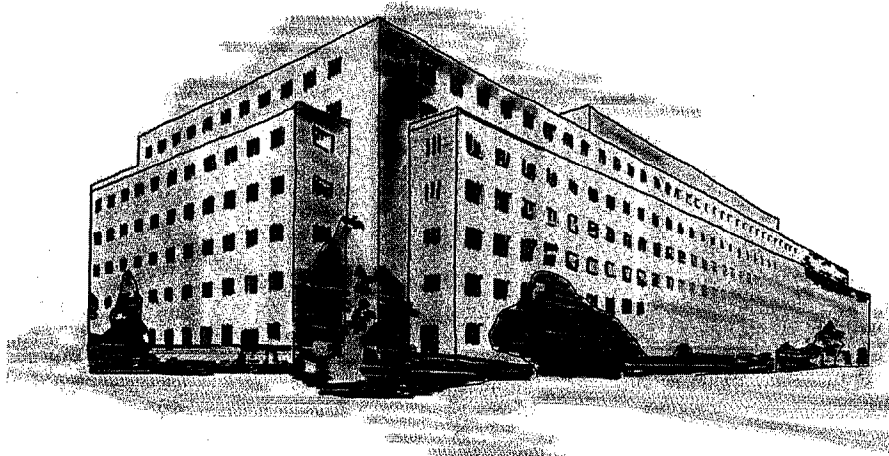


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COMPTROLLER  
GENERAL'S  
1996  
ANNUAL REPORT



1921 **75** 1996  
Years

GAO  
United States General Accounting Office

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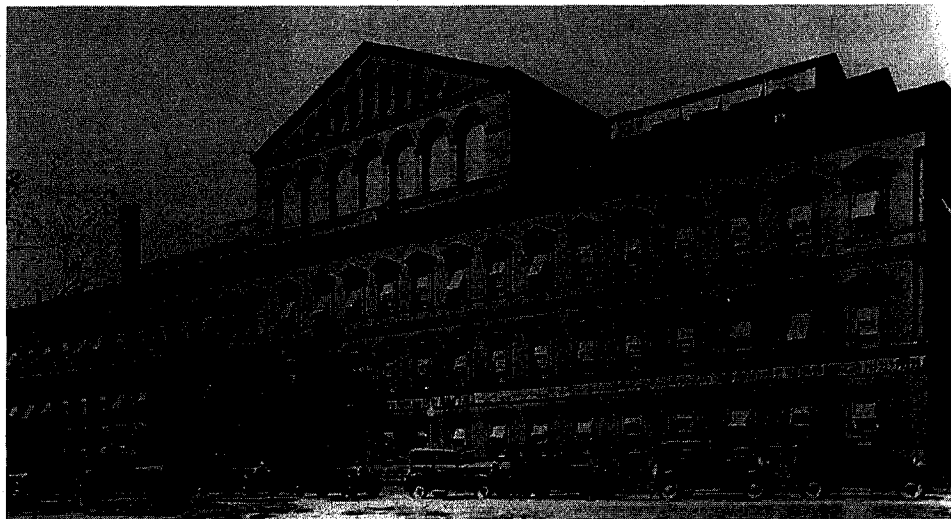
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# 75 Years OF SERVICE

The General Accounting Office marked two important milestones in 1996. The agency bid farewell to Charles Bowsher, who retired as Comptroller General when his 15-year term ended on September 30. GAO also marked its 75th anniversary of service to the Congress and the nation.

The Bowsher era will be remembered as a time of considerable pride in the many challenges GAO faced and in its accomplishments. But the Bowsher era is only the latest link in a tradition that dates back to the founding of the General Accounting Office in 1921. This tradition is based upon service to Congress in support of its oversight of the federal government and is guided by the values of objectivity, fairness, impartiality, and independence.

Adherence to these values and the professionalism and quality of GAO's staff have been at the core of the agency's ability to maintain its productivity and effectiveness. GAO measures productivity and effectiveness in various ways: in the reports it produces, in the testimony it delivers before congressional committees, and in the financial and nonfinancial benefits to the American taxpayers that accrue from GAO's work.

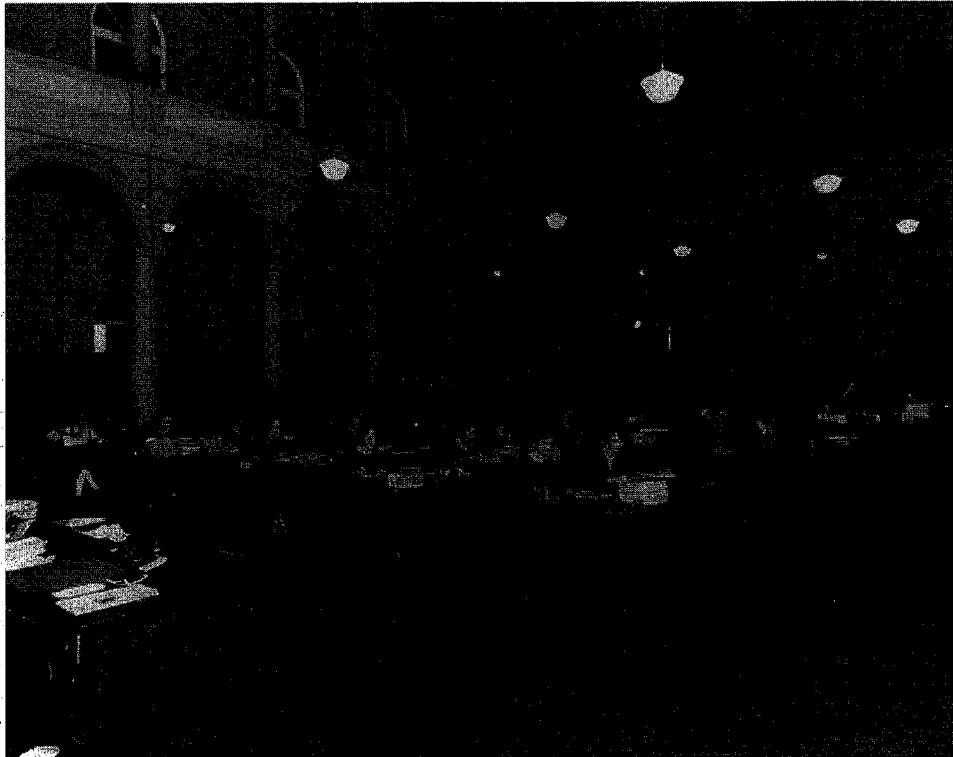


The old Pension Building, GAO headquarters from 1926-1951.

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75 YEARS OF SERVICE

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GAO employees in the Great Hall of the Pension Building during the late 1920s.

This past year, congressional committees called upon 68 GAO officials to testify a total of 181 times, a reflection of the Congress's heavy demand for GAO's services. Similarly, GAO's work contributed to legislative and executive actions that resulted in over \$17 billion in measurable financial benefits, a reflection of the financial consequences of GAO's audits, evaluations, and investigations. GAO's work on defense acquisitions, for example, contributed to the cancellation of at least two major systems: the Hunter unmanned aerial vehicle (saving \$878 million over 5 years) and the Tri-Service Standoff Attack Missile (saving \$281 million over 2 years). In addition, GAO's review of the Department of Housing and Urban Development's (HUD) program to help prevent home foreclosure for owners who have defaulted on HUD-insured mortgages found that the program was unsuccessful and very expensive. The program was cancelled and replaced with other initiatives, resulting in expected savings of \$2 billion over the next 7 years. GAO's work



Dedication of the GAO building, September 11, 1951.

at IRS helped strengthen controls against fraudulent tax returns by improving procedures for verifying the social security numbers of claimed dependents; more than \$2 billion in additional tax collections are expected from returns filed from 1994-96. GAO's studies of the government's disability benefit programs led to an increase in the number of reviews to determine whether individuals are still eligible for benefits; the savings to the Social Security Administration's disability insurance and Supplemental Security Income (SSI) programs and to the Medicare program will total about \$1.4 billion over 2 years.

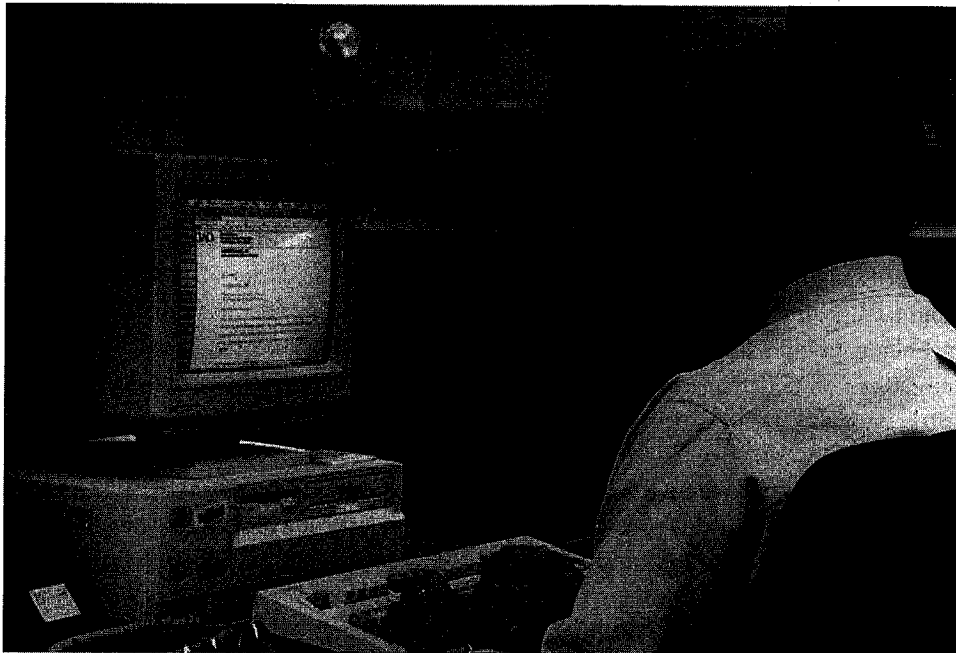
Other GAO contributions cannot be measured in dollars but have the important potential to increase the taxpayers' trust in their government by improving practices or operations. For example, GAO's review of outmoded congressional mandates contributed to legislation that eliminated burdensome government paperwork and

reporting requirements. GAO's efforts led the U.S. Customs Service to improve its controls over seized cash and drugs to reduce the risk of theft or misuse. Many GAO recommendations on "best practices" in information technology management were incorporated into law, helping to avoid future failures in the procurement and use of federal computer systems.

The welfare reform legislation passed in 1996 also reflected contributions from GAO. For several years, GAO reports had pointed out that job training programs for welfare recipients were not sufficiently targeted toward actually getting recipients off welfare and into jobs. The new welfare reform law tightened allowable training activities significantly and put the focus on employment. GAO had also called attention to abuses in means-tested programs, identified opportunities to recover more welfare overpayments, and recommended ways to keep ineligible applicants, such as prison inmates, from receiving SSI benefits. The new law included steps to correct the abuses that GAO had identified. Finally, in its work on disability programs, GAO had demonstrated the need to tighten eligibility criteria for children on SSI, and this, too, was addressed in the welfare legislation.

## NEW PROCESSES, NEW TOOLS

GAO has been able to make contributions such as these despite a significant reduction in its size. A GAO workforce that numbered about 5,300 in 1992 now stands at about 3,500—the lowest level since the years immediately preceding World War II. While GAO's resources have been reduced, the mission remains, as do standards of quality that cannot be compromised. Therefore, GAO has taken steps to maintain a high-caliber staff and to train and equip its employees to increase productivity. This year, GAO's professional staff was trained in, and began using, a reengineered job process designed to streamline the way work is done and to better ensure consistent, high-quality products. The new process promises improved productivity and timeliness and lower job cost. In addition, sophisticated communications now link all GAO employees, whether at headquarters or in the regions, through voicemail, videoconferencing, and personal computer networks.



The modern GAO.

### CHANGING TO MEET THE NEEDS OF THE CONGRESS

The Congress created GAO in the Budget and Accounting Act of 1921 to “investigate, at the seat of government or elsewhere, all matters relating to the receipt, disbursement, and application of government funds.” From the beginning, GAO has served the Congress, and over the years, GAO has shifted its focus and updated its operations to accommodate the Congress’s changing needs.

During most of GAO’s first 3 decades, the agency was a clearinghouse for vouchers, staffed with audit clerks whose job was to check the legality of and paperwork for every federal expenditure. As the size of the federal government grew during the New Deal and World War II, the volume of these transactions grew beyond the capacity of GAO to review them. Five years after the war ended, the Congress relieved GAO of the voucher audit function and gave it the job of establishing governmentwide accounting principles and checking the adequacy of federal agencies’ financial systems.

The government has continued to evolve since then. So have the needs of the Congress and the demands on GAO. Today, GAO has moved beyond oversight of the government's financial management systems to auditing and evaluating the efficiency and effectiveness of virtually every government program and activity, a role that is far broader than it was three quarters of a century ago. The makeup of GAO's staff, along with the methods and technology the staff employs in its work, are also profoundly different from what they once were.

GAO's involvement in program evaluation took its form during the tenure of Elmer Staats, who became Comptroller General in 1966. Under Staats, a GAO that had been staffed first by audit clerks, then largely by accountants, became an agency encompassing experts in many fields, such as social scientists, economists, engineers, statisticians and methodologists, computer scientists, and health care professionals.

Charles Bowsher succeeded Elmer Staats as Comptroller General in 1981. Under his leadership, GAO put renewed emphasis on the central issues of government finance and on long-standing problems in the way that the federal government handled the taxpayers' money. Outdated accounting and financial management information systems made it difficult for decisionmakers to obtain reliable information on which to base managerial decisions and policy oversight, and weak internal controls made it difficult to prevent fraud and mismanagement.

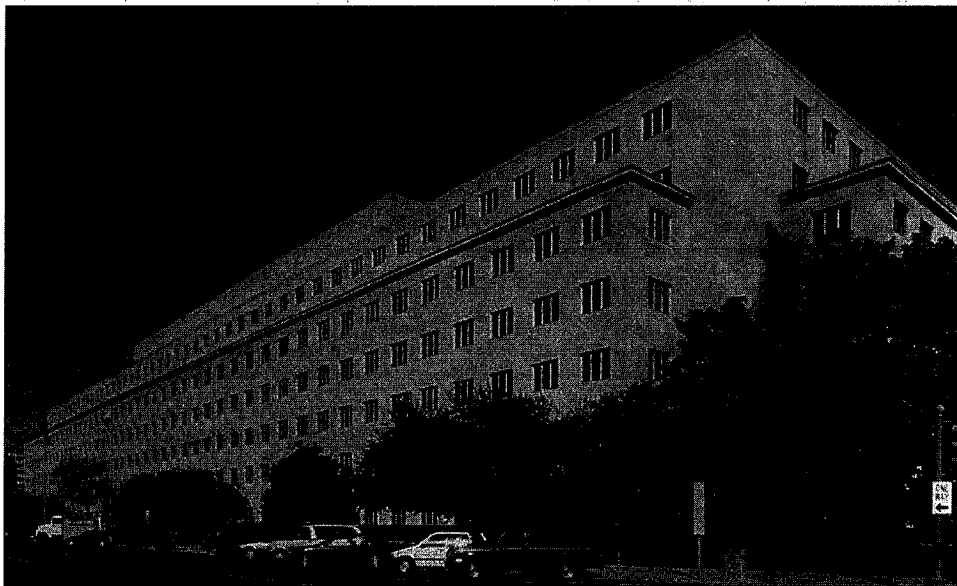
In 1985, GAO published a "white paper" on the federal government's financial management system. GAO not only outlined the problems of the existing system, but also offered a conceptual framework for an effective replacement. GAO urged federal departments and agencies to produce annual financial statements and to ensure their reliability through an independent audit—something routinely demanded of every public corporation in America and required of state and local governments since the Single Audit Act of 1984. Today, under the Chief Financial Officers (CFO) Act—the most far-reaching government financial management reform legislation in 40 years—the 24 largest federal agencies are required to prepare annual financial statements.

GAO's assistance to congressional oversight and decision-making is keyed to a complex and fast-changing world and to matters both within government and outside it. GAO's wide-ranging reports and testimony are on the leading edge of research, analysis, and investigation. In recent years, for example, GAO has produced a major study of the complex financial instruments known as derivatives;



conducted precedent-setting financial audits that exposed major weaknesses in the financial systems of government agencies; and documented, through its two "High Risk" series, the potential for billions of dollars in waste, fraud, abuse, and mismanagement at nearly a score of federal agencies.

The breadth of GAO's activities reflects the breadth of congressional interests. GAO's work on the failure of federal efforts to modernize computer systems has been widely cited by congressional committees concerned with the lack of progress in this area. This past year, at congressional request, GAO monitored U.S. involvement in war-torn Bosnia, with GAO staff traveling throughout the region to report on ongoing operations and the costs of military deployment and humanitarian relief. The tragic crashes of ValuJet flight 592 and TWA flight 800 in 1996 raised fresh public concerns about aviation safety and security. Over the past several years, GAO has issued numerous reports and testified many times in support of improvements in the management and oversight of aviation security and the nation's air transportation system.

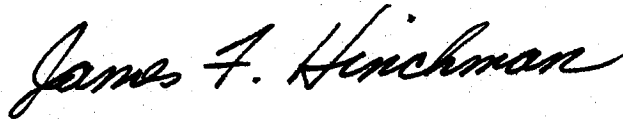


GAO building today.

## CHALLENGES TO COME

The years ahead will bring new challenges for GAO. Later this year, GAO will audit for the first time the consolidated financial statements of the federal government. Those statements will give the Congress and the American people the first comprehensive, reliable data on the financial operations of the federal government. GAO also has a major role to play in monitoring the Government Performance and Results Act (GPRA)—a law that requires federal agencies to establish strategic plans and performance measures so that their goals and accomplishments are clearly and reliably portrayed. Already, GAO has developed a widely read executive guide that identifies the key steps that agencies need to take to implement GPRA, along with a set of practices that can help make that implementation a success. Together, the CFO Act and GPRA hold the potential for improving the management of federal agencies and programs. GAO will help ensure that both of these laws are implemented as the Congress intends.

More broadly, GAO will continue its tradition of service with work that is objective and independently derived; accurate, timely, and meaningful; and presented in a way that is most useful to government officials and the public. In areas as diverse as energy and housing, law enforcement and banking, health care and education, information technology and financial management, and international affairs and defense, GAO will seek, as it has for 75 years, to fulfill the needs of the Congress and serve the public interest.

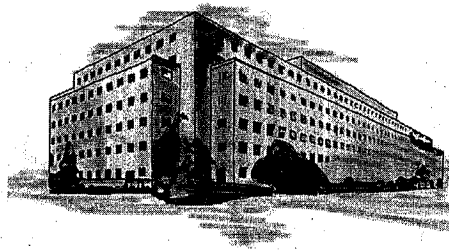


James F. Hinchman  
Acting Comptroller General  
of the United States

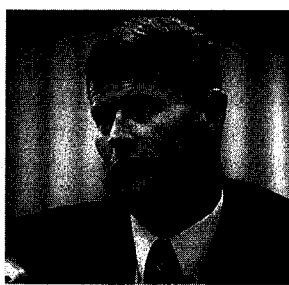
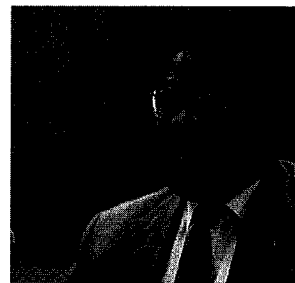
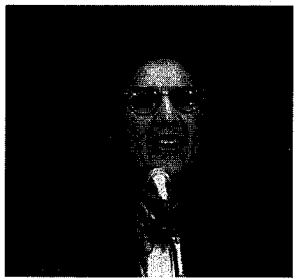


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# HIGHLIGHTS OF GAO REPORTS AND TESTIMONY



In fiscal year 1996, GAO prepared 1,306 audit and evaluation products, including 908 reports to Congress and agency officials, 217 formal congressional briefings, and 181 congressional testimony statements delivered by 68 GAO executives. GAO also issued 3,041 legal decisions.



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# OCTOBER 1995

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■ 55 *Reports to Congress*

■ 11 *Testimonies*

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## ARIZONA MEDICAID: COMPETITION AMONG MANAGED CARE PLANS LOWERS PROGRAM COSTS

Since 1982, Arizona's Medicaid population has been enrolled in managed care health plans. The state pays the plans a fixed amount or capitated fee for each individual served. Although the program faced problems initially, it has a successful record in containing health care costs and providing beneficiaries with access to mainstream medical care. Arizona's Medicaid program saved the federal government \$37 million and the state \$15 million in acute care costs during fiscal year 1991. Costs were contained by developing a competitive Medicaid health care market, but the emphasis on cost control has not hindered access to appropriate care. Beneficiaries and their advocates have expressed overall satisfaction with Arizona's program. (HEHS-96-2)

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## DOD PROCUREMENT: MILLIONS IN CONTRACT PAYMENT ERRORS NOT DETECTED AND RESOLVED PROMPTLY

In response to GAO's request for information, defense contractors reported about \$232 million in outstanding overpayments and about \$626 million in underpayments. The contractors followed up to collect underpayments and usually notified the Department of Defense (DOD) of overpayments. However, contractors did not always return overpayments unless instructed to do so. Recognizing serious, long-standing problems in correctly disbursing billions of dollars in payments to contractors, DOD created the Defense Finance and Accounting Service (DFAS) in 1991. But efforts to improve financial management have not been successful. Paying offices that receive overpayments from contractors may not even be aware that they made overpayments. Another problem is DFAS' costly delays in collecting overpayments. On the basis of GAO's research into \$84 million in overpayments, it is estimated that delays in recovering overpayments cost the government about \$10.6 million in interest. (NSIAD-96-8)

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**TAX ADMINISTRATION: IRS FACES CHALLENGES  
IN REORGANIZING FOR CUSTOMER SERVICE**

The Internal Revenue Service (IRS) is undergoing a major modernization of its information systems and restructuring of its organization. A component of this effort is IRS' "customer service vision." IRS' customer service goals are to improve both its service to taxpayers and its efficiency in using resources. IRS expects these improvements to result in a higher level of taxpayer compliance. IRS plans to better serve taxpayers by improving their accessibility to telephone service and resolving most problems with a single contact. If achieved, IRS' customer service vision would represent a substantial change from current operations. GAO found that IRS has made some progress toward its customer service vision but implementation still has far to go. IRS officials have acknowledged that the original goal of full implementation by 2001 cannot be met. (GGD-96-3)

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**HOMEOWNERSHIP: MIXED RESULTS AND HIGH  
COSTS RAISE CONCERNS ABOUT HUD'S MORTGAGE  
ASSIGNMENT PROGRAM**

The Department of Housing and Urban Development's (HUD) mortgage assignment program is intended to help borrowers in default on HUD-insured loans to retain their homes. Because controls do not exist to protect the financial interests and resources of the government, the mortgage assignment program is considered a high risk area by the Office of Management and Budget. There is little evidence that the program achieves its goal of giving homeowners a chance to keep their homes during a temporary interruption of income. This report suggests that Congress could eliminate the program; could consider establishing an alternative, short-term, temporary relief program for borrowers; or could make changes that would reduce but not eliminate future losses. (RCED-96-2)

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**SMITHSONIAN INSTITUTION: BETTER CARE  
NEEDED FOR NATIONAL AIR AND SPACE MUSEUM  
AIRCRAFT**

Since its opening in 1976, the National Air and Space Museum (NASM) has attracted about nine million visitors annually. Displayed at the museum are the original Wright Brothers flyer, Charles Lindbergh's "Spirit of St. Louis," and the first manned spacecraft. Compared with the museum's other activities, funding for aircraft restoration is limited. But even if NASM were to increase restoration efforts, there would not be adequate space to display or store the aircraft collection. NASM needs to determine how to best preserve its collection in view of limited financial resources for aircraft restoration and storage. NASM should define what constitutes historically and technologically significant aircraft and determine what aircraft should be part of the museum's collection. If the collection needs to be reduced, NASM should consider deaccessioning aircraft or loaning aircraft to other museums, thereby sharing the collection with the public. (GGD-96-9)

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**FDA DRUG APPROVAL: REVIEW TIME HAS  
DECREASED IN RECENT YEARS**

GAO found a considerable reduction in approval time for new drug applications (NDA). Two factors that significantly affect timeliness are the priority that the Food and Drug Administration (FDA) assigns to an NDA and the experience of its sponsor. FDA assigns priority status to applications for drugs that are expected to provide therapeutic benefits to consumers. Applications from the most experienced sponsors take an average of 4 months less time to be approved. GAO also found that priority status and the sponsor's experience are the two factors that predict the likelihood that an NDA will be approved. (PEMD-96-1)



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## ■ RESTORING THE EVERGLADES: PUBLIC PARTICIPATION IN FEDERAL EFFORTS

South Florida—including the Everglades and Florida Bay—is showing signs of ecological distress. These signs are cause for concern where the local economies depend on tourism and commercial fishing. In 1993, federal agencies began coordinating environmental restoration efforts in South Florida. A new approach that recognizes the interrelationship between environmental concerns and healthy, sustainable economies brought together federal and public stakeholders to collaborate and build consensus on solutions and issues. One of the lessons learned is that the public would prefer to participate in the debate before, rather than after, decisions are made. Because restoration efforts in South Florida are inherently contentious, the goal of reaching consensus among all stakeholders may not be attainable. (RCED-96-5)

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## ■ WORKER PROTECTION: FEDERAL CONTRACTORS AND VIOLATIONS OF LABOR LAW

Some of the private-sector firms that receive billions of dollars annually in federal government contracts violate federal labor laws. GAO found that 80 firms, receiving nearly 13 percent of the \$182 billion in federal contracts awarded in 1993, violated provisions of the National Labor Relations Act (NLRA). GAO recommended that the National Labor Relations Board and the General Services Administration work together to (1) improve federal contractors' compliance with NLRA, (2) expand the use of administrative offset, and (3) explore the possibility of checking firms' compliance with labor laws as part of the pre-award contract clearance process. (HEHS-96-8)

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## DECENNIAL CENSUS: FUNDAMENTAL DESIGN DECISIONS MERIT CONGRESSIONAL ATTENTION

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

The Bureau of the Census has decided to make fundamental changes to the traditional census design, resulting in cost savings approaching or exceeding \$1 billion. These changes include (1) shortening census questionnaires to reduce their cost and to promote higher and more accurate public responses; (2) developing an accurate address list to reduce unnecessary mailing and expensive follow-up visits to locations that do not exist or to residences that are unoccupied; and (3) sampling households that fail to respond to questionnaires rather than conducting a 100-percent follow-up. The opportunity for a well-planned census will be lost if Congress and the Bureau cannot come to agreement on the design of and budget for the 2000 Census. In this testimony, GAO warns that the window of opportunity for Congress to provide guidance on design and funding decisions is closing. (T-GGD-96-37)

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## MAMMOGRAPHY SERVICES: INITIAL IMPACT OF NEW FEDERAL LAW HAS BEEN POSITIVE

Early indications are that the Mammography Quality Standards Act (MQSA) has had a positive effect. Mammography quality standards, which are now in place in all states, do not appear to have had a negative effect on access to services. However, to avoid large-scale closures of facilities, the Food and Drug Administration (FDA) chose an approach that gave facilities the time and repeated opportunities to meet new quality assurance requirements and to correct the problems found during inspections. For this and other reasons, such as the availability of data on the outcomes of the mammograms, more time will be needed before MQSA's full impact can be determined. (HEHS-96-17)

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# NOVEMBER 1995

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■ 46 *Reports to Congress*

■ 10 *Testimonies*

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## ■ NUCLEAR SAFETY: CONCERNS WITH NUCLEAR FACILITIES AND OTHER SOURCES OF RADIATION IN THE FORMER SOVIET UNION

There are serious safety and environmental concerns about radiological contamination in the countries of the former Soviet Union (FSU). These countries have at least 221 operating nuclear facilities, not including civil nuclear power reactors. As many as 20,000 organizations in the FSU may be using radiation for medicine, industry, and research. In addition, Russia has a fleet of nuclear-powered vessels, including 228 submarines. Nuclear waste from three large sites in Russia that produced plutonium have been discharged directly into surrounding lakes and rivers. Russia has also dumped liquid and solid radioactive waste from nuclear-powered submarines and icebreakers into the Arctic seas and the Sea of Japan. (RCED-96-4)

## ■ FEDERAL COURTHOUSE CONSTRUCTION: MORE DISCIPLINED APPROACH WOULD REDUCE COSTS AND PROVIDE FOR BETTER DECISIONMAKING

*Testimony of J. William Gadsby, Director, Government Business Operations Issues, General Government Division*

The General Services Administration (GSA) has begun a major courthouse construction initiative that could cost \$10 billion over the next 10 to 15 years. GAO's review indicated that there is little assurance that the 47 new courthouse projects Congress funded between 1992 and 1995 were fully justified or of the highest priority. At the time these 47 projects were funded, 35 had not been approved within the judiciary, 25 had not been requested by GSA, and 33 had not been approved by the Senate and House committees with authorizing jurisdiction. GSA and the judiciary had wide latitude in making construction choices. Some courthouses had more expensive materials or costly designs than others. These differences had a major impact on building costs. (T-GGD-96-19)

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**MEDICAID SECTION 1115 WAIVERS: FLEXIBLE APPROACH TO APPROVING DEMONSTRATIONS COULD INCREASE FEDERAL COSTS**

Financed jointly by the federal government and the states, Medicaid is the nation's health care program for the poor. In an experiment to determine whether the Medicaid program could add several million new beneficiaries without increasing federal costs, the Department of Health and Human Services approved state-requested waivers. Could the cost of expanding Medicaid coverage to new beneficiaries be offset by mandating a switch to managed care plans from the traditional fee-for-service arrangement? For waivers to be approved, the states had to demonstrate that this approach would be budget-neutral. GAO found that the waivers granted to Oregon, Hawaii, and Florida are not budget-neutral and could increase federal Medicaid expenditures. Tennessee's plan would cost no more than its previous program and should result in savings. (HEHS-96-44)

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**MEDICARE MANAGED CARE: GROWING ENROLLMENT ADDS URGENCY TO FIXING HMO PAYMENT PROBLEM**

Medicare has not yet harnessed the cost-saving potential of managed care because it pays more, on average, for a beneficiary enrolled in a health maintenance organization (HMO) than if the same individual were covered under Medicare's traditional fee-for-service option. Because enrollment of the Medicare population in HMOs is growing rapidly, the Health Care Financing Administration (HCFA) needs to promptly address problems with the HMO rate-setting formula. GAO suggests three options that Medicare could pursue concurrently that could reduce Medicare costs. First, Medicare could use competitive bidding among HMOs to determine the cost of HMO contracts. Second, HCFA could modify its HMO rate-setting formula to include a health status risk adjuster. Third, in areas where market data indicate that payment rates are too high, HCFA could require larger discounts from HMOs. (HEHS-96-21)

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## **RURAL HOUSING PROGRAMS: OPPORTUNITIES EXIST FOR COST SAVINGS AND MANAGEMENT IMPROVEMENT**

The Rural Housing and Community Development Service's (RHCDS) mission is to improve the quality of life in rural America by assisting low-income residents in obtaining adequate and affordable housing. As of June 30, 1995, RHCDS had an outstanding loan portfolio of about \$30 billion, representing a significant federal investment. In this report, GAO identified opportunities for cost savings and management improvements in rural housing programs. Centralizing the servicing of loans could save \$100 million annually, primarily because of significant reductions in field staff. Also, when a borrower's financial situation improves, graduating the borrower from a direct loan to private credit guaranteed by RHCDS would benefit all parties. Finally, since servicing costs exceed the interest earned on certain small loans, allowing these loans to be considered for graduation would also reduce the program costs. (RCED-96-11)

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## **HIGHWAY FUNDING: ALTERNATIVES FOR DISTRIBUTING FEDERAL FUNDS**

Four overarching objectives are entwined in the current process for distributing highway funds: (1) maintaining and improving the highway infrastructure; (2) returning the majority of the funds contributed to the Highway Trust Fund to the state where the revenue was generated; (3) advancing selected goals, such as improving air quality and conserving energy; and (4) safeguarding the states' historical funding shares. While these objectives can be mutually supportive, they also conflict. For example, the second objective rewards greater use of motor fuel and contradicts the goals of the third objective, which are to improve air quality and conserve energy. Additionally, there are no perfect factors that take into account the wide breadth of the diverse federal objectives, as well as the 50 states' different needs. (RCED-96-6)

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**FEDERAL EMPLOYEE REDRESS: AN  
OPPORTUNITY FOR REFORM**

*Statement of Timothy P. Bowling, Associate Director, Federal Management and Workforce Issues, General Government Division*

The redress system protects federal employees from arbitrary actions and prohibited personnel practices, such as discrimination or retaliation for whistleblowing. Because of its complexity, the redress system is inefficient, expensive, and time-consuming. It is vulnerable to employees who take undue advantage of the protections. In contrast, in leading private sector organizations, managers are held accountable for treating people fairly and are given the flexibility and discretion to make the tough decisions. These organizations recognize that a balance must be struck between individual employee protections and the authority of managers to operate in a responsible fashion. To the extent that the redress system tilts toward employee protections at the expense of effective management, it deserves congressional attention. (T-GGD-96-42)

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# DECEMBER 1995

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■ 62 *Reports to Congress*

■ 8 *Testimonies*

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## ■ UNMANNED AERIAL VEHICLES: HUNTER SYSTEM IS NOT APPROPRIATE FOR NAVY FLEET USE

The Department of Defense (DOD) continued to develop a variant of the Hunter unmanned aerial vehicle for use on amphibious assault ships despite objections from Navy fleet commanders, who did not want the spy plane on their vessels because of limited shipboard space and the Hunter's questionable performance record. GAO concluded that DOD was at risk of investing in a system that would not be used and recommended that the acquisition be postponed until the concerns of the fleet commanders were resolved. The Secretary of Defense concurred in GAO's recommendation and subsequently terminated the program. (NSIAD-96-2)

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## ■ RETENTION ALLOWANCES: USAGE AND COMPLIANCE VARY AMONG FEDERAL AGENCIES

GAO reviewed federal agencies' use of retention allowances as a salary supplement to retain essential employees. At the end of fiscal year 1994, 354 of the 2.1 million civilian executive branch employees were receiving retention allowances. Ninety-four percent of these retention allowances were awarded by five agencies—the Departments of Defense (DOD), Energy, and Agriculture; the Export-Import Bank (Ex-Im Bank); and the Securities and Exchange Commission. The Ex-Im Bank awarded allowances to nearly 22 percent of employees. The average allowance at the five agencies during fiscal years 1991 through 1994 was approximately \$7,800; the highest allowance—\$28,925—was awarded to a DOD employee. (GGD-96-32)

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**FINANCIAL MANAGEMENT: CONTINUED  
MOMENTUM ESSENTIAL TO ACHIEVE CFO ACT GOALS**

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

Progress has been made to improve financial management in the federal government. Qualified Chief Financial Officers (CFO) are now in place and are seeking to make needed improvements. The Inspectors General are embracing their new financial audit responsibilities. Comprehensive accounting standards are nearing completion and efforts are underway to further strengthen the quality of financial reporting. However, a great deal more will be required to successfully overcome decades of serious neglect in fundamental financial management operations. As a result of the CFO and Government Performance and Results Acts, decisionmakers will ultimately have reliable information on both the financial condition of programs and operations as well as on the performance and costs of these activities. (T-AIMD-96-10)

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**BUDGET ISSUES: PRIVATIZATION/DIVESTITURE  
PRACTICES IN OTHER NATIONS**

GAO reviewed the divestiture experiences of five countries—Canada, France, Mexico, New Zealand, and the United Kingdom. The countries' goals for privatization influenced how and what entities would be offered for sale. In the United Kingdom, where the primary goal was increased efficiency, privatization decisions were based on the belief that the private sector could generally operate commercial enterprises more efficiently than the public sector. In New Zealand, economic efficiency and debt reduction were both primary goals. Generally, the government in New Zealand would sell an entity only if the return from the sale was greater than the value to the government of retaining the entity. The general policy of most of the governments in this study was to use the proceeds resulting from privatization to reduce debt and interest costs; however, in some cases, sale proceeds were used to finance ongoing spending. (AIMD-96-23)



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**URANIUM MILL TAILINGS: CLEANUP CONTINUES,  
BUT FUTURE COSTS ARE UNCERTAIN**

Decades of processing uranium ore for use in the government's nuclear weapons and energy programs have resulted in the accumulation of radioactive waste at about 50 ore processing sites and about 5,000 nearby properties. When the demand for uranium dwindled in the late 1960s, many of the processing operations stopped, and huge piles of contaminated mill tailings (a sand-like by-product of ore processing) were left in place, posing potential health risks. Congress authorized the Department of Energy (DOE) to clean up the contamination. DOE anticipates completing the cleanup of both surface and groundwater contamination by about 2014 at a cost of over \$2.4 billion. However, numerous remaining factors could affect the total costs and ultimate completion dates. (RCED-96-37)

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**U.S. POSTAL SERVICE: NEW FOCUS ON IMPROVING  
SERVICE QUALITY AND CUSTOMER SATISFACTION**

Since 1990, the Postal Service has begun or expanded many different efforts to improve customer service. It has trained retail employees on courtesy and product knowledge and begun providing new services, such as the use of debit and credit cards. Postal field offices are also pursuing a broad array of local efforts to improve service. Even so, there has been little change in the level of customer satisfaction. Improving the reliability of mail delivery offers the greatest opportunity to improve customer satisfaction. Business customers generate about 90 percent of the Service's mail volume and revenue, but the Service faces strong competition in serving them. Although the Service compiles, at considerable cost, extensive data on business customers' satisfaction, it does not share this information internally or externally because of concerns about hurting its competitive interests. (GGD-96-30)

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# JANUARY 1996

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■ 36 *Reports to Congress*

■ 4 *Testimonies*

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## ■ MOTOR VEHICLE SAFETY: COMPREHENSIVE STATE PROGRAMS OFFER BEST OPPORTUNITY FOR INCREASING USE OF SAFETY BELTS

The National Highway Traffic Safety Administration estimates that 10,000 deaths, 200,000 injuries, and \$20 billion in costs to society could be avoided annually if all occupants of motor vehicles wore safety belts. Four states that have achieved high rates of safety belt usage—California, Hawaii, North Carolina, and Washington—have comprehensive programs that include strong laws on the mandatory use of safety belts, visible and aggressive enforcement, and programs to inform and educate the public. Steps that could be taken by states to increase the use of safety belts include enacting primary enforcement laws that allow police to stop and ticket a vehicle's occupants solely for not using their safety belts, increasing fines to encourage the use of belts, and vigorous public education. (RCED-96-24)

## ■ MEASURING PERFORMANCE: THE ADVANCED TECHNOLOGY PROGRAM AND PRIVATE-SECTOR FUNDING

The Advanced Technology Program's (ATP) purpose is to provide support on a cost-sharing basis for industrial research and development projects that have a significant potential for stimulating economic growth and improving the competitiveness of U.S. industry. Federal funding for ATP has grown sharply, from \$68 million in fiscal year 1993 to \$341 million in fiscal year 1995. Asked to assess the impact of the ATP, GAO found that the program supports research projects that would have been funded by the private sector as well as those that would not have been funded. In addition, ATP achieves other goals, such as aiding the formation of joint ventures and helping companies achieve research milestones faster. When assessing ATP's impact, these other goals should also be considered. (RCED-96-47)

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**FRAUD AND ABUSE: PROVIDERS TARGET MEDICARE PATIENTS IN NURSING FACILITIES**

Medicare is a program vulnerable to waste, fraud, and abuse. Among the major weaknesses is Medicare's lack of controls for detecting billing abuses and for ensuring the legitimacy of claims billed by providers to the Medicare program. For a variety of reasons, fraudulent and abusive practices are particularly prevalent in nursing homes, where unscrupulous service providers can operate their schemes in volume. In this report, GAO suggests two incremental changes to make nursing facility environments less vulnerable to abuse: penalties for the unauthorized disclosure of patients' medical records and early warning controls in Medicare's claims processing systems to better detect fraudulent bills before claims are paid. (HEHS-96-18)

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**GUN CONTROL: IMPLEMENTATION OF THE BRADY HANDGUN VIOLENCE PREVENTION ACT**

Phase I of the Brady Act (P.L. 103-159), imposing a waiting period of 5 business days to allow state or local law enforcement officers time to conduct presale background checks on purchasers of handguns, became effective on February 28, 1994. GAO surveyed 20 law enforcement jurisdictions (7 state-wide and 13 local) to assess how the Brady Bill was being implemented. The law enforcement agencies in GAO's survey denied 4.3 percent of applications during the first year. The survey found that 49 percent of the application denials were the result of prospective handgun purchasers' criminal histories of felonies or misdemeanors. As of July 1995, seven persons (nationally) had been successfully prosecuted for making false statements on the handgun purchase form. Of the seven cases, three involved drug-related convictions resulting in prison or custody sentences. (GGD-96-22)

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**MEDICARE: MILLIONS CAN BE SAVED BY SCREENING  
CLAIMS FOR OVERUSED SERVICES**

Preventing payments for unnecessary services is an important way to help control Medicare costs. Many claims-processing contractors routinely pay Medicare claims for procedures that are prone to overuse without first evaluating the patient's diagnosis to determine if the claim makes sense. For example, GAO found an instance in which Medicare paid a claim for an echocardiogram (an ultrasound image of the heart) when the diagnosis was conjunctivitis (an inflammation of the eyelid). Autoadjudicated (or fully automated) prepayment screens can be used to approve appropriate claims and deny payments for unnecessary services. Requiring claims contractors to use prepayment screens for frequently billed services would save hundreds of millions of dollars, prevent waste, and help restore confidence in the integrity of the Medicare program. (HEHS-96-49)

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# FEBRUARY 1996

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■ 57 *Reports to Congress*

■ 15 *Testimonies*

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## ■ BEST MANAGEMENT PRACTICES:

### REENGINEERING THE AIR FORCE'S LOGISTICS SYSTEM CAN YIELD SUBSTANTIAL SAVINGS

GAO compared the Air Force's management of its \$33 billion reparable parts inventory with the operations of leading-edge commercial airlines to identify opportunities for reducing costs and improving service. Although not as large as the Air Force, commercial airlines' operations are similar. The Air Force is beginning to test certain commercial airline management practices, such as removing unnecessary inventory layers, repairing parts as they break, and rapidly transporting parts between the end user and the repair facility. GAO identified additional steps, such as establishing a top-level Department of Defense "champion of change" to support the Air Force's initiatives, making greater use of third-party logistics services, forging closer partnerships with suppliers, encouraging suppliers to use local distribution centers, centralizing repair functions, and modifying repair facilities, to accommodate new practices. The success of these efforts will hinge on the Air Force's ability to overcome organizational resistance to change. (NSIAD-96-5)

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## ■ DEFENSE TRANSPORTATION: STREAMLINING OF THE U.S. TRANSPORTATION COMMAND IS NEEDED

Department of Defense (DOD) transportation costs are substantially higher than necessary. The U.S. Transportation Command (USTRANSCOM), which contracts for and arranges commercial transportation services, frequently charges its DOD customers double or triple the amount it pays commercial transportation companies for basic transportation. Key factors driving these higher costs are USTRANSCOM's fragmented and inefficient organizational structure and management processes. While DOD is reengineering defense transportation to improve the processes and reduce costs, it is not concurrently looking at restructuring the organization of USTRANSCOM. GAO believes that DOD is not likely to achieve the full benefits of the reengineering if it makes process improvements before addressing organizational structure issues. (NSIAD-96-60)

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## **MEXICO'S FINANCIAL CRISIS: ORIGINS, AWARENESS, ASSISTANCE, AND INITIAL EFFORTS TO RECOVER**

The origins of Mexico's financial crisis can be found in the interplay of a number of complex financial, economic, and political factors during 1994. At that time, U.S. officials were concerned about the sustainability of Mexico's exchange rate policies in the short run. They were aware that Mexico was experiencing a large current account deficit financed mostly by short-term portfolio capital vulnerable to the sudden reversal of investor confidence in Mexico. The U.S. and international response to Mexico's financial crisis was one of the largest multilateral economic assistance packages extended to any one country. The United States pledged up to \$20 billion in loans and securities guarantees. As a condition of the assistance, Mexico was required to adopt a strict economic plan to resolve its economic problems. While the short-term result was a severe recession and economic hardship, the plan was intended to lead Mexico to sustained economic growth in the longer run. (GGD-96-56)

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## **COUNTERFEIT U.S. CURRENCY ABROAD: ISSUES AND U.S. DETERRENCE EFFORTS**

U.S. currency, reportedly the most widely held in the world, is counterfeited by a diverse group of perpetrators using a variety of methods. Although counterfeiters may engage in this activity for direct economic gain, counterfeiting is sometimes linked with other, more nefarious criminal endeavors, such as drug trafficking, arms dealing, and alleged terrorist activities. Because of the criminal nature of this activity, the full extent of the counterfeiting of U.S. currency abroad cannot be determined. Moreover, while the total level of counterfeit-currency detections represented less than one one-thousandth of the amount of U.S. currency in circulation, GAO's analysis of the counterfeit-detection data used by the Department of the Treasury and the Secret Service raised questions about the data's usefulness for illustrating actual or recent growth in counterfeiting activity. (GGD-96-11)

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**NAVY AVIATION: AV-8B HARRIER REMANUFACTURE  
STRATEGY IS NOT THE MOST COST-EFFECTIVE OPTION**

The Marine Corps could save millions of dollars by buying new AV-8B Harrier fighters equipped with night attack and radar capabilities rather than rebuilding older Harriers. The estimated cost to remanufacture each AV-8B aircraft is between \$23 million and \$30 million. For about \$24 million per aircraft, the Marines could accelerate production and buy new radar-model AV-8Bs rather than the remanufactured aircraft made up largely of used and refurbished components. Additionally, the remanufacture program (REMAN) is experiencing unanticipated problems and delays. Since the REMAN program is under an annual contract, the Department of the Navy should revise its procurement strategy and begin to buy new Harriers rather than continuing the flawed REMAN program. (NSIAD-96-49)

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**COMMERCIAL TRUCKING: SAFETY AND  
INFRASTRUCTURE ISSUES UNDER THE NORTH AMERICAN  
FREE TRADE AGREEMENT**

There are major differences between U.S. and Mexican commercial trucking regulations and operating practices that could adversely affect highway safety and harm infrastructure in the United States. The differences in safety regulations include vehicle size and weight, drivers' hours of service, recordkeeping, and requirements for mandatory front brakes. The United States has an active inspection and enforcement program to encourage safer trucks. Mexico is establishing an enforcement program but lacks the facilities and personnel. Trucks carry about 80 percent of the freight transported between the United States and Mexico, and at the time of our report, about 11,000 trucks crossed the border from Mexico each day. About 50 percent of the 217 trucks from Mexico that GAO observed being inspected at border locations did not meet U.S. regulations—trucks had broken suspensions, substandard tires, and inoperable brakes and carried overweight or unsecured loads, including hazardous materials. (RCED-96-61)

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# MARCH 1996

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■ 101 Reports to Congress

■ 30 Testimonies

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## ■ JOB TRAINING PARTNERSHIP ACT: LONG-TERM EARNINGS AND EMPLOYMENT OUTCOMES

Although the federal government spends billions of dollars annually to support employment training programs, little is known about their long-term effects on the participants' earnings and employment rates. Because of congressional concerns about the long-term impact of the Job Training Partnership Act (JTPA), GAO was asked to compare long-term employment rates for JTPA participants with those of comparable nonparticipants. Although GAO's analysis showed some positive effects of JTPA in the years immediately following training, JTPA had no significant effect on earnings or employment rates after 5 years. (HEHS-96-40)

## ■ MANAGING FOR RESULTS: ACHIEVING GPRA'S OBJECTIVES REQUIRES STRONG CONGRESSIONAL ROLE

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

The Government Performance and Results Act (GPRA) requires agencies to set strategic goals, measure performance, and report on the degree to which goals were met. Congress intended for GPRA to fundamentally shift the focus of federal management and accountability from a preoccupation with staffing and activity levels to a focus on outcomes—the real difference that federal programs make in people's lives. This shift of focus to outcomes will not come quickly or easily and can be very difficult to define and measure. Given these obstacles, strong and sustained congressional attention to GPRA's implementation is critical. Without evidence of congressional involvement and interest in using performance goals, agency officials may question Congress's commitment to GPRA. (T-GGD-96-79)



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## ■ AT-RISK AND DELINQUENT YOUTH: MULTIPLE FEDERAL PROGRAMS RAISE EFFICIENCY QUESTIONS

The federal response to the problems of delinquent and at-risk youth is currently manifested in 131 separate programs administered by 16 departments and agencies. A conservative estimate of the total federal spending is over \$4 billion. The services most commonly authorized were substance abuse intervention and training and technical assistance. Programs were targeted to many groups, including economically disadvantaged youth, abused/neglected youth, and school dropouts. GAO's work suggests that efficiencies might be gained by having a smaller number of consolidated programs for at-risk or delinquent youth. (HEHS-96-34)

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## ■ NUCLEAR NONPROLIFERATION: STATUS OF U.S. EFFORTS TO IMPROVE NUCLEAR MATERIAL CONTROLS IN NEWLY INDEPENDENT STATES

According to the International Atomic Energy Agency, approximately 25 kilograms of highly enriched uranium (HEU) or 8 kilograms of plutonium are needed to build a nuclear explosive (although the Department of Energy suggests that the amounts may actually be less). Russia and six other newly independent states have hundreds of tons of such material—not contained in weapons—located in 80 to 100 facilities, but an exact inventory does not exist and the locations of the material are not known. Keeping HEU and plutonium from terrorists and other countries seeking nuclear explosives is a national security concern for the United States and the newly independent states. While there is no direct evidence that a black market for stolen or diverted nuclear material exists, seizures of such material in Russia and other European countries have increased concerns about the adequacy of controls at nuclear facilities. (NSIAD/RCED-96-89)

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**GOVERNMENTWIDE TRAVEL MANAGEMENT:  
FEDERAL AGENCIES HAVE OPPORTUNITIES FOR  
STREAMLINING AND IMPROVING THEIR TRAVEL PRACTICES**

*Testimony of Christopher W. Hoenig, Director, Information Resources  
Management/Policies and Issues, Accounting and Information Management  
Division*

In fiscal year 1994, the federal government's direct cost of travel was about \$7.6 billion. This amount does not include the administrative cost of arranging and processing travel. These administrative costs can be significant—into the hundreds of millions of dollars. However, there is momentum for changing how federal travel is arranged. Steps are being taken to bring the government closer to private-sector practices. First, agencies need to assess their costs and processes and establish a baseline of current performance. If the organization does not know where it is starting from, measuring progress is very difficult. Next, agencies should implement the “best practices” identified by the Joint Financial Management Improvement Program. Finally, agencies should look for new ways to learn from their successes and failures and build on lessons learned. GAO urges congressional committees to exercise oversight and to monitor agencies' progress in obtaining higher, better value for travel expenditures. (T-AIMD-96-60)

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**ARMY NATIONAL GUARD: VALIDATE  
REQUIREMENTS FOR COMBAT FORCES AND SIZE THOSE  
FORCES ACCORDINGLY**

The end of the Cold War and budgetary pressures have provided both the opportunity and the incentive to reassess defense needs. The Army National Guard's combat forces, with 42 combat brigades, far exceed the projected capacity needed to fight and win two nearly simultaneous major regional conflicts, according to war planners. The Commission on Roles and Missions of the Armed Forces looked at better use of the reserves and concluded that low-priority forces should be eliminated or reorganized to fill shortfalls in higher-priority areas. The Commission also noted a shortage of 60,000 support forces for a two-region conflict strategy. The Army is studying alternatives to meet critical shortages in support capabilities, primarily in transportation and quarter-master units. Even after support shortfalls are filled, there will still be excess combat positions in the Army. The Army should validate its Guard combat requirements and eliminate any excess forces. (NSIAD-96-63)

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**TAX SYSTEMS MODERNIZATION: MANAGEMENT  
AND TECHNICAL WEAKNESSES MUST BE OVERCOME TO  
ACHIEVE SUCCESS**

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

The Internal Revenue Service (IRS) invested nearly \$3 billion in tax systems modernization (TSM) from 1986 through the end of fiscal year 1996; through 2001, it is expected to spend up to \$8 billion on TSM. TSM is a world-class information systems development effort, much larger than most other organizations will ever undertake. IRS' efforts to modernize tax processing are jeopardized by persistent and pervasive management and technical weaknesses. GAO has made numerous recommendations that would correct these weakness, but IRS' actions to date have not fully addressed the problems. As a result, IRS continues to spend billions with little assurance of successfully delivering effective systems within established time frames and cost figures. The TSM effort, and the huge investment it represents, is at risk. (T-AIMD-96-75)

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**CFO ACT FINANCIAL AUDITS: INCREASED  
ATTENTION MUST BE GIVEN TO PREPARING NAVY'S  
FINANCIAL REPORTS**

GAO reviewed the Department of the Navy's fiscal year 1994 consolidated financial reports and found that they lacked credibility and, consequently, were of little value. GAO identified inaccurate financial information across the board, involving tens of billions of dollars in military equipment, inventory, and accounts receivable and payable. The financial reports showed \$506 billion in assets, \$7 billion in liabilities, and \$87 billion in operating expenses. Each of these amounts was substantially misstated. Overall, GAO identified a minimum of \$225 billion worth of errors in the Navy's financial reports. Navy also excluded billions of dollars invested in building aircraft and missiles and modernizing weapons systems. A root cause of the Navy's financial reporting deficiencies is the long-standing failure to use basic internal controls and to instill discipline in financial operations. (AIMD-96-7)

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**TERRORISM AND DRUG TRAFFICKING:  
THREATS AND ROLES OF EXPLOSIVES AND NARCOTICS  
DETECTION TECHNOLOGY**

The ability to detect explosives and narcotics is increasingly important to U.S. national security. To counter these threats, the Federal Aviation Administration and U.S. Customs Service have developed strategies that rely on intelligence information, various procedures such as profiling, and technologies. The cost of purchasing and installing technology at the 75 busiest domestic airports could range from \$400 million to \$2.2 billion, depending on the mix of procedures and technologies. At the southwest border, Customs will use a technology for detecting narcotics that is expected to cost about \$38 million. Its plans for seaports and the use of mobile systems have not been clearly defined. (NSIAD/RCED-96-76BR)

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## **MEDICARE: HOME HEALTH UTILIZATION EXPANDS WHILE PROGRAM CONTROLS DETERIORATE**

The recent rapid growth in Medicare's home health expenditures continues to raise questions about the extent to which abuse of the benefit may be contributing to this growth. In the 5 years from 1989 through 1993, the number of beneficiaries receiving home care increased by 1.1 million. The number of visits by home health agencies (HHA) more than doubled from an average of 26 visits per year in 1989 to 57 visits per year in 1993. The number of certified HHAs has also increased, and 80 percent of the growth has been in proprietary (for-profit) agencies. Controls over the Medicare home health benefit are essentially nonexistent. Few claims are subject to medical review, and most claims are paid without question. It is nearly impossible to verify whether those receiving home care qualify for the benefit, need the care, or even receive the services billed to Medicare. (HEHS-96-16)

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## **HOUSING AND URBAN DEVELOPMENT: LIMITED PROGRESS MADE ON HUD REFORMS**

*Testimony of Judy England-Joseph, Director, Housing and Community Development Issue Area, Resources, Community and Economic Development Division*

Despite promises of reform, reinvention, and transformation, management and budget problems persist at the Department of Housing and Urban Development (HUD). Weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems make HUD highly vulnerable to waste, fraud, and abuse. The Congress and HUD have made a start at reexamining housing and community development policy, but it will take time to reach consensus on what the policy goals should be and how assistance should be provided and at what cost. HUD's downsizing will likely affect its ability to limit financial exposure, carry out its mission, and correct management and information system problems. (T-RCED-96-112)

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**USE OF FORCE: ATF POLICY, TRAINING AND REVIEW  
PROCESS ARE COMPARABLE TO DEA'S AND FBI'S**

Managing officers' use of force is one of the most difficult challenges facing law enforcement. The ability of officers to enforce the law, protect the public, and guard their own safety is very difficult in an environment where violent crime is commonplace and firearms are frequently used for illegal purposes. The Departments of the Treasury and Justice have issued uniform policies governing the use of deadly force. The Bureau of Alcohol, Tobacco and Firearms (ATF) conveys its deadly force policies to new agents through training. This training was consistent with the training provided to new Drug Enforcement Administration (DEA) and Federal Bureau of Investigation (FBI) agents. Consistent with DEA and FBI procedures, ATF also requires that use-of-force policies are to be reiterated to agents throughout their careers at quarterly firearms qualifications and during tactical operations briefings. (GGD-96-17)

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**EMERGENCY DISASTER FARM LOANS:  
GOVERNMENT'S FINANCIAL RISK COULD BE REDUCED**

The U.S. Department of Agriculture's (USDA) emergency disaster loan program provides assistance to farmers who sustain losses resulting from adverse weather conditions or other natural disasters. Over the past 7 years, USDA forgave over \$6 billion in unpaid principal and interest. More losses can be expected because 80 percent of the \$3 billion in outstanding loan principal as of September 30, 1995, was held by high-risk borrowers. USDA has weak lending policies; and it does not follow in a consistent way the lending requirements intended to safeguard federal financial interests. Historically, few emergency disaster loan recipients have purchased insurance and rely instead on disaster loans. To address the risky nature of these loans, in April 1996 the Congress enacted legislation requiring borrowers to have some level of hazard insurance on the property damaged or destroyed as a condition for receiving an emergency loan. The Congress also established a maximum emergency disaster loan indebtedness limit. (RCED-96-80)

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**SINGLE AUDIT: REFINEMENTS CAN IMPROVE  
USEFULNESS**

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

Over 12 years ago, the Congress passed the Single Audit Act of 1984. The single audit has helped foster fundamental financial management improvements and strengthened accountability at state and local governments and nonprofit organizations receiving federal assistance. Twelve years of experience have shown that refinements can be made to strengthen the usefulness of single audits and reduce the burden on state and local governments and nonprofit organizations. Improvements could be made by raising the dollar threshold for entities requiring audits and by expanding audit coverage of higher-risk programs. Other changes include the requirement that auditors prepare summary reports and that audited entities submit audit reports sooner—within 9 months after the end of the fiscal year. (T-AIMD-96-77)

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**CHEMICAL AND BIOLOGICAL DEFENSE:  
EMPHASIS REMAINS INSUFFICIENT TO RESOLVE  
CONTINUING PROBLEMS**

Today, U.S. forces face an increasing number of potential enemies that possess the technologies for and are capable of producing and delivering a wide range of chemical and biological agents. Because of persistent equipment, training, and medical shortcomings, the United States lacks the ability to adequately defend against chemical and biological agents. This situation is the result of the generally lower priority the Department of Defense (DOD)—from the Joint Staff to the war-fighting commanders in chief to individual unit commanders—assigns chemical and biological defense. For example, DOD has spent less than 1 percent of its budget on chemical and biological defense, and from 1992 through 1995, funding in real terms decreased by 30 percent. DOD believes the resources devoted to chemical and biological defense are appropriate, given other threats and current budgetary constraints. On the basis of GAO's work in this area, there is no reason to expect DOD to make any changes. (NSIAD-96-103)

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# APRIL 1996

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■ 90 *Reports to Congress*

■ 16 *Testimonies*

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## ■ SMALL BUSINESS ADMINISTRATION: SBA MONITORING PROBLEMS IDENTIFIED IN CASE STUDIES OF 12 SBICs AND SSBICs

The 12 Small Business Investment Companies (SBIC) and Specialized Small Business Investment Companies (SSBIC) reviewed by GAO engaged in such improper management practices as loans to associates, loans for prohibited real estate purchases, or loans to ineligible individuals. GAO found that the Small Business Administration (SBA) did not provide effective oversight, which caused the late discovery of violations and put SBA's funds at risk. The SBICs and SSBICs seldom corrected the violations in a timely manner, and their mismanagement or misconduct may have contributed to their liquidation or bankruptcy. The estimated losses to the government for three of these companies have exceeded \$4 million. (OSI-96-3)

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## ■ DEFENSE INFRASTRUCTURE: BUDGET ESTIMATES FOR 1996-2001 OFFER LITTLE SAVINGS FOR MODERNIZATION

The Secretary of Defense has stated that savings in infrastructure spending will help pay for the billions of dollars that the Department of Defense (DOD) projects it will need to modernize the force. However, in reviewing DOD's Future Years Defense Program, GAO found no significant infrastructure savings to DOD during fiscal years 1996 through 2001. DOD's infrastructure funding will remain relatively constant at 60 percent through 2001. In this report, GAO identifies options with which infrastructure could be consolidated, streamlined, and reengineered. The Congressional Budget Office estimates that adopting these options could save about \$11.8 billion in fiscal years 1997-2001. The option with the highest dollar value savings addresses the need to downsize DOD's acquisition workforce and consolidate functions. (NSIAD-96-131)



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## **MILITARY EXPORTS: OFFSET DEMANDS CONTINUE TO GROW**

This report examines offset requirements associated with military export sales. Demands for offsets in foreign military procurement have increased in selected countries. Countries with developed economies having well-established defense industries are using offsets to channel work to these companies and to support their defense industrial base. Offsets in countries with developing defense and commercial industries involve technology transfers in defense or high-technology industries. These offsets are seen as a means to further develop a defense base and economy. Countries with less industrialized economies generally pursue indirect offsets to help create profitable businesses and build their countries' infrastructure. Offsets help foreign buyers build public support for purchasing U.S. products, especially since weapons procurement often involves the expenditure of large amounts of public moneys on imported systems. (NSIAD-96-65)

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## **DEFENSE DEPOT MAINTENANCE: PRIVATIZATION AND THE DEBATE OVER THE PUBLIC-PRIVATE MIX**

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

The new model for managing depot maintenance is evolving and its future is uncertain. The Department of Defense's (DOD) proposed model continues to be a mix between the public and private sectors. However, the March 1996 DOD report responding to the congressional mandate for a comprehensive depot maintenance policy signals a clear intent to shift workloads to the private sector when readiness, sustainability, and technology risks can be overcome. Such a shift, if not managed well, could exacerbate existing excess capacity problems and the inefficiencies inherent in the underutilization of the depot maintenance infrastructure. Privatizing depot maintenance workloads in the current environment is not likely to achieve the savings that DOD expects and may even be more costly. (T-NSIAD-96-146)

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## USDA TELECOMMUNICATIONS: MORE EFFORT NEEDED TO ADDRESS TELEPHONE ABUSE AND FRAUD

The U.S. Department of Agriculture (USDA) does not have adequate controls for ensuring that its telephones are used properly. As a result, the Department, which spends about \$50 million each year on commercial telecommunications services, is putting itself at risk of telephone fraud and abuse. By reviewing telephone bills, GAO found that during a 4-month period, over 600 collect calls were accepted from individuals at 18 jails and prisons. USDA has been aware of cases of collect-calling abuse since 1994 but has not taken steps to stop it. GAO also found unauthorized calls to adult entertainment lines, such as sex and party lines in other countries. GAO discovered that hackers broke into USDA's telephone system and made an estimated \$50,000 in international long-distance calls. Even though a contractor acknowledged responsibility for the vulnerabilities that led to this abuse, USDA did not seek reimbursement. (AIMD-96-59)

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## AIRLINE DEREGULATION: CHANGES IN AIRFARES, SERVICE, AND SAFETY AT SMALL, MEDIUM-SIZED, AND LARGE COMMUNITIES

Nearly two decades ago, the deregulation of the U.S. airline industry commenced. In its review of the changes since deregulation, GAO found that the average fare per passenger mile, adjusted for inflation, has fallen at airports serving small, medium-sized, and large communities. A key factor contributing to this trend is increased competition. The largest decrease in fares occurred in airports in the West and Southwest; airports serving the Southeast and in the Appalachian region experienced the largest increase in fares. The *quantity* of air service available, as measured by the number of both departures and available seats, has generally increased. Despite this increase, airports serving communities in the Upper Midwest have less air service today than they had under regulation. Measuring the *quality* of service is difficult because, while there are many dimensions of quality, there is no consensus on their relative importance. The safety of air travel has generally improved since deregulation at all three groups of airports. (RCED-96-79)

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**OVERSEAS REAL ESTATE: MILLIONS OF DOLLARS  
COULD BE GENERATED BY SELLING UNNEEDED REAL  
ESTATE**

The Department of State owns more than \$10 billion in real estate at 200 locations overseas. GAO reviewed State's efforts to identify and sell excess and underused real estate and to use the proceeds for other high-priority real property needs. This report (1) identifies real estate that could be sold to provide money to meet other real estate needs, (2) describes problems that State has had in deciding which properties to dispose of, and (3) explains how State uses the proceeds from the properties it does sell. (NSIAD-96-36)

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**BUDGET AND FINANCIAL MANAGEMENT:  
PROGRESS AND AGENDA FOR THE FUTURE**

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

Over the last 6 years, a solid framework for improving financial management has been established with (1) the Chief Financial Officers Act of 1990 and Government Management Reform Act of 1994, (2) the creation of the Federal Accounting Standards Advisory Board in 1990, and (3) efforts to improve the budget process through such actions as the enactment of credit reform. This testimony discusses improvements that should be made in the ways that the federal government budgets and manages its finances and stresses the need for reforms which will ensure that more timely, reliable, and useful information is available for managing and assessing the government's financial condition and operating performance. (T-AIMD-96-80)

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**SSA DISABILITY: PROGRAM REDESIGN NECESSARY TO  
ENCOURAGE RETURN TO WORK**

In the 10 years from 1985 through 1994, the number of people receiving Disability Insurance (DI) and Supplemental Security Income (SSI) benefits increased from 4.2 million to 7.2 million. Program growth has been attributed to such factors as eligibility expansion, program outreach, and a decrease in the rate at which people left the rolls through death and retirement. Nearly one-half of those on the disability rolls will be unable to return to work. Up to one-third of the beneficiary population may have rehabilitation potential, but the manner in which the programs work does little to create incentives for employment. The Social Security Administration, which administers DI and SSI, needs to create and implement effective, integrated, and consistent return-to-work strategies. (HEHS-96-62)

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**HEALTH INSURANCE: COVERAGE OF AUTOLOGOUS  
BONE MARROW TRANSPLANTATION FOR BREAST CANCER**

Although it is widely considered an experimental therapy, many health insurers are covering autologous bone marrow transplantation (ABMT) for breast cancer. Insurers base their decision to cover the treatment on the preliminary clinical evidence but also on factors like fear of litigation and adverse public relations. The use of ABMT for breast cancer has increased rapidly in recent years. At least seven states now require insurers to cover ABMT for breast cancer. Despite the increased coverage and use, most experts say they do not yet know whether ABMT for breast cancer is effective, and for which patients, compared with conventional therapy. (HEHS-96-83)

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# MAY 1996

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■ 75 *Reports to Congress*

■ 18 *Testimonies*

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## ■ HEALTH CARE FRAUD: INFORMATION-SHARING PROPOSALS TO IMPROVE ENFORCEMENT EFFORTS

The Attorney General has designated health care fraud as the Department of Justice's number two enforcement priority, second only to violent crime initiatives. Annual losses due to health care fraud are estimated as high as \$100 billion. The size and complexity of the health care industry present considerable challenges for government and industry fraud investigators. There are various proposals to enhance information sharing among the federal, state, and private entities. One proposal is a national, centralized database of health care fraud-related information that investigators can use in antifraud efforts. While some see many benefits, there are concerns about whether the potential benefits are essential to enforcement efforts and about the risk of unauthorized disclosures and misuse of the information. (GGD-96-101)

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## ■ EMPLOYMENT TRAINING: SUCCESSFUL PROJECTS SHARE COMMON STRATEGY

GAO visited successful employment training programs in Colorado, Nevada, Florida, Michigan, New York, and Oregon and found that they shared a common approach to helping their graduates attain self-sufficiency. Four key features common among the programs include (1) focusing on participants who are committed to training and getting a job; (2) removing barriers that limit a client's ability to complete training and to find and keep employment; (3) improving employability skills, such as dependability, promptness, and the ability to work effectively in groups and to resolve conflicts appropriately; and (4) linking occupational training with the local labor market needs. (HEHS-96-108)

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## FOOD SAFETY: INFORMATION ON FOODBORNE ILLNESSES

Millions of illnesses and thousands of deaths in the United States each year can be traced to contaminated food. Moreover, the actual incidence may be much higher because public health experts believe that most cases are not reported. These experts also believe that the risk of foodborne illnesses has been increasing over the last 20 years. Recent estimates of the cost of foodborne illnesses range from over \$5 billion to over \$22 billion annually. While foodborne illnesses are often temporary, they can also lead to more serious illnesses resulting in hospitalization, long-term disability, and death. Because there is no single, uniform food safety system, federal regulatory jurisdiction over food safety is split. Foods posing similar health risks, such as seafood, meat, and poultry, are regulated differently. (RCED-96-96)

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## U.S. COMBAT AIR POWER: REASSESSING PLANS TO MODERNIZE INTERDICTION CAPABILITIES COULD SAVE BILLIONS

The services have more than enough capability to hit identified ground targets during two nearly simultaneous major regional conflicts. There are at least 10 ways to hit nearly 65 percent of the total expected ground targets, and some targets could be hit by 25 or more combinations of aircraft, missiles, bombs, or precision-guided munitions. Modernization plans would increase to over 85 percent the number of targets that could be hit 10 or more ways. Given abundant interdiction capabilities and continuing questions about future defense spending, some of the planned modernization may not be a sound investment. The Department of Defense does not assess modernization proposals in terms of aggregate capability; rather, each service submits its own plans. Without such an assessment, the Secretary of Defense has little assurance that interdiction capabilities are properly sized to meet mission needs and has no means of identifying whether more cost-effective alternatives exist. (NSIAD-96-72)

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## ■ CHOLESTEROL TREATMENT: A REVIEW OF THE CLINICAL TRIALS EVIDENCE

Nearly half a million persons die from heart disease each year. The American Heart Association estimates that heart disease costs \$55 billion or more each year. In view of concerns about the translation of medical knowledge into national policy and about the high costs of cholesterol treatment, GAO was asked to review the clinical trials evidence that was used to support the development of the National Cholesterol Education Program guidelines. The meta-analyses that GAO reviewed consistently show that persons who receive cholesterol-lowering treatment, regardless of past history of heart disease, have significantly fewer nonfatal heart attacks than persons who did not receive treatment. However, the clinical trials, which focused predominantly on middle-aged white men, were not representative of the population at large. They provided very little information on women, minorities, and the elderly. (PEMD-96-7)

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## ■ FEDERAL DOWNSIZING: THE COSTS AND SAVINGS OF BUYOUTS VERSUS REDUCTIONS-IN-FORCE

In this review, GAO found that federal agencies could realize savings using either buyouts or reductions-in-force (RIF) because the salaries and benefits saved from either approach should exceed the costs. Generally, the savings from buyouts would be greater because buyout recipients typically have higher salaries than employees separated by RIFs. When employees anticipate buyout offers, normal attrition slows considerably because employees delay their separations to receive buyouts, increasing the cost of buyouts. RIFs have historically been difficult and complex to administer and are often seen as decreasing employees' productivity and morale. Agencies reported that buyouts tended to improve diversity profiles because in federal agencies proportionately greater numbers of women and minority employees are separated in RIFs. (GGD-96-63)

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## ■ INFORMATION SECURITY: COMPUTER ATTACKS AT DEPARTMENT OF DEFENSE POSE INCREASING RISKS

Attacks on Department of Defense (DOD) computer systems are a serious and growing threat. The exact number of attacks cannot be readily determined because only a small portion are actually detected and reported. DOD may have experienced as many as 250,000 attacks last year. Attacks are successful 65 percent of the time, and the number of attacks is doubling each year. At a minimum, these attacks are a multimillion-dollar nuisance to DOD. At worst, they are a serious threat to national security. The potential for catastrophic damage is great. Terrorists could use "information warfare" techniques to disrupt military operations by harming command and control systems, the public switch network, and other systems. DOD is taking action to address this problem but faces significant challenges in controlling unauthorized access to its computer systems. (AIMD-96-84)

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## ■ SUPPLEMENTAL SECURITY INCOME: NONCITIZEN CASELOAD CONTINUES TO GROW

*Testimony of Jane L. Ross, Director, Income Security Issues, Health,  
Education and Human Services Division*

Noncitizens, who include legal immigrants and refugees, are one of the fastest growing groups of Supplemental Security Income (SSI) recipients; their number grew an average of 15 percent annually from 1986 through 1994. Noncitizens account for nearly 33 percent of aged SSI recipients and 6 percent of disabled recipients. About two-thirds of noncitizen SSI recipients, roughly 520,000 in December 1995, live in three states--California, New York, and Florida. GAO's work suggests that translator fraud occurs primarily in noncitizen cases. Although the extent to which translator fraud occurs is unknown, such fraud could be reduced with a more comprehensive, programwide strategy for keeping ineligible applicants from ever receiving benefits. (T-HEHS-96-149)



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# JUNE 1996

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■ 94 *Reports to Congress*

■ 21 *Testimonies*

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## ■ EXECUTIVE GUIDE: EFFECTIVELY IMPLEMENTING THE GOVERNMENT PERFORMANCE AND RESULTS ACT

Under the Government Performance and Results Act (GPRA), major federal agencies must now ask these basic questions: What is our mission? What are our goals and how will we achieve them? How can we measure performance? How will we use that information to make improvements? GPRA forces a shift in the focus of federal agencies to a single overriding issue: results. It requires agencies to set goals, measure performance, and report on their accomplishments. GPRA has the potential to greatly add to government performance—a vital goal at a time when resources are limited and public demands are high. In preparing this guide, GAO studied leading state and foreign governments that were working in an environment that demanded improved performance at reduced cost. This guide outlines three steps leading agencies took to become more results oriented: (1) define mission and desired outcomes; (2) measure performance; and (3) use performance information. (GGD-96-118)

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## ■ TAX SYSTEMS MODERNIZATION: ACTIONS UNDERWAY, BUT IRS HAS NOT YET CORRECTED MANAGEMENT AND TECHNICAL WEAKNESSES

The Internal Revenue Service (IRS) has initiated a number of actions and is making some, but not adequate, progress in addressing the recommendations made by GAO in July 1995 to correct pervasive management and technical weaknesses in its tax systems modernization (TSM) effort. None of GAO's recommendations has been fully implemented, and IRS continues to spend hundreds of millions of dollars on TSM while fundamental weaknesses jeopardize the investment. Until IRS' weaknesses are corrected, GAO suggests that Congress consider limiting spending on TSM to cost-effective, low-risk efforts. As Congress gains confidence in IRS' ability to successfully develop smaller, less costly projects, it then could consider approving larger, more complex, more expensive projects in future years. (AIMD-96-106)

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**PRESCRIPTION DRUGS AND MEDICAID:  
AUTOMATED REVIEW SYSTEMS CAN HELP PROMOTE  
SAFETY, SAVE MONEY**

Inappropriate use of prescription drugs can cause adverse reactions that can lead to drug-induced illness, hospitalization, and even death. Such inappropriate use can also be expensive for the Medicaid program. Automated prospective drug utilization review (PRODUR) systems increased patients' safety and reduced the cost of the Medicaid program. PRODUR systems in five states—Maryland, Missouri, New Mexico, Oregon, and Pennsylvania—screened over 31.7 million prescription drug claims in a 12-month period and alerted pharmacists to potential problems in about 20 percent of the cases. Along with increasing patients' safety, PRODUR systems reduced the program's costs by over \$30 million. (AIMD-96-72)

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**HEALTH INSURANCE FOR CHILDREN: PRIVATE  
INSURANCE COVERAGE CONTINUES TO DETERIORATE**

In 1994, an estimated 10 million children did not have any health insurance coverage. Since 1993, the decline in health insurance coverage for children was concentrated among children in poor families. Among children whose parents are working, Medicaid continues to be an important source of insurance coverage. Still, many eligible uninsured children are not enrolled in Medicaid because parents either do not know that their children are eligible or do not enroll them in the program. Uninsured children are less likely to get needed health and preventive care, and lack of care can adversely affect children's health status throughout their lives. (HEHS-96-129)

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**FEDERAL RESERVE SYSTEM: CURRENT AND  
FUTURE CHALLENGES REQUIRE SYSTEMWIDE ATTENTION**

This report reviews the operations of the Federal Reserve System, the U.S. central bank. Although the Federal Reserve's cost of operation has rarely emerged as a visible public issue because of its self-financing nature, increasing constraints on the federal budget require increased scrutiny. The Federal Reserve could do more to increase its cost-consciousness and ensure the efficiency of its day-to-day operations. Achieving major cost reductions will depend on the Federal Reserve's reexamination of its mission, structure, and work processes. (GGD-96-128)

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**NAVY AVIATION: F/A-18E/F WILL PROVIDE  
MARGINAL OPERATIONAL IMPROVEMENT AT HIGH COST**

The F/A-18E/F aircraft is one of the Department of Defense's most costly aviation programs. Given the high cost and marginal operational improvement that the F/A-18E/F would provide, GAO recommends that the Secretary of Defense reconsider the decision to produce the aircraft and instead consider procuring additional F/A-18C/Ds. The number of F/A-18C/Ds that the Navy would need depends on when the next-generation strike fighter is operationally capable and how many of the fighters the Navy decides to buy. GAO estimates that implementing this recommendation could result in savings of almost \$17 billion. (NSIAD-96-98)

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**VETERANS BENEFITS MODERNIZATION:  
MANAGEMENT AND TECHNICAL WEAKNESSES MUST BE  
OVERCOME IF MODERNIZATION IS TO SUCCEED**

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

Successfully modernizing the Veterans Benefits Administration (VBA) is key to improving critical services to almost 27 million veterans and their dependents and to lowering VBA's operating costs. VBA is, however, experiencing many of the classic, fundamental management and technical problems that have prevented federal agencies from realizing the benefits expected from substantial investment in information technology. Despite efforts by dedicated employees who are trying to overcome problems, major, sustained improvements in the delivery of services and in operations have eluded VBA. Unless it takes more aggressive action to effectively address its serious management and technical weaknesses, VBA's modernization efforts will not succeed. (T-AIMD-96-103)

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**DEFENSE AMMUNITION: SIGNIFICANT PROBLEMS  
LEFT UNATTENDED WILL GET WORSE**

The services have to do a better job of managing their ammunition stockpile. As of September 30, 1994, the total stockpile of usable and unusable ammunition was valued at about \$80 billion. This ammunition, if loaded onto railroad cars, would stretch over 800 miles—the distance from Washington, D.C., to Orlando, Florida. About \$31 billion of the total ammunition stockpile is excess, and for some types of ammunition, the services have over 50 times their stated needs. To make more informed budget decisions related to the ammunition stockpile, Congress may wish to consider requiring the Secretary of Defense to report annually on the amounts of ammunition on hand and excess to the services' needs and on the problems of managing ammunition stockpiles, including inspection, testing, and disposal. (NSIAD 96-129)

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## **FEDERAL LAND MANAGEMENT: STREAMLINING AND REORGANIZATION ISSUES**

*Testimony of Michael Gryzkowicz, Director of Planning and Reporting,  
Resources, Community, and Economic Development Division*

The responsibilities of the four major federal land management agencies have become more similar, and the management of federal lands more complex. These changes, as well as budgetary and ecological considerations, suggest a basis for reexamining the current approach to federal land management with an eye to improving its efficiency and effectiveness. Two basic strategies have been proposed to improve federal land management—one would focus primarily on streamlining the existing structure while the other would reorganize the structure primarily by combining agencies. Although it is not clear which strategy would be more effective, or whether a combination of the two would be a good choice, it is clear that to effectively implement either strategy, there must be a solid consensus for change and the creation of specific, identifiable goals for managing commodity and noncommodity uses. (T-RCED-96-209)

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## **WEAPONS ACQUISITION: WARRANTY LAW SHOULD BE REPEALED**

Requiring the use of warranties in weapon system acquisitions is not practical and does not provide the government much in the way of benefits. GAO estimated that the military services spend about \$271 million annually for weapon system warranties. Congress expected that warranties would ensure that contractors provide quality weapon systems and that the requirement would be an incentive for contractors to improve the weapons. However, weapon system warranties are an expensive way of resolving product failures with contractors and do not motivate contractors to improve the quality of their products. GAO believes that the warranty law should be repealed and the decision to obtain a warranty, in appropriate cases, should be left to the program manager. (NSIAD-96-88)

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JULY  
1996

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■ 72 *Reports to Congress*

■ 23 *Testimonies*

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■ **FINANCIAL AUDIT: RESOLUTION TRUST CORPORATION'S 1995 AND 1994 FINANCIAL STATEMENTS**

With the closure of the Resolution Trust Corporation (RTC), a significant phase of the savings and loan crisis ended. In this report, GAO provides a historical perspective on RTC's role and the costs of the crisis. GAO calculated the total direct and indirect costs of the crisis to be \$160 billion, of which 83 percent was provided by taxpayers. GAO noted that litigation against the government involving supervisory goodwill may add billions more. GAO also calculated estimated financing costs of \$112 billion for interest on bonds issued specifically to finance a part of the direct costs and \$209 billion in estimated interest associated with other direct costs paid with appropriated funds. (AIMD-96-123)

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■ **OPERATION DESERT STORM: EVALUATION OF THE AIR WAR**

To aid the Congress in future procurement decisions, GAO was asked to evaluate the use and effectiveness of the various aircraft, munitions, and other weapons systems used during Operation Desert Storm. GAO's analysis of the air campaign found that the effectiveness of the air power was limited by aircraft sensors that could not identify targets and by the Department of Defense's (DOD) failure to gather intelligence on the location of critical targets and inability to collect and disseminate timely battle damage assessments (BDA). DOD's future ability to conduct a comprehensive air campaign will depend on its ability to enhance sensor capabilities, at medium altitudes and in adverse weather; to identify valid targets; and to collect, analyze, and disseminate timely BDA. (PEMD-96-10)

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**FINANCIAL AUDIT: EXAMINATION OF IRS' FISCAL  
YEAR 1995 FINANCIAL STATEMENTS**

As in earlier years, GAO could not express an opinion on the reliability of the Internal Revenue Service's (IRS) financial statements, internal controls, and compliance with laws and regulations. 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-96-101)

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**INTERNATIONAL ENVIRONMENT:  
ENVIRONMENTAL INFRASTRUCTURE NEEDS IN THE  
U.S.-MEXICAN BORDER REGION REMAIN UNMET**

Communities on both sides of the nearly 2,000-mile U.S.-Mexican border are facing financial and institutional challenges to improving their environmental infrastructure. Mexican states and communities are constrained by their heavy dependence on their federal government for financing and by their limited authority to raise capital through taxes and user fees. Mexican communities have limited experience in planning, developing, and managing public works projects. Poor, unincorporated communities on the U.S. border lack the financial and institutional standing to obtain needed capital. Providing for the border region's environmental infrastructure needs is estimated to cost nearly \$8 billion over the next 10 years. The North American Development Bank offers financing, but poorer communities may not be able to afford these loans unless they are combined with grants or with low-interest loans from other sources. (RCED-96-179)

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## ■ BOSNIA: COSTS ARE EXCEEDING DOD'S ESTIMATE

The Department of Defense's (DOD) cost for operations in and around Bosnia as part of a multilateral coalition under the command of the North Atlantic Treaty Organization could exceed its \$3 billion estimate for fiscal years 1996-97 by as much as \$450 million, and further increases are possible. Contributing to these increases are added costs for (1) the deployment of additional reserve personnel to Europe, (2) communications, (3) the Logistics Civil Augmentation Program, (4) changes to the composition of the force in Bosnia, and (5) the provision of equipment to assist Bosnia in its self-defense. GAO reported that other costs would depend on decisions yet to be made about force requirements and redeployment. (NSIAD-96-204BR)

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## ■ VA HEALTH CARE: OPPORTUNITIES FOR SERVICE DELIVERY EFFICIENCIES WITHIN EXISTING RESOURCES

The Department of Veterans Affairs' (VA) health care system may not need to expend the level of resources that VA had previously estimated to meet the health care needs of veterans. VA could reduce operating costs by billions of dollars over the next 7 years by completing actions on a wide range of efficiency improvements. Since there is little economic incentive to reduce cost, these savings will depend on the extent to which VA and its health care facilities are held accountable for how they spend appropriated funds. Recent changes at VA are starting to create efficiency incentives that have long existed in the private sector. An example is the establishment of 22 Veterans Integrated Service Networks, whose directors will be held accountable for performance by using ~~cost-effectiveness~~ goals and measures. (HEHS-96-121)



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**SOCIAL SECURITY ADMINISTRATION:  
EFFECTIVE LEADERSHIP NEEDED TO MEET DAUNTING  
CHALLENGES**

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

The Social Security Administration (SSA) is facing dramatic challenges as the 21st century approaches. SSA's programs touch the lives of nearly every individual in this country. In addition to administering the benefits received by nearly one out of five individuals in the country, the agency records the wages of nearly every U.S. worker. Challenges facing SSA's leadership include (1) informing the national debate on the future financing and structure of Social Security; (2) completing the redesign of the disability claims process and placing greater emphasis on return-to-work in disability programs; (3) protecting taxpayer dollars by combating fraud and abuse; and (4) making the technology investments and workforce decisions needed to meet increasing workloads with fewer resources. (T-OCG-96-7)

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**MANAGING IRS: IRS NEEDS TO CONTINUE  
IMPROVING OPERATIONS AND SERVICE**

*Testimony of Lynda D. Willis, Director, Tax Policy and Administration  
Issues, General Government Division*

In 1992, the Internal Revenue Service (IRS) developed a new business vision for 2001. The goal was to address long-standing problems, such as (1) the lack of accurate and accessible information on taxpayers and on IRS' operations; (2) taxpayers' frustrations in dealing with the IRS; and (3) taxpayers' compliance and uncollected accounts receivable. IRS' vision called for increasing electronic filing of tax returns, providing better service to taxpayers by resolving problems by telephone, and improving compliance. These proposals envision dramatic changes in the way IRS does business and depend heavily on new technology. During the past 4 years, IRS has made some progress in modernizing its operations, but the differences between IRS' current operations and those proposed in its vision are great. (T-GGD/AIMD-96-170)

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# AUGUST 1996

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■ 74 *Reports to Congress*

■ 2 *Testimonies*

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## ■ FAIR LENDING: FEDERAL OVERSIGHT AND ENFORCEMENT IMPROVED, BUT SOME CHALLENGES REMAIN

The banking regulators and the Departments of Justice and Housing and Urban Development are devoting additional effort toward improving compliance with the nation's fair lending laws. Despite an improvement in fair lending oversight and enforcement efforts, challenges remain. GAO identified several areas where regulatory agencies could strengthen their ability to detect lending discrimination and improve the consistency of oversight and enforcement. GAO also found that there is uncertainty among both lenders and regulators on issues relating to the interpretation and application of fair lending laws. Because solutions may be difficult to achieve by regulation, controversy could remain until civil or administrative judicial proceedings or corrective legislation provides resolution. (GGD-96-145)

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## ■ HOMEOWNERSHIP: FHA'S ROLE IN HELPING PEOPLE OBTAIN HOME MORTGAGES

The Federal Housing Administration (FHA) was established in 1934 to insure housing loans made by private lenders. FHA provides most of its single-family mortgage insurance through the Section 203(b) program. This program requires no federal funds to operate because FHA collects enough revenue from insurance premiums and foreclosed property sales to cover claims and other expenses. The primary goal of FHA's single-family program is to assist low-income and minority households. Although there are a number of other federal programs to assist these households, none reach as many households as FHA. The federal government also promotes homeownership for the entire general population through the home mortgage interest deduction and other tax provisions. (RCED-96-123)

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## HIGHER EDUCATION: TUITION INCREASING FASTER THAN HOUSEHOLD INCOME AND PUBLIC COLLEGES' COSTS

From 1980 through 1994, tuition at 4-year public colleges and universities increased 234 percent. During the same 15-year period, families experienced an 82 percent rise in median household income and a 74 percent increase in the cost of consumer goods. The two factors most responsible for the increase in tuition were the rise in the schools' expenditures and the schools' greater dependency on tuition as a source of revenue. The escalation in college tuition affects taxpayers at the state and federal levels because it can trigger increases in state funding for higher education and federally supported student financial aid. (HEHS-96-154)

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## SCHOOL LUNCH PROGRAM: ROLE AND IMPACTS OF PRIVATE FOOD SERVICE COMPANIES

In fiscal year 1995, the U.S. Department of Agriculture spent about \$5.2 billion to provide the nation's school-age children with nutritious food and promote healthy eating choices through its lunch program. Traditionally, school districts have operated their own school meals program. In school year 1994-95, about 8 percent of school districts nationwide had contracted with private food service management companies to plan, prepare, and serve school meals. Most schools using food service companies reported that they turned to the companies for financial reasons, such as their belief that using a private company would reduce food service costs. (RCED-96-217)

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## STATE DEPARTMENT: OPTIONS FOR ADDRESSING POSSIBLE BUDGET REDUCTIONS

It is unlikely that the Department of State will continue to be funded at a level that would allow it to maintain its current activities. New fiscal realities necessitate that State increase its cost-consciousness, make choices about resource priorities, and fundamentally rethink how it does business. State has been unable to significantly reduce its overseas presence and the scope of its activities, and the Secretary of State has chosen not to support reforms that would change the Department's mission, organization, and processes. An opportunity to significantly reduce costs is to close, or reduce the size of, overseas diplomatic posts. Because eliminating posts will be difficult, GAO suggests that Congress consider creating a panel, much like the military's Base Realignment and Closure Commission, to make recommendations on closing and downsizing overseas missions. (NSIAD-96-124)

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## FOREIGN MISSILE THREATS: ANALYTIC SOUNDNESS OF CERTAIN NATIONAL INTELLIGENCE ESTIMATES

National Intelligence Estimates (NIE) analyze issues of major importance and long-term interest to the United States and are the intelligence community's most authoritative projection of future developments. NIEs are intended to help policymakers and military leaders think through critical issues by presenting the relevant key facts, judgments about the likely course of events in foreign countries, and the implications for the United States. One shortcoming in NIE 95-19, entitled *Emerging Missile Threats to North America During the Next 15 Years*, is the overstatement of the level of certainty of the report's main judgment. (NSIAD-96-225)

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# SEPTEMBER 1996

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■ 146 Reports to Congress

■ 23 Testimonies

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## ■ THE ACCOUNTING PROFESSION: MAJOR ISSUES: PROGRESS AND CONCERNS

GAO reviewed actions taken by the accounting profession in response to the recommendations made from 1972 through 1995 to improve accounting and auditing standards and the performance of independent audits under the federal securities laws. GAO found that the accounting profession has been responsive in making changes to improve the financial reporting and auditing of public companies. However, the accounting profession has not been totally effective in resolving issues of auditor independence, auditor responsibility for detecting fraud and reporting on internal controls, public participation in setting standards, the timeliness and relevancy of accounting standards, and the need to maintain the independence of the Financial Accounting Standards Board. GAO reported that the effective resolution of these issues cannot be accomplished by the accounting profession alone. The Securities and Exchange Commission's responsibilities under the securities laws place it in a pivotal position to assume a leadership role to work not only with the accounting profession, but also with the stock exchanges, public companies, and users of financial reporting to resolve these issues. (AIMD-96-98 and AIMD-96-98A)

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**AVIATION SECURITY: URGENT ISSUES NEED TO  
BE ADDRESSED**

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

The threat of terrorism against the United States has increased, and protecting civil aviation from terrorists' attacks is an urgent national issue. The 1988 bombing of Pan Am flight 103, the crash of ValuJet flight 592, and the explosion of TWA flight 800 have shaken the public's confidence in the safety and security of air travel. The vulnerabilities of the nation's aviation security system include the screening of passengers, checked and carry-on baggage, mail, and cargo, as well as access to secured areas within airports and aircraft. To improve aviation security, the Congress, the administration—specifically, the Federal Aviation Administration and the intelligence community—and the aviation industry need to agree on what corrective actions need to be taken and who will pay for them. (T-RCED/NSIAD-96-251)

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**VA HEALTH CARE: ISSUES AFFECTING ELIGIBILITY  
REFORM EFFORTS**

The evolution of the Department of Veterans Affairs' (VA) health care over the past 60 years has created a myriad of complex eligibility rules. These rules frustrate veterans, who cannot understand what services they can get from VA, and VA physicians and administrators, who have to interpret the eligibility provisions. GAO's work suggests that eligibility reforms could be developed that would both strengthen VA's safety net mission and preserve its ability to provide specialized services. Among the approaches that could be pursued are placing limits on the number of veterans given expanded benefits, narrowing the range of benefits added, or increasing cost-sharing to offset the costs of added benefits. (HEHS-96-160)

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**MATERNITY CARE: APPROPRIATE FOLLOW-UP SERVICES CRITICAL WITH SHORT HOSPITAL STAYS**

The dramatic increase in 1-day hospital stays for newborns and their mothers since 1980 has focused public debate over maternity care on the appropriate length of stay. Research on the safety of short postpartum stays is inconclusive. The critical issue, however, is whether those who are discharged early receive all necessary services, particularly follow-up visits. Some hospitals and some health plans with early discharge policies ensure that a full range of services is provided, including prenatal assessment and education, and follow-up care by a properly trained professional at the mothers' homes or in clinics within 72 hours of discharge. But other plans may not provide all recommended services, relying instead on telephone hotlines. (HEHS-96-207)

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**MEDICAID: STATES' EFFORTS TO EDUCATE AND ENROLL BENEFICIARIES IN MANAGED CARE**

In fiscal year 1995, federal and state Medicaid expenditures reached \$159 billion and accounted for more than 19 percent of the states' budgets; health care coverage was provided to about 40 million low-income individuals. To help control expenditures, 48 states have implemented some type of Medicaid managed care program. Some states have been plagued with allegations of marketing and enrollment abuses by managed care organizations engaged in unscrupulous practices. These practices include bribing public officials, paying beneficiaries cash and other enrollment incentives, deliberately misinforming beneficiaries about access to care, and enrolling ineligible beneficiaries—as many as 4,800 in one state. To avoid these problems, some states now ban the marketing of managed care plans door-to-door and at public assistance offices and have retained enrollment responsibilities. Certain states have developed strategies to help beneficiaries better understand the principle of managed care and make the often complex decisions involved with selecting a managed-care organization. (HEHS-96-184)

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**POWER MARKETING ADMINISTRATIONS:  
COST RECOVERY, FINANCING, AND COMPARISON TO  
NONFEDERAL UTILITIES**

In recent years, the Congress has focused increasing attention on the pros and cons of privatizing the federal power marketing administrations (PMA), which transmit and sell electric power generated mainly at federal hydropower facilities. This report provides information on three of these PMAs—the Southeastern Power Administration, the Southwestern Power Administration, and the Western Area Power Administration. GAO identified five main power-related costs that have not been fully recovered by one or more of the PMAs through power rates. GAO estimated that these unrecovered costs totaled about \$83 million for fiscal year 1995 and cumulatively could be as much as \$1.8 billion as of September 30, 1995. GAO also determined that the cost to the Treasury of financing the power marketing activities exceeded the interest rates on the three PMAs' outstanding appropriated debt. GAO estimated that this financing subsidy totaled about \$228 million for fiscal year 1995 and several billion dollars cumulatively. (AIMD-96-145)

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**COMBAT AIR POWER: JOINT MISSION ASSESSMENTS  
NEEDED BEFORE MAKING PROGRAM AND BUDGET  
DECISIONS**

The Department of Defense (DOD) has initiated major acquisition programs estimated to cost over \$300 billion to modernize its combat air power capabilities over the next 15 to 20 years. The Joint Strike Fighter, which is still being defined, is likely to add another \$165 billion to this total, according to the Congressional Budget Office. DOD will face difficult decisions as it attempts to cover the high cost of these and other defense acquisitions when the nation is moving toward a balanced budget. This comprehensive report on U.S. air power examines whether the Secretary of Defense has sufficient information from a joint perspective to help him set program priorities, objectively weigh the merits of new air power investments, and decide whether current programs should receive continued funding. (NSIAD-96-177)



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**WORLD BANK: U.S. INTERESTS SUPPORTED, BUT  
OVERSIGHT NEEDED TO HELP ENSURE IMPROVED  
PERFORMANCE**

The World Bank supports U.S. economic and foreign policy goals and makes decisions consistent with the nation's post-Cold War foreign policy agenda. The Bank's activities include providing assistance to countries making the transition from communism to market economies and financing economic reconstruction in countries important to U.S. foreign policy. The Bank promotes economic development consistent with U.S. interests and provides financing for countries that have little access to private capital. The Bank, however, has performance problems that limit its effectiveness. It has recognized many of these problems and has developed a reform program that holds promise for improving its effectiveness. Continued monitoring will be needed to ensure that the proposed reforms are indeed implemented. (NSIAD-96-212)

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**INFORMATION TECHNOLOGY INVESTMENT:  
AGENCIES CAN IMPROVE PERFORMANCE, REDUCE COSTS,  
AND MINIMIZE RISKS**

GAO assessed the information technology (IT) investment strategies and practices at five federal agencies—the National Aeronautics and Space Administration, Environmental Protection Agency, National Oceanic and Atmospheric Administration, Coast Guard, and Internal Revenue Service—and compared them to those used by leading private and public sector organizations. GAO found that with a complete investment process, the agencies gained better control of their IT budgets, increased the odds of operational improvements, and reduced risks. Without an investment process, the agencies were increasingly at risk of becoming entrapped in a host of difficult problems, such as unmanaged development risks, higher failure rates, low value projects, and an overemphasis on maintaining old systems at the expense of using technology to redesign outmoded work processes. (AIMD-96-64)

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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 operations,
- a summary of quality control efforts and information on GAO's external Audit Advisory Committee,
- management's assessment of internal controls, and
- a description of the scope of the audit of GAO's 1996 principal statements.

Immediately following the overview are GAO's principal statements for fiscal years 1996 and 1995, 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 are 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.

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

About 78 percent of GAO's work during fiscal year 1996 was done at the specific request of the Congress. GAO is required to do work requested by committees; as

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a matter of policy, GAO assigns equal status to requests from committee chairs and ranking minority members. To the extent possible, GAO also responds to requests from individual members. Finally, GAO undertakes assignments independently in accordance with its basic legislative responsibilities.

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

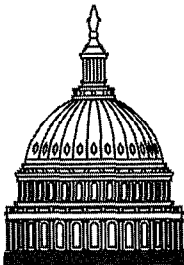
While audits, evaluations, and investigations are the most visible aspects of GAO's work and absorb the largest share of its resources, GAO has other important functions. GAO prescribes accounting standards for the entire federal government in conjunction with the Office of Management and Budget (OMB)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

### GAO'S KEY PERFORMANCE MEASURES

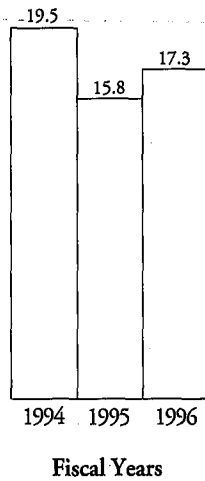
GAO monitors performance with a view toward continuously improving its efficiency and effectiveness. GAO's key performance measures fall into two groups: (1) GAO's service to the Congress and the results of its work, as measured by financial benefits to the government, other improvements in government operations, the percentage of GAO recommendations implemented, the number of testimony statements delivered, and overall product output; and (2) the efficiency and effectiveness of GAO's work processes, as measured by the duration and cost of jobs and timeliness in delivering work results. GAO's performance in nearly all of these key measures improved during fiscal year 1996.

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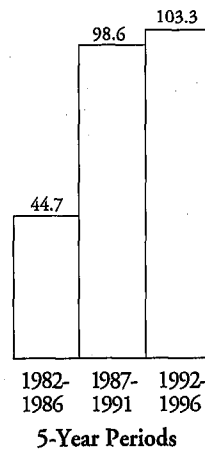
FINANCIAL BENEFITS



Financial Benefits  
by Year  
(Dollars in Billions)



Financial Benefits  
by 5-Year Period  
(Dollars in Billions)



GAO's recommendations and audit findings frequently contribute to legislative and executive actions that result in significant financial benefits to taxpayers. These include budget reductions, costs avoided, appropriation deferrals, and revenue enhancements that can be documented as either directly attributable to or significantly influenced by GAO's work. Although financial benefits fluctuate from year to year, GAO seeks to identify at least \$10 billion in financial benefits each year. In fiscal year 1996, GAO's work contributed to legislative and executive actions that resulted in over \$17 billion in measurable financial benefits. Between 1992 and 1996, financial benefits totaled over \$103 billion, or nearly \$50 for every dollar appropriated for GAO.

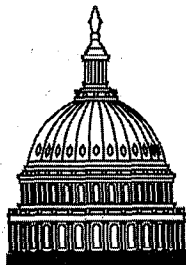
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OVERVIEW OF OPERATIONS AND  
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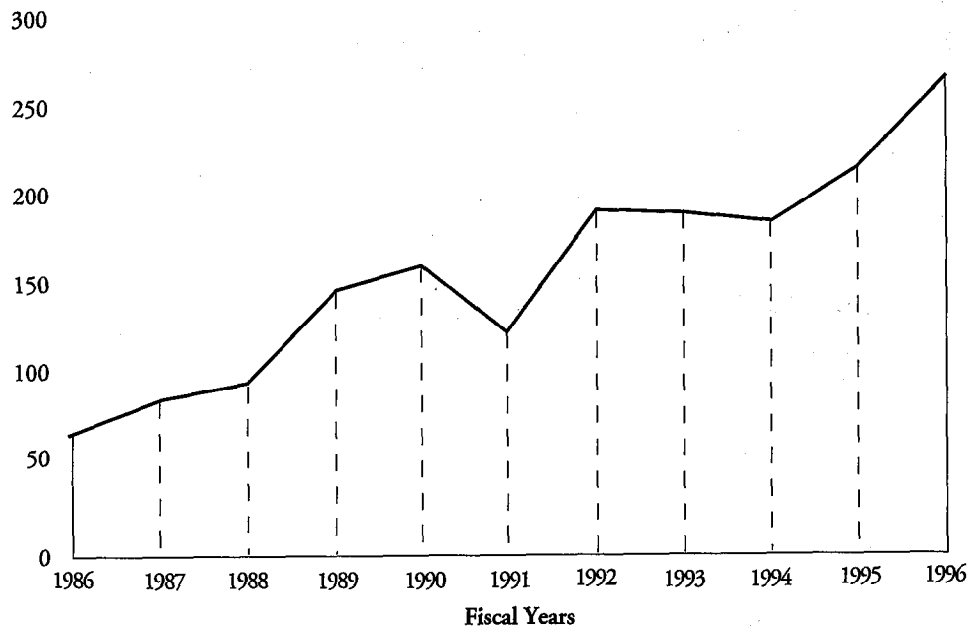
**IMPROVEMENTS IN GOVERNMENT OPERATIONS AND SERVICES**

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 be quantified in monetary terms. GAO documents these improvements with two performance measures.

First, GAO monitors corrective actions taken and program improvements made in response to either a GAO recommendation or an audit finding. GAO documented nearly 270 of these accomplishments in 1996, an increase of over 23 percent from last year. The 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.



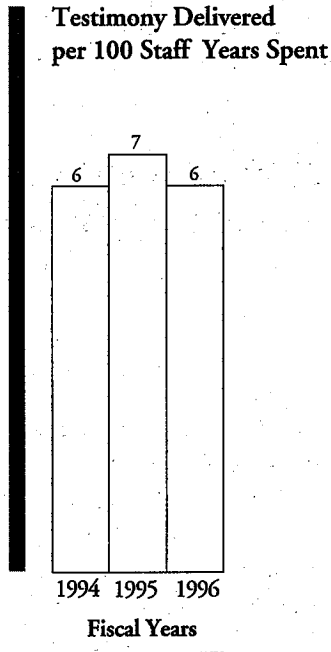
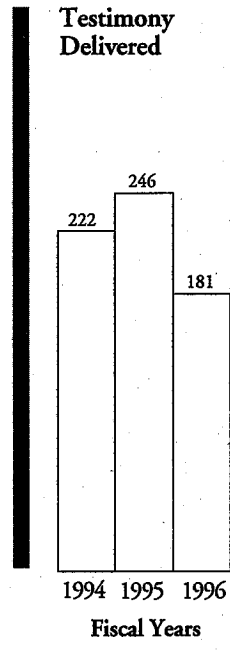
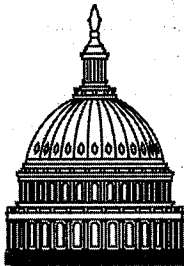
**Actions Taken as a Result of GAO Recommendations or Audit Findings**



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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 that GAO made in 1996 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.



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**CONGRESSIONAL TESTIMONY**

Responding to congressional requests for testimony is one of GAO's most important services. Although the number of testimony appearances varies from year to year, congressional requests for GAO testimony are an indicator of the extent to which GAO's work adds value to the Congress and the legislative process. In supporting the Congress this year, 68 GAO witnesses testified 181 times before 85 congressional committees and subcommittees. Taking GAO's decreased workforce into account, the number of testimony appearances made this year per 100 staff years spent remained about the same as the last two years. Not included in the 181 appearances are 29 statements for the record that were provided to congressional committees and subcommittees during the year.

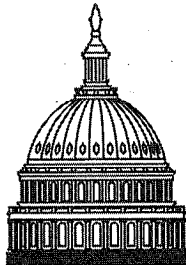
**PRODUCT OUTPUT**

In fiscal year 1996, GAO produced 1,306 audit and evaluation products, including 908 reports to the Congress and agency officials, 217 formal congressional briefings, and 181 congressional testimony statements.

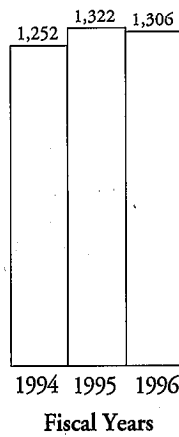
GAO's product output, when measured in absolute terms, has remained about the same in the past few years. The number of products issued this year per 100 staff years spent increased by over 18 percent compared with last year. GAO's ability to maintain productivity was aided by the implementation of new technology and upgraded facilities.

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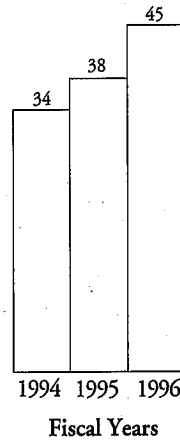
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Products Issued



Products Issued  
per 100 Staff  
Years Spent



**DURATION, COST, AND TIMELINESS OF JOBS**

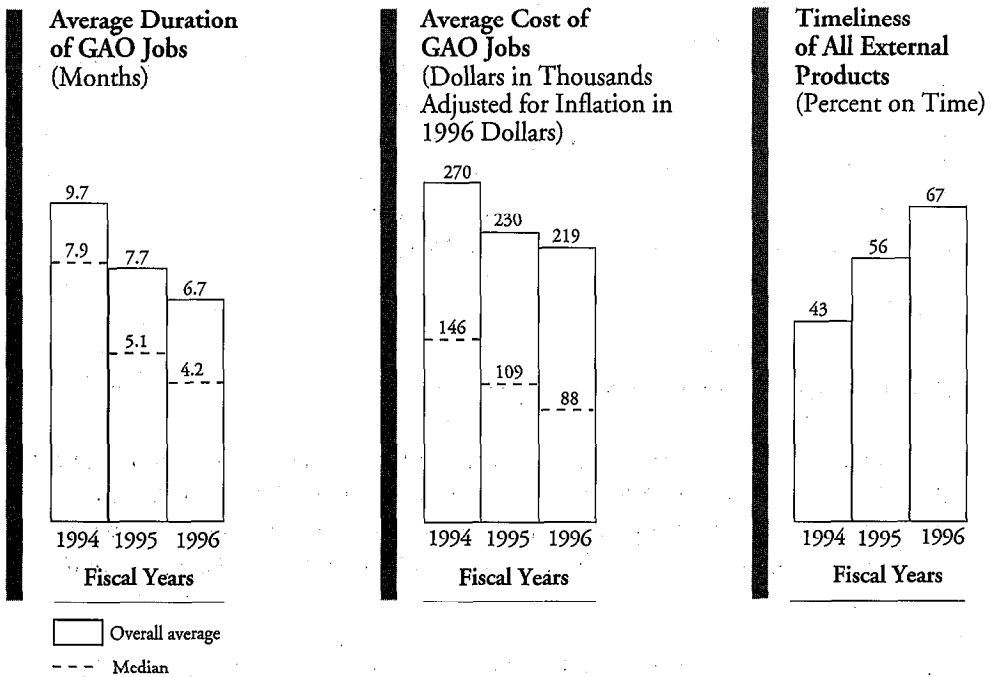
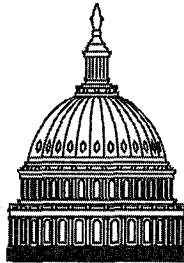
GAO recognizes that success requires continuous improvement in both the quality of its work and the efficiency with which it is done. Accordingly, GAO has reengineered its process for performing audits and producing reports in order to reduce job duration and costs and to improve timeliness relative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

GAO fully implemented the redesigned process in June of 1996. Because the process is less than a year old, it is too soon to evaluate the full effect of these changes. However, performance against all three key efficiency measures—duration, cost, and timeliness—has improved at a time when the workload has become more technically complex and staff and budget resources have become more



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constrained. GAO expects further improvements in these efficiency measures—especially timeliness—as more of its jobs go through, and benefit from, the redesigned process. The chart below shows the average and the median duration and cost of jobs, as well as GAO’s timeliness in delivering the results of its work. For the duration and cost of jobs, the median is the more important indicator because it is more representative of the duration and cost of a typical assignment.



## DOWNSIZING GAO'S OPERATIONS

In fiscal year 1996, GAO completed the last two phases of the downsizing necessitated by a 25-percent decrease in the agency's budget. During fiscal 1996, three field offices were closed and GAO's administrative and support staff was reduced. As a result of these actions, several hundred employees were involuntarily separated. Additionally, GAO transferred its claims functions to the executive branch, thus further reducing the size of the agency. As of September 30, 1996, GAO had about 3,500 staff on board, its lowest level since before World War II.

## QUALITY CONTROLS

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

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

Last year GAO took the first in a series of planned steps to add an external component to its quality control program and contracted with a large public accounting firm for an external quality control review of its financial statement audit work. This effort was designed to determine whether GAO's financial statement audit work meets generally accepted government auditing standards. The review is similar in design and scope to peer reviews of certified public accounting firms. In its opinion, the firm said that the Accounting and Information Management Division had in place systems that met the objectives of established quality control standards and provided reasonable assurance of conforming with professional standards. In the coming years, GAO plans to extend these external quality control reviews to the entire agency, adding another important dimension to GAO's program for ensuring the quality and the credibility of its work.

Also this year, GAO established an Office of Inspector General (IG). GAO has long supported the IG concept in other agencies and has regularly reported on the benefits of such a position. The new Office of Inspector General is modeled on the provisions governing similar IG positions in other government agencies.

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

### MANAGEMENT REPORT ON INTERNAL CONTROLS

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

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

GAO has assessed its internal control structure as of September 30, 1996, on the basis of criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, GAO believes that it has an effective internal control structure in place as of September 30, 1996.

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 13, 1996, voluntarily prepared under FMFIA, and the results of their examination of GAO's assertion.

The independent auditors' opinion can be found on page 96.

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OVERVIEW OF OPERATIONS AND  
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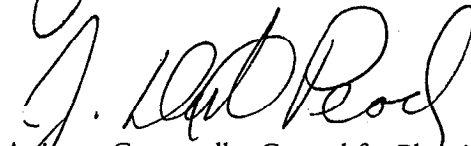
## GAO's 1996 PRINCIPAL STATEMENTS

The accompanying principal statements summarize GAO's financial position, show the net cost of operations and the changes in net position during fiscal years 1996 and 1995, provide information on budgetary resources, and reconcile the difference between accrual-based financial accounting and obligation-based budgetary accounting. GAO's 1996 principal statements have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990; federal accounting standards; and OMB Bulletin 97-01, Form and Content of Agency Financial Statements. The provisions of this bulletin are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 1998. However, GAO has chosen to implement the provisions of this bulletin with the preparation of its 1996 principal statements because we believe it provides the user with information of greater relevance to the government environment. Implementation of these requirements resulted in significant changes in the form and content of the principal statements. These changes are described in the notes to those statements.

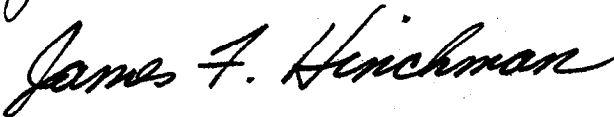
The audit of the statements was performed by the independent auditors Clifton Gunderson L.L.C. The independent auditors' report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the principal statements.



Assistant Comptroller General for Operations



Assistant Comptroller General for Planning and Reporting



Acting Comptroller General of the United States

# PRINCIPAL STATEMENTS

## U.S. GENERAL ACCOUNTING OFFICE STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 1996 AND 1995

<i>Dollars in Thousands</i>	<i>1996</i>	<i>1995</i>
<b>Assets</b>		
<b>Entity Assets</b>		
Intragovernmental		
Funds with the U. S. Treasury	\$65,562	\$94,437
Accounts receivable	1,354	3,819
Governmental		
Accounts receivable	33	285
Travel advances	18	173
Supplies	244	441
Property and equipment, net	<u>70,391</u>	<u>59,597</u>
<b>Total entity assets</b>	<b>137,602</b>	<b>158,752</b>
<b>Total Assets</b>	<b>\$137,602</b>	<b>\$158,752</b>
<b>Liabilities</b>		
<b>Liabilities Covered by Budgetary Resources</b>		
Intragovernmental		
Accounts payable	\$4,932	\$9,011
Governmental		
Salaries and benefits	11,919	23,379
Employee travel	947	938
Accounts payable	<u>10,139</u>	<u>14,153</u>
<b>Total liabilities covered by budgetary resources</b>	<b><u>27,937</u></b>	<b><u>47,481</u></b>
<b>Liabilities Not Covered by Budgetary Resources</b>		
Governmental		
Accrued annual leave	26,360	27,275
Workers' compensation	9,948	10,509
Comptrollers General retirement plan	2,546	2,314
Severance pay	563	199
Capital leases	<u>278</u>	<u>801</u>
<b>Total liabilities not covered by budgetary resources</b>	<b>39,695</b>	<b>41,098</b>
<b>Total Liabilities</b>	<b>\$67,632</b>	<b>\$88,579</b>
<b>Net Position</b>		
Unexpended appropriations	\$39,030	\$51,233
Cumulative results of operations	<u>30,940</u>	<u>18,940</u>
<b>Total Net Position</b>	<b>69,970</b>	<b>70,173</b>
<b>Total Liabilities and Net Position</b>	<b>\$137,602</b>	<b>\$158,752</b>

The accompanying notes are an integral part of these statements.

PRINCIPAL STATEMENTS

**U.S. GENERAL ACCOUNTING OFFICE  
STATEMENTS OF NET COST  
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1996 AND 1995**

<i>Dollars in Thousands</i>	<i>1996</i>	<i>1995</i>
<b>Net Costs by Program Area</b>		
National Defense, Security and International Relations, and Other Related Issues	\$85,132	\$97,565
Less reimbursable services	(146)	(108)
Net program cost	<u>84,986</u>	<u>97,457</u>
Financial Audits, Systems, Information Management and Technology Issues	80,516	76,747
Less reimbursable services	(3,534)	(4,507)
Net program cost	<u>76,982</u>	<u>72,240</u>
Energy, Agriculture, Environment, Housing, Transportation, and National Resources Issues	74,186	85,471
Less reimbursable services	(47)	(41)
Net program cost	<u>74,139</u>	<u>85,430</u>
Justice, Tax Policy, Financial Institutions, and General Management Issues	58,005	76,603
Less reimbursable services	—	—
Net program cost	<u>58,005</u>	<u>76,603</u>
Education and Employment, Health Care and Income Security Issues	57,284	64,752
Less reimbursable services	—	(9)
Net program cost	<u>57,284</u>	<u>64,743</u>
Legal Services	27,325	28,679
Less reimbursable services	(149)	(75)
Net program cost	<u>27,176</u>	<u>28,604</u>
Program Evaluation Methodology and Standards	7,624	8,510
Less reimbursable services	—	—
Net program cost	<u>7,624</u>	<u>8,510</u>
Special Investigations and Investigative Support	5,582	7,371
Less reimbursable services	(83)	(27)
Net program cost	<u>5,499</u>	<u>7,344</u>
Senior management and staff	3,945	3,962
Less reimbursable services not attributable to programs	(512)	(564)
<b>Net Cost of Operations</b>	<b>\$395,128</b>	<b>\$444,329</b>

The accompanying notes are an integral part of these statements.

PRINCIPAL STATEMENTS

**U.S. GENERAL ACCOUNTING OFFICE  
STATEMENTS OF CHANGES IN NET POSITION  
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1996 AND 1995**

<i>Dollars in Thousands</i>	<i>1996</i>	<i>1995</i>
<b>Net Cost of Operations</b>	<u>\$395,128</u>	<u>\$444,329</u>
<b>Financing Sources (other than reimbursable services)</b>		
Appropriations used	383,962	432,977
Pension and other retirement benefit costs paid by OPM and imputed to GAO	23,739	26,703
Intragovernmental transfer of property and equipment	<u>(573)</u>	<u>(320)</u>
<b>Total Financing Sources</b>	<u>407,128</u>	<u>459,360</u>
<b>Net Results of Operations</b>	12,000	15,031
<b>Reclassification of the GAO Building and Land as a Heritage Asset</b>	<u>—</u>	<u>(13,096)</u>
<b>Net Change in Cumulative Results of Operations</b>	12,000	1,935
<b>Net (Decrease) Increase in Unexpended Appropriations</b>	<u>(12,203)</u>	<u>6,235</u>
<b>Change in Net Position</b>	(203)	8,170
<b>Net Position - Beginning of Fiscal Year</b>	70,173	62,003
<b>Net Position - End of Fiscal Year</b>	<u>\$69,970</u>	<u>\$70,173</u>

The accompanying notes are an integral part of these statements.



PRINCIPAL STATEMENTS

**U.S. GENERAL ACCOUNTING OFFICE  
STATEMENTS OF BUDGETARY RESOURCES  
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1996 AND 1995**

<i>Dollars in Thousands</i>	<i>1996</i>	<i>1995</i>
<b>Budgetary Resources Made Available</b>		
Current year appropriations, net	\$373,745	\$440,743
Unobligated appropriations, beginning of fiscal year	14,083	14,478
Reimbursable services	4,471	5,331
Cost sharing and pass-through CPA contracts reimbursements	4,519	7,924
<b>Total Budgetary Resources Made Available</b>	<b>\$396,818</b>	<b>\$468,476</b>
<b>Status of Budgetary Resources</b>		
Obligations incurred	\$382,868	\$452,862
Unobligated appropriations, end of fiscal year	11,964	14,083
Lapsed budget authority	1,986	1,531
<b>Total, Status of Budgetary Resources</b>	<b>\$396,818</b>	<b>\$468,476</b>
<b>Outlays</b>		
Obligations incurred	\$382,868	\$452,862
Less: Reimbursable services	(4,471)	(5,331)
Cost sharing and pass-through CPA contracts reimbursements	(4,519)	(7,924)
Obligated balance, net - beginning of fiscal year	80,354	54,341
Less: Obligated balance, net - end of fiscal year	(53,598)	(80,354)
<b>Total Outlays</b>	<b>\$400,634</b>	<b>\$413,594</b>

The accompanying notes are an integral part of these statements.

PRINCIPAL STATEMENTS

**U.S. GENERAL ACCOUNTING OFFICE  
STATEMENTS OF FINANCING  
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1996 AND 1995**

<i>Dollars in Thousands</i>	<i>1996</i>	<i>1995</i>
<b>Obligations and Nonbudgetary Resources</b>		
Obligations incurred	\$382,868	\$452,862
Less: Reimbursable services	(4,471)	(5,331)
Cost sharing and pass-through CPA contracts reimbursements	(4,519)	(7,924)
Financing imputed from OPM for pension and other retirement benefit cost subsidies	23,739	26,703
Intragovernmental transfer of property and equipment	(573)	(320)
<b>Total obligations as adjusted, and nonbudgetary resources</b>	<b><u>397,044</u></b>	<b><u>465,990</u></b>
<b>Resources That Do Not Fund Net Cost of Operations</b>		
Net decrease (increase) in unliquidated obligations	10,084	(6,630)
Costs capitalized on the balance sheet	(24,874)	(24,226)
Appropriations provided to reduce unfunded liabilities	(880)	(842)
<b>Total resources that do not fund net cost of operations</b>	<b><u>(15,670)</u></b>	<b><u>(31,698)</u></b>
<b>Costs That Do Not Require Resources</b>		
Depreciation	13,754	10,037
<b>Net Cost of Operations</b>	<b><u>\$395,128</u></b>	<b><u>\$444,329</u></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, net cost of operations, changes in net position, budgetary resources, and financing of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and a building expenditure fund. The principal statements, except for pension and other retirement benefit costs paid by the Office of Personnel Management (OPM) and imputed to GAO, do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as borrowing, which may in part be attributable to GAO, or the effects of GAO's trust and government-wide functions described in Note 10.

### Basis of Accounting

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

- the accounting principles, standards, and requirements approved by the three principals and issued by GAO and OMB and
- form and content requirements for financial statements included in OMB Bulletin 97-01 (Form and Content of Agency Financial Statements).

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

### **Basis of Presentation**

GAO's 1996 principal statements have been prepared in accordance with the requirements of the CFO Act of 1990, federal accounting standards, and OMB Bulletin 97-01. The provisions of this bulletin are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 1998. However, GAO has chosen to implement the provisions of this bulletin with the preparation of its 1996 principal statements. Implementation of these requirements resulted in significant changes in the form and content of the principal statements. Significant changes include:

- **Statements of Financial Position (SOFP)** - Assets and liabilities are classified as intragovernmental and governmental, and net position is composed of two elements: unexpended appropriations and cumulative results of operations. In addition, the cost of the GAO building (including land), which has been designated as a heritage asset, has been removed from the statement of financial position and is reported in a supplemental section on stewardship property. Intragovernmental assets and liabilities arise from transactions among federal agencies. Governmental assets and liabilities arise from transactions with non-federal entities. Unexpended appropriations includes appropriations not yet obligated or expended. Cumulative results of operations includes the amounts accumulated over the years by GAO from its financing sources less its expenses, offset by an amount representing liabilities not covered by budgetary resources.
- **Statements of Net Cost (SONC)** - The SONC, along with the Statements of Changes in Net Position (SOCNP), replace the Statements of Operations and Changes in Net Position. The SONC is designed to show separately the full and net operating costs of GAO's programs. Revenues from reimbursable services earned by a program activity are shown as an offset against the full cost of the program activity to arrive at its net cost.

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NOTES TO PRINCIPAL STATEMENTS

- **Statements of Changes in Net Position** - This statement provides a summary of all transactions of GAO affecting its net position. Its purpose is to report on how the net costs of operations are financed and how the changes in unexpended appropriations affect the net position of GAO.
- **Statements of Budgetary Resources** - This statement presents the budgetary resources made available to GAO, the status of those budgetary resources, and a reconciliation of obligations incurred with total outlays. The terminology used in this statement is based on the budgetary accounting rules and definitions contained in OMB Circular A-34, Instructions on Budget Execution.
- **Statements of Financing** - This is a new statement that is designed to reconcile the difference between accrual-based financial accounting and obligation-based budgetary accounting. Specifically, GAO's obligations and nonbudgetary resources are reconciled to its net cost of operations.

GAO restated its 1995 principal statements to conform with the 1996 presentation of those amounts.

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

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

#### **Accounts Receivable**

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

#### **Property and Equipment**

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

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NOTES TO PRINCIPAL STATEMENTS

been depreciating the building on a straight-line basis over 25 years. The GAO building is listed in the National Register of Historic Places and has been designated as a heritage asset.

Statement of Federal Accounting Standards Nos. 6 and 8 requires that heritage assets be removed from property and equipment in the SOFP and reported in a separate stewardship reporting section. As of September 30, 1994, depreciation of \$3,759,000 had been taken on the building. The amounts removed from the SOFP are as follows:

Building	\$15,664,000
Land	1,191,000
<b>Total</b>	<b>16,855,000</b>
Less accumulated depreciation	3,759,000
<b>Reduction in Total Assets and Net Position</b>	<b>\$13,096,000</b>

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 1996, GAO revised its depreciation period on capitalized purchased software from 6 years to 3 years so that the depreciation period reflects more closely the actual useful life of computer software. This change is treated prospectively, increasing depreciation expense in the current fiscal year by \$863,000.

### Liabilities

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

### **Pension and Other Retirement Benefits**

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

The standard also requires that GAO recognize a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. This expense is GAO's Other Retirement Benefit (ORB) expense. GAO accounted for and reported the ORB expense in its principal statements in a manner similar to that used for pensions, with the exception that employees and GAO do not make current contributions to fund these future benefits. OPM provided GAO with the cost factors needed to determine the ORB expense.

### **Annual, Sick, and Other Leave**

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

### **Contingencies**

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

NOTES TO PRINCIPAL STATEMENTS

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

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

*Dollars in Thousands*

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

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 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>\$107,515</b>	<b>\$47,918</b>	<b>\$59,597</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. Net Position is composed of two elements—unexpended appropriations and cumulative results of operations. Unexpended appropriations includes appropriations not yet obligated or expended, i.e., unobligated appropriations and unliquidated obligations. Unobligated appropriations were \$11,964,000 as of September 30, 1996, and \$14,083,000 as of September 30, 1995; unliquidated obligations were \$27,066,000 as of September 30, 1996, and \$37,150,000 as of September 30, 1995. Cumulative results of operations include the amounts accumulated over the years by GAO from its financing sources less its expenses, including donations and transfers of capitalized assets and an amount representing GAO's liabilities not covered by budgetary resources. The former represents GAO's investment in capitalized assets, including supplies, net of capital lease liability. The increase in capitalized assets from fiscal year 1995 to 1996 of \$11,120,000 resulted primarily from purchases of computers, other equipment, and building improvements less depreciation.

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

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**Note 4. Net Cost of Operations**

The Statements of Net Cost show the full and net operating costs of GAO's major programs. Included in the net cost of operations are pension and other retirement benefit costs paid by OPM and imputed to GAO of \$23,739,000 in fiscal year 1996 and \$26,703,000 in fiscal year 1995. Revenues from reimbursable services earned by a program area are shown as an offset against the full cost of the program to arrive at its net cost. These revenues consist primarily of billings to federal government corporations for financial statement audits performed by GAO, and to federal agencies for detailed GAO employees performing GAO mission-related work. Earned revenues that are insignificant or cannot be associated with a major

program area are shown in total. Revenues from reimbursable services for fiscal years 1996 and 1995 amounted to \$4,471,000 and \$5,331,000, respectively. The net cost of operations represents GAO's operating costs that must be funded by financing sources other than revenues earned from reimbursable services. These financing sources are presented in the Statements of Changes in Net Position.

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**Note 5. Net Financing Sources**

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

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**Note 6. Spending Authority from Reimbursements**

Budgetary resources made available to GAO include spending authority from reimbursements arising from both revenues earned by GAO from providing services to other federal entities for a price (reimbursable services) and cost sharing and pass-through contract arrangements with other federal entities. Reimbursements from cost sharing and pass-through contract arrangements consist primarily of collections from other federal entities for the support of the Joint Financial Management Improvement Program and FASAB and collections from other federal entities that utilize standing GAO contracts for obtaining accounting and auditing services from CPA firms. The costs and reimbursements for these activities are not included in the Statements of Net Cost.

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NOTES TO PRINCIPAL STATEMENTS

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**Note 7. Leases**

**Capital Leases**

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

**Operating Leases**

GAO leases office space from the General Services Administration and 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, and future lease payments are not accrued as liabilities. Lease costs for office space and equipment for fiscal years 1996 and 1995 amounted to approximately \$16,700,000 and \$21,900,000, respectively. GAO's estimated future minimum lease payments are as follows:

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<i>Dollars in Thousands</i>	<i>1996</i>
Fiscal Year End September 30	Total
1997	\$11,562
1998	7,708
1999	6,105
2000	5,586
2001	4,624
Thereafter	11,326
<b>Total Estimated Future Lease Payments</b>	<b>\$46,911</b>

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**Note 8. Retirement and Other Benefits**

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes matching contributions to CSRS, FERS, and FICA and matches employee contributions to the thrift savings component of FERS up to 5 percent of basic pay. The pension expense recognized in GAO's principal statements for fiscal years 1996 and 1995 amounted to approximately \$37,324,000 and \$41,682,000, respectively. These amounts include pension costs financed by OPM and imputed to GAO of \$17,006,000 and \$19,084,000, respectively. To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's principal statements. However, the payments to FICA that GAO makes are recognized as operating expenses. These payments amounted to approximately \$8,847,000 and \$9,846,000 during fiscal years 1996 and 1995, respectively. Similarly, to the extent that GAO employees are covered by the thrift savings component of FERS, GAO payments to the plan are operating expenses. GAO's costs associated with the thrift savings component of FERS during fiscal years 1996 and 1995 amounted to approximately \$3,867,000 and \$4,052,000, respectively.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGSIP) and may continue to participate after retirement. GAO makes matching contributions to the FEHBP and FEGSIP for active employees to pay for their current benefits but is not responsible for any contributions on behalf of retirees. GAO's contributions for active employees are recognized as operating expenses and, during fiscal years 1996 and 1995, amounted to approximately \$9,002,000 and \$10,749,000, respectively. Using the cost factors supplied by OPM, GAO has also recognized an ORB expense in its principal statements for the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$6,733,000 and \$7,619,000 during fiscal years 1996 and 1995, respectively, and are financed by OPM and imputed to GAO.

Comptrollers General and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are funded from current year appropriations and amounted to approximately \$102,300 and \$99,700 during fiscal years 1996 and 1995, respectively. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits is recorded as an unfunded liability. The estimated present value of accumulated plan benefits was \$2,546,000 as of September 30, 1996, and \$2,314,000 as of September 30, 1995.

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**Note 9. Workers' Compensation**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by GAO. GAO recorded an estimated liability for claims incurred as of September 30, 1996 and 1995, and expected to be paid in future periods. The total liability also includes amounts paid to claimants by DOL as of September 30, 1996 and 1995, of \$2,154,000 and \$1,948,000, respectively, but not yet reimbursed to DOL by GAO. The workers' compensation expense recognized in the principal statements during fiscal years 1996 and 1995 amounted to approximately \$314,000 and \$508,000, respectively.

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**Note 10. Trust and Other Governmentwide Functions**

GAO is responsible for administering for the federal government the trust function of the Davis-Bacon Act receipts and payments. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trust. Trust assets under GAO's administration totaled approximately \$5,689,000 on September 30, 1996. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year

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NOTES TO PRINCIPAL STATEMENTS

1996, receipts and disbursements in the trust amounted to \$1,579,000 and \$1,699,000, respectively. Since the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying principal statements.

Until June 30, 1996, GAO was also responsible for administering the assets of Americans who die abroad. Under Public Law 104-53, Legislative Branch Appropriations Act of 1996, GAO's responsibility for this trust was transferred to the executive branch effective June 30, 1996. This program is now being administered by the State Department's Office of Overseas Citizens Services. During the 9-month period ending June 30, 1996, receipts and disbursements of this trust amounted to \$12,000 and \$3,000, respectively. Trust assets transferred to the State Department on June 30, 1996, amounted to approximately \$102,000.

In addition to the trust activities, GAO was responsible, until June 30, 1996, 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. Under Public Law 104-53, this responsibility was transferred to the executive branch effective June 30, 1996. This program is now being administered by the Department of the Treasury. During the 9-month period ending June 30, 1996 and during fiscal year 1995, GAO authorized approximately \$569,600,000 and \$1,133,300,000, 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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# HERITAGE ASSET

## U.S. GENERAL ACCOUNTING OFFICE ANNUAL STEWARDSHIP INFORMATION AS OF SEPTEMBER 30, 1996

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

On October 28, 1988, Public Law 100-545 transferred control of the General Accounting Office building and land in Washington, D. C., from the General Services Administration to GAO without a monetary exchange. At the time of transfer, the depreciated value of the building was \$15,664,000, and the book value of land was \$1,191,000. GAO recorded the building and the land as assets at the values stated above and has been depreciating the building on a straight-line basis over 25 years.

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

Statement of Federal Accounting Standards Nos. 6 and 8 requires that heritage assets be removed from general PP&E on the statement of financial position and reported in a separate stewardship reporting section. As of September 30, 1994, depreciation of \$3,759,000 had been taken on the building. The amounts removed from the statement of financial position are as follows:

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HERITAGE ASSET

Building	\$15,664,000
Land	1,191,000
<b>Total</b>	<b>16,855,000</b>
Less accumulated depreciation	3,759,000
<b>Reduction in Net Position</b>	<b>\$13,096,000</b>

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

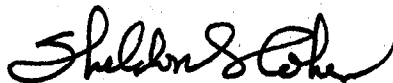
Maintenance of the building has been kept on a current basis, and the expense is recognized as incurred. There is no significant deferred maintenance cost.



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# AUDIT ADVISORY COMMITTEE'S REPORT

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 reviewed a draft of GAO's annual report, including the principal statements. The Committee met twice during fiscal year 1996, 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

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# INDEPENDENT AUDITORS' REPORT



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

## Independent Auditor's Report

Comptroller General of the United States

We have audited the General Accounting Office's Principal Statements, referred to below, as of and for the year ended September 30, 1996, 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, 1996. The Principal Statements of the General Accounting Office as of September 30, 1995 were audited by other auditors whose report dated December 15, 1995, expressed an unqualified opinion on those statements prior to restatement.

In our opinion:

- The 1996 Principal Statements are presented fairly, in all material respects; and
- Management's assertion that General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1996 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, *Management Accountability and Control*.

We found:

- No material conflicts with the General Accounting Office's report on internal controls dated December 13, 1996, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982; and
- No instances of noncompliance with the selected provisions of applicable laws and regulations tested.

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

### Opinion On Principal Statements

In our opinion, the accompanying 1996 Principal Statements including the notes thereto on pages 76 through 92 present fairly, in all material respects, the General Accounting Office's:

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

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

Members Of  
**NEXIA**  
INTERNATIONAL

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

ARIZONA COLORADO ILLINOIS INDIANA IOWA MARYLAND MISSOURI OHIO TEXAS VIRGINIA WISCONSIN

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## INDEPENDENT AUDITORS' REPORT

The Principal Statements of the General Accounting Office as of September 30, 1995 were audited by other auditors whose report dated December 15, 1995, expressed an unqualified opinion on those Principal Statements prior to restatement. We have audited the adjustments described in Note 1 that were applied to restate the 1995 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

### **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, 1996. These internal controls are designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

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

In our opinion management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1996 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, *Management Accountability and Control*, insofar as the objectives stated above pertain to the prevention or detection of errors and irregularities in amounts that would be material to the Principal Statements. In addition, we found no material conflicts between the results of our examination and the General Accounting Office's report on internal controls dated December 13, 1996, 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. However, this report is a matter of public record and its distribution should not be limited.

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INDEPENDENT AUDITORS' REPORT

**Responsibilities and Methodology**

Management has the responsibility for:

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

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

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 audit and examination, respectively. Accordingly, we planned and performed the audit and examination to obtain reasonable assurance about whether (1) the Principal Statements are free of material misstatement and are presented in accordance with federal generally accepted accounting principles as described in Note 1 to the Principal Statements, and (2) management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1996 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, *Management Accountability and Control*. 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:
  - Antideficiency Act;
  - Fair Labor Standards Act;
  - Civil Service Retirement Act;
  - General Accounting Office Personnel Act of 1980;
  - Federal Employees' Compensation Act;
  - Federal Employees' Health Benefits Act of 1959; and
  - Federal Employees' Group Life Insurance Act of 1980.

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INDEPENDENT AUDITORS' REPORT

- 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 13, 1996 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, 1996.

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.

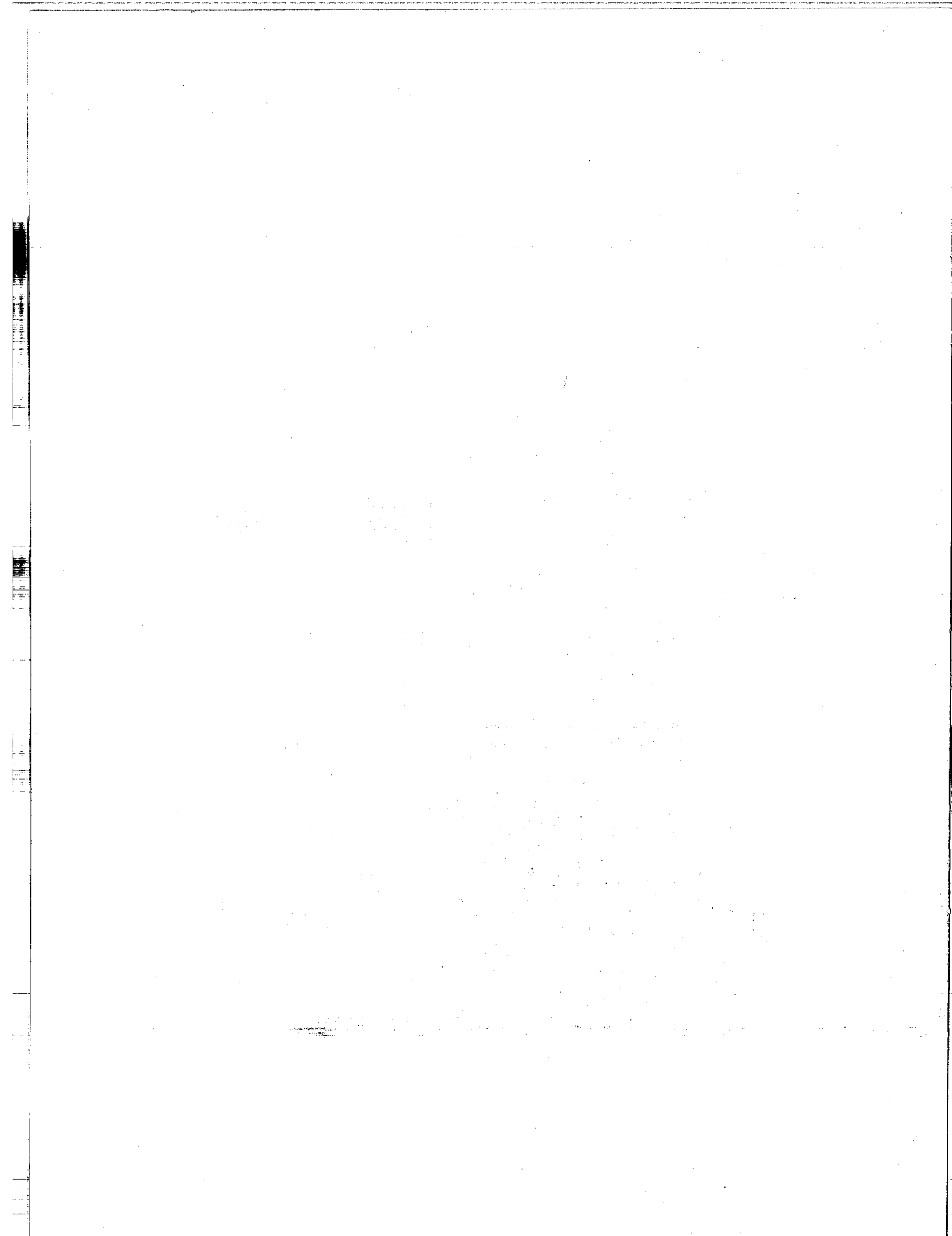
Our audit was conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Our examination of management's assertion, included 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, 1996, was conducted in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audit and examination provides a reasonable basis for our opinion.

**Supplemental Information.** Our audit was made for the purpose of forming an opinion on the Principal Statements taken as a whole. The accompanying annual stewardship information on pages 93 and 94 is presented for purposes of additional analysis and is not a required part of the Principal Statements but is required supplementary information. Such information has been subjected to the auditing procedures applied in the audit of the Principal Statements and in our opinion, is presented fairly, in all material respects, in relation to the Principal Statements taken as a whole.

**Consistency of Other Information.** The *Overview of Operations and Financial Management* and other supplemental information in *75 Years of Service* and in *Highlights of GAO 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. Nothing came to our attention to indicate that this information is materially inconsistent with the Principal Statements.

*Clifton Anderson L.L.C.*






Greenbelt, Maryland  
December 13, 1996



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# PHOTO INDEX

## PAGE 11 HIGHLIGHTS OF GAO REPORTS AND TESTIMONY

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Director, Health Financing and  
Systems Issues, Health, Education  
and Human Services Division
- PHOTO 3 Gregory M. Holloway, Director,  
Governmentwide Audits, Accounting  
and Information Management  
Division
- PHOTO 4 Laurie E. Ekstrand, Associate  
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