mt. Graham red squirrel and the construction of a University of Arizona astrophysical facility. (T-RCED-90-92)



... RCED helped the Congress as it considered the 1990 farm bill, identifying potential improvements in virtually all aspects of American agriculture policy and ways of reducing the Department of Agriculture budget.

... the Congress studied legislation based on RCED proposals to ensure the government a fair return on the sale or use of minerals, renewable resources such as timber and grazing rights, and other natural resource assets on federal lands.

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

JULY 1990

*80 Reports to Congress
24 Testimonies*

STRATEGIC DEFENSE SYSTEM: Stable Design and Adequate Testing Must Precede Decision to Deploy

Because of recent design changes and insufficient evaluation plans, a

1993 decision to deploy the Strategic Defense System would be risky and premature. (MTEC-90-61)

HOME VISITING: A Promising Early Intervention Strategy for At-Risk Families

Home-visiting services for high-risk pregnant women and high-risk infants should be incorporated into federally funded health care or social support services. (HRD-90-83)

SPACE TRANSPORTATION: NASA Has No Firm Need for Increasingly Costly Orbital Maneuvering Vehicle

A firm requirement for the multipurpose space tug, whose capabilities have already been reduced in the face of soaring costs, does not exist. (NSIAD-90-192)

EMPLOYEE BENEFITS: Extent of Multi-employer Plan Retiree Health Coverage

While just over six percent of all retirees in company-sponsored health plans are covered by multi-employer plans, these plans are an important source of coverage in certain industries—most notably construction—where few individual firms have retiree health benefits. (HRD-90-132)

FINANCIAL AUDIT: Federal Savings and Loan Insurance Corporation's 1989 and 1988 Financial Statements

If the economy suffers a downturn and interest rates rise, the total funds



Assistant Comptroller General for Resources, Community, and Economic Development Programs J. Dexter Peach (seated, right) with (seated, left to right): Director for Transportation Issues Kenneth M. Mead and Director for Natural Resources Issues James Duffus III. (Standing, left to right): Director for RCED Planning and Reporting Keith O. Fultz, Director for Housing and Community Development Issues John M. Ols, Jr., and Associate Director for Transportation Issues John W. Hill Jr..

(Far page, left to right): Director and Associate Director for Energy Issues Victor S. Rezendes and Judy England-Joseph, Associate Director and Director for Environmental Protection Issues Peter Guerrero and Richard L. Hembra, and Associate Director and Director for Food and Agriculture Issues Flora Milans and John W. Harman.

... RCED's findings that rental housing developers could realize excess profits led the Congress and the Department of Housing and Urban Development to revise portions of the low-income rental subsidy program. □

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

needed to pay off existing obligations and resolve S&L problems could reach \$500 billion. (AFMD-90-79)

**ELECTRONIC WARFARE:
Need to Strengthen Controls
over Air Force Jammer
Programs**

Several Air Force electronic warfare jamming devices do not work because they were not adequately tested before procurement and deployment. (NSIAD-90-168)

Testimonies

DEPARTMENT OF DEFENSE: Comptroller General Charles A. Bowsler on the need to correct longstanding defense management problems. (T-NSIAD-90-57)

GOVERNMENT-SPONSORED ENTERPRISES: Assistant Comptroller General Richard L. Fogel on the need for greater oversight and tighter capital standards for these congressionally chartered private corporations, which

include Fannie Mae, Freddie Mac, and Sallie Mae. (T-GGD-90-59)

GOVERNMENT PRINTING OFFICE: Director of Federal Management Issues J. William Gadsby on the reasons GPO contributes to inefficiency and cost ineffectiveness in federal printing. (T-GGD-90-57)

AUGUST 1990

*80 Reports to Congress
12 Testimonies*

FARMERS HOME ADMINISTRATION: Changes Needed in Loan Servicing under the Agricultural Credit Act

Measures need to be taken to ensure that bad-faith borrowers do not benefit from the debt relief provisions of the act. (RCED-90-169)

Regional and Overseas Offices

Almost one-half of GAO's evaluators, auditors, and technical specialists work in its 14 regional and 2 overseas offices. The field structure provides GAO with broad geographic coverage and the kind of locally based knowledge and expertise that allows for more effective data gathering and in-depth examinations of national and international issues. The field staff directly support the headquarters Issue Area Directors in performing audits and evaluations, preparing reports, and presenting testimony before the Congress.

In fiscal year 1990 . . .

. . . the San Francisco, Seattle, Atlanta, and New York Regional Offices studied the effectiveness of federal, state, and local government emergency disaster assistance. San Francisco staff studied responses to the Loma Prieta earthquake, Seattle staff reviewed the Exxon Valdez oil spill, and Atlanta and New York staff examined the aftermath of Hurricane Hugo.

. . . staff from nearly all of GAO's field offices worked with headquarters in reviewing Department of Defense (DOD) programs,

auditing DOD's finances, and evaluating DOD's automated information systems. For example, 10 regional offices and the 2 overseas offices provided staff to conduct fieldwork for the first financial audit of the Air Force. Los Angeles and Cincinnati regional staff examined problems relating to the B-2 bomber and the C-17 transport plane. Staff from the Boston and Norfolk Regional Offices visited Navy shipyards and defense contractors in their areas, reviewing cost and schedule problems related to such major weapon systems as the SSN-21 Seawolf submarine and the DDG-51 Aegis destroyer. The Kansas City Regional Office documented the difficulties of maintaining the Apache helicopter. Staff from Chicago, Detroit, and Philadelphia looked into the Army's procurement of supplies, such as chemical protective suits, ammunition, and spare parts.

. . . staff from the European Office (located in Frankfurt) and the Far East Office (located in Honolulu) reviewed the overseas operations of the Peace Corps, compared the health care practices and job training programs of other nations with those of the United States, and

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

NAVY SHIP DEFENSE: Concerns About the Strategy for Procuring the Rolling Airframe Missile

In a joint review, GAO and the German Federal Court of Audit conclude that it is premature to proceed with full-scale production of the German-American ship defense program. (NSIAD-90-208)

AIRLINE COMPETITION: Industry Operating and Marketing Practices Limit Market Entry

The goal of the Airline Deregulation Act—to increase competition—has been hindered by industry practices that raise barriers to market entry. (RCED-90-147)

MANAGEMENT OF VA: Implementing Strategic Management Process Would Improve Service to Veterans

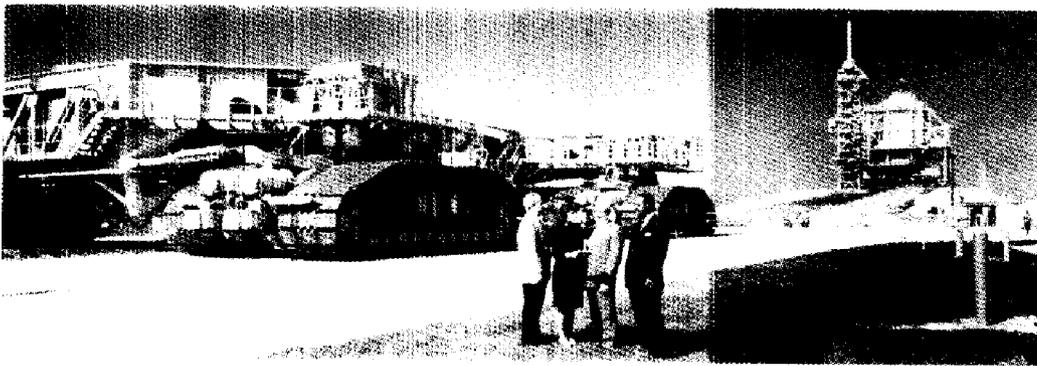
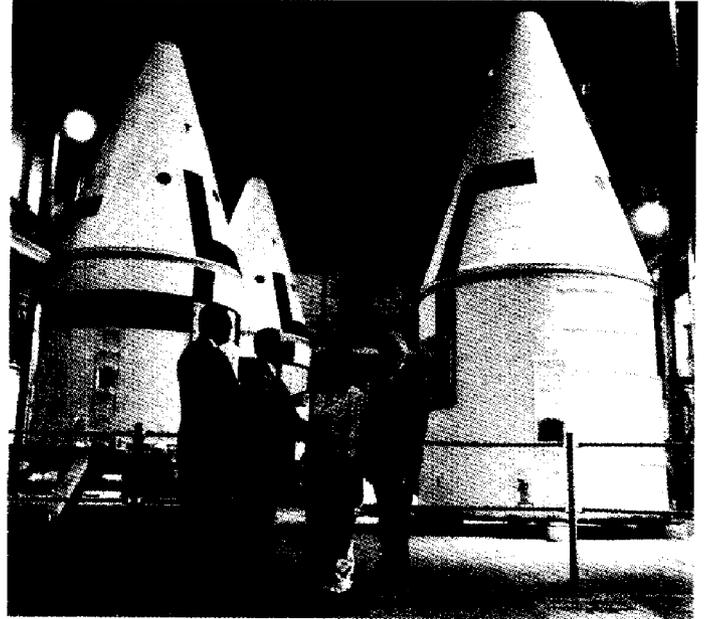
GAO's management review of VA offers a secretarial-level strategic management process that could be adapted to the department. (HRD-90-109)

COMPUTER PRIVACY: How the Government Obtains, Verifies, Uses, and Protects Personal Data

An overview of personal information practices on the part of 178 federal agencies operating about 2,000 predominantly computerized personal information systems. (IMTEC-90-703R)



Atlanta Regional Office staff conduct field reviews of NASA operations at the Kennedy Space Center. (Clockwise from upper left): Akcem Abdul Rashid, Leo B. Sullivan Jr., Joanna M. Siamatiades, and Thomas L. Gordon underneath the Orbiter Discovery in the processing facility where thermal protection tiles are attached, in the Vehicle Assembly Building with solid rocket booster nose cones, and next to the Crawler-Transporter Vehicle at the launch pad for the Shuttle Columbia.



R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

Testimonies

FINANCIAL IRREGULARITIES: Comptroller General Charles A. Bowsher on the need for improved auditing of companies subject to the Securities and Exchange Act. (T-AFMD-90-27)

FINANCIAL MANAGEMENT: Special Assistant to the Comptroller General Milton J. Socolar on the government's use of expired and lapsed appropriation accounts. (T-AFMD-90-26)

BONDS TO MEXICO: Director of International Trade, Energy, and Finance Affairs Alan T. Mendelowitz on the government's Treasury pricing of zero-coupon bonds sold to assist Mexico in restructuring its commercial bank debt. (T-NSIAD-90-61)

MASS TRANSPORTATION: Associate Director for Transportation Issues John W. Hill Jr. on Urban Mass Transportation Administration oversight of about \$3.5 billion in grants to local transit authorities. (T-RCED-90-102 and T-RCED-90-103)

INTERNAL REVENUE SERVICE: Associate Director for Tax Policy and Administration Issues Paul L. Posner on the failure of IRS to collect billions of dollars in delinquent taxes—about \$66 billion in 1989. (T-GGD-90-60)

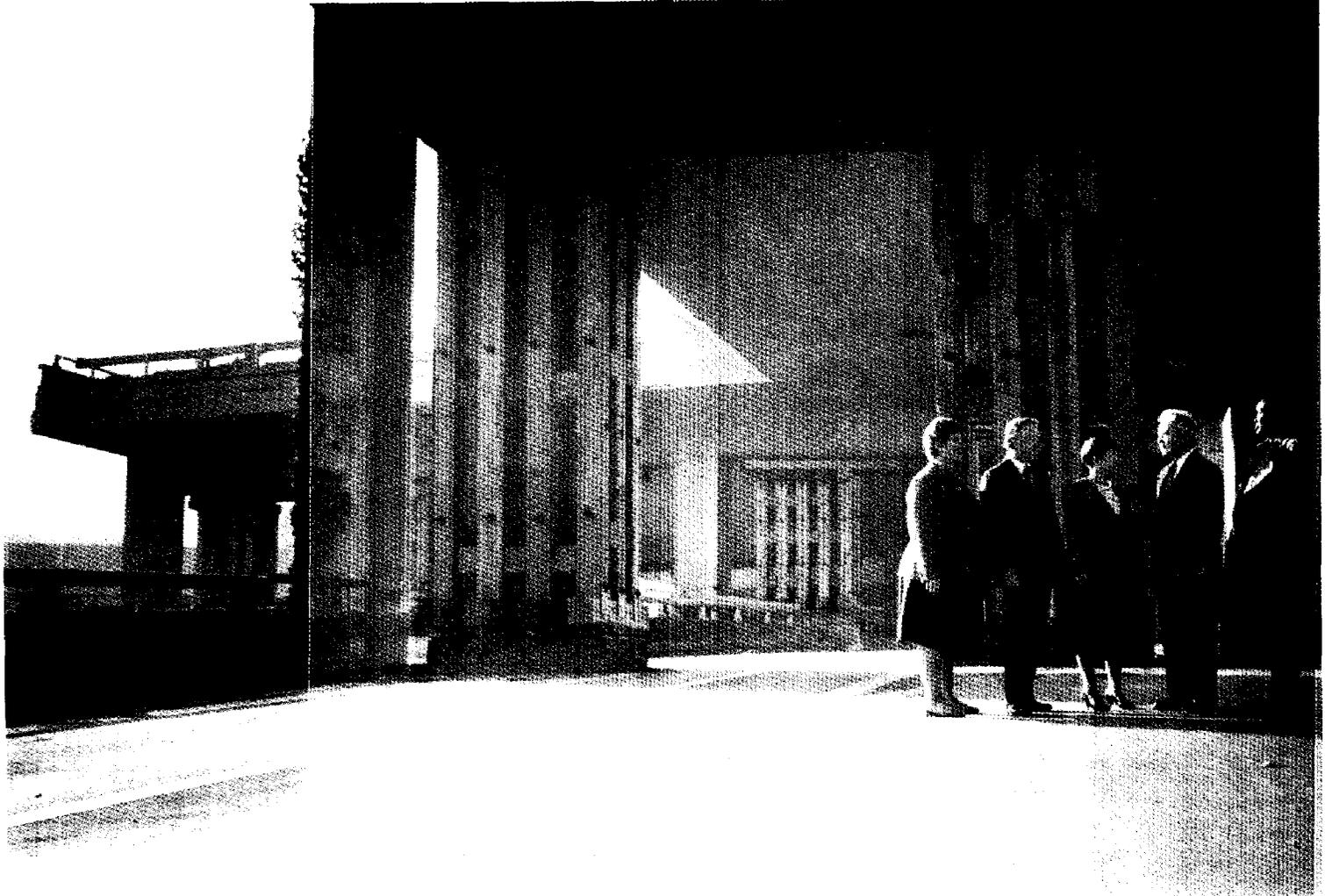
DRINKING WATER: Director of Environmental Protection Issues Richard L. Hembra on failure by the states to comply with EPA quality standards for drinking water. (T-RCED-90-97)

SEPTEMBER 1990

118 Reports to Congress
26 Testimonies

**BANK INSURANCE FUND:
Additional Reserves and
Reforms Needed to
Strengthen the Fund**

The insurance fund may not be sufficiently capitalized to deal with potential bank failures in the event of a recession. (AFMD-90-100)



examined DOD and State Department responses to the changes in East-West relations.

... regional offices with major Internal Revenue Service (IRS) facilities located nearby—such as Boston, Chicago, Cincinnati, Kansas City, New York, and San Francisco—identified multi-million dollar problems in the management of IRS resources, services, and tax collection.

... the Atlanta, Denver, and Seattle Regional Offices examined nuclear weapons plants in their areas, focusing on waste management and fuel production practices.

... fieldwork by the Atlanta, Chicago, Kansas City, and Dallas Regional Offices on agriculture policy—especially Department of Agriculture food assistance and crop subsidy programs—

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

**RURAL DRUG ABUSE:
Prevalence, Relation to
Crime, and Programs**

Rural communities face serious drug abuse problems and are ill-equipped to address them effectively. (PEMD-90-24)

**THE BUDGET DEFICIT:
Outlook, Implications,
and Choices**

The federal budget deficit is out of control, and bodes ill for future investment and economic growth. GAO presents options for policy makers to consider in order to reverse the trend toward ever-higher deficits. (OCG-90-5)

Testimonies

RESOLUTION TRUST CORPORATION: Comptroller General Charles A. Bowsher on RTC's additional funding needs for the S&L crisis and on the importance of effective RTC controls over the contractors

who manage the assets of failed thrifts. (T-AFMD-90-52 and T-GGD-90-53)

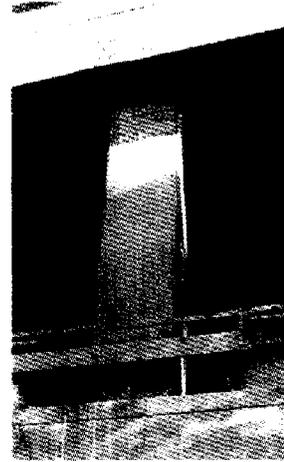
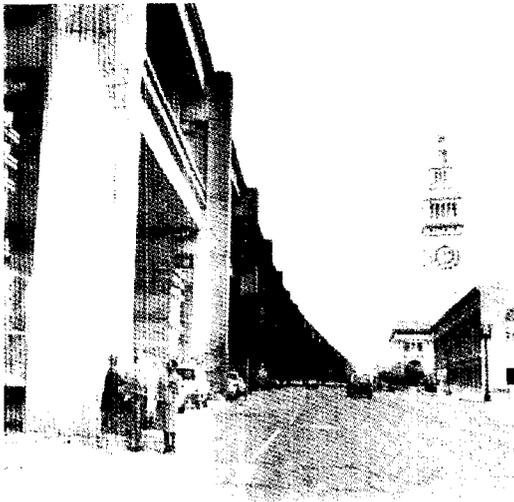
FEDERAL COMPUTER PROCUREMENTS: Special Assistant to the Comptroller General Milton J. Socolar on problems related to the acquisition of computer hardware and software by federal agencies. (T-IMTEG-90-12)

LONG-TERM CARE INSURANCE: Assistant Comptroller General Lawrence B. Thompson on the need to closely scrutinize proposals to link

private long-term care insurance and Medicaid. (T-HRD-90-55)

DEPOSIT INSURANCE: Assistant Comptroller General Richard L. Fogel on the actions needed to better align the deposit insurance systems and financial regulation with the realities of today's markets. (T-GGD-90-46)

NATIONAL ENERGY POLICY: Director of Energy Issues Victor S. Rezendes on the long-term implications of recent oil supply disruptions. (T-RCED-90-105)



San Francisco Regional Office staff reviewed and reported on the activities of federal, state, and local government agencies responding to the October 1989 earthquake. (Far page): Key San Francisco staff who worked on these assignments included (left to right) Judy K. Hoover, Larry J. Calboun, Karen S. Zuckerstein, Regional Manager Thomas P. McCormick, and Belinda F. Jones.

contributed to GAO's input to deliberations on the 1990 farm bill.

... the Denver, Detroit, New York, and Los Angeles Regional Offices reviewed various aspects of the nation's housing. Staff from Denver and Detroit examined low-income housing issues; staff from New York directed GAO's reviews of programs involving the

homeless; and the Los Angeles staff studied the activities of the Federal Housing Administration.

... congressional hearings were held in New York, Pennsylvania, and Texas on the field operations of the 1990 census, making use of observations by GAO staff from the New York, Philadelphia, Kansas City, and Dallas Regional Offices. □

R E P O R T S T O C O N G R E S S ■ T E S T I M O N I E S

INFORMATION RESOURCES: Director of Resources, Community, and Economic Development Information Systems Jay Eita Z. Hecker on the cost growth, schedule delays, and unmet user needs related to two major computer systems at the Agricultural Stabilization and Conservation Service. (T-IMTEG-90-13)

CAMBODIA: Director of Foreign Economic Assistance Issues Harold J. Johnson on U.S. nonlethal assistance to the Noncommunist Cambodian Resistance and the status

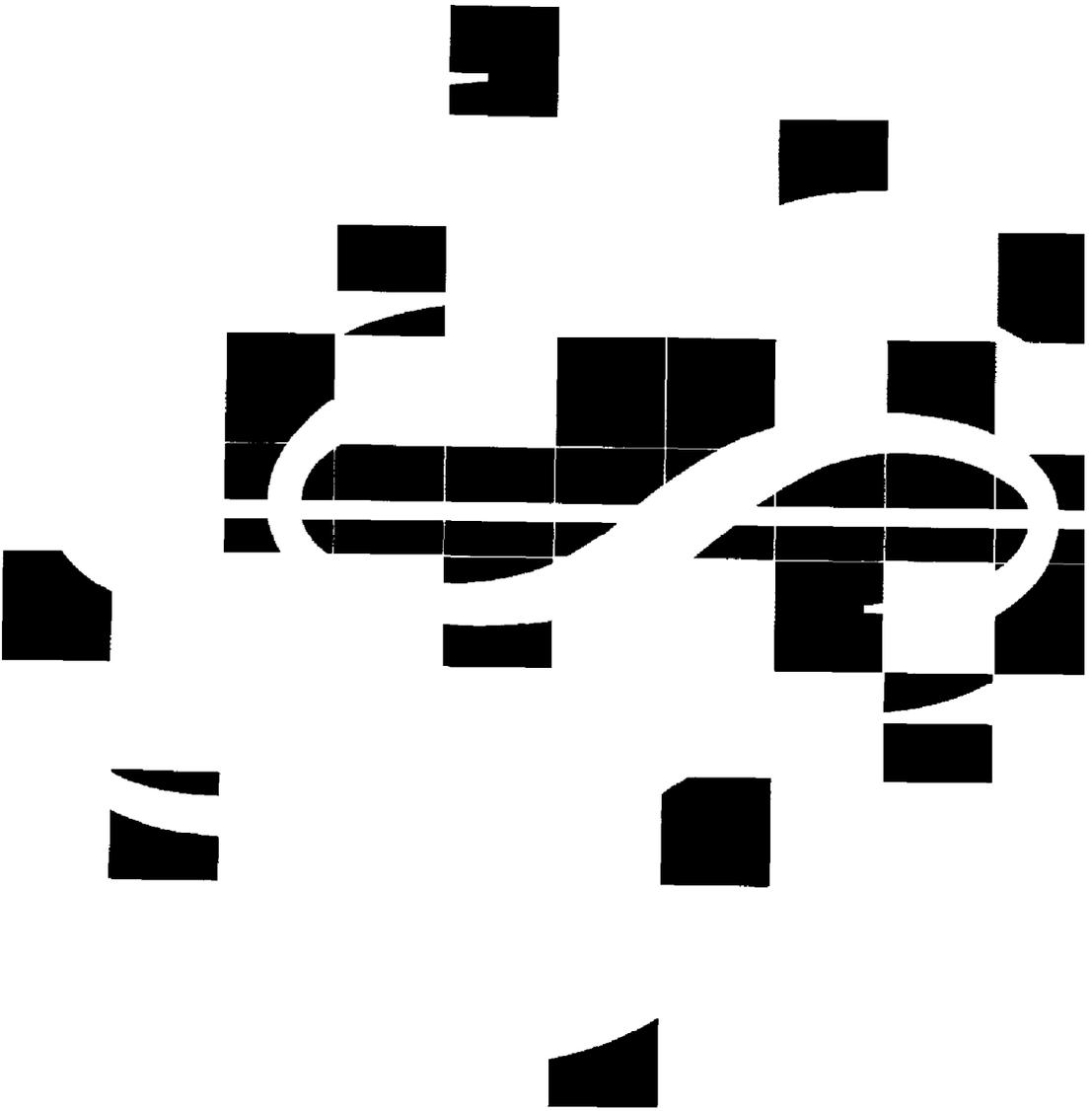
of the Cambodian seat at the United Nations. (T-NSIAD-90-63)

HARD ROCK MINING: Director of Natural Resources Management Issues James Duffus III on changes needed in the Mining Law of 1872 to encourage timely mineral development while keeping lands under federal ownership. (T-RCED-90-100)

To request copies of these reports and testimonies, please see the instructions on the last page of this report.



WE THINK EVERY MAJOR
FEDERAL AGENCY SHOULD
PRODUCE A SET OF AUDITED
FINANCIAL STATEMENTS EACH
YEAR. THE REASON IS SIMPLE:
RELIABLE FINANCIAL SYSTEMS
AND THE DATA THEY
PRODUCE ARE ESSENTIAL TO
RESPONSIBLE MANAGEMENT.



Internal Controls

GAO maintains a system of internal controls over its operations. The system is designed to provide reasonable assurance, at an appropriate cost, that GAO's assets are protected, that transactions are properly executed and recorded, and that operations are conducted in accordance with established policies and procedures.

Results from Financial Integrity Reviews

GAO is firmly committed to the spirit and intent of the Federal Managers' Financial Integrity ACT (FMFIA) of 1982. GAO has instituted a series of steps to ensure compliance with the act's objectives. Those steps include

- a top level internal control advisory committee to provide policy oversight, review work in progress, and provide guidance in meeting the FMFIA objectives,
- a management control plan to guide GAO's FMFIA efforts and ensure that internal controls throughout the organization are evaluated,
- a requirement that all GAO units test selected internal controls as part of their annual FMFIA self-assessments, and
- a quality review system which evaluates adherence to GAO's auditing and reporting standards, policies, and procedures.

Tests of agency-wide internal controls are conducted over a 5-year cycle. Three years have been completed. Work to date has resulted in strengthened internal controls and operational improvements in several areas. These tests and the other steps we have described above, give us no reason to believe that GAO's internal controls do not fully comply with the internal control objectives of FMFIA.

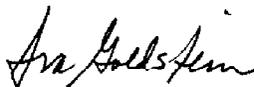
Other Steps

An internal review of GAO's accounting system found that GAO's accounting system conforms in all material aspects with the principles, standards, and related requirements contained in Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. However, certain areas in the system needing improvement were identified during the review. GAO has an effort underway to bring about those improvements.

As an integral part of their audit of GAO's Financial statements, Price Waterhouse issued separate reports on GAO's internal control structure and compliance with laws and regulations. Those reports, which describe the scope of their reviews and testing and the results thereof, are on pages 45 and 46.

Conclusion

As a result of steps taken by GAO to insure compliance with the objectives of the FMFIA, the internal review of GAO's accounting system and the work of Price Waterhouse, I am satisfied that GAO has an effective system of internal controls over its operations.



Assistant Comptroller General
for Operations

Financial Information

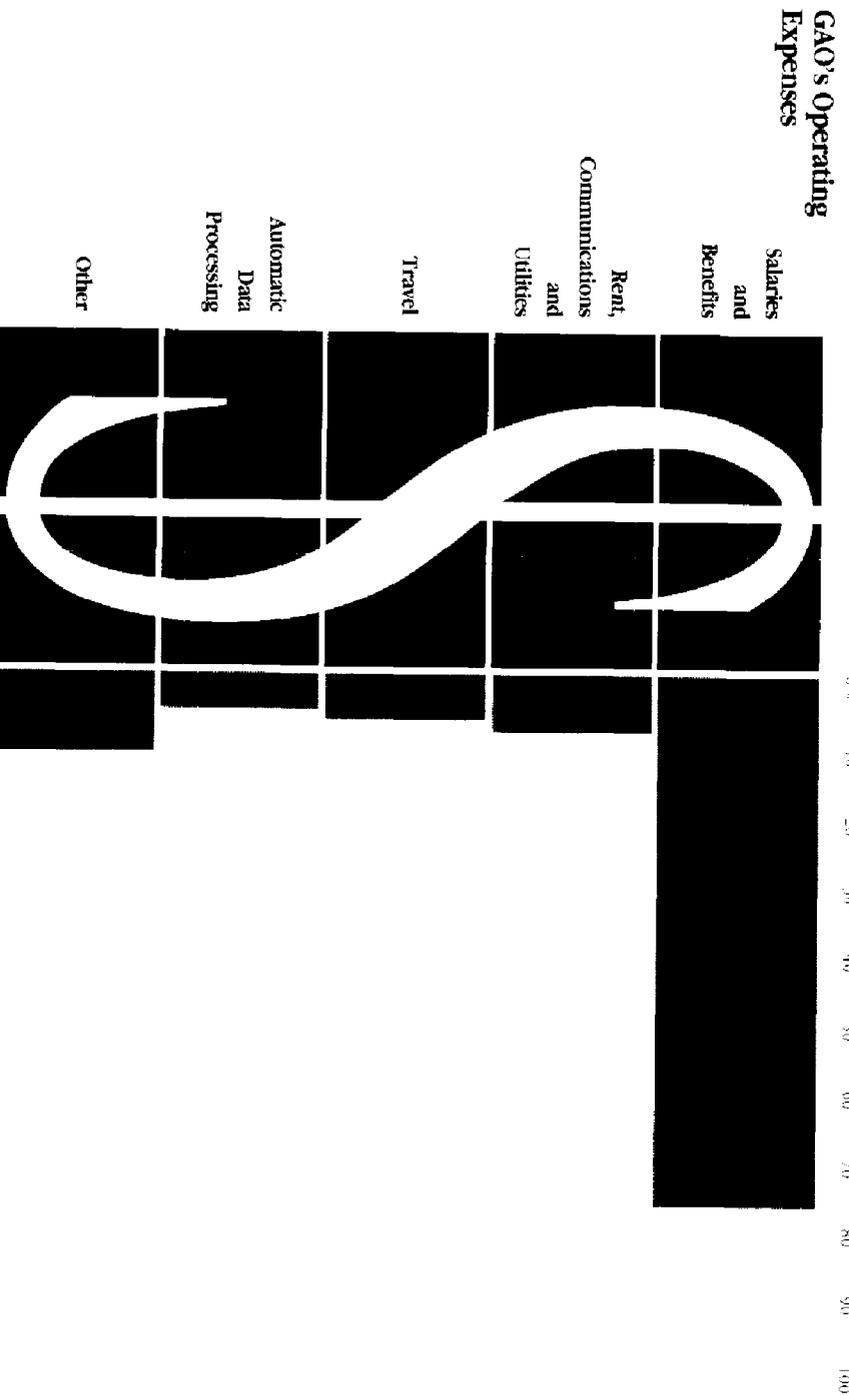
This section of the *Annual Report* includes commentary on GAO's financial resources and expenses. GAO's financial statements for fiscal years 1990 and 1989 are also included, together with the opinion of the independent accountants, Price Waterhouse, who audited the statements.

Financial Resources and Operating Expenses

The accompanying financial statements summarize the financial position of GAO, disclose the cost of operations during fiscal years 1990 and 1989, and present all significant sources and uses of resources during the 2 fiscal years.

The cost of operating GAO during fiscal years 1990 and 1989 amounted to about \$365 million and \$339 million, respectively. Over 99 percent of its operations were financed through appropriations from the Congress. The remainder came from reimbursements from other government agencies. The percentage of operating expenses financed by appropriations has been about the same over the last five years.

During fiscal year 1990, expenses for salaries and related costs totaled \$273 million and constituted about 75 percent of GAO's total operating expenses. This supported a staffing level of 5,076 full-time equivalent staff-years, most of which were employed in carrying out GAO's audit and evaluation activities. This staffing level has remained relatively constant during the past decade.



**Report of
Independent
Accountants
on Financial
Statements**

Comptroller General of the United States

We have audited the accompanying statements of financial position of the General Accounting Office, an agency of the legislative branch of the government of the United States of America, as of September 30, 1990 and 1989 and the related statements of operations and financing sources and of changes in financial position for the years then ended. These financial statements are the responsibility of the General Accounting Office's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the *Government Auditing Standards* issued by the Comptroller General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as an integral part of our examination, we issued separate reports that describe the scope of our review and findings related to internal accounting controls and compliance with laws and regulations. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of the General Accounting Office at September 30, 1990 and 1989 and the results of operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Pricewaterhouse

Washington, D.C.
December 14, 1990

Financial Statements

U.S. General Accounting Office Statement of Financial Position as of September 30, 1990 and 1989

<i>Dollars in thousands</i>	<i>1990</i>	<i>1989</i>
Assets		
Funds with U.S. Treasury	\$ 47,811	\$ 46,769
Future appropriations due	24,664	24,201
Travel and other advances	1,027	1,144
Accounts receivable	4,037	2,406
Supplies inventory	509	465
Building and land, net of \$1,253 and \$626 accumulated depreciation, respectively	15,602	16,229
Improvements to the building, net of \$2,178 and \$537 accumulated depreciation, respectively	5,128	2,168
Furniture and equipment, net of \$9,717 and \$8,111 accumulated depreciation, respectively	10,161	8,298
Total Assets	\$108,939	\$101,680
Liabilities		
Salaries and benefits	\$ 16,495	\$ 15,575
Employee travel	2,029	1,882
Accounts payable	11,414	8,439
Other liabilities	6,571	4,186
Accrued annual leave	23,324	22,979
Total Liabilities	\$ 59,833	\$ 53,061
Net Assets	\$ 49,106	\$ 48,619

The accompanying notes are an integral part of the financial statements.

**U.S. General Accounting Office
Statement of Operations and Financing Sources
for Fiscal Years Ended September 30, 1990 and 1989**

<i>Dollars in Thousands</i>	<i>1990</i>	<i>1989</i>
Operating Expenses		
Salaries and benefits	\$273,291	\$258,241
External training	2,132	1,586
Travel	17,900	17,377
Rent, communications and utilities	21,290	21,401
Computer and other ADP services	15,869	12,730
Other contract services	20,245	15,361
Supplies and materials	4,644	4,825
Printing and document copying	3,685	2,833
Depreciation	5,636	3,719
Other	760	1,388
Total Operating Expenses	\$365,452	\$339,461
Financing Sources		
Appropriations expended	\$362,887	\$336,743
Funds to be provided by future appropriations	463	1,265
Rents, reimbursable audits and other reimbursable services	10,684	10,129
Less amounts remittable to U.S. Treasury	(8,582)	(8,676)
Total Financing Sources	\$365,452	\$339,461

The accompanying notes are an integral part of the financial statements.

**U.S. General Accounting Office
Statement of Changes in Financial Position
as of September 30, 1990 and 1989**

<i>Dollars in Thousands</i>	<i>1990</i>	<i>1989</i>
Sources of Funds		
Appropriations and other financing sources	\$365,452	\$339,461
Increase in receivables, advances, and future appropriations due	(1,977)	(1,498)
(Increase)/decrease in supplies inventory	(44)	20
Increase in liabilities	6,772	2,190
Total Sources of Funds	\$370,203	\$340,173
Funds Used in Operations		
Operating expenses	\$365,452	\$339,461
Less expenses not requiring funds:		
Depreciation and amortization	(5,636)	(3,719)
Loss on disposal of furniture and equipment	(51)	(380)
Total Funds Used in Operations	\$359,765	\$335,362
Other (Sources) and Uses of Funds		
Increase in net assets	\$ (487)	\$ (26,174)
Transfer of building and land	0	16,855
Acquisition of furniture and equipment, and building improvements	\$ 9,883	4,585
Net Other (Sources) and Uses of Funds	\$ 9,396	\$ (4,734)
Total Uses of Funds	\$369,161	\$330,628
Increase in Funds with U.S. Treasury	\$ 1,042	\$ 9,545
Funds with U.S. Treasury:		
Beginning of year	\$ 46,769	\$ 37,224
End of year	\$ 47,811	\$ 46,769

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Note 1. The Entity

The accompanying financial statements present the financial activity of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The activity presented relates to the execution of the GAO's congressionally approved budget. The budget consists of an appropriation covering salaries and expenses, and, as of fiscal year 1990, a building expenditure appropriation. The activity does not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as borrowing, which may in part be attributable to GAO.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The Statement of Financial Position, Statement of Operations and Financing Sources, and Statement of Changes in Financial Position are presented in accordance with generally accepted accounting principles as prescribed in title 2 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*. These principles differ from budgetary reporting principles. The differences relate principally to the capitalization and depreciation of buildings, improvements, furniture and equipment and the recognition of other long-term assets and liabilities in the accompanying financial statements. Also, for financial statement purposes, budgetary appropriations are realized as a financing source as accrued expenses are recognized.

B. Accounts Receivable

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

C. Fixed Assets

The GAO's headquarters building in Washington, D.C. is depreciated over 25 years.

Furniture and equipment costing more than \$5,000 are capitalized and depreciated. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized. Depreciation is calculated on a straight-line basis over the estimated useful life of the property, which ranges from 5 to 20 years.

Improvements to the GAO headquarters building and other leased office space costing \$5,000 or more are capitalized and amortized over 5 years.

D. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual 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.

**Note 3.
Net Assets
and
Appropriations**

GAO operates in a fashion that does not require permanent capital, and its operations are not expected to generate an operating surplus or deficit. The composition of net assets is as follows:

<i>Dollars in Thousands</i>	<i>1990</i>	<i>1989</i>
Building and land	\$15,602	\$16,229
Other capitalized assets	14,980	9,983
Unliquidated obligations	18,524	22,407
Total Net Assets	\$49,106	\$48,619

The increase in other capitalized assets from fiscal year 1989 to 1990 of \$4,997,000 resulted from purchases of furniture, equipment and improvements less depreciation.

Unliquidated obligations are represented by purchase commitments. The decrease in unliquidated obligations of \$3,883,000 is explained in the following analysis of fiscal year 1990 appropriations:

<i>Dollars in Thousands</i>		
Unliquidated obligations at beginning of fiscal year 1990		\$22,407
Appropriations for fiscal year 1990 (and \$144 restoration from prior year appropriations)		363,805
Appropriations applied to:		
Operations	(\$357,605)	
Capital assets	(9,662)	(367,267)
Appropriations withdrawn to Treasury (net)		(421)
Unliquidated obligations at end of fiscal year 1990		\$ 18,524

Unliquidated obligations at the end of fiscal year 1990 of \$18,524 consists of \$12,435 from 1990 appropriations; \$3,813 from 1989 appropriations; and \$2,276 from all prior years.

In addition to unliquidated obligations, GAO had available funds at Treasury at the end of the year to cover possible unrecognized obligations relating to appropriations in fiscal year 1990 of \$221,000; in fiscal year 1989 of \$1,470,000; and in fiscal year 1988 of \$483,000. As a result of changes required by the National Defense Authorization Act for fiscal year 1991, (Public Law 101-510, sec. 1405 (b)(3), dated November 5, 1990) amounts for merged accounts prior to fiscal year 1988 are cancelled as of December 5, 1990.

The following schedule reconciles operating expenses, as included in the Statement of Operations and Financing Sources, to budgetary expenditures. This reconciliation is presented to facilitate an understanding of the relationship and differences between information presented in the financial statements and budgetary information.

Reconciliation to Budgetary Accrued Expenditures

<i>Dollars in Thousands</i>	<i>1990</i>	<i>1989</i>
Total operating expenses as included in Statement of Operations and Financing Sources	\$365,452	\$339,461
Expenses financed by charges to agencies and retained by the GAO	(2,102)	(1,453)
Increase in annual leave and retirement benefit expenses recognized in financial statements but not in budgetary expenditures	(463)	(1,265)
Net effect of capitalizing assets in the financial statements which are recognized as expenditures for budgetary purposes	4,380	468
Total Budgetary Accrued Expenditures	\$367,267	\$337,211

**Note 4.
Funds With
U.S. Treasury**

GAO does not maintain cash in commercial bank accounts. Rather, its receipts and disbursements are processed by the U.S. Treasury. The balance of funds with the U.S. Treasury represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services which have not been received.

**Note 5.
Future
Appropriations
Due**

The balance of future appropriations due represents the aggregate of amounts that will be included in future years' appropriations to finance congressionally authorized long-term liabilities (annual leave and retirement benefits for Comptrollers General), which are financed (funds appropriated) in the year payment is required.

**Note 6.
Leases**

A. Operating Leases

GAO leases additional office space from the General Services Administration and the State Department and has entered into various other operating leases for office communication and ADP equipment. These leases are cancelable without penalty. Lease costs for office space and equipment for fiscal years 1990 and 1989 amounted to approximately \$15,100,000 and \$15,500,000, respectively.

B. 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. Lease payments of approximately \$818,000 remained to be paid on these leases as of September 30, 1990. When GAO enters into these leases, the value of the future lease payments is capitalized and recorded as an other liability.

**Note 7.
Retirement
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 savings component of FERS up to 5 percent of basic pay but has no liability for future payments to employees under these programs. GAO's costs associated with its employee retirement programs during fiscal years 1990 and 1989 amounted to approximately \$28,130,000 and \$25,250,000, respectively.

Comptrollers General and their surviving beneficiaries who qualify and so elect are paid retirement benefits by GAO under a separate program. These benefits are funded from current year appropriations. Since GAO is responsible for future payments under this program, the estimated present value of future payments is included in future appropriations due and other liabilities. The estimated present value of future payments was \$1,340,000 as of September 30, 1990 and \$1,222,000 as of September 30, 1989.

**Note 8.
Contingent
Liabilities**

GAO has certain claims and lawsuits pending against it. Where claims are expected to result in payments, and the payment amounts can be reasonably estimated, appropriate provision has been included in the accompanying financial 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.

**Note 9.
Trust and
Other
Governmentwide
Functions**

GAO is responsible for conducting two trust functions for the federal government: (1) administering Davis-Bacon Act receipts and payments and (2) administering assets of Americans who die abroad. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trusts. Trust assets under administration by GAO aggregated approximately \$4,556,000 on September 30, 1990. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1990 receipts and disbursements in these funds amounted to \$1,520,000 and \$1,320,000, respectively. Since these trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying financial statements.

In addition to the trust activities, GAO is also responsible for authorizing the payment of certain adjudicated and administratively settled claims against the federal government from a special appropriation maintained by the U.S. Treasury. During fiscal years 1990 and 1989, GAO authorized approximately \$527,000,000 and \$519,000,000 respectively, in claims for payment from this special appropriation.

Report of Independent Accountants on Internal Controls

Comptroller General of the United States:

We have audited the financial statements of the General Accounting Office (GAO) as of and for the year ended September 30, 1990 and have issued our report thereon dated December 14, 1990. We conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit of the financial statements of the General Accounting Office for the year ended September 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

GAO management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure, policies, and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purpose of this report, we have classified the significant policies and procedures relative to GAO's internal control structure of the following categories: Treasury and appropriations; revenues and receivables; travel expenses; payables and disbursements; payroll and employee advances; property and inventory; Comptrollers General retirement plan; and trust functions.

For all categories listed above, we obtained an understanding of the design of relevant policies and procedures which comprise the control structure, determined whether they have been placed in operation, and assessed control risk.

A material weakness is a reportable condition in which the design or operation of elements of the internal control structure do not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that would be material weaknesses as defined above. We noted no matters involving the internal control structure and its operation that we consider to be a material weakness as defined. However, we noted certain matters involving the internal control structure and its operation that we have reported to management in a separate letter.

This report is intended for the information of GAO's management. This is not intended to limit the distribution of this report, which is a matter of public record.

Pricewaterhouse

Washington, D.C.
December 14, 1990



Report of Independent Accountants on Compliance with Laws and Regulations

Comptroller General of the United States

We have audited the financial statements of the General Accounting Office (GAO) as of and for the year ended September 30, 1990, and have issued our report thereon dated December 14, 1990. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

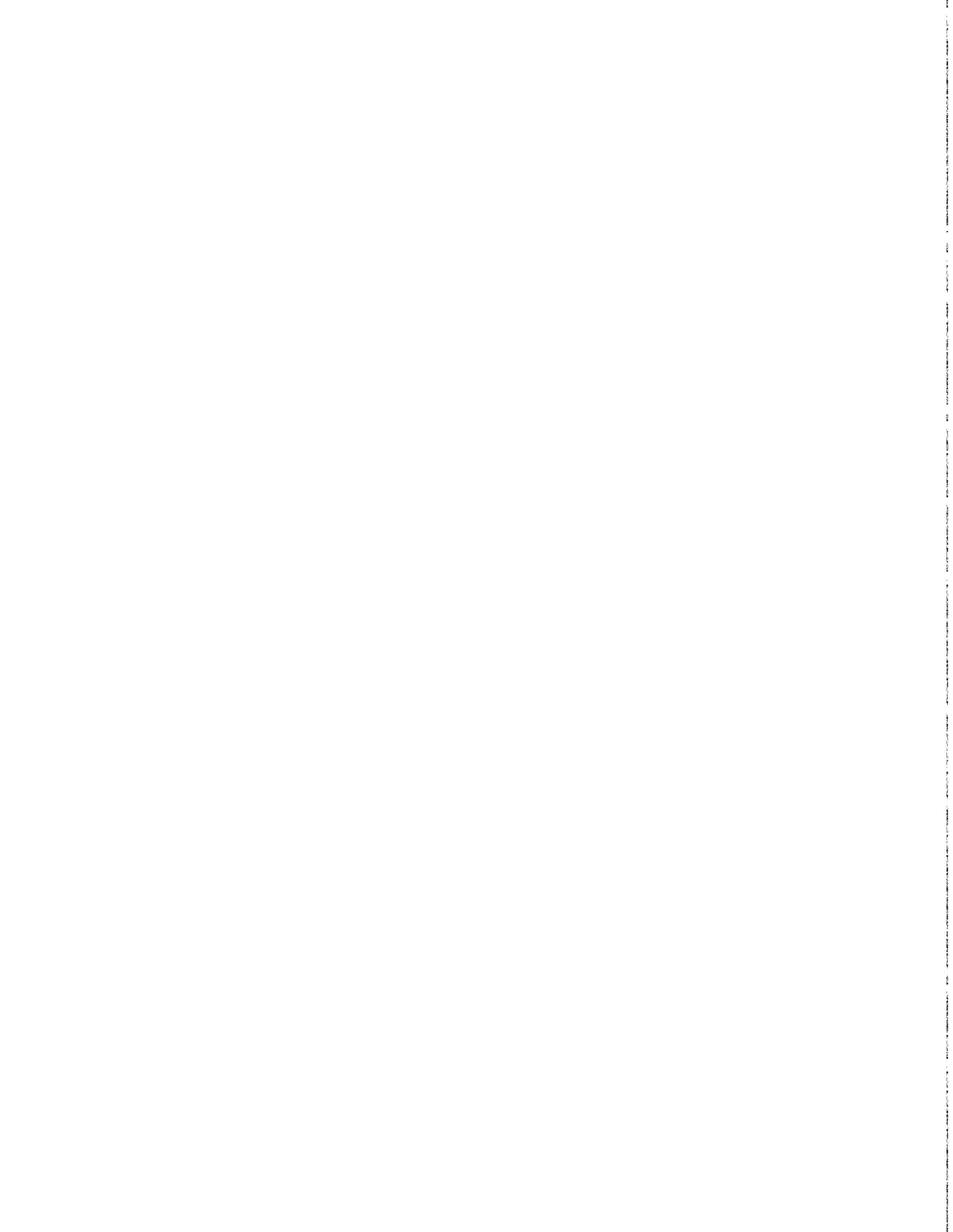
Assuring compliance with laws and regulations applicable to the GAO is the responsibility of GAO's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of GAO's compliance with provisions of applicable laws and regulations noncompliance with which could have a material effect on the financial statements of the GAO. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, GAO complied, in all material respects, with the provisions of the laws and regulations referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that GAO had not complied, in all material respects, with those provisions.

This report is intended for the information of GAO's management. This is not intended to limit distribution of this report, which is a matter of public record.

Pricewaterhouse

Washington, D.C.
December 14, 1990



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U.S. General Accounting Office
Post Office Box 6015
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