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Subject: *Ownership by Minority, Female, and Disadvantaged Firms in the Pipeline Industry*

The U.S. pipeline industry is large and dynamic. In 2007, the most recent year for which industry-wide data are available, approximately 2,500 firms operated and constructed natural gas and hazardous liquid pipelines in the United States. These firms generated almost \$200 billion in receipts¹ and employed approximately 275,000 workers. There are currently more than 2.5 million miles of pipeline across the country, and recent shale oil and gas exploration has spurred construction of new pipeline infrastructure, as some firms take advantage of improved drilling technologies to access large volumes of oil and gas found in fine-grain sedimentary rocks.

¹According to the U.S. Census Bureau, the term “receipts” reflects dollars received by firms after merchandise refunds and other deductions. Receipts do not include sales and other taxes collected directly from customers and paid directly to a local, state, or federal tax agency.

The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 mandated that GAO assess—based on available information—the levels and types of participation of minority-owned, woman-owned, and disadvantaged firms in the construction and operation of pipeline facilities in the United States. Accordingly, this report presents available data on (1) the representation of these firms in the pipeline industry and (2) federal funding obligated to firms in these categories.

To perform our work, we searched federal government and privately held data sets that could include information about the ownership of firms in the pipeline industry and federal obligations to them. For the purposes of this report, we considered the following firms to constitute the pipeline industry: pipeline construction firms and pipeline firms that transport crude oil, natural gas, and other refined petroleum products.² As part of our search, we discussed potential data sets with officials from the United States Census Bureau (Census), the Department of Energy, the Department of Transportation (DOT) and the Office of Advocacy of the Small Business Administration (SBA). In addition, we interviewed pipeline industry associations to determine if they collected or were aware of privately held data on pipeline ownership.

Based on our search for relevant data sets, we identified Census' 2007 Survey of Business Owners (SBO)³ and the Federal Procurement Data System-Next Generation (FPDS-NG), which is administered by the General Services Administration, as the best available data on pipeline firms that are minority-owned,⁴ female-owned, or disadvantaged.⁵ The SBO provides data on the extent of minority- and female-owned⁶ pipeline firms and receipts, while the FPDS-NG database provides data on federal contract obligations to the pipeline industry, including federal construction and operations contracts. To assess the reliability of these databases, we reviewed documentation about the databases and spoke with knowledgeable agency officials. We determined that SBO and FPDS-NG data were sufficiently reliable for describing the ownership of firms in the pipeline industry. However, both of these data sets have limitations. For example, SBO does not

²When selecting firms to analyze, we used North American Industry Classification System (NAICS) codes relevant to the pipeline industry. The NAICS is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. NAICS was developed under the auspices of the Office of Management and Budget and in coordination with Mexico and Canada in 1997 and was designed to allow for a high level of comparability in business statistics among North American countries.

³Census conducts the SBO every 5 years. The 2007 survey was the most recent survey available when we conducted this review.

⁴Because we analyzed Census data, we are using the Census definition of minority-owned firms. According to this definition, minority-owned firms refer to firms owned by Blacks or African Americans, American Indians and Alaska Natives, Asians, Native Hawaiians and Other Pacific Islanders, and/or Hispanics who own 51 percent or more of the equity, interest, or stock of the firm.

⁵For the purposes of federal and federally funded contracting programs, "disadvantaged" firms are characterized as such because they are at least 51 percent unconditionally owned and controlled by socially and economically disadvantaged individuals or groups.

⁶Although the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 mandated that we assess levels and types of participation of woman-owned firms, we are using the term "female-owned" because the data sets we analyzed use the term "female-owned," and we consider these terms to be equivalent.

contain data elements that specifically address disadvantaged firms, and because the SBO captures firms that conducted the majority of their business in a given industry during 2007, the SBO may under represent the actual number of firms operating in an industry in any given year. In addition, the FPDS-NG provides information on federal contracts, not the entire pipeline industry. Furthermore, the FPDS-NG includes information on prime contractors, not subcontractors. For additional information about our scope and methodology, and a complete list of data limitations, see enclosure I.

We conducted this performance audit from March 2012 through July 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

Minority- or female-owned, minority-owned, and female-owned firms represented 15 percent, 6 percent and 10 percent, respectively, of firms in the U.S. pipeline industry in 2007.^{7,8} In terms of market share, minority- or female-owned firms are estimated to have accounted for a total of 13 percent of industry receipts, with minority-owned firms having accounted for 3 percent and female-owned firms having accounted for 11 percent of receipts.

Additionally, minority- or female-owned firms accounted for about \$484 million out of \$3 billion—or 16 percent—of federal contract obligations to the pipeline industry from 2007 to 2011. The majority of these obligations went to minority-owned firms for pipeline construction contracts. About \$246 million—or 8 percent—of federal contract obligations went to disadvantaged pipeline firms, which may be minority-owned or female-owned firms, from 2007 to 2011. These obligations were also primarily for construction contracts.

Background

In 2010, minorities represented 36 percent of the nation's population, while women represented approximately 51 percent. In 2007, the most recent year for which relevant data are available, minority-owned firms represented about 22 percent of all U.S. firms classifiable by race and gender, and generated about 9 percent of all receipts. Also in 2007, female-owned firms represented about 30 percent of all U.S. firms classifiable by race and gender, and generated about 11 percent of all receipts.

⁷The category "minority- or female-owned firms" includes firms owned by nonminority women, minority men, and minority women. As such, minority women are counted in our individual estimates for both minority-owned and female-owned firms and these estimates may add up to more than the total estimate for minority- or female-owned firms.

⁸Without data about the number of individuals or firms that are willing and able to enter the pipeline industry, it is not possible to evaluate whether this level of participation is higher or lower than would be expected of firms entering the industry or broader economy without barriers to entry. In addition, these data include firms classifiable by gender and race. These data do not include publicly owned firms.

Federal agencies periodically award contracts to pipeline firms to purchase propane gas and gas pipeline inspection services, among other goods and services. However, the federal investment in the pipeline industry is relatively small compared to overall revenues generated by the industry. In 2007, federal obligations equaled \$434 million, or less than one percent of the estimated \$193.4 billion in receipts generated by the pipeline industry.

DOT develops and enforces safety regulations for the transportation of hazardous materials through pipelines. DOT does not administer any programs aimed specifically at encouraging the participation of minority-owned, female-owned, or disadvantaged firms in the pipeline industry. DOT also does not provide federal assistance to pipeline firms on a recurring basis. Federal statute has established a goal that at least 10 percent of DOT-assisted contracts are expended on socially and economically disadvantaged firms, which include minority- and female-owned firms.⁹ In addition, DOT administers a program aimed at helping disadvantaged firms participate in contract opportunities created by DOT financial assistance programs in some sectors of the economy, such as public transportation. Other federal agencies also have programs aimed at encouraging the participation of disadvantaged firms, but these programs differ in several significant ways. For example, DOT's program presumes that women and certain racial and ethnic groups are socially disadvantaged, and requires that program applicants prove their personal net worth is less than \$1.32 million. In contrast, the SBA's Minority and Small Business and Capital Ownership Development Program—commonly known as the 8(a) Program—does not presume that women are socially disadvantaged. In addition, 8(a) applicants must have a personal net worth of less than \$250,000 at the time of application.¹⁰

Minority-Owned and Female-Owned Firms Represented an Estimated 15 Percent or Less of the U.S. Pipeline Industry in 2007

Minority- or Female-Owned Pipeline Firms and Receipts

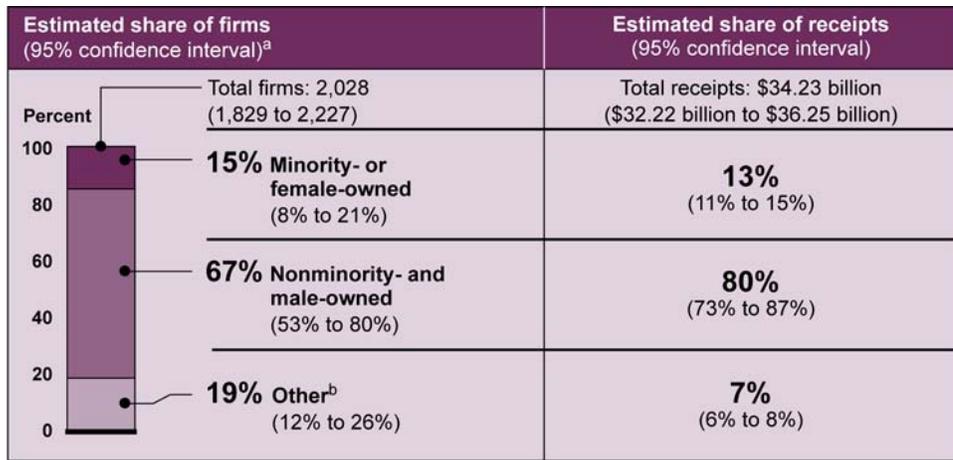
As shown in figure 1, minority- or female-owned firms represented an estimated 15 percent of firms in the U.S. pipeline industry classifiable by gender and race in 2007.¹¹ In comparison, nonminority- and male-owned firms represented an estimated 67 percent of such firms. In addition, minority- or female-owned firms generated an estimated 13 percent of industry receipts. Nonminority- and male-owned firms are estimated to have accounted for 80 percent of all receipts.

⁹DOT uses this 10 percent goal as a tool in evaluating and monitoring Disadvantaged Business Enterprises' opportunities to participate in DOT-assisted contracts. This goal does not authorize or require recipients to set overall or contract goals at the 10 percent level, or any other particular level, or to take any special administrative steps if their goals are above or below 10 percent. See 49 CFR §§ 26.41 (b)-(c).

¹⁰SBA's 8(a) program helps disadvantaged firms, called 8(a) firms, obtain federal contracts because federal agencies "set aside" certain contracts for 8(a) firms by conducting procurements in which only 8(a) firms may compete.

¹¹See enclosure II for additional estimates and associated sampling errors.

Figure 1: Estimated Minority- or Female-Owned Shares of Pipeline Firms and Receipts (2007)



Source: GAO analysis of data from U.S. Census Bureau 2007 Survey of Business Owners.

Notes: figure represents firms classifiable by gender and race. Figure does not include publicly-owned firms.

Due to rounding, percents may not add to 100.

^aAll estimates from the Census Survey of Business Owners are subject to sampling error. The 95 percent confidence interval is presented parenthetically after individual estimates. Because Census followed a probability procedure based on random selections, the sample is only one of a large number of samples that might have been drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples that could have been drawn. See enclosure II for more information on sampling errors for the survey estimates.

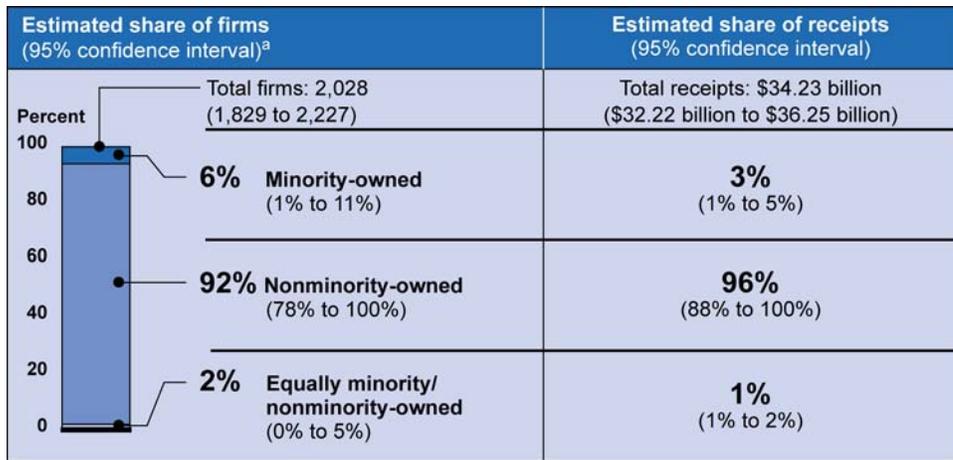
^bThe "Other" category includes firms owned by nonminorities with equal male/female ownership and firms owned by males with equal minority/nonminority ownership.

Minority-Owned Pipeline Firms and Receipts

As shown in figure 2, minority-owned firms represented an estimated 6 percent¹² of pipeline firms in 2007. In contrast, nonminority-owned firms represented an estimated 92 percent of all firms. In addition, minority-owned firms generated an estimated 3 percent of pipeline industry receipts and nonminority-owned firms accounted for an estimated 96 percent.

¹²See footnote 8.

Figure 2: Estimated Minority Shares of Pipeline Firms and Receipts (2007)



Source: GAO analysis of data from U.S. Census Bureau 2007 Survey of Business Owners.

Note: figure represents firms classifiable by gender and race. Figure does not include publicly-owned firms.

^aAll estimates from the Census Survey of Business Owners are subject to sampling error. The 95 percent confidence interval is presented parenthetically after individual estimates. Because Census followed a probability procedure based on random selections, the sample is only one of a large number of samples that might have been drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples that could have been drawn. See enclosure II for more information on sampling errors for the survey estimates.

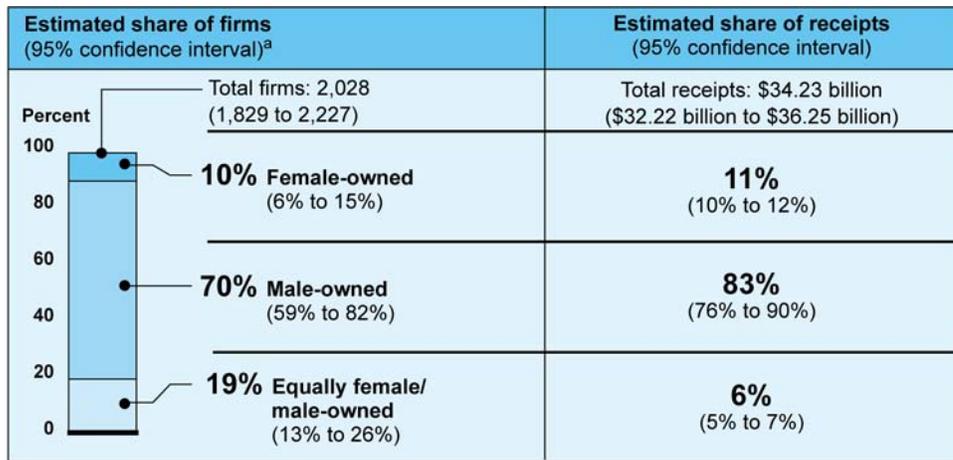
Female-Owned Pipeline Firms and Receipts

As shown in figure 3, female-owned firms represented an estimated 10 percent¹³ of pipeline firms in 2007.¹⁴ Male-owned firms represented an estimated 70 percent of all pipeline firms. In addition, female-owned firms generated an estimated 11 percent of pipeline industry receipts and male-owned firms generated 83 percent of receipts.

¹³See footnote 8.

¹⁴Because of sampling errors in the SBO data, we are unable to determine whether there are more female-owned firms than minority-owned firms. However, even accounting for sampling errors, we can determine that female-owned firms generated more receipts than minority-owned firms.

Figure 3: Estimated Female-Owned Shares of Pipeline Firms and Receipts (2007)



Source: GAO analysis of data from U.S. Census Bureau 2007 Survey of Business Owners.

Notes: figure represents firms classifiable by gender and race. Figure does not include publicly-owned firms.

Due to rounding, percents may not add to 100.

^aAll estimates from the Census Survey of Business Owners are subject to sampling error. The 95 percent confidence interval is presented parenthetically after individual estimates. Because Census followed a probability procedure based on random selections, the sample is only one of a large number of samples that might have been drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples that could have been drawn. See enclosure II for more information on sampling errors for the survey estimates.

Minority-Owned, Female-Owned, and Disadvantaged Firms Received an Estimated 16 Percent or Less of Federal Contract Obligations to the Pipeline Industry from 2007 to 2011

As shown in table 1, about 16 percent (approximately \$484 million out of \$3 billion) of federal prime contract obligations to firms in the U.S. pipeline industry went to minority- or female-owned pipeline firms¹⁵ from 2007 to 2011. Nonminority male-owned firms¹⁶ received about 84 percent (approximately \$2.5 billion out of \$3 billion) of federal obligations to the industry. More specifically, from 2007 to 2011, about 12 percent of federal obligations to the industry went to minority-owned firms and about 5 percent went to female-owned firms. Obligations to minority firms were primarily for pipeline construction contracts, while obligations to female-owned firms mostly went to pipeline operators.¹⁷ Additionally, about \$246 million—or 8 percent—of federal obligations went to small disadvantaged firms,¹⁸ including a relatively high

¹⁵As previously noted, data from the FPDS-NG, which we used to conduct this analysis, are limited to information about prime contracts.

¹⁶The category for nonminority male-owned firms includes firms that are equally owned by males and females or minorities and nonminorities.

¹⁷For the purposes of this report, pipeline operators are those firms that have NAICS codes related to pipeline transportation. We included these NAICS codes in this category because firms that provide pipeline transportation control the movement of pipeline commodities. See footnote 2 for an explanation of NAICS codes.

¹⁸We included small disadvantaged businesses (SDBs) in our analysis of FPDS-NG data because SDB data were the best available data we identified on disadvantaged firms. An SDB is a specific type of business that may be eligible for federal small business programs. In the cases where SDB certification is required,

percentage of obligations to small disadvantaged construction firms (about 19 percent).

Table 1: Share of Federal Prime Contract Obligations to Ownership Groups within the Pipeline Industry (2007 to 2011)

Ownership Group^a	Share of obligations
Minority or female	16%
Minority	12%
Female	5%
Small disadvantaged	8%

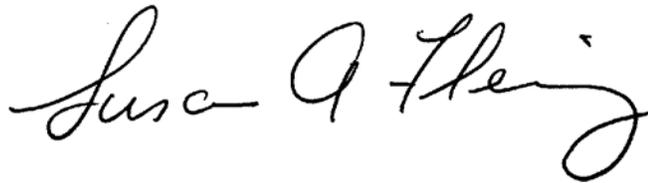
Source: GAO analysis of Federal Procurement Data System-Next Generation data.

^aThe ownership groups for "Minority," "Female," and "Small disadvantaged" may include some of the same firms. Therefore, the percentages provided add up to more than the total included in the "Minority or female" group.

participants in the Small Business Administration's 8(a) program are deemed to be certified, and other firms may be certified by the agency conducting the procurement, private certifying entities or state or local governments. SDBs may include minority- and female-owned firms.

We are sending copies of this report to the appropriate congressional committees and the Secretary of Transportation. The report also is available at no charge on the GAO web site at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-2834 or flemings@gao.gov. Additionally, Sara Vermillion, Assistant Director; Matt Cook; Colin Fallon; David Hooper; Julia Kennon; Mary Koenen; SaraAnn Moessbauer; and Josh Ormond made key contributions to this report.

A handwritten signature in black ink that reads "Susan Fleming". The signature is written in a cursive style with a large, looping 'S' and 'F'.

Susan Fleming
Director
Physical Infrastructure Issues

Objectives, Scope, and Methodology

This report examines available data on the extent to which 1) minority- and female-owned firms are represented in the pipeline industry and 2) the federal government obligated funding to firms in these categories.

To address these objectives, we searched federal government and privately held data sets that could include information about the ownership of firms in the pipeline industry. For the purposes of this report, we considered the following firms to constitute the pipeline industry: pipeline construction firms and pipeline firms that transport crude oil, natural gas, and other refined petroleum products.¹⁹ As part of our search, we discussed potential data sets with the United States Census Bureau (Census), the Department of Energy, the Department of Transportation and the Office of Advocacy of the Small Business Administration (SBA). In addition, we interviewed pipeline industry associations to determine if they collected or were aware of privately held data on pipeline ownership.

We determined that Census' 2007 Survey of Business Owners (SBO) and the General Services Administration's (GSA) Federal Procurement Data System-Next Generation (FPDS-NG) provided the best available data about pipeline firms that are minority-owned,²⁰ female-owned, or disadvantaged.²¹ Census has collected data through the SBO every 5 years since 1972 as part of the economic census. The SBO is designed to provide comprehensive, regularly collected information on selected economic and demographic characteristics for businesses and business owners by gender and race, among other variables. The 2007 survey was the most recent survey available when we conducted this review.

Figures in the SBO dataset are estimated from a sample and will differ from the figures that would have been obtained from a complete census. To design the SBO sample, Census starts with a listing of all nonfarm businesses both with and without paid employees that file Internal Revenue Service tax forms with receipts of \$1,000 or more. Census uses a variety of information sources to estimate the probability that each of these businesses is minority- or female-owned, such as word strings in the company name indicating possible minority ownership. These probabilities are then used to place each firm in one of nine sampling frames that include race and gender categories, such as American Indian and women. Firms selected into the sample are mailed questionnaires requesting information about characteristics of the businesses and their owners. Approximately 62 percent of the 2.3 million businesses in the SBO's 2007 sample responded to the survey.²² See enclosure II for additional information about sampling errors for survey estimates.

¹⁹See footnote 2.

²⁰See footnote 4.

²¹See footnote 5.

²²For the 2007 survey, 72 percent of the companies in the SBO sample returned a questionnaire, but 10 percent of the returns did not contain enough information to be considered a response for the estimates by race, gender, ethnicity, and veteran status. About 4 percent of the 2007 non respondents were selected for and responded to the 2002 SBO. For these firms, data from the 2002 survey were used in place of the missing 2007 responses. For the remaining non-respondents, gender, ethnicity, race and veteran status were imputed from donor respondents in the same sampling frame with similar characteristics (state, industry, employment status, size). Estimates of sampling variability are adjusted to account for non response. Estimates with high error (relative standard error for sales or receipts of 50 percent or more) are suppressed. Overall, imputed data accounted for approximately 47 percent of the firm count estimates by gender, ethnicity, race, and veteran status, and approximately 20 percent of the estimates of sales. Because the assignment of businesses to sampling frames

For SBO data, we estimated the number of firms in different categories based on owners' gender and race. Additionally, as a measure of firm size, we analyzed data on firm receipts,²³ number of employees, and annual payroll. However, based on a preliminary analysis, we found that the number of employees and annual payroll data did not differ significantly from receipts data as indicators of relative market share. See enclosure II for additional estimates related to employee and payroll data. Data aggregates are presented for the United States and for various categories, including gender and race, by 2007 North American Industry Classification System (NAICS) codes.

The GSA administers the FPDS-NG. FPDS-NG data may be used to: measure and assess the impact of federal procurement on the nation's economy; learn how awards are made in various socioeconomic categories; understand the impact of full and open competition on the acquisition process; and address changes to procurement policy. Federal agencies are responsible for collecting and reporting data to the FPDS-NG. They are expected to report contract actions valued at \$3,000 or more, as well as contract modifications. To ensure the reliability of FPDS-NG data, GSA requires that all federal agencies receive an annual certification stating the completeness and accuracy percentages of their data in the FPDS-NG.

Our analysis of FPDS-NG data included calculations of federal obligations to pipeline industry firms from fiscal years 2007 to 2011. We then determined the share of those obligations that went to different business types (e.g., minority-owned, female-owned, small disadvantaged firms²⁴). Some firms in both the FPDS-NG and SBO data sets may be identified in more than one category. For example, some business owners are both minorities and women.

We assessed the reliability of all data elements presented in this report by reviewing related documentation, such as methodology descriptions, and interviewing knowledgeable agency officials. We found that SBO and FPDS-NG data are sufficiently reliable for our purposes. However, both of these data sets have limitations. SBO data contain the following limitations:

- The industry codes used to identify pipeline firms only capture firms that conducted 50 percent or more of their business in that industry sector during the reporting year. Therefore, the SBO may under represent the actual number of firms operating in an industry.
- Data are self-reported by survey respondents and numbers of firms involved in the pipeline industry are estimated.

relies heavily on administrative data, and there is a high level of agreement between sampling frame assignment and tabulated race or ethnicity for responding firms, the donor imputations are considered to be reliable.

²³See footnote 1.

²⁴See footnote 18.

- Standard errors associated with certain data points relevant to this review are large enough to preclude certain analyses, such as a comparison of the percents of minority- or female-owned pipeline firms that are construction or transportation firms.

FPDS-NG data contain the following limitations:

- Data reflect federal contracts, which represent a small percent of total revenues for the pipeline industry.
- Data reflect federal contracts with prime contractors—not subcontractors.
- Contracts in the FPDS-NG have only one industry code. Therefore, FPDS-NG contracts may not reflect all the work conducted under specific contracts.
- Female-owned, minority-owned and self-certified small disadvantaged business data are self-reported.
- The number of data points for some segments of the pipeline industry is limited.

Additional Estimates and Sampling Errors

All survey estimates presented in this report have margins of error at the 95 percent confidence interval. The term “95 percent confidence interval” refers to the interval that would contain the actual value for 95 percent of the samples that could have been drawn during a complete census of all businesses in the United States. Because the Census followed a probability procedure based on random selections, the SBO sample is one of a large number of samples that might have been drawn. Since each sample could have provided different estimates, we express our confidence in the precision of this sample’s results as a 95 percent confidence interval. See tables 2 and 3 for additional SBO survey estimates and their associated sampling errors.

Table 2: Estimated Industry-Wide Firms and Receipts with Associated Sampling Errors

SBO category	All firms (number)	Sampling error of firms at 95 percent confidence interval	Receipts (\$1,000)	Sampling error of receipts at 95 percent confidence level (\$1,000)
All firms	2,519	197	193,381,228	7,580,544
Female-owned	207	89	3,707,916	218,025
Male-owned	1,428	196	28,374,282	1,668,408
Equally male-/female-owned	393	131	2,150,242	379,303
Minority	117	96	1,039,219	733,273
Equally minority/nonminority	41	60	350,175	171,586
Nonminority	1,871	220	32,843,046	1,931,171
Minority- or female-owned	298	128	4,504,176	706,255
Nonminority- and men-owned	1,349	238	27,346,489	1,607,974
Remainder of firms classifiable by gender, ethnicity, race, and veteran status	381	134	2,381,775	373,462
All firms classifiable by gender, ethnicity, race, and veteran status	2,028	199	34,232,440	2,012,867
Publicly held and other firms not classifiable by gender, ethnicity, race, and veteran status	491	115	159,148,788	9,357,949

Source: GAO analysis of SBO data.

Table 3: Estimated Industry-Wide Employee and Annual Payroll Data with Associated Sampling Errors

SBO category	Employees (number)	Sampling error of employees at 95 percent confidence interval	Annual payroll (\$1,000)	Sampling error of annual payroll at 95 percent confidence level (\$1,000)
All firms	274,042	5,371	18,442,496	361,473
Female-owned	7,072	1,386	433,798	68,020
Male-owned	88,454	5,201	5,097,366	299,725
Equally male-/female-owned	8,651	2,713	431,530	118,412
Minority	3,636	2,779	199,456	164,192
Equally minority/nonminority	692	977	35,625	49,576
Nonminority	99,848	5,871	5,727,613	224,522
Minority- or female-owned	10,348	2,839	607,856	166,796
Nonminority- and men-owned	85,255	5,013	4,917,879	192,781
Remainder of firms classifiable by gender, ethnicity, race, and veteran status	8,575	2,689	436,959	119,902
All firms classifiable by gender, ethnicity, race, and veteran status	104,177	6,126	5,962,694	233,738
Publicly held and other firms not classifiable by gender, ethnicity, race, and veteran status	169,865	3,329	12,479,802	489,208

Source: GAO analysis of SBO data.

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