

GAO

*Comptroller  
General's*



*1995  
Annual Report*

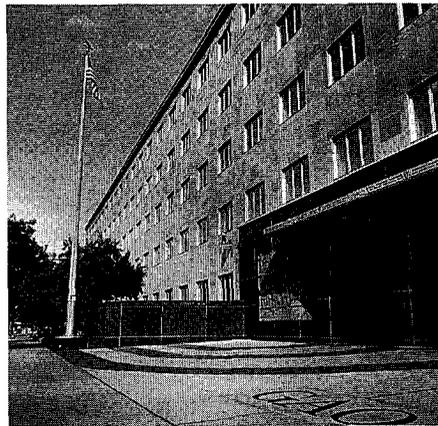
United States General Accounting Office

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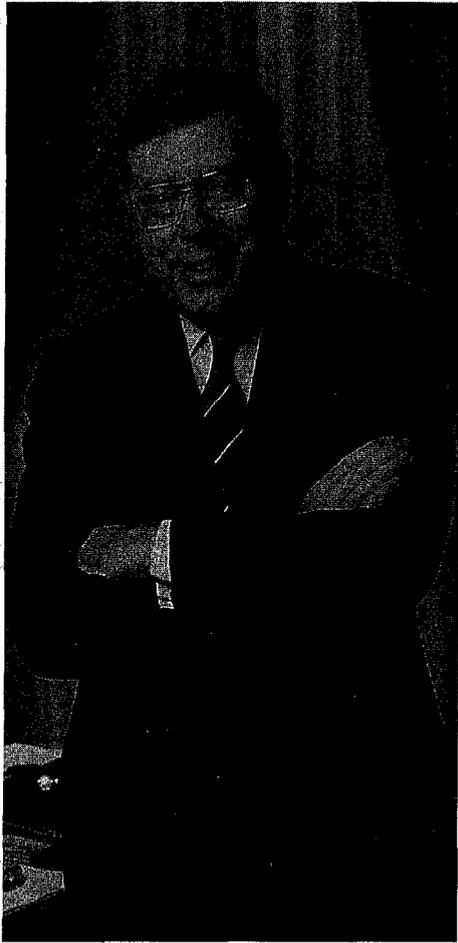
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# A MESSAGE FROM THE COMPTROLLER GENERAL

GAO has always defined itself through its service to the Congress and the American people. We at GAO have been helping the Congress fulfill its legislative and oversight responsibilities for nearly 75 years. We are proud of our agency's record of achievement and of our staff's remarkable dedication and consistent adherence to the highest standards of integrity, objectivity, and independence.

In GAO's early years—an era when government was smaller and far less complex than today—our agency audited government vouchers to ensure that federal payments were handled properly. But as government became more complex, so did our role in it. In recent decades, the Congress has turned to us for far more broad-reaching products and services: accurate information, unbiased analysis, and objective recommendations on how to best use public resources. A glance at the highlights of our 1995 audit and evaluation work in the next section of this report will reveal the range of issues we now address for the Congress.

This ever-increasing reliance on a sophisticated and technically knowledgeable GAO has continued with the 104th Congress. During its first 100 days, the new Congress called upon GAO officials to testify before its committees a record 109 times. In large measure, our work during fiscal year 1995 reflected the issues of greatest urgency to the new congressional leadership.

## SETTING PRIORITIES

In March 1995, we published a strategic plan for GAO, entitled *Following the Federal Dollar*. In it, we identified five areas to which we have assigned the highest priority:

- Promoting a More Efficient and Cost-Effective Government;
- Exposing Waste, Fraud, Abuse, and Mismanagement;
- Targeting Spending Reductions to Reduce the Deficit;
- Improving Accountability Through Financial and Information Management; and
- Identifying Trends With Fiscal, Budgetary, or Oversight Consequences for the Government.

## PROMOTING A MORE EFFICIENT AND COST-EFFECTIVE GOVERNMENT

Year after year, our work has led to legislative and executive actions—budget reductions, cost avoidance, appropriation deferrals, and revenue collections—that have provided financial savings and other benefits in the billions of dollars. In fiscal year 1995 alone, these financial benefits totaled over \$15.8 billion—a return of more than \$35 for every dollar appropriated for GAO. Given the importance of reducing the budget deficit, we keep financial benefits at the forefront of our work.

We believe, however, that it is possible to create a government that not only costs less, but one that at the same time operates more efficiently and effectively. Downsizing is one way to move toward this goal, but downsizing must be carefully planned and carried out—a process that demands the kind of objective and comprehensive information GAO is uniquely equipped to gather. We have, for example, monitored the closing of military bases, studied defense force structure in light of decisions to reduce the size of the U.S. armed forces, tracked the results of previous downsizing efforts at the Social Security Administration and other agencies, and studied downsizing approaches taken by private sector organizations.

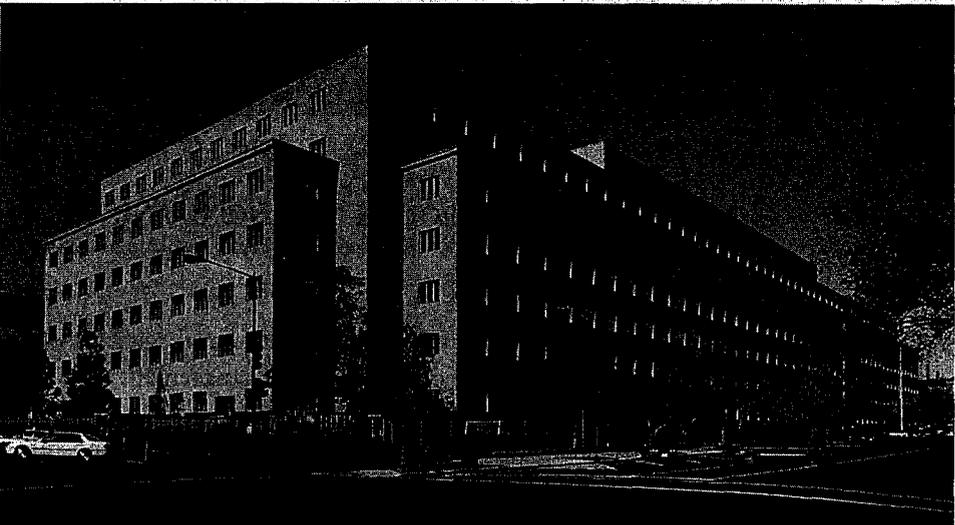
We have a number of audits and evaluations either under way or contemplated for the coming months that could yield significant savings for the government, for example, identifying “best practices” to help streamline defense acquisition, procurement, finance, inventory management, maintenance and repair, and transportation; identifying more cost-effective ways to clean up the nation’s nuclear weapons complex; evaluating the Federal Aviation Administration’s reorganization proposals and Amtrak’s plan for financial self-sufficiency.

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## EXPOSING WASTE, FRAUD, ABUSE, AND MISMANAGEMENT

After the scandal at the Department of Housing and Urban Development in the late 1980s, as well as the "Ill Wind" scandal at the Department of Defense, we began a widely publicized effort to identify and monitor programs at risk for waste, fraud, abuse, or mismanagement. Through scores of studies and two special series of "high risk" reports—the most recent of which appeared in February 1995—we have highlighted areas in which major improvements are needed to protect the taxpayers' interests. Among our priorities have been to assess payment practices under Medicare, where losses could run as high as 10 percent of the \$167 billion spent annually; minimize defaults in federal loan programs, such as student assistance and the Farmers Home Administration, where loss exposure runs into the billions of dollars; and monitor defense programs in which billions of dollars have been spent on unneeded inventory and millions of dollars have been incorrectly paid to defense contractors.

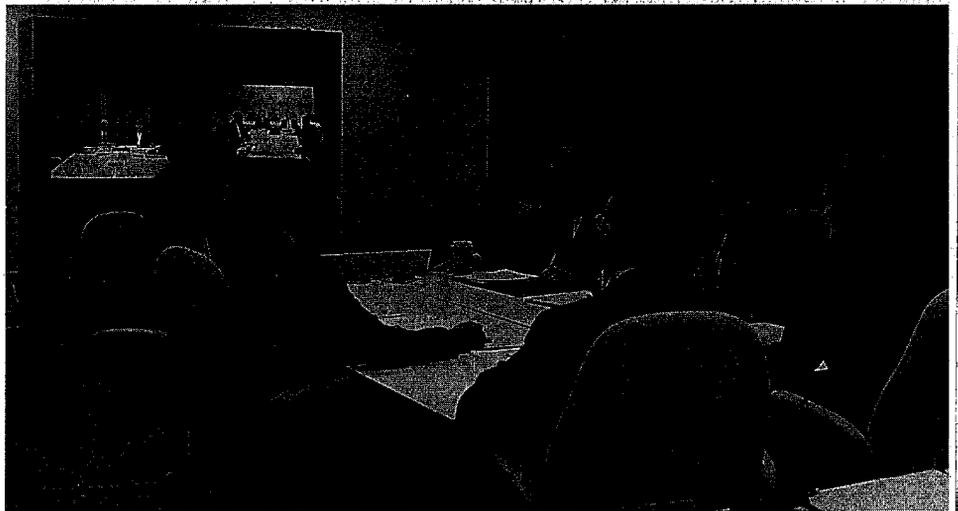
Our highlighting of high risk programs is paying off. The most recent high risk reports confirmed that progress had been made in attacking the root causes of problems at 15 of the 18 programs we had identified through fiscal year 1994. Five of the 18—the Bank Insurance Fund, the Resolution Trust Corporation, the Pension Benefit Guaranty Corporation, the State Department's management of overseas property, and the Federal Transit Administration's grant management program—had attained sound enough footing that we removed their high risk designations. In fiscal year 1995, we designated seven new high risk areas, in hopes that the greater focus afforded these areas will yield progress among them as well.



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## TARGETING SPENDING REDUCTIONS TO REDUCE THE DEFICIT

As the Congress works to balance the federal budget, one of its major challenges will be to cut federal spending over the next 6 years by a total of \$1 trillion or more. Every year, we work with the congressional appropriations committees to find potential savings in the administration's proposed budget, generally identifying savings of as much as \$1 billion. We also work with the budget and authorizing committees to find opportunities to save money by modifying, limiting, or abolishing entire programs. We have under way, or else soon will begin, efforts such as these: reviewing the need for such Department of Energy programs as the civilian nuclear waste program, the power marketing administrations, and the Strategic Petroleum Reserve; identifying agricultural commodity programs in which savings could be achieved; and assessing various discretionary programs at the Departments of Health and Human Services, Education, and Labor to identify those that are ineffective or whose administrative costs run too high.



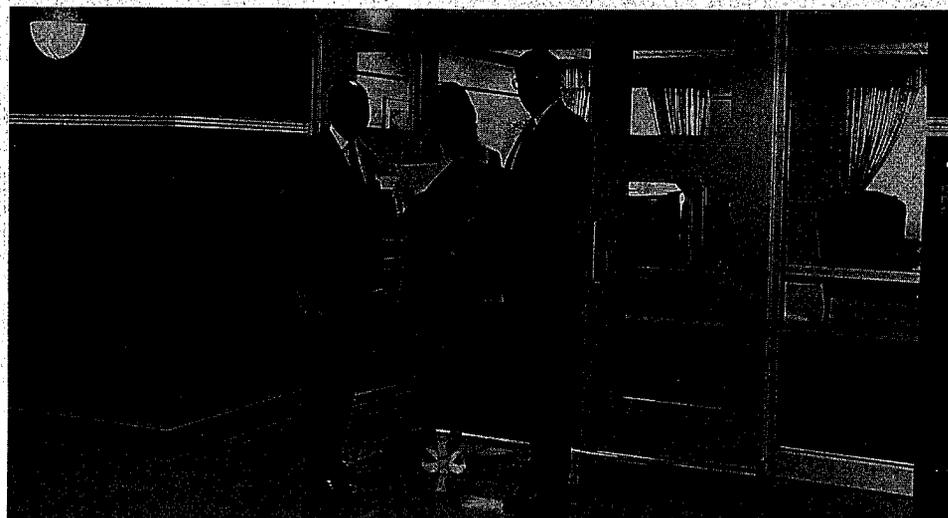
## IMPROVING ACCOUNTABILITY THROUGH FINANCIAL AND INFORMATION MANAGEMENT

For more than a decade, GAO has reported to Congress that federal agencies were lacking even minimally acceptable accounting and financial management systems. Tens of billions of dollars were unaccounted for, agency books could not be balanced, and widespread mismanagement was leading to the waste of billions of dollars every year. Recognizing the need for better financial management in the federal government, Congress passed, on a bipartisan basis, the Chief Financial Officers Act of 1990 (CFO), a law that requires major federal departments and agencies to prepare financial statements and to undergo annual financial audits.

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We have a major responsibility to monitor agencies' progress under the CFO Act. By 1996, the 24 largest federal departments and agencies will be required to produce auditable financial statements. Beginning in 1997, we will also have the job of auditing the annual U.S. government consolidated financial report, which is intended to show the Congress and American taxpayers the status of federal finances. It is crucial that CFO Act implementation stay on schedule and equally important that we at GAO maintain our capacity to assist. The comprehensive, reliable data developed under the CFO Act will give congressional leaders invaluable information to use in reducing federal spending and ensuring accountability among the departments and agencies. Further, the data will contribute to the effective implementation of the Government Performance and Results Act of 1993, which makes performance measurement a key element of federal program management.

We have also put considerable emphasis on the need for better information resource management (IRM). The federal government spends about \$25 billion each year on computers and information technology. It ought to be getting far greater value than it has been for so large an investment. In 1994, we produced a widely recognized report on how 11 basic principles drawn from leading public and private sector organizations could be used in the federal government's IRM programs. The Congress has already endorsed many of these "best practices" in its reauthorization of the Paperwork Reduction Act. We expect to work with the Congress to develop further legislation aimed at strengthening the government's IRM programs.



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## IDENTIFYING TRENDS WITH FISCAL, BUDGETARY, OR OVERSIGHT CONSEQUENCES FOR THE GOVERNMENT

Numerous GAO reports have alerted the Congress and other policymakers to crises in the making—from an outdated federal food inspection system to the crumbling financial condition of the District of Columbia, from cost overruns in major weapon systems to the deterioration of nuclear weapon production facilities. We believe that one of our priorities must always be to identify trends that could lead to major problems for the government. Three examples: The financial services industry is growing larger and more complex, but the regulatory structure in place to protect investors and depositors has many gaps. Health care costs continue to grow at a rate faster than inflation, and major changes are under way in the delivery of health care services—most notably the emergence of “managed care”—yet the implications of these structural changes for the financially pressed Medicare and Medicaid systems are unclear. And the Department of Energy’s program to store and dispose of spent radioactive fuel from civilian nuclear power plants may be reaching the crisis stage; it will be the Congress’s challenge to decide how to deal with this growing problem.



## BUILDING A BETTER GAO

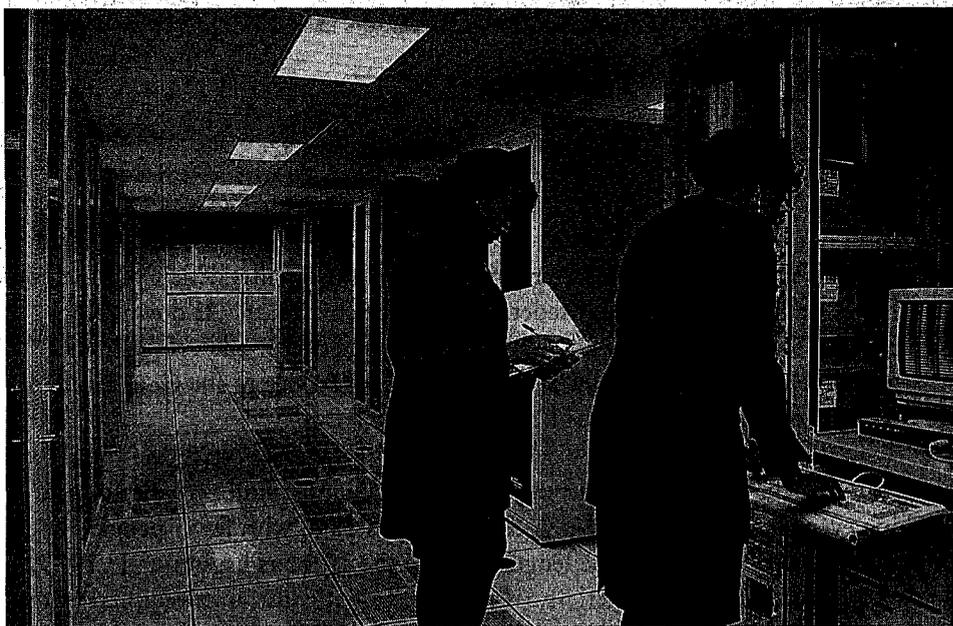
Declining budgets and staff authorizations have led us to redouble our efforts to improve our capacity to serve our customers. For example, even while reducing the size of our staff by imposing a hiring freeze, offering retirement incentives, exercis-

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ing "early-out" authority, and cutting our field structure, we have continued efforts to improve the skills and the expertise of the people who remain. These efforts build on the foundation for effective human resource management that we have laid down over the past decade: a pay-for-performance system designed to more effectively reward staff for their contributions, a revised merit promotion process, a broad-banded system to replace the rigid structure of federal GS pay schedules, and an enhanced senior executive selection and development process to ensure that our future leaders are carefully chosen and thoroughly prepared.

Further, we have committed ourselves to quality management principles, including the reengineering of our work processes. Our goal is to reduce the costs of our audit and evaluation jobs and the time it takes to complete them. In October 1995, about 300 evaluators from across GAO began the operational testing of our new job management procedures. By early spring of 1996, these new procedures will be refined and be in operation throughout the agency.

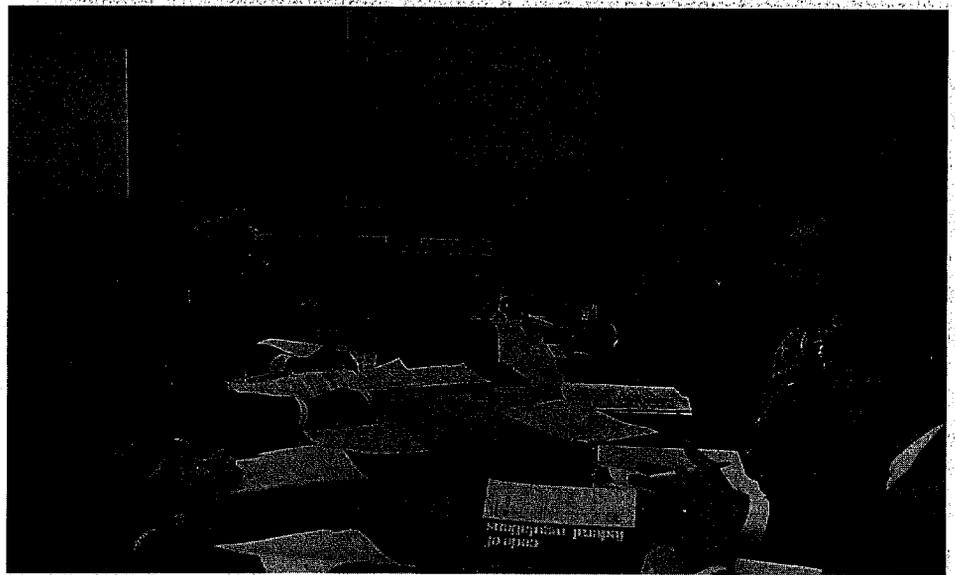
We believe that one of the best ways to maintain and build productivity is to provide our employees with modern facilities and the most up-to-date communications and information technology. Developing our staff and employing quality management will make a difference only if the right facilities and tools are in place. In this regard, our facilities modernization effort will allow us to consolidate our Washington, D.C., staff in modern and safer premises while saving millions of dollars in costs for leased space, just as earlier modernization efforts at our regional facilities provided field staff with modern work environments.



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In addition, GAO staff members—both at headquarters and in our field offices—are being provided the electronic communications and information tools and training needed to help them “work smart” and improve their level of service, both to each other and to our customers. Our employees are now part of a computer network that allows them to share information and collaborate on assignments. Also, we have connected all our regional offices and headquarters staff through videoconferencing and a voice messaging network. Our work teams can now conduct many of their face-to-face meetings without having to spend time and money on travel.

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## LOOKING TO THE FUTURE

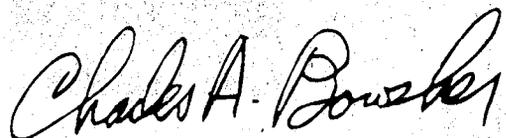
Readers of our past annual reports have probably grown accustomed to our calls for reducing the federal deficit. We are aware that efforts to cut the deficit will include budget and staffing reductions for federal agencies such as ours. As downsizing proceeds here at GAO, we are doing our best to ensure that it takes place in an orderly and rational manner and that our standards of service to the Congress and the American people are maintained.

These are challenging times for our organization. We must find ways of doing a good job even better—and doing it faster, at less cost, and with fewer people. We believe that we can rise to the challenge. During the 10 years beginning in 1983, we virtually doubled our productivity. In 1992, budget constraints required us to begin downsizing a workforce then numbering about 5,325. By now we have reduced our staff by about 25 percent, and we expect to achieve a reduction of more

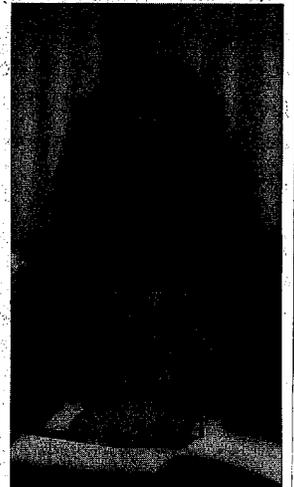
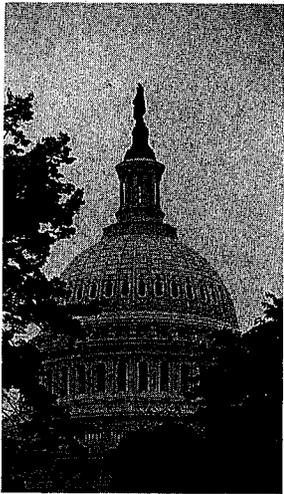
than 30 percent by the end of fiscal year 1996. But while these cuts have led to some reductions in our work, we have maintained both our productivity (our key performance measures are included in the "Overview of Operations and Financial Management" section of this report) and the uncompromising quality of our products and services.

Funding reductions already in place at GAO will total nearly \$1 billion over the next 7 years. Our staff size today has been reduced to about the same level at which it stood in the years immediately preceding World War II. Back then, the annual budget of the United States was less than \$10 billion. Today, it exceeds \$1.6 trillion. While we recognize that, as measures are taken to balance the federal budget, GAO is no more immune than other federal agencies to the necessity for prudent staff reductions, cutting too fast and too deep will be counterproductive. GAO has consistently demonstrated its worth to the American taxpayer by generating financial benefits far in excess of the tax dollars it spends—benefits that have totaled tens of billions of dollars over the past decade and will likely amount to tens of billions of dollars more in the decade to come. If our ability to adequately audit, investigate, and evaluate federal programs is diminished too greatly, the risk exists that we will no longer be able to effectively do our job as auditors and meet our obligation to alert the Congress to emerging and recurring problems.

Despite the budgetary reductions, the staff of GAO—dedicated men and women—have devoted their careers to improving government. They continue to do so. As the new year begins, this organization marks 75 years of service to the nation. It is a long and proud tradition.

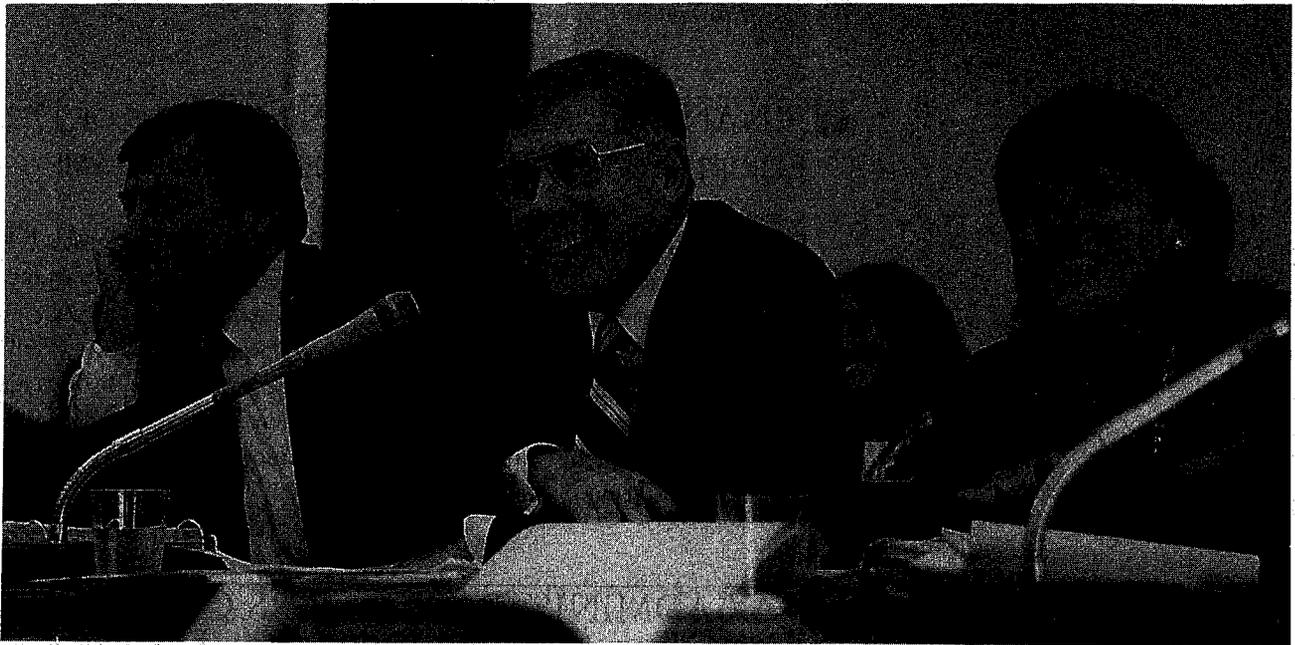
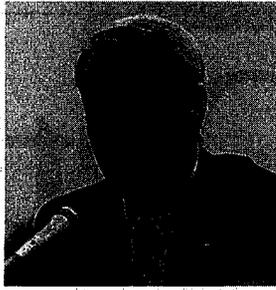


Charles A. Bowsher  
Comptroller General  
of the United States



# HIGHLIGHTS OF GAO REPORTS AND TESTIMONIES

In fiscal year 1995, GAO prepared 1,322 audit and evaluation products, including 910 reports to Congress and agency officials, 166 congressional briefings, and 246 congressional testimonies delivered by 72 GAO executives. GAO also issued 3,328 legal decisions.



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# October 1994

■ 42 *Reports to Congress*

■ 7 *Testimonies*

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## ■ FINANCIAL MANAGEMENT: STATUS OF DEFENSE EFFORTS TO CORRECT DISBURSEMENT PROBLEMS

Long-standing problems have plagued the Department of Defense's (DOD) efforts to properly match disbursements with obligations, an important control for ensuring that agency funds are used as specified by the Congress. Although DOD had made some progress, its records contained at least \$24.8 billion of problem disbursements as of June 30, 1994. Correcting the disbursement problems will not be easy given DOD's failure over the years to follow sound financial management principles and the extremely poor quality of its contract pay and accounting systems. (AIMD-95-7)

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## ■ TAX ADMINISTRATION: IRS CAN STRENGTHEN ITS EFFORTS TO SEE THAT TAXPAYERS ARE TREATED PROPERLY

Despite the Internal Revenue Service's (IRS) wide range of controls, processes, and oversight offices intended to protect taxpayers, GAO found examples of taxpayer treatment that fell within GAO's definition of "taxpayer abuse." IRS needs to specifically define "taxpayer abuse" and develop management information about it to help ensure that instances of abuse are identified and their frequency is minimized. This would also provide the information needed for IRS and the Congress to better evaluate IRS' performance in protecting taxpayer rights. (GGD-95-14)

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## **DOD FORCE MIX ISSUES: GREATER RELIANCE ON CIVILIANS IN SUPPORT ROLES COULD PROVIDE SIGNIFICANT BENEFITS**

The services currently use thousands of military personnel in support positions that could be filled by civilians. Replacing these military personnel with civilian employees would reduce peacetime personnel costs and could release military members for use in more combat-specific duties. But because civilian requirements and budget allocation decisions are often made independently of each other, managers are reluctant to recommend replacing military personnel with civilian employees since, with current downsizing, both positions might be lost. (NSIAD-95-5)

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## **NAVAL AVIATION: F-14 UPGRADES ARE NOT ADEQUATELY JUSTIFIED**

The Navy has not made a compelling case to proceed with its \$2.5 billion plan to upgrade 210 F-14 aircraft. The upgrades will not include air-to-ground radar for precision ground mapping that would permit crews to locate, identify, and attack targets in adverse weather and conditions of poor visibility. Even though the Navy states that the F-14 upgrades are needed to fill the gap between A-6E retirement and the introduction of the F/A-18E/F aircraft, they will not be delivered in time. (NSIAD-95-12)

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## **ATTACK SUBMARINES: ALTERNATIVES FOR A MORE AFFORDABLE SSN FORCE STRUCTURE**

Faced with a changed world threat and constrained defense budgets, the Navy is reducing the size of its nuclear-powered attack submarine force. The Navy plans to take several measures to maintain an SSN force of 45 to 55, as directed in the Department of Defense's bottom-up review, and remain within affordable budgets. At the same time, the Navy plans to acquire 31 SSNs through 2014 at an estimated cost of \$48 billion. GAO identified alternatives that would allow the Navy to free up money and still maintain the required minimum force. (NSIAD-95-16)

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# November 1994

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■ 57 *Reports to Congress*

■ 2 *Testimonies*

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## INTERNATIONAL TRADE: ASSESSMENT OF THE GENERALIZED SYSTEM OF PREFERENCES PROGRAM

The Generalized System of Preferences (GSP) Program provides duty-free access to U.S. markets for certain products of eligible developing countries, promoting development through trade rather than traditional aid programs. Most GSP benefits accrue to a handful of countries that can best meet U.S. market demands. In 1992, \$16.7 billion (about 3 percent of total U.S. imports) entered under GSP, representing almost \$900 million of duties forgone. GAO recommended administrative improvements to the process for considering product eligibility, as well as for considering country eligibility under the provisions protecting intellectual property and worker rights. (GGD-95-9)

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## ARMY AVIATION: MODERNIZATION STRATEGY NEEDS TO BE REASSESSED

The Army plans to spend about \$6.2 billion during fiscal years 1995-99 to modernize its helicopter fleet. However, Army's estimates of the quantities of helicopters needed are higher than those identified by the Department of Defense (DOD) in its review of modernization plans. In addition, the Army overstated expected benefits and understated technical risks associated with its modernization strategy, and neither DOD's nor Army's studies fully considered alternative helicopters. Further, while the Army has deferred or canceled funding for other important helicopter programs to procure the Comanche and Longbow Apache helicopters, it will still not be able to fully fund the Comanche program through fiscal year 2004. (NSIAD-95-9)

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## **WEAPONS ACQUISITION: LOW-RATE INITIAL PRODUCTION USED TO BUY WEAPON SYSTEMS PREMATURELY**

Low-rate initial production (LRIP) is an acquisition practice that allows production of a limited quantity for operational testing and other purposes. But legislation and Department of Defense policy allow LRIP to begin before any operational testing of prototypes. Once started, LRIP limits the options available to decisionmakers when a system is later found to be deficient. The consequences have included procurement of unsatisfactory weapons requiring costly modifications and, in some cases, deployment of substandard systems to combat forces. Decisionmakers need good, independent information on a weapon system's performance before starting LRIP because, in many cases, starting production represents a firm commitment to acquire the system.

(NSIAD-95-18)

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## **INTERNATIONAL AVIATION: DOT NEEDS MORE INFORMATION TO ADDRESS U.S. AIRLINES' PROBLEMS IN DOING BUSINESS ABROAD**

U.S. airlines serving key European and Pacific Rim airports face problems in doing business, including (1) limited access to landing and takeoff slots, (2) inadequate terminal facilities, (3) restrictions on ground services, and (4) restrictions and delays in processing cargo. The State Department and the Department of Transportation (DOT) have had some success in eliminating these problems. However, DOT's efforts are inhibited because it does not collect or analyze information on airlines' problems in doing business.

(RCED-95-24)

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## **FARMERS HOME ADMINISTRATION: THE GUARANTEED FARM LOAN PROGRAM COULD BE MANAGED MORE EFFECTIVELY**

This program guarantees farm loans made by commercial lenders. It helps farmers who have established some creditworthiness and who thus present less financial risk to qualify for commercial loans. However, in part because the Farmers Home Administration's lending policies allow borrowers already in default to obtain guaranteed loans, hundred of millions of dollars in government-guaranteed loans are at risk. (RCED-95-9)

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# December 1994

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■ *101 Reports to Congress*

■ *3 Testimonies*

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## **BANK REGULATORY STRUCTURE: THE UNITED KINGDOM**

This report examines bank regulation and supervision in the United Kingdom (U.K.). The Banking Act of 1979 vested in the Bank of England, the U.K. central bank, supervisory and regulatory responsibilities. Its mission is to ensure the safety and the soundness of individual banks and of the system as a whole. Unlike laws in the United States, U.K. banking laws do not address issues such as fair lending practices or community reinvestment requirements. (GGD-95-38)

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## **MILITARY RECRUITING: MORE INNOVATIVE APPROACHES NEEDED**

GAO examined Department of Defense (DOD) recruiting operations and identified areas in which costs could be reduced without adversely affecting DOD's ability to meet military personnel requirements. DOD needs to reduce first-term attrition and to make necessary management changes, including evaluating organizational structures, consolidating resources, and adapting new technologies. (NSIAD-95-22)

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## **CHEMICAL WEAPONS DISPOSAL: PLANS FOR NONSTOCKPILE CHEMICAL WARFARE MATERIEL CAN BE IMPROVED**

The Army's plans for destroying nonstockpile chemical warfare materiel are not final, and as a result, its \$17.7 billion cost estimate is uncertain. This estimate is uncertain largely because the amount of materiel to be disposed of has not been fully identified, the condition of some materiel is unknown, and disposal methods have not been selected. Also, the Army has limited and often imprecise information about the nature and the extent of buried chemical materiel; must comply with federal, state, and local environmental requirements; and faces strong public opposition to chemical weapons incineration. (NSIAD-95-55)

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## **ELECTRIC VEHICLES: LIKELY CONSEQUENCES OF U.S. AND OTHER NATIONS' PROGRAMS AND POLICIES**

Limitations in technology, gaps in required infrastructure, concerns about safety, unknown market potential, and high initial purchase price are barriers to the viability of electric vehicles for widespread transportation. Efforts to eliminate these barriers will require substantial money, time, and attention. The potential benefits—reduced air pollution and lower maintenance and fueling costs—will not solve all environmental and transportation problems. (PEMD-95-7)

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## **FOOD ASSISTANCE: POTENTIAL IMPACTS OF ALTERNATIVE SYSTEMS FOR DELIVERING FOOD STAMP PROGRAM BENEFITS**

Two alternatives to the current coupon-based system for delivering food stamp benefits are electronic benefits transfer and distribution of benefits by check, referred to as cash-out. Both can reduce certain types of fraud, waste, and abuse, but demonstration projects have not quantified such reductions. Cash-out is the least expensive system, while electronic benefits transfer provides the most assurance that benefits are actually used to purchase food. GAO believes that the value of electronic benefits transfer will be found in the larger arena of a multiprogram mechanism to deliver benefits. (RCED-95-13)

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## DEFICIT REDUCTION: EXPERIENCES OF OTHER NATIONS

The experiences of six countries—Australia, Canada, Germany, Japan, Mexico, and the United Kingdom—show that significant structural improvement in fiscal policy is possible in modern democracies, although such progress appears difficult to sustain. All six countries took actions to control spending. Revenue growth also contributed significantly to deficit reduction efforts in some countries but generally was due to tax systems' response to economic growth and inflation. While five of the six countries reached fiscal balance or surplus, all but Mexico reported deficits in 1993. (AIMD-95-30)

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# January 1995

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■ 34 *Reports to Congress*

■ 18 *Testimonies*

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## ■ INFORMATION SUPERHIGHWAY: AN OVERVIEW OF TECHNOLOGY CHALLENGES

The multiagency Information Infrastructure Task Force has been charged with articulating a vision for the information superhighway and guiding its development. This report provides a detailed discussion of three pivotal technical issues that affect the future of the emerging information superhighway. First, the superhighway must ensure data security and protect users' privacy. Second, it should provide a "seamless" web of services, with its components interoperating in a way that is transparent to users. Third, the superhighway must be completely reliable. (AIMD-95-23)

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## ■ MULTIPLE EMPLOYMENT TRAINING PROGRAMS: MAJOR OVERHAUL NEEDED TO REDUCE COSTS, STREAMLINE THE BUREAUCRACY, AND IMPROVE RESULTS

*Testimony by the Associate Director, Education and Employment Issues,  
Clarence C. Crawford*

The federal government invests considerable effort and resources in helping people find productive employment. The result is 163 programs scattered across 15 federal agencies providing employment training. These programs, with extensive and expensive overlap in administrative structure, target the same clients, share the same goals, and provide similar services. Despite spending billions of dollars each year, most agencies do not know if their programs are really helping people find jobs. The system confuses those seeking assistance and frustrates potential employers. (T-HEHS-95-53)

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## **BOTTOM-UP REVIEW: ANALYSIS OF KEY DOD ASSUMPTIONS**

In October 1993, the Department of Defense (DOD) reported on its bottom-up review—an assessment of U.S. defense needs in the post-Cold War era. DOD's review determined, among other things, that the United States should maintain the capability to fight and win two nearly simultaneous major regional conflicts. DOD has not fully analyzed key bottom-up review assumptions, and some of its assumptions are questionable. Also, war-fighting command officials believe that DOD's concept for responding to two nearly simultaneous conflicts may not be the best approach. DOD is continuing its analyses of the two-conflict strategy. (NSIAD-95-56)

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## **AVIATION SAFETY: FAA CAN BE MORE PROACTIVE IN PROMOTING AVIATION SAFETY**

*Testimony by the Director of Transportation Issues, Kenneth M. Mead*

Air travel in this country is generally safe; however, the Federal Aviation Administration (FAA) could do more to promote safety. FAA needs to be proactive, rather than reactive; it must ensure that its staff keep pace with advances in aviation technology; and it needs accurate, reliable, and timely information to better identify emerging safety problems and make difficult choices on which safety improvements are most critical and time urgent. (T-RCED-95-81)

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# February 1995

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■ 68 Reports to Congress

■ 34 Testimonies

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## ■ HIGH RISK SERIES

This series updates GAO's efforts, begun in 1990, to address federal program areas vulnerable to waste, fraud, abuse, and mismanagement. The series focuses on six categories: providing for accountability and management of defense programs, collecting and accounting for government revenues, the return on multibillion-dollar investments in information technology, controlling Medicare fraud and abuse, minimizing loan program losses, and improving oversight of civil agency government contractors. Collectively, these categories affect almost all of the government's \$1.25 trillion revenue collection efforts and hundreds of billions of dollars of federal expenditures. (HR-95-1 through 12)

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## ■ GOVERNMENT REFORM: USING REENGINEERING AND TECHNOLOGY TO IMPROVE GOVERNMENT PERFORMANCE

*Testimony by the Comptroller General of the United States,  
Charles A. Bowsher*

Reengineering and modern technology offer huge opportunities to reduce costs and improve the quality of government services. But the federal sector lags far behind leading organizations that have used process improvement and information technology to cut costs, streamline operations, and enhance service. After spending more than \$200 billion on information systems over the past 12 years, the federal government is in the worst possible situation—having invested heavily in costly information systems that often fail to dramatically improve service or significantly reduce personnel and administrative costs.

(T-OCG-95-2)

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## DISTRICT OF COLUMBIA: FINANCIAL CRISIS

*Testimony by the Director for Financial Management Policies and Issues,  
John W. Hill, Jr.*

The District's financial condition continues to deteriorate. According to District estimates, fiscal year 1995 expenditures could be nearly \$3.9 billion, \$631 million above the congressionally-mandated cap. The District is seeking substantial federal assistance to close this gap. Given continued spending levels above budgeted amounts, the District's cash position is precarious. In fact, the District is insolvent—it does not have enough cash to pay its bills. The District's plans to address this situation do not include any major structural or management changes, even though it will face increasing revenue gaps.  
(T-AIMD-95-88)

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## SCHOOL FACILITIES: CONDITION OF AMERICA'S SCHOOLS

The nation's schools will need about \$112 billion to repair or upgrade America's multibillion-dollar investment in facilities to good overall condition, school officials estimate. Most school buildings are in adequate condition, needing only some preventive maintenance or corrective repair. However, about 14 million students attend schools that need extensive repair or replacement of 1 or more buildings. Some school officials said that lack of funds was a major factor in the decisions by school districts to defer needed maintenance and repairs.  
(HEHS-95-61)

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## FORMER SOVIET UNION: CREDITWORTHINESS OF SUCCESSOR STATES AND U.S. EXPORT CREDIT GUARANTEES

The U.S. Department of Agriculture (USDA) provided more than \$5 billion in export credit guarantees to the former Soviet Union (FSU) and successor states despite its evaluations that these states were very risky from a creditworthiness perspective. As a result, USDA's General Sales Manager-102 loan portfolio is heavily exposed to default. Large defaults have already occurred on FSU and Russian debt, requiring substantial dollar outlays by the U.S. government.  
(GGD-95-60)

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## **BLOCK GRANTS: CHARACTERISTICS, EXPERIENCE, AND LESSONS LEARNED**

One of the goals of block grants is to provide greater discretion to state and local governments. As the Congress considers creating new block grants, lessons that can be drawn from prior experience include the need to focus on accountability for results. Also, the Congress will need to make tough decisions on block grant funding formulas, taking into account state or local need, differences among states in the costs of providing services, and state or local ability to contribute to program costs. Formulas will require current and accurate data to measure need and ability to contribute. (HEHS-95-74)

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## **PEACE OPERATIONS: INFORMATION ON U.S. AND U.N. ACTIVITIES**

This report provides information on the costs and the funding of peace operations, the effectiveness of United Nations (U.N.) operations, U.S. policy and efforts to strengthen U.N. capabilities, and the impact of peace operations on the U.S. military. The Departments of Defense and State and the Agency for International Development have the highest incremental costs for peace operations. The U.N. has been marginally effective in carrying out complex missions and is not equipped to plan and support large missions. However, it has been effective in operations limited in scope, such as monitoring peace processes and supervising elections. (NSIAD-95-102BR)

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## **INTERCITY PASSENGER RAIL: FINANCIAL AND OPERATING CONDITIONS THREATEN AMTRAK'S LONG-TERM VIABILITY**

Amtrak's federal support totaled almost \$1 billion in 1995 but still did not cover the widening gap between expenses and revenues. Also, needs for new equipment and improvements to facilities and track would cost several billion dollars to meet. Amtrak is unlikely to be able to overcome its financial and operating problems without significant increases in passenger revenues and/or government subsidies. Amtrak and the federal government need to make important decisions about the future of intercity passenger rail service and the government's commitment to subsidize it. (RCED-95-71)

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## **CONSERVATION RESERVE PROGRAM: ALTERNATIVES ARE AVAILABLE FOR MANAGING ENVIRONMENTALLY SENSITIVE CROPLAND**

Three modifications to the Conservation Reserve Program (CRP) could provide longer-term environmental benefits at less cost: (1) creating "buffer zones," which would leave more of the field available for production and lessen the cost to government; (2) allowing farmers to earn revenue from environmentally compatible uses of CRP land, such as producing hay; and (3) providing for purchase of easements that restricted the use of land permanently or restricted use for periods that were longer than those currently allowed. (RCED-95-42)

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## **COMMUNITY DEVELOPMENT: COMPREHENSIVE APPROACHES ADDRESS MULTIPLE NEEDS BUT ARE CHALLENGING TO IMPLEMENT**

This report examines comprehensive approaches that community-based non-profit organizations have taken to improve conditions in distressed urban neighborhoods. It looks at community organizations in four cities—Boston; Detroit; Pasadena, California; and Washington, D.C.—that rely on residents' participation to address the housing, economic, and social service needs of the communities. (RCED/HEHS-95-69)

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# March 1995

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■ 101 Reports to Congress

■ 47 Testimonies

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## ■ ADDRESSING THE DEFICIT: BUDGETARY IMPLICATIONS OF SELECTED GAO WORK FOR FISCAL YEAR 1996

This report systematically identifies the budgetary implications of selected policy changes and program reforms discussed in previous GAO publications but not yet implemented or enacted. Although many of these options do not reflect recommendations, they represent one way to address, in a budgetary context, some of the significant problems identified in GAO's evaluations of federal policies and programs. The 120 options presented are organized around the 3 themes of reassessing program objectives, redefining program beneficiaries, and improving program efficiency. Some of these options were used in the fiscal year 1995 Budget Resolution. (OCG-95-2)

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## ■ DEPOSIT INSURANCE FUNDS: ANALYSIS OF INSURANCE PREMIUM DISPARITY BETWEEN BANKS AND THRIFTS

A significant insurance premium disparity between banks and thrifts is likely when bank premiums are lowered once the Bank Insurance Fund is fully recapitalized. Thrift premiums could be more than five times greater than bank premiums because higher amounts are needed to fully capitalize the Savings Association Insurance Fund and to pay interest on bonds issued to help resolve the thrift crisis of the 1980s. Such a premium disparity could put thrifts at a competitive disadvantage with banks, adversely affecting the industry and its insurance fund. GAO's report discusses a range of policy options to address these concerns. (AIMD-95-84)

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## **TRAVEL PROCESS REENGINEERING: DOD FACES CHALLENGES IN USING INDUSTRY PRACTICES TO REDUCE COSTS**

The Department of Defense (DOD) can save hundreds of millions of dollars by applying industry best practices in its effort to reengineer its travel management; however, applying private sector practices will not be a simple matter. At 1 DOD location, processing a travel order involved 47 steps from start to finish and took nearly 6 hours to complete and 19 days to process. In contrast, at Allied Signal Corporation, one company that has changed its corporate travel practices, the cost to process an expense report electronically is only about \$3. (AIMD/NSIAD-95-90)

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## **EARNED INCOME CREDIT: TARGETING TO THE WORKING POOR**

The earned income tax credit (EIC) is a major federal effort to assist the working poor. It is intended to offset the impact of social security taxes on low-income workers and to encourage the poor to seek employment rather than welfare. Total costs for the EIC increased dramatically when Congress broadened its coverage and increased the amount of credit available. The Internal Revenue Service estimates that nearly a third of the returns filed electronically during a 2-week period in January 1994 claimed refunds that were too large and that \$183 million in claims were fraudulent. (GGD-95-122BR)

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## **SOCIAL SECURITY: NEW FUNCTIONAL ASSESSMENTS FOR CHILDREN RAISE ELIGIBILITY QUESTIONS**

The number of children receiving Supplemental Security Income benefits has nearly tripled over the last 5 years, and benefit payments now exceed \$4 billion annually. Program growth has been especially rapid in awards to children with mental and behavioral impairments. GAO found that the process for assessing children was fundamentally flawed and relied too heavily on examiners' judgments, rather than on objective criteria. GAO could not substantiate allegations that parents had coached their children to behave inappropriately so that they could qualify for monthly cash benefits. (HEHS-95-66)

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## **SOCIAL SECURITY: FEDERAL DISABILITY PROGRAMS FACE MAJOR ISSUES**

*Testimony of the Director, Income Security Issues, Jane L. Ross*

Disability Insurance (DI) and Supplemental Security Income (SSI), the two major federal disability programs, have grown dramatically in recent years. Accompanying this growth are media reports that highlight fraud and abuse, signaling to the public a program gone awry. As technological and medical advances create more opportunities for persons with disabilities to engage in meaningful and productive work, the premises underlying DI and SSI may need to be modified. (T-HEHS-95-97)

## **DEFENSE HEALTH CARE: ISSUES AND CHALLENGES CONFRONTING MILITARY MEDICINE**

The Department of Defense (DOD) is experiencing many of the same challenges confronting the nation's civilian health care system—increasing costs and access to high-quality care. The military health care system covers about 8.3 million people and costs over \$15 billion annually. Its primary mission is to maintain the health of 1.7 million active duty personnel and to be prepared to deliver health care during times of war. In addition, it provides health care to the families of active duty personnel and their dependents and survivors and service retirees. (HEHS-95-104)

## **UNMANNED AERIAL VEHICLES: NO MORE HUNTER SYSTEMS SHOULD BE BOUGHT UNTIL PROBLEMS ARE FIXED**

Despite repeated crashes during testing and other serious performance problems, the Department of Defense (DOD) plans to acquire 50 Hunter Unmanned Aerial Vehicle Systems at an estimated cost of over \$4 billion. GAO recommends that DOD defer a second production contract until the system demonstrates satisfactory performance and meets Army, Marine Corps, and Navy requirements. (NSIAD-95-52)

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# April 1995

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■ 77 *Reports to Congress*

■ 12 *Testimonies*

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## ■ WEATHER FORECASTING: UNMET NEEDS AND UNKNOWN COSTS WARRANT REASSESSMENT OF OBSERVING SYSTEM PLANS

Given the important role the weather plays each day in the life of every American, it is increasingly important to resolve problems of the National Weather Service's (NWS) Automated Surface Observing System (ASOS). A component of NWS modernization, ASOS is intended to automate the collection, the observation, and the dissemination of weather information, replacing human observers at many airports and most NWS offices. Shortfalls in the system could place aviation efficiency and safety at risk and skew national climate research. (AIMD-95-81)

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## ■ THE DEFICIT AND THE ECONOMY: AN UPDATE OF LONG-TERM SIMULATIONS

Deficit reduction simulations, updated since GAO's 1992 report, confirm that the "no action" path remains unsustainable in the long term. A budget balance or surplus would yield a stronger long-term economy than the "muddling through" approach, which maintains deficits at 3 percent of gross domestic product. Also, early reductions in fast-growing areas, such as health programs, would produce more long-term benefits than other spending cuts. The Congress faces difficult trade-offs between the short- and long-term costs and benefits of deficit reduction, as well as hard budgetary choices among competing programs and priorities. (AIMD/OCE-95-119)

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## **TELEPHONE ASSISTANCE: ADOPTING PRACTICES USED BY OTHERS WOULD HELP IRS SERVE MORE TAXPAYERS**

For millions of taxpayers, calling the Internal Revenue Service (IRS) for answers to their questions has become increasingly frustrating as more and more calls have gone unanswered. Compared with five organizations GAO contacted—the Social Security Administration (SSA) and four private sector companies—IRS does not apply commonly used management practices to assist taxpayers. For example, IRS telephone assistance is available 10 hours a day compared with 12 hours a day at the SSA and 24 hours a day at all four companies. (GGD-95-86)

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## **MEDICAID: SPENDING PRESSURES DRIVE STATES TOWARD PROGRAM REINVENTION**

Escalating program costs have led some states to move all or most of their Medicaid population into managed-care arrangements after obtaining approval to waive certain federal requirements. Although these statewide demonstration programs will extend benefits to more low-income individuals, they may also result in increased federal spending. GAO's analysis showed that three states with approved waivers may obtain more federal funding than they would have under original Medicaid programs but that in one additional state, federal spending might be less over the life of the waiver. (HEHS-95-122)

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## **SCHOOL FACILITIES: AMERICA'S SCHOOLS NOT DESIGNED OR EQUIPPED FOR 21ST CENTURY**

School officials in a national sample of schools reported that most were unprepared for the 21st century in critical areas. Most schools reported that they did not fully use modern technology, they lacked flexible instructional space, and they could not meet the functional requirements of key support services. About 40 percent of schools reported that their facilities cannot meet the needs of laboratory science or large-group instruction even moderately well. Also, not all students nationwide have equal access to facilities that can support education into the 21st century. (HEHS-95-95)

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## **VA HEALTH CARE: RETARGETING NEEDED TO BETTER MEET VETERANS' CHANGING NEEDS**

The veterans' health care system was originally established to treat war-related injuries and help rehabilitate veterans with service-connected disabilities. Gradually, the Department of Veterans Affairs (VA) shifted to a system focusing primarily on treatment of low-income veterans with non-service-connected disabilities. Changes need to be made in VA health care to better meet veterans' health care needs, but VA's restructuring efforts are focused on preserving the current system rather than focusing its limited resources on alternatives. (HEHS-95-39)

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## **VETERANS BENEFITS: VA CAN PREVENT MILLIONS IN COMPENSATION AND PENSION OVERPAYMENTS**

Over the past decade, the Department of Veterans Affairs (VA) detected almost \$3.1 billion in compensation and pension overpayments to veterans and their survivors. VA has the capability to prevent overpayments but has not implemented preventive measures. For example, VA does not use available information, such as information on when beneficiaries will become eligible for social security, to prevent overpayments from occurring. Nor does it collect and use information on the specific causes of overpayments to target preventive efforts. (HEHS-95-88)

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## **LONG-TERM CARE: CURRENT ISSUES AND FUTURE DIRECTIONS**

Because the cost of long-term care is substantial and is growing, this issue is receiving serious attention at both the state and national levels of government. Long-term care is not an issue limited to the elderly as a substantial portion of the long-term care population consists of younger people with disabilities. A key factor driving change in how the nation pays for long-term care is concern about cost. Long-term-care insurance may play a larger role in the future, as well as increased public sector spending on home- and community-based care. (HEHS-95-109)

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## **TACTICAL AIRCRAFT: CONCURRENCY IN DEVELOPMENT AND PRODUCTION OF F-22 AIRCRAFT SHOULD BE REDUCED**

The Air Force plans to buy 80 F-22s, at an estimated cost of \$12.4 billion, before completing initial operational testing and evaluation (IOT&E). Historically, buying weapon systems before demonstrating performance through operational testing has led to adverse consequences. The F-22s' already disclosed engine and stealthiness problems, and the potential for avionics and software problems underscore the need for IOT&E before significant production commitments are made. (NSIAD-95-59)

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## **ARMY TRAINING: ONE-THIRD OF 1993 AND 1994 BUDGETED FUNDS WERE USED FOR OTHER PURPOSES**

Congress has consistently supported the Army's requests for military training funds—commonly referred to as operating tempo funds—to keep the Army's forces at a high level of combat readiness. Of the \$3.6 billion of fiscal years 1993 and 1994 operating tempo funds for two major Army commands, about \$1.2 billion, or 33 percent, was moved to other operations and maintenance accounts and to support operations in Somalia and Haiti. GAO found that budget requests have exceeded amounts needed to conduct the training exercises required to achieve readiness objectives. (NSIAD-95-71)

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## **MILITARY BASES: ANALYSIS OF DOD'S 1995 PROCESS AND RECOMMENDATIONS FOR CLOSURE AND REALIGNMENT**

When announcing the 1995 recommendations for base closures and realignments (BRAC), the Department of Defense (DOD) projected \$1.8 billion in annual recurring savings. GAO reviewed the recommendations and selection process and found that DOD's 1995 BRAC process was generally sound and well-documented and should result in substantial savings. But DOD did not take full advantage of cross-servicing opportunities that could have achieved additional savings. (NSIAD-95-133)

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## DEFENSE PROGRAMS AND SPENDING: NEED FOR REFORMS

*Testimony of the Senior Defense and International Affairs Advisor to the Comptroller General of the United States, Frank C. Conahan*

This testimony discusses GAO's work that clearly shows that the Department of Defense (DOD) wastes billions of dollars each year because there are long-standing inefficiencies in its day-to-day operations and because it has been slow to take advantage of opportunities to reform systems and processes, make further reductions in infrastructure, and reduce costs. Interested parties—the DOD, the Congress, the defense industry, and others—need to adopt a new culture or perspective to address these problems. (T-NSIAD-95-149)

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## PROCUREMENT REFORM: OPPORTUNITIES FOR CHANGE

*Testimony of General Counsel, Robert P. Murphy*

The U.S. government spends about \$200 billion annually on goods and services, ranging from weapon systems to computer systems to everyday commodities. It pays an enormous premium—an estimated 18 percent—on what it buys solely because of requirements imposed on its contractors. The Federal Acquisition Streamlining Act of 1994, the first step in procurement reform, simplified the procurement process. Subsequent reform proposals should involve simplifying the process further by increasing reliance on the commercial marketplace and reducing the costs and the burdens of disputes. (T-OGC-95-19)

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## OPERATION DESERT STORM: INVESTIGATION OF A U.S. ARMY FRATRICIDE INCIDENT

In the early morning of February 27, 1991, during the Persian Gulf War, Army Corporal Douglas L. Fielder was unintentionally killed and Sergeant James E. Napier wounded by U.S. soldiers who had mistaken them for the enemy. Several critical factors led to this incident: Operation plans and orders were incomplete and did not contain current intelligence information, and personnel involved did not abide by the stated rules of engagement nor did they know of or use the appropriate antifratricide signals. The Army's investigation of the incident, which cleared Army officers of responsibility, was flawed, and investigators never resolved inconsistencies. (OSI-95-10)

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# May 1995

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■ 84 Reports to Congress

■ 39 Testimonies

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## MEDICARE CLAIMS: COMMERCIAL TECHNOLOGY COULD SAVE BILLIONS LOST TO BILLING ABUSE

The Medicare program is plagued by billing abuse because of inadequate funding for fraud and abuse prevention activities, uneven implementation of payment controls, and flawed payment policies. Avoiding these preventable losses would help control Medicare costs without affecting beneficiary services or provider fees. GAO estimates that use of commercial computer systems designed to detect procedure code manipulation—one type of billing abuse—could have reduced federal payments for physician services and supplies by nearly 2 percent in 1994. Beneficiaries, who are responsible for deductibles and copayments, could have saved over \$140 million in 1994. (AIMD-95-135)

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## MANAGING FOR RESULTS: STEPS FOR STRENGTHENING FEDERAL MANAGEMENT

*Testimony of the Assistant Comptrollers General, General Government  
Division and Accounting and Information Management Division,  
Johnny C. Finch and Gene L. Dodaro*

To strengthen federal management, four steps need to be taken. First, precise program and business goals must be developed and performance must be measured against these goals. Second, inefficient operations need to be reengineered and investment needs to be made in technology to bring government into the information age. Third, financial management needs to be strengthened to instill accountability and control costs. Fourth, human resource management issues need to be addressed to build and maintain a more capable, highly trained workforce. (T-GGD/AIMD-95-158)

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## **EXPORT PROMOTION: RATIONALES FOR AND AGAINST GOVERNMENT PROGRAMS AND EXPENDITURES**

*Testimony of the Managing Director, International Trade, Finance, and Competitiveness Issues, Allan I. Mendelowitz*

Diverse reasons underpin U.S. government export promotion programs. While such expenditures of taxpayer dollars can be supported or criticized with any number of qualitative arguments, there is no definitive empirical work that shows a positive or a negative impact of the program. If the Congress determines that the expenditure of public funds for export promotion should be continued, significant opportunities exist for cost savings and cost-effective organizational change. (T-GGD-95-169)

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## **WELFARE PROGRAM: OPPORTUNITIES TO CONSOLIDATE AND INCREASE PROGRAM EFFICIENCIES**

The programs that make up the nation's welfare system have developed incrementally over time as the Congress has addressed specific needs of low-income families. No overarching goal was ever developed to unify the programs and help ensure that families' needs were being met. When restructuring the welfare system, the Congress needs to ensure that federal funds are used efficiently and that programs are focused on outcomes. (HEHS-95-139)

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## **EXPORT CONTROLS: CONCERNS OVER STEALTH-RELATED EXPORTS**

Unclear lines of jurisdiction over stealth-related items may lead to the inappropriate export of militarily sensitive stealth materials and technology. Control over these exports is split between the Departments of State and Commerce. State, with input from the Department of Defense (DOD), controls munitions items, and Commerce has responsibility for items with both civilian and military uses. Commerce has limited authority to prevent stealth-related exports and does not refer most applications for the export categories related to stealth to either the Department of State or DOD for review. (NSIAD-95-140)

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## PEACE OPERATIONS: UPDATE ON THE SITUATION IN THE FORMER YUGOSLAVIA

GAO reported that the United Nations (U.N.) had been ineffective in helping resolve the major issues of conflict in the former Yugoslavia. An estimated 250,000 Bosnians had been killed, but the U.N. had done little to deter attacks against "safe areas" or prevent Croatian territory from being used to stage attacks on Bosnia, though mandated by the Security Council. In addition to contributing more than \$3 billion for the United Nations Protection Force, U.N. member states had provided billions more in voluntary contributions and 40,000 peacekeeping troops; NATO air power had also been committed to the operation. (NSIAD-95-148BR)

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## ENVIRONMENTAL PROTECTION: CURRENT ENVIRONMENTAL CHALLENGES REQUIRE NEW APPROACHES

*Testimony by the Director, Environmental Protection Issues,  
Peter F. Guerrero*

The breadth of the environmental challenge facing the nation means that the Environmental Protection Agency (EPA) must better target its resources. EPA cannot do so without a clearly defined mission and changes in its legal foundation and management structure. A good working relationship with the states, which are called upon to manage most federal environmental programs for EPA, is vital. The states, however, are burdened by unfunded federal mandates, and communication between EPA and the states regarding setting spending and other priorities is poor. (T-RCED-95-190)

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# June 1995

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■ 87 *Reports to Congress*

■ 34 *Testimonies*

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## ■ FOOD AID: COMPETING GOALS AND REQUIREMENTS HINDER TITLE I PROGRAM RESULTS

During the past 40 years, the United States has allocated more than \$88 billion in food assistance to developing countries under title I of the 1954 Agricultural Trade Development and Assistance Act, commonly referred to as P.L. 480. The size and the importance of the title I program have declined, and the program as currently structured does not meet its economic development or market development objectives. The Congress may wish to refocus, restructure, or eliminate the program. (GGD-95-68)

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## ■ WELFARE BENEFITS: POTENTIAL TO RECOVER HUNDREDS OF MILLIONS MORE IN OVERPAYMENTS

Aid to Families With Dependent Children (AFDC), Food Stamps, and Medicaid are needs-based programs that provide either direct financial assistance, food coupons, or payments for certain medical services to low-income individuals and families. In 1992, federal- and state-funded benefits for these programs totaled about \$161 billion. There was an estimated \$4.7 billion in benefit overpayments because of fraud, client error, or agency error, representing about 4 percent of total benefits paid. Total overpayments recovered, about \$333 million, were relatively low. (HEHS-95-111)

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## **JOB CORPS: HIGH COSTS AND MIXED RESULTS RAISE QUESTIONS ABOUT PROGRAM'S EFFECTIVENESS**

The Job Corps is the most expensive federal youth employment and training program, with current appropriations of about \$1 billion. GAO found that about half of the jobs obtained by trainees were low-skill jobs, such positions as fast food workers, and were not related to the training provided by the Job Corps. GAO questioned whether the Job Corps' long-standing practice of awarding sole-source contracts to national contractors for about a third of the training was effective. Nearly half of all job placements were found by the student, family, or friends, not by national training contractors. (HEHS-95-180)

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## **ARMY NATIONAL GUARD: COMBAT BRIGADE'S ABILITY TO BE READY FOR WAR IN 90 DAYS IS UNCERTAIN**

Changing defense needs have increased reliance on Army National Guard combat brigades and on their ability to deploy to any number of regional conflicts. GAO looked at the training of seven brigades designated to reinforce active duty units. None of the reserve brigades came close to achieving training goals, making it highly uncertain that they could be ready to deploy 90 days after mobilization. Other readiness issues are the inability to recruit and retain enough personnel to meet staffing needs and the poor working relationship between the active Army and the state-run Guard. (NSIAD-95-91)

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## **FOREIGN HOUSING GUARANTY PROGRAM: FINANCIAL CONDITION IS POOR AND GOALS ARE NOT ACHIEVED**

The Congress should consider terminating the Agency for International Development's Housing Guaranty Program because it has failed to achieve its fundamental goal of promoting private sector investment in low-income housing in developing countries, its benefits often go to higher-income persons, and its loan defaults may ultimately cost the U.S. government as much as \$1 billion. (NSIAD-95-108)

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## **SPACE SHUTTLE: NASA MUST REDUCE COSTS FURTHER TO OPERATE WITHIN FUTURE PROJECTED FUNDS**

The National Aeronautics and Space Administration (NASA) has substantially reduced funding for shuttle operations and plans further cuts. The cost was reduced in part by cutting the number of space flights. NASA appears to have adequately considered safety while reducing costs. However, it is difficult for NASA to know how much further it can reduce costs without affecting safety. (NSIAD-95-118)

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## **SPACE STATION: ESTIMATED TOTAL U.S. FUNDING REQUIREMENTS**

GAO estimates U.S. funding requirements for the design, the launch, the assembly, and 10-year operations of the International Space Station at about \$94 billion—over \$48 billion to complete the assembly in June 2002 and almost \$46 billion to operate and conduct research for 10 years thereafter. This amount is about \$77 billion in fiscal year 1995 constant dollars and does not include the value of the international partners' contributions to the International Space Station program. (NSIAD-95-163)

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## **IMMUNIZATION: HHS COULD DO MORE TO INCREASE VACCINATION AMONG OLDER ADULTS**

Pneumonia and influenza are the leading causes of vaccine-preventable death. The elderly suffer the most from these diseases, and the costs to the federal government, through Medicare, are substantial. GAO suggests that enhanced promotional efforts would increase immunization rates and thus save lives. Promotional efforts directed to health care providers—physicians and hospitals—would be more effective than efforts to influence consumers' knowledge and attitudes. (PEMD-95-14)

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## **VACCINES FOR CHILDREN: REEXAMINATION OF PROGRAM GOALS AND IMPLEMENTATION NEEDED TO ENSURE VACCINATION**

More than 95 percent of the nation's children receive recommended vaccinations by the time they enter school. The Vaccines for Children Program, created in 1993, was intended to increase childhood immunization by reducing the cost to parents. GAO found that the vaccine cost was not a factor and identified missed opportunities for vaccination during a child's regular contact with health care providers as a major barrier. (PEMD-95-22)

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## **HOUSING FINANCE: IMPROVING THE FEDERAL HOME LOAN BANK SYSTEM'S AFFORDABLE HOUSING PROGRAM**

This program, established in 1989, has successfully increased the supply of affordable housing for very low-, low- and moderate-income households. Through 1993, \$234 million in funds were used to help leverage an additional \$3 billion from other sources to finance projects containing over 62,000 housing units in urban, suburban, and rural communities. This report describes how funds have been used to finance affordable housing initiatives and makes recommendations to improve program administration. (RCED-95-82)

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## **PUBLIC HOUSING: CONVERTING TO HOUSING CERTIFICATES RAISES MAJOR QUESTIONS ABOUT COST**

Housing certificates are intended to provide public housing residents greater opportunity to select where they want to live. However, actual choice in housing depends on many factors, including the current tenant's inclination to move, the availability of affordable housing, the willingness of private landlords to accept housing certificates, and the extent to which housing antidiscrimination laws are followed and enforced. The ultimate costs of converting to housing certificates is not known. (RCED-95-195)

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## **COTTON PROGRAM: COSTLY AND COMPLEX GOVERNMENT PROGRAM NEEDS TO BE REASSESSED**

The cotton program has evolved over the past 60 years into a costly, complex maze of domestic and international price supports that benefit producers at great cost to the government and society. In 1993, 295 producers each received more than \$250,000—4 of these received more than \$1 million—in government payments for their cotton operations. The economic conditions that led to the creation of the program in the 1930s no longer exist. The Congress may wish to consider whether benefits from the program are worth its costs and if the program should be continued. (RCED-95-107)

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# July 1995

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■ 69 Reports to Congress

■ 29 Testimonies

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## TAX SYSTEMS MODERNIZATION: MANAGEMENT AND TECHNICAL WEAKNESSES MUST BE CORRECTED IF MODERNIZATION IS TO SUCCEED

Since 1986, the Internal Revenue Service has invested \$2.5 billion in Tax Systems Modernization (TSM) and expects to spend over \$8 billion by 2001. This world-class information systems development effort, much larger than most other organizations will ever undertake, is at serious risk because of management and technical problems. Vulnerable to schedule delays, cost overruns, and failure to meet mission goals, TSM was added to GAO's list of high-risk areas in February 1995. (AIMD-95-156)

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## FINANCIAL MANAGEMENT: MOMENTUM MUST BE SUSTAINED TO ACHIEVE THE REFORM GOALS OF THE CHIEF FINANCIAL OFFICERS ACT

*Testimony of the Comptroller General of the United States,  
Charles A. Bowsler*

Through this act, the Congress has laid the foundation to provide much needed accountability and gain financial control of government operations. Progress has been made, but more needs to be done to fully achieve the act's financial management reform goals and attain the type of accountability and effectiveness the American taxpayers expect and deserve. Chief Financial Officers need to overcome serious financial reporting and systems weaknesses and to upgrade the qualifications and the training of financial management staffs. Also, the Inspectors General must better position themselves to perform financial audits. (T-AIMD-95-204)

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## GOVERNMENT REFORM: LEGISLATION WOULD STRENGTHEN FEDERAL MANAGEMENT OF INFORMATION AND TECHNOLOGY

*Testimony of the Assistant Comptroller General, Accounting and Information Management Division, Gene L. Dodaro*

This testimony discusses a legislative proposal, the Information Technology Management Reform Act of 1995, which, if enacted, would change the government's focus on information technology (IT) from a technical to a management focus. It would establish a senior management position of Chief Information Officer in 24 major federal agencies and would hold agency heads accountable for ensuring that IT investments maximized overall mission benefits. In addition, it would directly link budget decisions with performance affecting the approval, the continuation, or the termination of major IT investments. (T-AIMD-95-205)

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## BUDGET PROCESS: HISTORY AND FUTURE DIRECTIONS

*Testimony of the Associate Director, Budget Issues, Susan J. Irving*

The budget process should offer the Congress the means to set overall fiscal policy and to set national priorities. The process should be understandable to the interested citizen and it should provide accountability. This testimony suggests that Congress create a "lookback" procedure to evaluate progress in reducing the deficit. By periodically comparing current deficit projections with projections in prior deficit reduction agreements or reconciliation legislation, the Congress can identify slippage and take actions, if desired, to bring the deficit path closer to the original goal. (T-AIMD-95-214)

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## **SUPPLEMENTAL SECURITY INCOME: GROWTH AND CHANGES IN RECIPIENT POPULATION CALL FOR REEXAMINING PROGRAM**

The Supplemental Security Income (SSI) program, the largest cash assistance program for the poor, is one of the fastest-growing entitlement programs. Adults with mental impairments, children, and noncitizens account for nearly 90 percent of SSI's growth since 1991. These recipients tend to be younger, stay on SSI longer, receive larger benefits, and depend more on SSI as a primary source of income. A reexamination of the SSI program is needed to better serve its intended population and to reassure the public of the program's integrity. (HEHS-95-137)

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## **PRESCRIPTION DRUGS AND THE ELDERLY: MANY STILL RECEIVE POTENTIALLY HARMFUL DRUGS DESPITE RECENT IMPROVEMENTS**

The inappropriate use of prescription drugs is a potential health problem that is particularly acute for the elderly. Not only do the elderly use more prescription drugs than any other age group, but also they are more likely to be taking several drugs at once, increasing the probability of adverse drug reactions. It is estimated that the annual cost of hospitalizations because of inappropriate prescription drug use is \$20 billion. Drug utilization reviews by pharmacists are one of many efforts that are helping to reduce this problem. (HEHS-95-152)

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## **HEALTH INSURANCE FOR CHILDREN: MANY REMAIN UNINSURED DESPITE MEDICAID EXPANSION**

As a result of legislative changes expanding Medicaid eligibility for children, 4.8 million more children are covered. Although a substantial number of uninsured children meet federal Medicaid age and income eligibility requirements, 2.3 million are not enrolled. Reasons may be that parents lack knowledge about their potential eligibility and difficulties have been encountered in applying for Medicaid. Changes to Medicaid that resulted in reducing the number of children covered, without also changing the health insurance marketplace, could lead to significantly more uninsured children in the future. (HEHS-95-175)

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## **MEDICARE: ADOPTING PRIVATE SECTOR TECHNIQUES COULD CURB LOSSES TO FRAUD AND ABUSE**

*Testimony of the Director, Health Financing and Policy Issues,  
Sarah F. Jaggard*

Medicare losses occur in part because of inappropriate pricing and inadequate scrutiny of claims and because abusive or poorly qualified providers of medical services and supplies are allowed to participate in the program. These problems can be found elsewhere in both the public and private sectors. Private health insurance companies use modern management techniques, such as competitive bidding and advanced software programs, and react faster to reduce fraud and abuse. If Medicare used more private sector techniques, it could significantly reduce losses. (HEHS-95-211)

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## **SUPERFUND: INFORMATION ON CURRENT HEALTH RISKS**

Much debate exists about the risks posed by most sites on the National Priorities List. The Environmental Protection Agency (EPA) does not prioritize its Superfund cleanup actions to address the "worst sites first," those that pose the most significant public health risks. About one-third of the 225 sites in the EPA's database represented health risks serious enough to warrant cleanup, given current land use. There were minimal serious health risks at remaining sites, assuming land use remains constant. (RCED-95-205)

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# August 1995

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■ 88 *Reports to Congress*

■ 10 *Testimonies*

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## FINANCIAL AUDIT: EXAMINATION OF IRS' FISCAL YEAR 1994 FINANCIAL STATEMENTS

GAO could not express an opinion on the reliability of the Internal Revenue Service's (IRS) financial statements. IRS continues to face major challenges in developing meaningful and reliable financial management information and in providing adequate internal controls that are essential to effectively manage and report on its operations. Overcoming these challenges is difficult because of the long-standing nature and depth of IRS' financial management problems and the antiquated state of its systems. (AIMD-95-141)

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## MEDICARE: INCREASED HMO OVERSIGHT COULD IMPROVE QUALITY AND ACCESS TO CARE

The Congress is considering ways to attract Medicare beneficiaries to health maintenance organizations (HMO) in hopes of containing cost growth while preserving or improving quality and access to care. Medicare needs to adopt some private sector practices in overseeing HMO performance. For example, some large employers are requiring that HMOs undergo review by the National Committee for Quality Assurance, a private agency that sets and enforces HMO quality standards that are more stringent than current federal guidelines. (HEHS-95-155)

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## **SUPPLEMENTAL SECURITY INCOME: DISABILITY PROGRAM VULNERABLE TO APPLICANT FRAUD WHEN MIDDLEMEN ARE USED**

Recent media reports and congressional hearings have focused attention on the increasing number of fraudulent claims for disability benefits that have been filed by non-English-speaking immigrants. These claims have been facilitated by some middlemen who are paid to provide translation services to help individuals apply for SSI benefits. In Washington State, a middleman arrested for fraud had helped at least 240 immigrants obtain \$7 million in SSI benefits by coaching them on which medical symptoms to claim and providing false information on their medical conditions and family histories. (HEHS-95-116)

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## **MEDICARE: EXCESSIVE PAYMENTS FOR MEDICAL SUPPLIES CONTINUE DESPITE IMPROVEMENTS**

A 1994 congressional hearing identified an instance where Medicare paid over \$15,000 worth of claims for a month's supply of surgical dressings for one patient. Since medical suppliers were permitted to select the Medicare contractors that would process and pay their claims, some exploited this freedom by "shopping" for contractors with the weakest controls and highest payment rates. Although Medicare has made improvements to prevent contractor shopping, it needs to establish better internal controls and more stringent payment procedures. (HEHS-95-171)

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## **INVENTORY MANAGEMENT: DOD CAN BUILD ON PROGRESS IN USING BEST PRACTICES TO ACHIEVE SUBSTANTIAL SAVINGS**

While the Defense Logistics Agency (DLA) has taken steps to reduce consumable inventories, it could do more to achieve substantial savings. DLA has not tested the more-innovative commercial practices used by companies to reduce inventories and costs. If DLA adopted these practices for hardware and personnel items, significant cost savings might result. Despite its successful efforts to reduce pharmaceutical inventories at 150 military medical facilities, DLA still has not achieved the same savings as civilian hospitals. (NSIAD-95-142)

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## **U.S.-JAPAN COOPERATIVE DEVELOPMENT: PROGRESS ON THE FS-X PROGRAM ENHANCES JAPANESE AEROSPACE CAPABILITIES**

Japan's FS-X fighter aircraft is a significantly modified derivative of the U.S. Air Force's F-16. It is planned as the replacement for Japan's aging, domestically developed F-1 fighter. There are concerns about the transfer of U.S. technology to Japan through the FS-X program and about whether the United States will receive useful technologies in return. While no one currently knows what benefits, if any, Japanese technologies will provide to the United States, the FS-X program is strengthening Japan's aerospace industry and reducing its dependence on U.S. suppliers for future military, and possibly commercial, aircraft. (NSIAD-95-145)

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## **B-2 BOMBER: STATUS OF COST, DEVELOPMENT, AND PRODUCTION**

After 14 years of development and evolving mission requirements, including 6 years of flight testing, the Air Force has yet to demonstrate that the B-2 design will meet some of its most important mission requirements. Test progress has been slower than planned, hampered by late delivery of test aircraft, modifications to correct problems, software problems, changes to the B-2's primary mission, and other factors. Achieving acceptable radar signatures, the most critical stealth feature, has been a problem. (NSIAD-95-164)

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## **TENNESSEE VALLEY AUTHORITY: FINANCIAL PROBLEMS RAISE QUESTIONS ABOUT LONG-TERM VIABILITY**

Although in the short run the Tennessee Valley Authority (TVA) is protected from competition by legislation and its customer contracts, TVA will have to compete with other utilities in the long run. Because of its heavy debt burden and resultant high financing costs, TVA will lack the flexibility to successfully compete. To the extent that TVA cannot compete and improve its financial condition, the federal government will be at risk for some portion of TVA's debt. (AIMD/RCED-95-134)

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## ■ NUCLEAR SAFETY: CONCERNS WITH THE NUCLEAR POWER REACTORS IN CUBA

*Testimony of the Assistant Comptroller General, Resources, Community, and Economic Development Division, Keith O. Fultz*

If Cuba's nuclear power reactors become operational, a number of concerns must be addressed, including the quality of the civil construction completed to date, the lack of a regulatory organization, and the adequacy of operator training. In the event of an accident, the containment structure could be breached and radiation could be released. Air currents could carry radioactive materials to the United States, as far west as Texas and as far north as Washington, D.C. (T-RCED-95-236)

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## ■ NATIONAL PARKS: DIFFICULT CHOICES NEED TO BE MADE ABOUT THE FUTURE OF THE PARKS

There is cause for concern over the health of America's national parks. These parks, which serve more than 270 million visitors a year, contain many of the country's most-significant natural areas and historic sites. Balancing the dual missions of providing for the public's enjoyment and protecting the natural and the cultural resources for future generations have long shaped the debate about how best to manage the national park system. (RCED-95-238)

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## ■ DEPARTMENT OF ENERGY: A FRAMEWORK FOR RESTRUCTURING DOE AND ITS MISSIONS

The Department of Energy's (DOE) original core missions—to develop and test nuclear weapons, conduct basic energy research, and set national energy policy—are being replaced by major new challenges in environmental cleanup and the commercial applications of science. DOE has begun to modify its Cold War organizational structures and processes to meet newer responsibilities. Each mission should be assessed, as a first step in reevaluating DOE, to determine if it fulfills an inherently governmental role and what alternatives are available in the federal government or private sector to accomplish it most effectively. (RCED-95-197)

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## RAILROAD SAFETY: STATUS OF EFFORTS TO IMPROVE RAILROAD CROSSING SAFETY

Accidents at railroad crossings are the leading cause of death associated with the railroad industry. Since the Rail-Highway Crossing Program, also known as the section 130 program, began in 1974, the federal government has appropriated nearly \$5 billion to improve safety at railroad crossings. The Department of Transportation has set a national goal of reducing railroad crossing accidents and fatalities by 50 percent by 2004; success will depend on close coordination with the states and the railroads. (RCED-95-191)

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# September 1995

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■ *102 Reports to Congress*

■ *11 Testimonies*

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## ■ BLOCK GRANTS: ISSUES IN DESIGNING ACCOUNTABILITY PROVISIONS

Building accountability into the block grants will be an important, but difficult, task requiring trade-offs between federal and state control over program finances, activities, and administration. Accountability provisions will need to balance the potentially conflicting objectives of increasing state and local flexibility and attaining certain national objectives. There will need to be safeguards to ensure that states are applying proper financial controls. And the Congress will have to determine not only the level and the extent of national programmatic objectives but also the most-appropriate means to monitor and oversee state progress. (AIMD-95-226)

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## ■ USDA TELECOMMUNICATIONS: BETTER MANAGEMENT AND NETWORK PLANNING COULD SAVE MILLIONS

Each year, the Department of Agriculture (USDA) wastes millions of dollars of its \$100 million annual telecommunications budget by paying for unnecessary services and leased equipment and paying commercial rates that are more than three times what they would be under the FTS 2000 program. USDA is not planning its future telecommunications networks to ensure that they can support the Department's information-sharing needs for the 21st century. (AIMD-95-203)

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## DEFICIT REDUCTION: OPPORTUNITIES TO ADDRESS LONG-STANDING GOVERNMENT PERFORMANCE ISSUES

*Testimony of the Comptroller General of the United States,  
Charles A. Boushler*

As evidenced by congressional and presidential deficit reduction proposals, the question is not whether to balance the budget, but when and how. There are compelling reasons for reducing the deficit, including the aging of America's population, which threatens to convert today's fiscal commitments into unsustainable burdens that will undermine the future economic well-being of the nation. GAO's work shows that (1) there are advantages to targeting budget cuts to those programs and operations that are ineffective or inefficient in achieving their goals, (2) major cost drivers should be addressed, and (3) the government should develop and use fundamental management tools and systems to better design and evaluate programs. (T-OCG-95-6)

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## BANKS' SECURITIES ACTIVITIES: OVERSIGHT DIFFERS DEPENDING ON ACTIVITY AND REGULATOR

About 2,400 banks offered securities brokerage services to their customers in 1994. Of these, most (88 percent) provided the services through registered broker-dealers, regulated by the Securities and Exchange Commission and the National Association of Securities Dealers. The remaining 12 percent, 287 banks, provided direct brokerage services and were subject to oversight by federal bank regulatory bodies. Lack of comparable review standards for these financial institutions could result in confused investors, ambiguous sales practice standards, and inconsistent oversight of sales representatives. (GGD-95-214)

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## BANK REGULATORY STRUCTURE: CANADA

This report examines bank regulation and supervision in Canada. The Office of the Superintendent of Financial Institutions (OSFI), established in 1987, is the primary supervisor of federal financial institutions. It administers the application process for bank incorporation, issues regulations and guidelines, conducts on-site examinations, and takes enforcement actions. OSFI shares some supervisory and resolution responsibilities with the Canada Deposit Insurance Corporation and, through various committees, with the Bank of Canada and the Department of Finance. It also relies on the banks' external auditors, who have the responsibility to report to OSFI information that might affect the banks' financial condition. (GGD-95-223)

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## **HEALTH INSURANCE PORTABILITY: REFORM COULD ENSURE CONTINUED COVERAGE FOR UP TO 25 MILLION AMERICANS**

Despite federal and state initiatives to improve the portability of health care coverage, many Americans, particularly those with costly health conditions, are concerned that their health care coverage may be interrupted if they change jobs. GAO estimates that up to 25 million workers would benefit from reforms that would waive "preexisting conditions" and limit coverage waiting periods. The extent to which insurers would respond to these reforms with increased premiums, however, is uncertain. (HEHS-95-257)

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## **COMBAT IDENTIFICATION SYSTEMS: CHANGES NEEDED IN MANAGEMENT PLANS AND STRUCTURE**

The Army and the Navy have been pursuing cooperative identification of friend or foe (IFF) question-and-answer systems to reduce the occurrence of friendly fire incidents. These systems, which could cost more than \$4 billion, are being pursued using different technologies without fully considering cost and the way in which they will be integrated. The procurement of systems that cannot be integrated, or at least cost-effectively integrated, may result in having to field two or more systems on the same equipment, potentially wasting millions of dollars. (NSIAD-95-153)

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## **URANIUM ENRICHMENT: PROCESS TO PRIVATIZE THE U.S. ENRICHMENT CORPORATION NEEDS TO BE STRENGTHENED**

If and when the U.S. Enrichment Corporation is privatized, it will represent the largest and most important privatization transaction involving the U.S. government since the sale of Conrail in 1987. Many factors other than financial considerations will influence the privatization plan. Federal decisionmakers will need to consider the national security implications of the sale and decide whether the government should be in the uranium enrichment business. They also need to ensure that the taxpayers' interests are fully protected throughout the privatization process. (RCED-95-245)

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# OVERVIEW OF OPERATIONS AND FINANCIAL MANAGEMENT

This overview includes

- a description of GAO and its mission,
- a discussion of GAO's performance measures,
- a status report on efforts to downsize and consolidate operations and on recent investments to increase productivity,
- a summary of quality control efforts and a discussion of GAO's external Audit Advisory Committee,
- comments on GAO's financial resources and results of operations,
- management's assessment of internal controls, and
- a description of the scope of the audit of GAO's 1995 principal statements.

Immediately following the overview are GAO's principal statements for fiscal years 1995 and 1994, GAO's Audit Advisory Committee's report, and the independent auditors' report.

## GAO AND ITS MISSION

The General Accounting Office was created to help ensure that taxpayers' dollars were wisely spent and not wasted.

GAO seeks to fulfill this mission by encouraging honest, efficient management and full accountability throughout the federal government. It serves the public interest by providing the Congress, other policymakers, and the public with accurate information, unbiased analysis, and objective recommendations on the use of public resources.

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A commitment to quality is the single most important principle governing GAO's work. Also, GAO highly values its staff and the diversity and the skills they bring to serve the Congress and the public. GAO staff concentrate on specific issues that enable them to become highly knowledgeable about the agencies and programs they audit. By maintaining expertise in key areas of interest, GAO can respond quickly and comprehensively to requests from the Congress.

About 73 percent of GAO's work during fiscal year 1995 was done at the specific request of the Congress. GAO is required to do work requested by committee chairs; as a matter of policy, GAO assigns equal status to requests from ranking minority members. To the extent possible, GAO responds also to requests from individual members. Finally, GAO undertakes assignments independently in accordance with its basic legislative responsibilities.

GAO's audit work is managed through six audit divisions. The issues examined by GAO span the breadth of national concerns, including health care costs, national security, energy, the safety and the soundness of financial institutions, protection of the environment, education, the space program, transportation, tax administration, income security, disaster assistance, financial management and accountability, and many others.

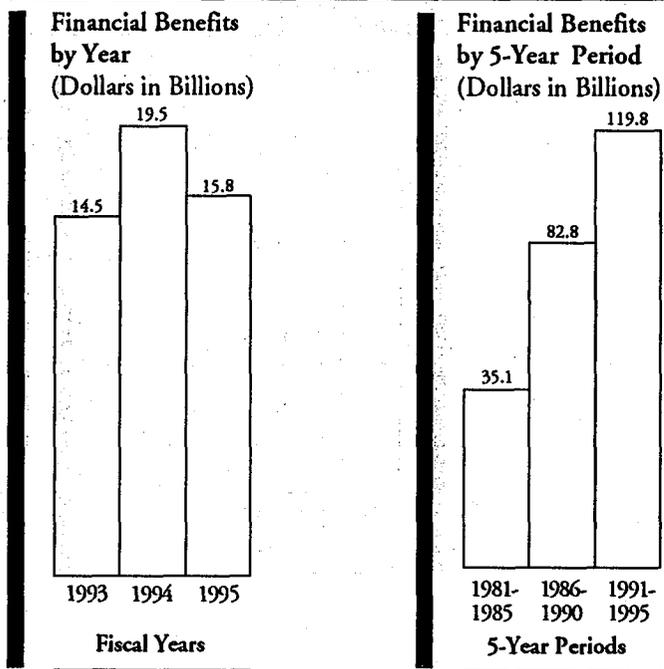
While audits and evaluations are the most visible aspects of GAO's work and absorb the largest share of its resources, GAO has other important functions. GAO prescribes accounting standards for the entire federal government in conjunction with the Office of Management and Budget (OMB) and the Department of the Treasury, evaluates accounting systems and controls used by executive agencies, and issues generally accepted government auditing standards for all levels of government entities. GAO also settles claims against the federal government when settlements made by executive agencies are appealed. Finally, GAO issues legal decisions on matters involving government revenues and expenditures, such as protests against the award of federal government contracts.

## GAO KEY PERFORMANCE MEASURES

GAO monitors performance with a view toward continuously improving its efficiency, effectiveness, and services to the Congress. GAO's key performance measures fall into two groups: (1) service to the Congress and results of GAO's work, as measured by financial benefits; overall product output; number of testimonies delivered; and accomplishments, such as GAO recommendations implemented and corrective actions taken as a result of GAO audit findings, and (2) efficiency and effectiveness of work processes, as measured by job cost and job duration.

GAO is increasing productivity through increased use of technology and improvements in its work processes. GAO's job process reengineering effort will further streamline job management processes and will lead to improvements and refinements in GAO's performance measures.

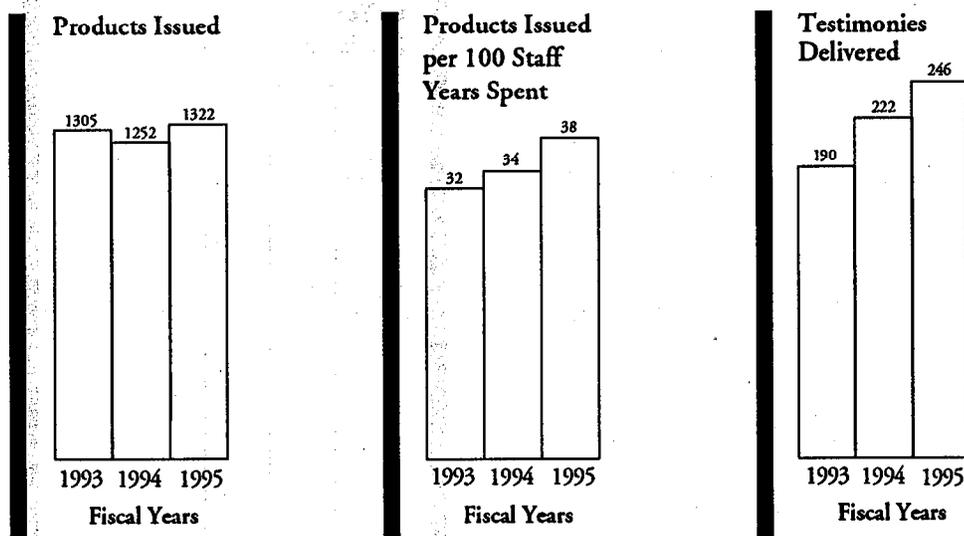
## FINANCIAL BENEFITS



GAO recommendations and audit findings frequently contribute to significant financial benefits to taxpayers. These include budget reductions, costs avoided, appropriation deferrals, and revenue collections. Although financial benefits fluctuate from year to year, GAO seeks to identify at least \$10 billion in financial benefits each year. In fiscal year 1995, GAO's work contributed to legislative and executive actions that resulted in nearly \$16 billion in measurable financial benefits. This represents a return of more than \$35 for every dollar appropriated for GAO. Between 1991 and 1995, financial benefits totaled nearly \$120 billion, or about \$55 for every dollar appropriated for GAO.

## PRODUCT OUTPUT

In fiscal year 1995, GAO produced 1,322 audit and evaluation products, including 910 reports to the Congress and agency officials, 166 formal congressional briefings, and 246 congressional testimonies. This year's productivity level represents a 6-percent increase over that for fiscal year 1994. Moreover, when GAO's downsizing efforts are considered and its productivity calculated on the basis of output per 100 staff years spent, the product volume for fiscal year 1995 represents a 12-percent increase over that for fiscal year 1994.



## TESTIMONY

Responding to congressional requests for testimony is one of GAO's most important services. Although the number of testimonies fluctuates from year to year, a significant increase in testimonies and the number of GAO witnesses since the mid-1980s show that the Congress is seeking GAO's expertise and input as major legislative events are unfolding. In supporting the new Congress, 72 GAO witnesses testified 246 times before 112 congressional committees and subcommittees in fiscal year 1995. By comparison, 42 GAO witnesses testified 117 times in fiscal year 1985.

## ACCOMPLISHMENT REPORTS AND RECOMMENDATIONS IMPLEMENTED

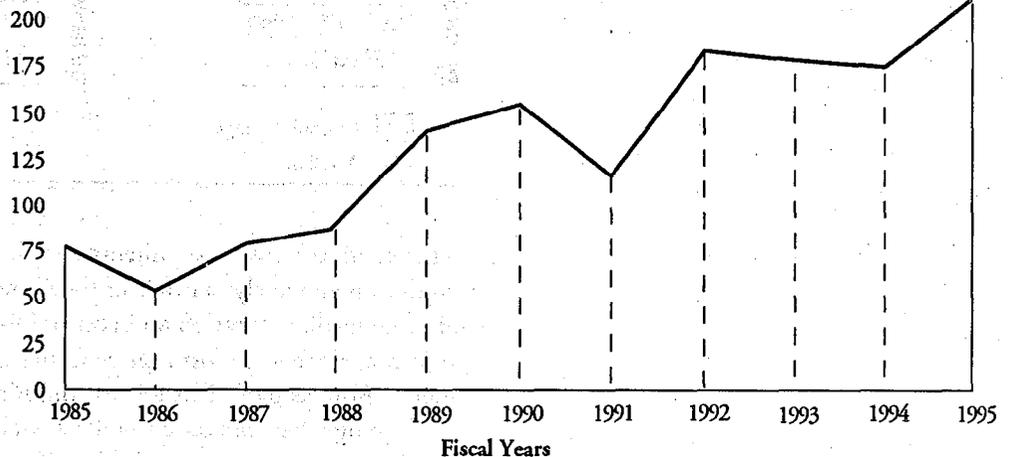
Many of GAO's recommendations and audit findings result in or contribute to improvements in the effectiveness and the efficiency of government operations and services, although their impact cannot always be quantified in monetary terms. GAO documents these improvements with two performance measures.

First, GAO monitors corrective actions taken and program improvements made in response to either a GAO recommendation or audit finding. GAO documented nearly 200 of these accomplishments in each of the past several years and more than 200 in 1995. Accomplishments that result in financial benefits that GAO can quantify are excluded from the chart below because they are reflected in the "Financial Benefits" performance measure.

Second, GAO follows up on its recommendations to determine whether they have been implemented. If past experience is a good indication, about 70 percent of the key recommendations GAO made in 1995 will be implemented within 4 years. The time needed to implement GAO recommendations depends on the passage of implementing legislation, the pace at which agencies take corrective action, and the scope of the corrective action recommended.

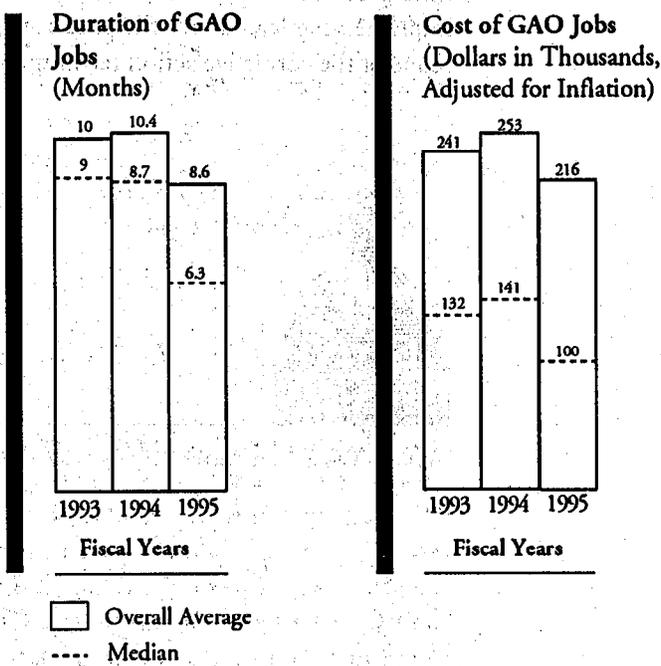
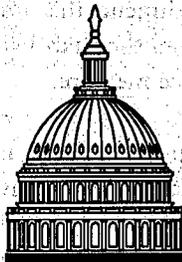


Actions Taken as a Result of GAO Recommendations or Audit Findings



## DURATION AND COST OF JOBS

GAO's record of accomplishment notwithstanding, GAO recognizes that success requires continuous improvement in quality while reducing the duration of jobs and their cost and ensuring timeliness. GAO's workload has become larger and more technically and analytically complex, even as budget and staff resources have become more constrained. Nevertheless, the chart below illustrates that in the key dimensions of job length and job cost, GAO's performance improved in 1995, thus providing better service to the Congress.



The length of GAO assignments and their costs vary depending upon the data collection and analysis needs of the Congress. The chart above shows the average and the median duration and cost of jobs. The median is the more important indicator since it is most representative of the time and the cost of a typical assignment. Also, as part of its job streamlining and reengineering initiative, GAO is developing a new measure to reflect timeliness in responding to congressional requirements and meeting on-time delivery commitments. GAO will begin using this measure in fiscal year 1996.

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## DOWN-sizing AND CONSOLIDATING GAO OPERATIONS

Since fiscal year 1992, GAO has taken a number of actions in response to the congressional desire to reduce the legislative branch. In close cooperation with its oversight and appropriations committees, GAO has maintained a hiring freeze since 1992; managed a highly successful separation incentive program in late 1993; and restructured its field and overseas operations with the closure of offices in Philadelphia, Albany, Indianapolis, San Antonio, Oklahoma City, Albuquerque, Honolulu, and Frankfurt, Germany, during fiscal years 1994 and 1995. In anticipation of further budget reductions in fiscal years 1996 and 1997, GAO began implementing a three-phase plan to manage the additional downsizing effectively.

### Phase 1

GAO offered separation incentives to staff voluntarily leaving the agency by September 30, 1995. A total of 418 employees retired or resigned under this authority.

### Phase 2

GAO closed its Cincinnati, Detroit, and New York offices in November 1995, eliminating over 200 positions.

### Phase 3

During fiscal year 1996, GAO will reduce its administrative, technical, and support operations, mostly at headquarters.

## INVESTMENTS TO INCREASE PRODUCTIVITY

GAO has continued to implement new technology and upgrade facilities to ensure that its staff have modern equipment and working environments that will increase productivity. For example, GAO implemented a data network in all GAO locations, providing to each staff member an array of powerful tools for performing assignments. GAO has also implemented the Data Collection and Analysis application on the new network to improve collaboration among assignment team members by increasing their ability to share information, reuse data, manage assignments, reduce rework, and review products. Finally, GAO began the Job Process Reengineering initiative with the goals of reducing the average time required to issue a product by 100 days, achieving measurable savings in staff time and job costs, and establishing a continual process for additional economy and efficiency gains.

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## QUALITY CONTROLS

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

Through an internal review program, the Post Assignment Quality Review System, GAO ensures that its quality control policies and procedures are providing reasonable assurance that its audit and evaluation work conforms with applicable professional requirements, including government auditing standards.

This year, GAO took the first in a series of planned steps to add an external component to its quality program. In September 1995, GAO contracted with KPMG Peat Marwick LLP for an external quality control review of its financial audit work. This effort is designed to determine the extent to which GAO's financial audit work meets generally accepted auditing standards and is similar in design and scope to peer review programs established by large certified public accounting firms. GAO plans to extend these external quality control reviews to economy and efficiency and performance audits, which will add another important dimension to GAO's program for ensuring the quality and the credibility of its work.

GAO's Quality Control Review Board also provides external perspectives and advice on the effectiveness of GAO's assessments of the quality of its audit and evaluation work. The Board members meet and confer with the Comptroller General and provide advice on GAO's products and future work. The Board consists of the following distinguished individuals from outside GAO:

- **Elliot L. Richardson** (Chairman) is an attorney with Milbank, Tweed, Hadley & McCloy; former Secretary of Commerce; Defense; and Health, Education, and Welfare; former Attorney General; former Under Secretary of State; and former Ambassador-at-Large.
- **John C. Burton** is a certified public account (CPA) and the Arthur Young Professor of Accounting at Columbia University; former Chief Accountant of the Securities and Exchange Commission; and former Dean of the Graduate School of Business at Columbia University.
- **David F. Linowes** is a CPA and the Boeschstein Professor Emeritus and professor of political economy and public policy at the University of Illinois. Formerly he served as Chairman of the President's Commission on Privatization; Chairman, Presidential Commission on the Nation's Energy Resources; Chairman, Federal Privacy Protection Commission; and National Partner, Laventhol & Horwath.

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- **John Rhinelander** is an attorney with Shaw, Pittman, Potts, and Trowbridge; former Under Secretary of Housing and Urban Development; and former General Counsel of the Department of Health, Education, and Welfare. He has also held other legal positions, including adviser to the SALT I delegation, the Department of State, and the Secretary of the Navy.

Periodic congressional oversight is crucial to the effective operation of any agency, including GAO. In March 1995, the Senate Governmental Affairs Committee held an oversight hearing on GAO's operations. This provided an opportunity to discuss the role and the future directions of GAO and to exchange ideas on how GAO can best serve the Congress.

## AUDIT ADVISORY COMMITTEE

The Comptroller General established an external group in 1992 to advise GAO on its internal financial operations and controls. The Audit Advisory Committee, which met three times during the year, discusses, reviews, and reports to the Comptroller General on the effectiveness of GAO's (1) financial reporting and audit processes, (2) internal controls over financial operations, and (3) processes to ensure compliance with selected provisions of applicable laws and regulations that could significantly affect GAO's operations. The Committee consists of three distinguished individuals from outside GAO:

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

## FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

The costs of operating GAO during fiscal years 1995 and 1994 were about \$432 million and \$429 million, respectively. More than 97 percent of its operations were financed through appropriations from the Congress. The remainder came from reimbursements from other government agencies, including reimbursements for financial audits done by GAO. The percentage of operating expenses financed by appropriations has been about the same for the last 5 years.

During fiscal year 1995, expenses for salaries and related benefits totaled \$327 million, or 76 percent of GAO's operating expenses. The remaining 24 percent included travel, rent, utilities, automated data processing, and other items.

## MANAGEMENT REPORT ON INTERNAL CONTROLS

GAO is committed to fulfilling the internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. GAO's internal control structure, which includes controls over financial reporting, is designed to provide reasonable assurance that

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

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

GAO has assessed its internal control structure as of September 30, 1995, on the basis of criteria for effective internal controls in the federal government mentioned above. On the basis of this assessment, GAO believes that it has an effective internal control structure in place as of September 30, 1995.

GAO's independent auditors have been asked to provide

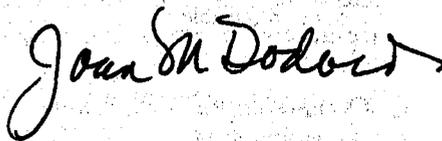
- an opinion on GAO's assertion on the internal control structure over financial reporting and
- a report citing any material conflicts between the more-comprehensive GAO report on internal controls, dated December 15, 1995, voluntarily prepared under FMFIA, and the results of their examination of GAO's assertion.

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## GAO's 1995 PRINCIPAL STATEMENTS

The accompanying principal statements summarize GAO's financial position, show the cost of operations and the changes in net position during fiscal years 1995 and 1994, present all significant cash flows during the 2 fiscal years, and compare budgeted with actual expenses. The basis of accounting used for the principal statements is described in the notes to those statements. While GAO is not subject to the Chief Financial Officers Act of 1990 or FMFIA, it is fully committed to the principles and the objectives of both acts and has elected to comply with their requirements.

The audit of the statements was performed by the independent auditors KPMG Peat Marwick LLP. The independent auditors' report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the principal statements.



Assistant Comptroller General for Operations



Assistant Comptroller General for Planning and Reporting



Comptroller General of the United States

# PRINCIPAL STATEMENTS

## U.S. GENERAL ACCOUNTING OFFICE STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 1995 AND 1994

<i>Dollars in Thousands</i>	1995	1994
<b>Assets</b>		
<b>Entity Assets</b>		
Funds with the U.S. Treasury	\$94,437	\$68,819
Travel and other advances	173	203
Accounts receivable	4,104	7,410
Supplies inventory	441	454
Property and equipment, net	<u>72,066</u>	<u>58,535</u>
<b>Total entity assets</b>	<b>171,221</b>	<b>135,421</b>
<b>Total Assets</b>	<b>\$171,221</b>	<b>\$135,421</b>
<b>Liabilities</b>		
<b>Liabilities Covered by Budgetary Resources</b>		
Salaries and benefits	\$23,379	\$11,924
Accounts payable	23,164	18,068
Employee travel	938	1,442
<b>Total liabilities covered by budgetary resources</b>	<u><b>47,481</b></u>	<u><b>31,434</b></u>
<b>Liabilities Not Covered by Budgetary Resources</b>		
Accrued annual leave	27,275	27,920
Workers compensation	10,509	10,714
Comptrollers' General retirement plan	2,314	2,116
Capital leases	801	845
Severance pay	199	389
<b>Total liabilities not covered by budgetary resources</b>	<u><b>41,098</b></u>	<u><b>41,984</b></u>
<b>Total Liabilities</b>	<b>\$88,579</b>	<b>\$73,418</b>
<b>Net Position</b>	<b>82,642</b>	<b>62,003</b>
<b>Total Liabilities and Net Position</b>	<b>\$171,221</b>	<b>\$135,421</b>

The accompanying notes are an integral part of these statements.

**U.S. GENERAL ACCOUNTING OFFICE**  
**STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION**  
**FOR FISCAL YEARS ENDED SEPTEMBER 30, 1995 AND 1994**

<i>Dollars in Thousands</i>	<i>1995</i>	<i>1994</i>
<b>Operating Expenses by Program Area</b>		
National Defense, Security and International Relations, and Other Related Issues	\$91,926	\$94,524
Energy, Agriculture, Environment, Housing, Transportation, and Natural Resources Issues	80,662	83,156
Financial Audits, Systems, Information Management and Technology Issues	80,002	75,001
Justice, Tax Policy, Financial Institutions, and General Management Issues	72,185	74,678
Education and Employment, Health Care and Income Security Issues	61,165	58,417
Legal Services	26,919	23,564
Program Evaluation Methodology and Standards	8,001	8,952
Special Investigations and Investigative Support	6,948	6,633
Senior Management and Staff	3,700	3,932
<b>Total Operating Expenses by Program Area</b>	<b>431,508</b>	<b>428,857</b>
<b>Revenues and Financing Sources</b>		
Appropriations expended	419,095	415,732
Rents and reimbursable services	13,255	11,346
<b>Total Revenues and Financing Sources</b>	<b>432,350</b>	<b>427,078</b>
<b>Appropriations Provided to Reduce Unfunded Liabilities (Expenses to Be Funded by Future Appropriations)</b>	<b>\$842</b>	<b>\$(1,779)</b>
<b>Net Position, Beginning of Fiscal Year</b>	<b>\$62,003</b>	<b>\$51,591</b>
<b>Appropriations Provided to Reduce Unfunded Liabilities (Expenses to Be Funded by Future Appropriations)</b>	<b>842</b>	<b>(1,779)</b>
<b>Increase in Capitalized and Unexpended Appropriations</b>	<b>19,797</b>	<b>12,191</b>
<b>Net Position, End of Fiscal Year</b>	<b>\$82,642</b>	<b>\$62,003</b>

The accompanying notes are an integral part of these statements.

**U.S. GENERAL ACCOUNTING OFFICE**  
**STATEMENTS OF CASH FLOWS**  
**FOR FISCAL YEARS ENDED SEPTEMBER 30, 1995 AND 1994**

<i>Dollars in Thousands</i>	<i>1995</i>	<i>1994</i>
<b>Cash Used for Operating Activities</b>		
Salaries and benefits	\$(316,632)	\$(327,694)
Rent, communications, and utilities	(30,829)	(34,993)
Computer and other ADP services	(17,598)	(17,843)
Other contractual services	(21,276)	(17,523)
Travel	(13,195)	(13,333)
Supplies and materials	(4,972)	(3,726)
External training	(2,689)	(2,233)
Printing and document copying	(2,013)	(1,896)
Other	(484)	(397)
<b>Total Cash Used for Operating Activities</b>	<b>(409,688)</b>	<b>(419,638)</b>
<b>Cash Provided by Rents and Reimbursable Services</b>	<b>16,708</b>	<b>4,186</b>
<b>Net Cash Used for Operating Activities</b>	<b>\$(392,980)</b>	<b>\$(415,452)</b>
<b>Cash Used for Acquisition of Property and Equipment</b>	<b>(20,614)</b>	<b>(20,225)</b>
<b>Cash Provided by Appropriations, Net</b>	<b>439,212</b>	<b>427,979</b>
<b>Net Cash Provided (Used) During Fiscal Year</b>	<b>25,618</b>	<b>(7,698)</b>
<b>Funds With the U.S. Treasury, Beginning of Fiscal Year</b>	<b>68,819</b>	<b>76,517</b>
<b>Funds With the U.S. Treasury, End of Fiscal Year</b>	<b>\$94,437</b>	<b>\$68,819</b>

**U.S. GENERAL ACCOUNTING OFFICE**  
**STATEMENTS OF CASH FLOWS**  
**(CONTINUED)**

**Reconciliation of Budgetary Accrued Expenditures  
to Net Cash Used for Operating Activities**

<i>Dollars in Thousands</i>	1995	1994
Budgetary Accrued Expenditures	\$(432,977)	\$(429,063)
Net Effect of Capitalizing Assets in the Principal Statements Which are Recognized as Accrued Expenditures for Budgetary Purposes	<u>13,882</u>	<u>13,331</u>
Appropriations Expended	(419,095)	(415,732)
Appropriations Provided to Reduce Unfunded Liabilities (Expenses to Be Funded by Future Appropriations)	<u>842</u>	<u>(1,779)</u>
	(418,253)	(417,511)
Adjustments to Reconcile to Net Cash Used for Operating Activities:		
Decrease (increase) in advances and receivables	3,336	(4,128)
Decrease in supplies inventory	13	36
Increase (decrease) in liabilities covered by budgetary resources	16,047	(2,486)
Depreciation	10,664	13,017
Property and equipment accrual adjustment	(3,611)	(5,711)
Other adjustments	(1,176)	1,331
<b>Net Cash Used for Operating Activities</b>	<b><u>\$(392,980)</u></b>	<b><u>\$(415,452)</u></b>

The accompanying notes are an integral part of these statements.

**U.S. GENERAL ACCOUNTING OFFICE**  
**STATEMENTS OF BUDGET AND ACTUAL EXPENSES**  
**FOR FISCAL YEARS ENDED SEPTEMBER 30, 1995 AND 1994**

<i>Dollars in Thousands</i>	1995	1994
<b>Current Year Appropriations</b>	<b>\$440,743</b>	<b>\$430,165</b>
Plus: Unobligated appropriations available from prior fiscal year	14,478	6,522
Plus: Rents and reimbursable services	13,255	11,346
<b>Total Budgetary Resources Made Available</b>	<b>\$468,476</b>	<b>\$448,033</b>
Less: Budget obligations incurred	452,862	431,369
Less: Lapsed budget authority	1,531	2,186
<b>Total Unobligated Appropriations</b>	<b>\$14,083</b>	<b>\$14,478</b>

**Budget Reconciliation**

<b>Total Operating Expenses</b>	<b>\$431,508</b>	<b>\$428,857</b>
Less: Unfunded expenses which are recognized in the principal statements but not in budgetary accrued expenditures	(842)	1,779
Plus: Net effect of capitalizing assets in the principal statements which are recognized as accrued expenditures for budgetary purposes	13,882	13,331
Plus: Net increase (decrease) in unliquidated obligations	6,630	(9,040)
<b>Total Budget Obligations Incurred</b>	<b>\$452,862</b>	<b>\$431,369</b>
Less: Rents and reimbursable services	13,255	11,346
Less: Net increase (decrease) in unliquidated obligations	6,630	(9,040)
<b>Total Budgetary Accrued Expenditures</b>	<b>\$432,977</b>	<b>\$429,063</b>

The accompanying notes are an integral part of these statements.

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# NOTES TO PRINCIPAL STATEMENTS

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## Note 1. Summary of Significant Accounting Policies

### Reporting Entity

The accompanying principal statements present the financial position, cost of operations, significant cash flows, and budget and actual expenses of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and a building expenditure fund. The principal statements do 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.

### Basis of Accounting and Presentation

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

- the accounting principles, standards, and requirements approved by the three principals;
- form and content requirements for financial statements included in OMB Bulletin 94-01 (Form and Content of Agency Financial Statements); and
- the accounting principles and standards included 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 property and equipment, as well as the recognition of other long-term assets and liabilities in the accompanying principal statements. Also, for purposes of the principal statements, budgetary appropriations are realized as a financing source as accrued expenses are recognized.

#### **Funds With the U.S. Treasury**

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

#### **Accounts Receivable**

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

#### **Property and Equipment**

GAO's headquarters building in Washington, D.C. was capitalized at its depreciated value at the time of transfer from the General Services Administration on October 28, 1988. It is depreciated by GAO on a straight-line basis over 25 years.

Other property and equipment costing more than \$5,000 is capitalized at cost. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized at cost. These assets are depreciated on a straight-line basis over the estimated useful life of the property, ranging from 2 to 20 years. Effective in fiscal year 1995, GAO revised its depreciation period on building improvements from 5 years to 10 years so that the depreciation period of these improvements would more closely reflect the remaining useful life of the building itself. This change is treated prospectively, decreasing depreciation expense in the current fiscal year by \$5,284,000.



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### **Liabilities**

Liabilities represent the amounts that are likely to be paid by GAO as a result of transactions that have already occurred; however, no liability is paid by GAO absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources. It is not certain that appropriations will be enacted to fund these liabilities. GAO's accounts payable are due principally to non-federal government entities.

### **Annual Leave, 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.

### **Contingencies**

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

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**Note 2. Property and Equipment, Net**

The composition of property and equipment as of September 30, 1995, is as follows:

*Dollars in Thousands*

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building	\$15,664	\$4,386	\$11,278
Land	1,191	—	1,191
Building improvements	50,431	23,775	26,656
Computer and other equipment, and ADP software	47,699	17,248	30,451
Leasehold improvements	6,509	5,469	1,040
Assets under capital lease	2,876	1,426	1,450
<b>Total Property and Equipment</b>	<b>\$124,370</b>	<b>\$52,304</b>	<b>\$72,066</b>

The composition of property and equipment as of September 30, 1994, is as follows:

*Dollars in Thousands*

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building	\$15,664	\$3,759	\$11,905
Land	1,191	—	1,191
Building improvements	38,059	20,405	17,654
Computer and other equipment, and ADP software	40,047	15,007	25,040
Leasehold improvements	6,200	4,915	1,285
Assets under capital lease	3,021	1,561	1,460
<b>Total Property and Equipment</b>	<b>\$104,182</b>	<b>\$45,647</b>	<b>\$58,535</b>

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### Note 3. Net Position

GAO's operations do not require permanent capital and are not expected to generate an operating surplus or deficit. The composition of GAO's net position is as follows:

<i>Dollars in Thousands</i>	<i>1995</i>	<i>1994</i>
Capitalized assets, net of capital lease liability	\$71,706	\$58,144
Unliquidated obligations	37,150	30,520
Unobligated appropriations	14,083	14,478
Future appropriations needed	(40,297)	(41,139)
<b>Net Position</b>	<b>\$82,642</b>	<b>\$62,003</b>

The increase in capitalized assets from fiscal year 1994 to 1995 of \$13,562,000 resulted primarily from purchases of computers, other equipment, and building improvements less depreciation. Unliquidated obligations represent purchase commitments.

Future appropriations needed represent aggregate amounts of congressionally authorized long-term liabilities (annual leave, workers compensation, retirement benefits for Comptrollers General, and severance pay) that are expected to be funded by future years' appropriations.

#### Note 4. Operating Expenses

Expenses incurred in the Statements of Operations and Changes in Net Position are classified and reported by major type of program. Expenses incurred by GAO's field offices have been allocated to program areas based on direct staff days used to support each program. Mission support expenses have been allocated to program areas based on staff year usage. Operating expenses by object classification are shown in the following schedule.

<i>Dollars in Thousands</i>	<i>1995</i>	<i>1994</i>
<b>Object Classification</b>		
Salaries and benefits	\$327,451	\$330,084
External training	2,584	2,375
Travel	12,382	13,291
Rent, communications, and utilities	29,280	30,249
Computer and other ADP services	17,750	17,466
Other contract services	23,491	16,503
Supplies and materials	5,003	3,315
Printing and document copying	1,914	1,796
Depreciation	10,664	13,017
Other	989	761
<b>Total Operating Expenses</b>	<b>\$431,508</b>	<b>\$428,857</b>

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**Note 5. Budget and Actual Expenses**

The Statements of Budget and Actual Expenses compare total actual expenses of all programs with budget authority for such programs. Since GAO's program designation in the Statement of Operations and Changes in Net Position is more detailed than its budget account (GAO has only one budget account), it is not meaningful to allocate budget resources and obligations on the same basis as its programs. These amounts are shown in total.

The statements also provide a reconciliation of the actual expenses incurred on the accrual basis to budget obligations and budgetary accrued expenditures. This reconciliation is presented to facilitate an understanding of the relationship and differences between information presented in the principal statements and budgetary information.

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**Note 6. Leases**

**Operating Leases**

GAO leases office space from the General Services Administration and the Department of State and has entered into various other operating leases for office communication and ADP equipment. Generally, leases are cancelable by either party without penalty, upon 120 days notice. Lease costs for office space and equipment for fiscal years 1995 and 1994 amounted to approximately \$21,900,000 and \$23,300,000, respectively. GAO's estimated future minimum lease payments are as follows:

Dollars in Thousands

Fiscal Year end September 30	Total
1996	\$19,642
1997	10,743
1998	6,257
1999	4,565
2000	4,022
Thereafter	11,998
<b>Total Estimated Future Lease Payments</b>	<b>\$ 57,227</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. When GAO enters into these leases, the present value of the future lease payments is capitalized and recorded as a liability.

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**Note 7. Retirement and Other Benefits**

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes matching contributions to the CSRS, FERS, and FICA and matches employee contributions to the thrift savings component of FERS up to 5 percent of basic pay but has no liability for future payments to employees under these programs. GAO's costs for employee retirement programs during fiscal years 1995 and 1994 were approximately \$36,495,000 and \$37,166,000, respectively. In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and may continue to participate after retirement. GAO makes matching contributions to the FEHBP for active employees but is not responsible for any contributions on behalf of retirees. GAO's costs associated with its employee health benefit programs during fiscal years 1995 and 1994 amounted to approximately \$10,314,000 and \$11,031,000, respectively.

Comptrollers General and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are funded from current year appropriations. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits is recorded as an unfunded liability. The estimated present value of accumulated plan benefits was \$2,314,000 as of September 30, 1995, and \$2,116,000 as of September 30, 1994, based on a discount rate of 7.5 percent and the 1983 Group Annuity Mortality Table.

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### **Note 8. Workers Compensation**

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

GAO recorded an estimated liability for claims incurred as of September 30, 1995 and 1994 and expected to be paid in future periods. The estimated liability for such claims was calculated using historical payment data to project future costs. GAO prepared this estimate using an actuarially based statistical model developed by DOL and modified for use by GAO. The total liability also includes amounts paid to claimants by DOL as of September 30, 1995 and 1994 of \$1,948,000 and \$1,807,000, respectively, but not yet reimbursed to DOL by GAO.

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**Note 9. Trust and Other Governmentwide Functions (Unaudited)**

GAO is responsible for administering two trust functions for the federal government: (1) Davis-Bacon Act receipts and payments and (2) 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 \$5,904,000 on September 30, 1995. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1995, receipts and disbursements in these funds amounted to \$1,659,000 and \$3,544,000, respectively. Since these trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying principal 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 1995 and 1994, GAO authorized approximately \$1,133,300,000 and \$568,200,000, respectively, in claims for payment from this special appropriation. Since these payments do not relate to GAO's operations, they are not included in the accompanying principal statements.

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**Note 10. Downsizing and Consolidation of GAO Operations**

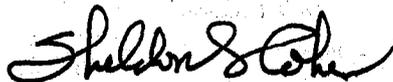
GAO has implemented a plan to manage the downsizing of GAO. A separation incentive program was offered from July 27 through September 30, 1995. Under this program a total of 418 employees retired or resigned and were paid approximately \$12,500,000 in incentives.

On November 10, 1995 the New York, Detroit and Cincinnati field offices were also closed as part of the downsizing plan. Employees from these offices were not permitted to relocate to other GAO offices. Separation costs amounting to approximately \$4,000,000 for 135 employees terminated as a result of these field office closings will be paid during fiscal years 1996 and 1997.

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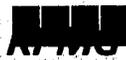
# AUDIT ADVISORY COMMITTEE'S REPORT

In 1992, the Audit Advisory Committee was established to advise the Comptroller General on the U.S. General Accounting Office's (GAO) financial operations. As part of that responsibility, the Committee has been discussing GAO's external financial audit coverage and discussing with GAO management and the internal and external auditors the effectiveness of GAO's internal controls over financial operations and its compliance with selected provisions of applicable laws and regulations. The Committee has also been reviewing the findings of the internal and external auditors and discussing GAO's responses to those findings to ensure that GAO's corrective action plans include appropriate and timely follow-up measures. In addition, the Committee has been involved in reviewing and commenting on drafts of GAO's annual report, including the principal statements. The Committee met three times during both fiscal years 1994 and 1995, including sessions with the Comptroller General and with GAO's external auditors. On occasion, the Committee also met with the external auditors without GAO management being present.



Sheldon S. Cohen  
Chairman  
Audit Advisory Committee

# INDEPENDENT AUDITORS' REPORT



Peat Marwick LLP

2001 M Street, N.W.  
Washington, DC 20036

## **INDEPENDENT AUDITORS' REPORT**

Comptroller General of the United States:

We have audited the General Accounting Office's Principal Statements, referred to below, as of and for the years ended September 30, 1995 and 1994, and have examined management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1995.

In our opinion:

- The 1995 and 1994 Principal Statements are presented fairly, in all material respects; and
- Management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1995 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Bulletin A-123, *Internal Control Systems*.

We found:

- No material conflicts with the General Accounting Office's report on internal controls dated December 15, 1995, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982; and
- No instances of non-compliance with selected provisions of applicable laws and regulations tested.

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

### **OPINION ON PRINCIPAL STATEMENTS**

In our opinion, the accompanying 1995 and 1994 Principal Statements including the notes thereto on pages 64 through 80 present fairly, in all material respects, the General Accounting Office's:

- financial position as of September 30, 1995 and 1994;
- results of operations and changes in net position;
- cash flows; and
- budget and actual expenses for the years then ended,

on the basis of accounting described in Note 1 to the Principal Statements.



Member Firm of  
Klynveld Peat Marwick Goerdeler

As described in Note 1, the General Accounting Office prepares its Principal Statements in conformity with the hierarchy of accounting principles and standards approved by the principals of the *Federal Accounting Standards Advisory Board*. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

**OPINION ON MANAGEMENT'S ASSERTION ON THE INTERNAL CONTROL STRUCTURE OVER FINANCIAL REPORTING**

We have examined management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1995. These internal controls are designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

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

In our opinion, management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1995 is fairly stated, in all material respects, based upon criteria established under the Federal Managers Financial Integrity Act of 1982, and the Office of Management and Budget Bulletin A-123, *Internal Control Systems*, insofar as the objectives stated above pertain to the prevention or detection of errors and irregularities in amounts that would be material to the financial statements. In addition, we found no material conflicts between the results of our examination and the General Accounting Office's report on internal controls dated December 15, 1995 voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982.

**COMPLIANCE WITH LAWS AND REGULATIONS**

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

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

This conclusion with respect to our tests of compliance with selected provisions of applicable laws and regulations is intended solely for the information of Congress and the General Accounting Office's management.

## RESPONSIBILITIES AND METHODOLOGY

Management has the responsibility for:

- preparing the Principal Statements in conformity with the comprehensive basis of accounting described in Note 1 to the Principal Statements;
- establishing and maintaining an effective internal control structure; and
- complying with applicable laws and regulations.

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

Our responsibility is to express opinions on the Principal Statements and management's assertion that the General Accounting Office has an effective internal control structure over financial reporting based on our audits and examination, respectively. Accordingly, we planned and performed the audits and examination to obtain reasonable assurance about whether (1) the Principal Statements are free of material misstatement and presented fairly in accordance with the basis of accounting described in Note 1 to the Principal Statements, and (2) the management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1995 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Bulletin A-123, *Internal Control Systems*. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the Principal Statements.

In order to fulfill these responsibilities, we

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

- compared, at management's request the General Accounting Office's most recent Federal Managers' Financial Integrity Act of 1982 report on internal controls dated December 15, 1995, with the results of our examination of management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1995.

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

Our audits were conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Our examination of management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1995, was conducted in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audits and examination provide a reasonable basis for our opinions.

*Consistency of Other Information.* The *Overview of Operations and Financial Management* and other supplemental information in *A Message from the Comptroller General* and in *Highlights of General Accounting Office Reports and Testimony* contain a wide range of data, some of which is not directly related to the Principal Statements. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the Principal Statements. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the Principal Statements, the report, or the other information require revision.

KPMG Peat Marwick LLP

December 15, 1995  
Washington, D.C.

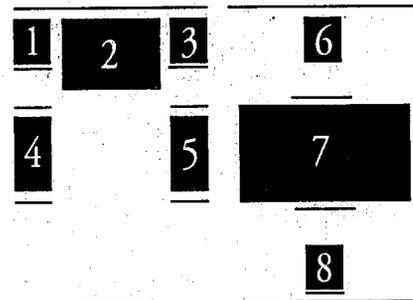
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