MISSION
GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

ACCOUNTABILITY
We help the Congress oversee federal programs and operations to ensure accountability to the American people. GAO’s analysts, auditors, lawyers, economists, information technology specialists, investigators, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American people.

INTEGRITY
We set high standards for ourselves in the conduct of GAO’s work. Our agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all activities. Integrity is the foundation of our reputation, and the GAO approach to work ensures it.

RELIABILITY
We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high-quality reports, testimonies, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

SCOPE OF WORK
GAO performs a range of oversight-, insight-, and foresight-related engagements, a vast majority of which are conducted in response to congressional mandates or requests. GAO’s engagements include evaluations of federal programs and performance, financial and management audits, policy analyses, legal opinions, bid protest adjudications, and investigations.
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January 2008

I am pleased to present the highlights of our performance and accountability report for fiscal year 2007. We accomplished a great deal for the Congress and the American people with the resources we received. We continued to focus our efforts on increasing the transparency, efficiency, effectiveness, and accountability of federal operations by giving the Congress and the public the information they need to ensure that the federal government makes prudent decisions both now and in the future. We performed our work in accordance with our strategic plan for serving the Congress, guided by our core values, and consistent with applicable professional standards. You can be assured that the information in this report is complete and reliable and meets GAO's high standards.

In fiscal year 2007 we exceeded the targets for five of our six key performance measures—financial benefits, nonfinancial benefits, past recommendations implemented, new products with recommendations, and testimonies—that gauge how well we produced results and served our client, the Congress. With this level of performance we were able to achieve a return on investment for the American people of about $94 for every dollar the Congress gave us. Specifically, we recorded $45.9 billion in financial benefits from our work and 1,354 nonfinancial benefits, which helped improve government operations and better serve the public. We also documented that the Congress and federal agencies implemented 82 percent of the recommendations we made 4 years ago and that 66 percent of the new products we issued during the fiscal year contained recommendations that in time should have a positive impact on the efficiency and effectiveness of the federal government. Moreover, this was a banner year for us in testimonies. Our senior executives and I delivered testimonies at 276 hearings, 36 more hearings than in fiscal year 2006. In fact, our performance on this measure is the fourth highest over the last 25 years and an all-time high for us.
on a per capita basis. Though we issued our products on time 94 percent of the time, we fell short on our timeliness measure by 1 percentage point, just shy of our 95 percent target.

We also met or exceeded five of the eight targets we set for our people measures—new hire rate, acceptance rate, retention rate with retirements, retention rate without retirements, and staff development. While these measures were largely similar to last year’s results, we missed the performance targets for staff utilization, leadership, and organizational climate by 5, 1, and 2 percentage points, respectively, in spite of the challenges we faced internally. These challenges included meeting tight deadlines and being responsive to our clients when demand for our work was extremely high and budgetary and staffing resources were extremely constrained. During fiscal year 2007, we also had to manage a large workload in the wake of significant human capital transformation efforts and other changes within our agency, including a union organizing campaign spanning many months.

While supporting the Congress’s oversight efforts with more than 1,200 reports and testimonies we issued during the fiscal year, in November 2006, we sent a letter to the incoming leadership of the new Congress suggesting three dozen areas for additional oversight. In addition, we welcomed the new congressional Members in January with several special publications to help them make the transition to their responsibilities as stewards of the federal purse. All of these publications—Fiscal Stewardship: A Critical Challenge Facing Our Nation (GAO-07-362SP, January 2007); Understanding Similarities and Differences between Accrual and Cash Deficits (GAO-07-117SP, December 2006); and Understanding the Primary Components of the Annual Financial Report of the United States Government (GAO-05-958SP, September 2005)—are available through our Web site at www.gao.gov. Though we received a clean opinion on GAO’s own financial statements, the federal government’s books are not yet in order and will require focused leadership and sustained attention to get them there, especially in connection with the Department of Defense.

The Congress needs information to make sound judgments that will benefit this nation in the short term and over the long run. Thus, to further assist our client with its oversight function and aid its insight and foresight, we revised our list of federal programs and areas at risk of fraud, waste, abuse, and
mismanagement and in need of broad-based transformation and issued our biennial report card called *High-Risk Series: An Update* (GAO-07-310, January 2007). We continue to do this work to bring visibility and urgency to these areas and to prompt needed actions sooner rather than later. I also continued to speak around the country about the fiscal condition and long-term fiscal outlook of our country as part of the Fiscal Wake-Up Tour sponsored by the Concord Coalition—a nationwide, nonpartisan, grassroots organization dedicated to educating the public about the consequences of fiscal deficits and promoting a generationally responsible fiscal policy. The tour also involves the Brookings Institution and the Heritage Foundation and a range of other organizations. To date, the tour has held events in 25 states and the District of Columbia reaching thousands of people. The purpose of this effort is to state the facts and speak the truth about the fiscal challenges that this country faces, increase public awareness about the consequences, and help create the impetus and support for appropriate federal, state, and local officials to take much needed and long overdue action.

Closer to home, we updated our strategic plan to guide our own actions in the near future and ensure that we have the foresight needed to support the Congress. Our strategic plan includes bodies of work that address anticipated requests for evaluations of current and emerging issues and anticipated work related to government transformation efforts, especially in the areas of homeland security and defense. Seven broad themes provide the context for our strategic plan and we describe them in detail in *Forces That Will Shape America’s Future: The Themes from GAO’s Strategic Plan* (GAO-07-467SP, March 2007). We believe these themes will shape the many requests and mandates we expect to receive from the Congress over the next 3 years as well as the work we plan to do under my statutory authority as Comptroller General of the United States.

An effective, transparent government requires a first-rate workforce and one of our agencywide goals is to create a model federal agency and world-class professional services organization. We want to continue to attract staff from a variety of disciplines who can gather the facts and develop innovative solutions to both old and new problems challenging the federal government. Thus, in fiscal year 2007 we improved our recruiting and hiring practices by clarifying our hiring goals and making it a priority to aggressively recruit at select colleges and universities. We also instituted an executive exchange program
to help us tap talent outside of the federal government for short-term projects. In addition, we began a professional development program for entry-level administrative and professional support staff (similar to our development program for analyst staff), initiated a formal mentoring program, and continued to support employees working flexible schedules and telecommuting to help them balance the demands of work and home. I am very proud to say that we rated second among large federal agencies on the Partnership for Public Service’s list of the Best Places to Work in the Federal Government for 2007, up from fourth place in 2005. Furthermore, in September 2007 we were named as one of Washington’s top 60 employers by Washingtonian magazine.

However, not all of our human capital initiatives have been easy—or without controversy, especially the 2006 restructuring of our midlevel (Band II) analyst workforce. Reforms that affect an employee’s pay and job classification tend to be very controversial and this is particularly true in a workforce like ours that is highly educated and, by training and disposition, highly skeptical and analytical. In May 2007 I testified at oversight hearings to discuss changes we made to many of our human capital policies and procedures over the last several years and other related issues. For example, employees’ pay and compensation are now more directly tied to the market and to achieving results—measurable outcomes that further the agency’s mission. Also, jobs for our employees are classified according to employees’ roles and responsibilities, and pay is based on employees’ jobs as well as market-based conditions and their performance rather than longevity on the job. We believe we are the first major federal agency to adopt such an approach on an agencywide basis. At the same time, due to my concern regarding the trends in ratings differences associated with our performance appraisals over time, we also contracted with a private firm to assess the possible reasons for the differences and make related recommendations.

For some staff, these changes are unsettling; thus listening and responding to employees’ concerns and comments are particularly important during this time of change. I and the other executives encouraged employees to provide their input about the changes taking place and the direction the agency is headed—and we heard them. During fiscal year 2007, we made certain adjustments to our annual pay parameters and I proposed legislation known as the Government Accountability Office Act of 2007, which, if passed, will benefit our existing
employees and will serve to further enhance our ability to attract, retain, and reward a top-flight workforce. For example, under one provision of the act, employees below the senior executive level would be able to include the bonus part of their performance awards in their high-three average salary for retirement purposes, which is not currently possible.

We hope to work through these human capital issues and our other management challenges related to physical and information security in collaboration with the agency’s recently elected employees’ union, the International Federation of Professional and Technical Engineers, which will serve as the exclusive representative of entry and midlevel analysts as well as other employees in dealing with management on issues related to their terms and conditions of employment. I and the rest of management will bargain in good faith with the union and hope to reach timely agreements on issues of mutual interest and concern.

The challenge before us in serving the Congress and the nation is to help maintain a government that is effective, transparent, and relevant for this generation and generations to come. This agency has never wavered in its belief that the Congress and the public deserve to be fully informed about all major aspects of government operations. I am committed to ensuring that we will continue to “lead by example” in transforming government while providing the most professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information possible to the Congress and the American people.

David M. Walker
Comptroller General
of the United States
GAO is an independent, nonpartisan, professional services agency in the legislative branch of the federal government. Commonly known as the audit and investigative arm of the Congress or the congressional watchdog, we examine how taxpayer dollars are spent and advise lawmakers and agency heads on ways to make government work better.

As a legislative branch agency, we are exempt from many laws that apply to the executive branch agencies. However, we generally hold ourselves to the spirit of many of the laws, including 31 U.S.C. 3512 (commonly referred to as the Federal Managers’ Financial Integrity Act), the Government Performance and Results Act of 1993, and the Federal Financial Management Improvement Act of 1996.1

Accordingly, this performance and accountability report for fiscal year 2006 supplies what we consider to be information that is at least equivalent to that supplied by executive branch agencies in their annual performance and accountability reports.

We accomplish our mission by providing reliable information and informed analysis to the Congress, to federal agencies, and to the public; and we recommend improvements, when appropriate, on a wide variety of issues. Three core values—accountability, integrity, and reliability—form the basis for all of our work, regardless of its origin. These are described on the inside front cover of this report.

To accomplish our mission, we use a strategic planning and management process that is based on a hierarchy of four elements—strategic goals, strategic objectives, performance goals, and key efforts. Our strategic plan framework, shown in figure 1 on page 8, outlines our four strategic goals and 21 strategic objectives—the two highest levels in the hierarchy—that guided our work during fiscal year 2006. Our work is primarily aligned under the first

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1The Federal Managers’ Financial Integrity Act requires ongoing evaluations and annual reports on the adequacy of the systems of internal accounting and administrative control of each agency. The Government Performance and Results Act seeks to improve public confidence in federal agency performance by requiring that federally funded agencies develop and implement accountability systems based on performance measurement, including setting goals and objectives and measuring progress toward achieving them. The Federal Financial Management Improvement Act emphasizes the need to improve federal financial management by requiring that federal agencies implement and maintain financial management systems that comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.
three strategic goals, which span issues that are both domestic and international, affect the lives of all Americans, and influence the extent to which the federal government serves the nation’s current and future interests (see fig. 2). The fourth goal is our only internal one and is aimed at maximizing our productivity. Complete descriptions of the steps in our strategic planning and management process are included in our strategic plan for fiscal years 2004 through 2009, which is available on our Web site at http://www.gao.gov.

Throughout GAO, we maintain a workforce of highly trained professionals with degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, and the social and physical sciences. About three-quarters of our approximately 3,200 employees are based at our headquarters in Washington, D.C.; the rest are deployed in 11 field offices across the country. Staff in these field offices are aligned with our research, audit, and evaluation teams and perform work in tandem with our headquarters staff.

The pages that follow offer highlights of our performance and accountability report for fiscal year 2006. We also present our condensed financial statements and the independent auditor’s opinion on them. If you would like additional information, please see our full performance and accountability report and other performance-related documents at www.gao.gov/sp.html.

**GAO Field Locations**

- Atlanta
- Boston
- Chicago
- Dallas
- Dayton
- Denver
- Huntsville
- Los Angeles
- Norfolk
- San Francisco
- Seattle
SERVING THE CONGRESS AND THE NATION

GAO’S STRATEGIC PLAN FRAMEWORK

MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

THEMES

Changing Security Threats

Sustainability Concerns

Economic Growth & Competitiveness

Global Interdependency

Societal Change

Quality of Life

Science & Technology

GOALS & OBJECTIVES

Provide Timely, Quality Service to the Congress and the Federal Government to . . .


- Health care needs
- Lifelong learning
- Work benefits and protections
- Financial security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure


- Homeland security
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government’s Role and How It Does Business to Meet 21st Century Challenges by assessing . . .

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization in the areas of . . .

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

CORE VALUES

Accountability

Integrity

Reliability

Source: GAO.
### Figure 2: Examples of How GAO Assisted the Nation

<table>
<thead>
<tr>
<th>Strategic Goal 1</th>
<th>In fiscal year 2007, GAO provided information that helped to…</th>
</tr>
</thead>
</table>
| Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people | - highlight ways to address problems affecting the delivery of health and disability services for injured soldiers and veterans  
- improve the Food and Drug Administration’s process for removing dangerous drugs from the marketplace  
- identify physician practice patterns to improve efficiency in the Medicare program  
- encourage the preservation of affordable housing  
- identify Food Stamp Program areas vulnerable to payment errors and fraud  
- improve the Small Business Administration’s timely delivery of disaster assistance  
- outline various approaches used in the United States and abroad to negotiate drug prices  
- assess the housing needs of low-income veterans  
- focus attention on the Pension Benefit Guaranty Corporation’s premium structure  
- evaluate the Federal Housing Administration’s role and modernizing efforts  
- increase knowledge sharing about federal and state efforts to improve older driver safety  
- highlight inadequacies in the management of federal oil and gas royalties  
- raise awareness about the financial risks to the insurance industry posed by climate change  
- improve transportation efficiency |

<table>
<thead>
<tr>
<th>Strategic Goal 2</th>
<th>In fiscal year 2007, GAO provided information that helped to…</th>
</tr>
</thead>
</table>
| Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence | - identify key issues for congressional oversight of U.S. efforts to stabilize and rebuild Iraq  
- improve the transparency of military compensation costs  
- promote federal efforts to secure sensitive information  
- alert the Congress to cost and schedule risks affecting major weapon systems  
- identify the need for a Chief Management Officer to improve the Department of Defense’s business processes  
- highlight challenges with securing energy commodity carrying tankers from terrorist attacks  
- strengthen security at airport passenger screening checkpoints  
- identify shortcomings in the Department of Homeland Security’s program to track the visa status of visitors and immigrants to the United States  
- improve licensing procedures for radioactive materials  
- enhance the sharing of federal homeland security information with states and localities  
- contribute to congressional dialogue on the U.S. food aid provisions of the 2007 Farm bill  
- improve oversight and procurement practices at the United Nations  
- improve financial literacy in the United States  
- better protect consumers who purchase title insurance  
- improve the financial supervision of holding companies |

<table>
<thead>
<tr>
<th>Strategic Goal 3</th>
<th>In fiscal year 2007, GAO provided information that helped to…</th>
</tr>
</thead>
</table>
| Help transform the federal government’s role and how it does business to meet 21st century challenges | - identify the risks of relying on military and homeland security contractors  
- uncover fraud, waste, and abuse in financial assistance payments to people affected by hurricanes Katrina and Rita  
- promote a coordinated approach to improving standards and educating professionals in the accountability community  
- identify multiple approaches needed to reduce the tax gap  
- enlighten the public about the nation’s long-term fiscal challenges  
- inform the Congress about the status of recovery and rebuilding efforts in the aftermath of hurricanes Katrina and Rita  
- enhance national preparedness for an influenza pandemic  
- gauge agencies’ progress with implementing the Freedom of Information Act  
- ensure that individuals’ personal information is protected  
- summarize progress and challenges and identify federal financial implications of rebuilding the Gulf Coast  
- strengthen the Department of Defense’s business systems modernization program  
- strengthen the oversight of an environmental satellite program |

<table>
<thead>
<tr>
<th>Strategic Goal 4</th>
<th>In fiscal year 2007, GAO provided information that helped to…</th>
</tr>
</thead>
</table>
| Maximize the value of GAO by being a model federal agency and a world-class professional services organization | - inform the Congress and the public through our strategic plan about the forces that are likely to shape our nation’s future, its place in the world, and the changing role of the federal government  
- develop and implement the Financial Audit System—an automated tool used to audit the financial statements of executive branch agencies |

Source: GAO.
GAO’s Performance

The work we did in fiscal year 2007, as well as some of our past work, contributed greatly to our performance on our results and client measures shown in table 1. We surpassed our financial benefits target of $40 billion by almost $6 billion this fiscal year and exceeded our annual target for nonfinancial benefits by about 23 percent. Our financial benefits of $45.9 billion represent about a $94 return on every dollar invested in us. Also, the more than 1,300 nonfinancial benefits resulting from our work helped to improve the efficiency and effectiveness of government programs that serve the public.

Table 1: Agencywide Summary of Annual Measures and Targets

<table>
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<tbody>
<tr>
<td><strong>Results</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial benefits</td>
<td>$35.4</td>
<td>$44.0</td>
<td>$39.6</td>
<td>$51.0</td>
<td>$40.0</td>
<td>Met</td>
<td>$40.0*</td>
</tr>
<tr>
<td>(dollars in billions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonfinancial</td>
<td>1,043</td>
<td>1,197</td>
<td>1,409</td>
<td>1,342</td>
<td>1,100</td>
<td>Met</td>
<td>1,150</td>
</tr>
<tr>
<td>benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Past recommendations implemented</td>
<td>82%</td>
<td>83%</td>
<td>85%</td>
<td>82%</td>
<td>80%</td>
<td>82%</td>
<td>Met</td>
</tr>
<tr>
<td>New products with recommendations</td>
<td>55%</td>
<td>63%</td>
<td>63%</td>
<td>65%</td>
<td>60%</td>
<td>66%</td>
<td>Met</td>
</tr>
<tr>
<td><strong>Client</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Testimonies</td>
<td>189</td>
<td>217</td>
<td>179</td>
<td>240</td>
<td>185</td>
<td>276</td>
<td>Met 220</td>
</tr>
<tr>
<td>Timelinessb</td>
<td>N/Ac</td>
<td>89%</td>
<td>90%</td>
<td>92%</td>
<td>95%</td>
<td>94%</td>
<td>Not met 95%</td>
</tr>
<tr>
<td><strong>People</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New hire rate</td>
<td>98%</td>
<td>98%</td>
<td>94%</td>
<td>94%</td>
<td>95%</td>
<td>96%</td>
<td>Met 95%</td>
</tr>
<tr>
<td>Acceptance rate</td>
<td>72%</td>
<td>72%</td>
<td>71%</td>
<td>70%</td>
<td>72%</td>
<td>72%</td>
<td>Met 72%</td>
</tr>
<tr>
<td>Retention rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With retirements</td>
<td>92%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>Met 90%</td>
</tr>
<tr>
<td>Without retirements</td>
<td>96%</td>
<td>95%</td>
<td>94%</td>
<td>94%</td>
<td>94%</td>
<td>94%</td>
<td>Met 94%</td>
</tr>
<tr>
<td>Staff development</td>
<td>67%</td>
<td>70%</td>
<td>72%</td>
<td>76%</td>
<td>75%</td>
<td>76%</td>
<td>Met 76%</td>
</tr>
<tr>
<td>Staff utilizationd</td>
<td>71%</td>
<td>72%</td>
<td>75%</td>
<td>75%</td>
<td>78%</td>
<td>73%</td>
<td>Not met 75%e</td>
</tr>
<tr>
<td>Leadership</td>
<td>78%</td>
<td>79%</td>
<td>80%</td>
<td>79%</td>
<td>80%</td>
<td>79%</td>
<td>Not met 80%</td>
</tr>
<tr>
<td>Organizational climate</td>
<td>71%</td>
<td>74%</td>
<td>76%</td>
<td>73%</td>
<td>76%</td>
<td>74%</td>
<td>Not met 75%f</td>
</tr>
<tr>
<td><strong>Internal operationsg</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Help get job done</td>
<td>3.98</td>
<td>4.01</td>
<td>4.10</td>
<td>4.10</td>
<td>4.00</td>
<td>N/Ae</td>
<td>N/Ae 4.00</td>
</tr>
<tr>
<td>Quality of work life</td>
<td>3.86</td>
<td>3.96</td>
<td>3.98</td>
<td>4.00</td>
<td>4.00</td>
<td>N/A</td>
<td>N/A 4.00</td>
</tr>
</tbody>
</table>

Source: GAO.
Results Measures

Focusing on outcomes and the efficiency of the processes needed to achieve them is fundamental to accomplishing our mission. The following measures indicate that we have fulfilled our mission and delivered results that benefit the nation.

Financial Benefits and Nonfinancial Benefits

We describe many of the results produced by our work as either financial or nonfinancial benefits. Both types of benefits result from our efforts to provide information to the Congress that helped to (1) change laws and regulations, (2) improve services to the public, and (3) promote sound agency and governmentwide management. In many cases, the benefits we claimed in fiscal year 2007 are based on work we did in past years because it often takes the Congress and agencies time to implement our recommendations or to act on our findings.

Financial Benefits

Our findings and recommendations produce measurable financial benefits for the federal government after the Congress acts on or agencies implement them and the funds are made available to reduce government expenditures or are
reallocated to other areas. The monetary effect realized can be the result of changes in

- business operations and activities;
- the structure of federal programs; or
- entitlements, taxes, or user fees.

Financial benefits result if, for example, the Congress were to reduce the annual cost of operating a federal program or lessen the cost of a multiyear program or entitlement. Financial benefits could also result from increases in federal revenues—because of changes in laws, user fees, or asset sales—that our work helped to produce.

Financial benefits included in our performance measures are net benefits—that is, estimates of financial benefits that have been reduced by the costs associated with taking the action that we recommended. We convert all estimates involving past and future years to their net present value and use actual dollars to represent estimates involving only the current year. Financial benefit amounts vary depending on the nature of the benefit, and we can claim financial benefits over multiple years based on a single agency or congressional action. To ensure conservative estimates of net financial benefits, reductions in operating cost are typically limited to 2 years of accrued reductions, but up to 5 fiscal years of financial benefits can be claimed if the reductions are sustained over a period longer than 2 years. Multiyear reductions in long-term projects, changes in tax laws, program terminations, or sales of government assets are limited to 5 years. Estimates come from non-GAO sources. These non-GAO sources are typically the agency that acted on our work, a congressional committee, or the Congressional Budget Office.

To document financial benefits, our staff complete reports documenting accomplishments that are linked to specific products or actions. All accomplishment reports for financial benefits are documented and reviewed by (1) another GAO staff member not involved in the work and (2) a senior executive in charge of the work. Also, a separate unit, our Quality and Continuous Improvement office, reviews all financial benefits and approves benefits of $100 million or more, which amounted to about 94 percent of the total dollar value of benefits recorded in fiscal year 2007. The GAO Inspector General (IG) also performed an independent review of all accomplishment reports claiming benefits of $500 million or more in fiscal year 2007.

Figure 3 lists several of our major financial benefits for fiscal year 2007 and briefly describes some of our work contributing to financial benefits.
Helped to ensure funding for United States Postal Service (USPS) retirement-related health care benefits. For many years we have reported on USPS’s significant liabilities and obligations, including tens of billions of dollars in post-retirement health care benefits that were not yet funded. In December 2006, the Postal Accountability and Enhancement Act (Pub. L. No. 109-435) was enacted, which created the Postal Service Retiree Health Benefits Fund into which USPS is to make a series of 10 annual payments to fund its retiree health care obligations. In fiscal year 2007, USPS made the first of its annual payments into the fund. This $5.4 billion payment, funded through additional January 2006 and May 2007 postal service rate increases, helped to avoid requiring the federal government to finance this substantial obligation. (Goal 3)

$5.4

Improved the Internal Revenue Service’s (IRS) methodology for pursuing delinquent taxes. Our previous financial audit work determined that IRS did not have systems or procedures in place to allow it to identify and actively pursue cases with collection potential. We recommended that IRS improve its capacity to assess the collectibility of delinquent taxes as a way to better target debt collection resources. In 2004, IRS began implementing sophisticated modeling technology to differentiate between more and less productive cases in order to make better resource allocation decisions. In 2007, we reported that IRS’s actions in response to our recommendations increased its collections of delinquent taxes using approximately the same level of resources by about $4.2 billion or almost 20 percent in fiscal year 2006 from fiscal year 2003 levels. (Goal 3)

$4.2

Encouraged the National Aeronautics and Space Administration’s (NASA) decision to terminate the space launch initiative (SLI). In a September 2002 report, we questioned NASA’s overall acquisition strategy to develop a new generation of space transportation vehicles—the SLI. We reported that NASA faced considerable challenges defining basic requirements for SLI. We also noted that most of the key technologies under consideration by SLI were very immature and that management controls necessary to estimate cost and gauge progress were not in place. We recommended that the NASA Administrator take several steps, including completing the reassessment of NASA’s Integrated Space Transportation Plan, before moving forward with SLI. NASA concurred and in November 2002 took action to delay decisions regarding future launch vehicles and refocused SLI on conducting basic research on advanced launch technologies and developing a vehicle to service the International Space Station. In 2005, NASA terminated the entire SLI program and redirected $3.7 billion in funding originally programmed for SLI toward future exploration activities. (Goal 3)

$3.7
Helped to reduce food stamp fraud and abuse. Since 1994, we repeatedly reported and testified on reducing fraud and abuse in the Department of Agriculture’s (USDA) Food Stamp Program by reducing the trafficking of benefits. In our 1994 and 1995 reports, we found that USDA’s reliance on paper coupons to provide food stamp benefits had resulted in fraud and abuse through trafficking, counterfeiting, and mail theft. To reduce this fraud and abuse, we supported the use of electronic benefit transfer (EBT) systems to replace the coupon-based system that states were using. In response, the Congress passed legislation that required that each state implement EBT for the Food Stamp Program by October 1, 2002, unless the Secretary of Agriculture granted a waiver. USDA reported in December 2006 that the Food Stamp Program’s integrity had substantially improved, estimating that trafficking had diverted only about $241 million per year between 2002 and 2005—or about 1 cent of each food stamp dollar—compared with an estimated $660 million per year—or about 3-1/2 cents of each food stamp dollar—diverted between 1996 and 1998. USDA found that the decline in food stamp trafficking corresponded with the increased use of EBT. This will result in an estimated $3.4 billion in cumulative financial benefits between fiscal years 2005 and 2009. Also, in fiscal year 2007 we recommended that USDA use its electronic data to perform risk assessments of retailers most likely to traffic in food stamp benefits and develop a strategy to increase penalties for this offense. USDA responded by proposing new penalties and expedited processes. (Goal 1)

Recommended that the Department of Housing and Urban Development (HUD) track and reallocate unspent housing funds. We recorded about $2.19 billion in financial benefits based on our work involving the HUD recaptured fiscal year 2005 unexpended balances. Prior to 2002 HUD did not routinely review its unexpended fund balances to determine whether these funds could be recaptured. In 2001, we expressed concerns over unexpended balances in a briefing to the incoming Administration and testified before the Subcommittee on Housing and Transportation, Senate Committee on Banking Housing and Urban Affairs, about long-standing problems HUD had in the management and oversight of its unexpended balances. Using the Public Housing Capital fund as an example, we stated, and HUD agreed, that it did not have the information it needed to routinely quantify unexpended balances that might be available for recapture. Given the importance of this information in formulating and justifying budget requests, we recommended that HUD (1) develop systems that routinely provide timely and reliable information on the status of its unexpended balances to quantify amounts available for recapture or rescission, (2) incorporate this information into the management of its programs, and (3) use this information in formulating budget requests. In response to our recommendations, HUD made many operational changes that since 2002 have enabled the agency to routinely incorporate information on unexpended balances into the management and operation of its programs and to take unexpended balances into account in setting forth budget needs. HUD has routinely recaptured unutilized funds to offset its budget requests. (Goal 1)
Helped to increase collections of civil debt. In July 2001, we reported that the Department of Justice’s (Justice) financial litigation units, which are responsible for both criminal and civil debt collection, did not have adequate procedures for enforcing collections. We made a number of recommendations to the Attorney General to help the units improve criminal debt collections and stem the growth in reported uncollected criminal debt. One such recommendation was to reinforce policies and procedures for entering cases into debt-tracking systems; filing liens; issuing demand letters, delinquent notices, and default notices; performing asset discovery work; and using other enforcement techniques. These policies and procedures are applicable to the units’ civil as well as criminal debt collection efforts. In January 2002, Justice completed actions to address this recommendation, including providing training materials to unit staff involved in debt collection. These actions helped it to increase collections of civil debt in fiscal years 2004 and 2005—the third and fourth years for which we are claiming financial benefits over a 5-year period—by a total of about $1.70 billion on a net present value basis. (Goal 3) $1.70

Recommended that the Congress reduce the Department of Defense’s (DOD) fiscal year 2007 operations and maintenance budget. The congressional appropriations committee conferees reduced DOD’s fiscal year 2007 operations and maintenance appropriations by $1.459 billion based in part on the analysis we provided identifying fiscal year 2004 and 2005 underexecution of some budget subactivity groups. Staff members used the analysis of underexecution (designations exceeded obligations) for fiscal years 2004 and 2005 in part to reduce DOD’s fiscal year 2007 budget request by $598.8 million for subactivity groups that have been historically underexecuted. In addition, the conferees reduced DOD’s fiscal year 2007 budget request by $860.6 million for peacetime training and flying hour offsets also based in part on our analysis of underexecution in multiple subactivity groups used to fund these activities. The combined impact—as indicated above—is about $1.459 billion. (Goal 2) $1.46

Identified an opportunity for DOD to reallocate funds to cover new initiatives. In a November 2002 report, we suggested that the Congress consider extending the deadline for the submission of DOD’s Quadrennial Defense Review in order to provide additional time for DOD to align its upcoming budget request with its newest strategic thinking as reflected in the Quadrennial Defense Review. In our view, this extra time would allow DOD to take full advantage of the review’s results and shift resources where they would be needed most, that is, provide for a better allocation of resources, and avoid unnecessary costs of lower priority programs. The Congress adopted our approach and the 2006 Quadrennial Defense Review is the first to benefit from the extended deadline and reallocate defense resources in accordance with DOD’s new strategic plan. As a result, DOD’s fiscal year 2007 budget shifts resources into new programs advocated by the Quadrennial Defense Review, including over $1 billion for a special operations initiative to help fight the war on terror. To pay for these initiatives, DOD shaved billions of dollars from other programs. The 2006 Quadrennial Defense Review stated that by shifting the completion date of the review to coincide with the submission of the President’s fiscal year 2007 budget request, DOD had included a limited number of new initiatives in the budget submission for fiscal year 2007, rather than waiting until the fiscal year 2008 budget cycle. The final congressional action on DOD’s proposal provided a $1.2 billion increase in funding for Special Operations Forces in fiscal year 2007. (Office of Management and Budget (OMB) documents state that DOD made offsetting reductions before the President’s budget was sent to the Congress.) The financial benefit is the $1.2 billion made available from the reallocation of resources. (Goal 2) $1.2

Source: GAO.
Nonfinancial Benefits

Many of the benefits that result from our work cannot be measured in dollar terms. During fiscal year 2007, we recorded a total of 1,354 nonfinancial benefits.

We documented 646 instances where federal agencies used our information to improve services to the public, 74 instances where the information we provided to the Congress resulted in statutory or regulatory changes, and 634 instances where agencies improved core business processes or governmentwide reforms as a result of our work. In figure 4, we provide examples of some of the nonfinancial benefits we claimed as accomplishments in fiscal year 2007. The laws that we cite in the first section of this figure were enacted in fiscal year 2007.
Nonfinancial benefits that helped to change laws

**Developing a center to locate children after disasters.** After hurricanes Katrina and Rita, GAO found that the National Center for Missing and Exploited Children (NCMEC) faced problems getting access to American Red Cross and Federal Emergency Management Agency (FEMA) data because of these organizations’ concerns about privacy. GAO found that a lesson learned from these disasters is that agreements for data sharing between NCMEC and the American Red Cross and FEMA can help locate missing persons more quickly. We spoke about these concerns several times with congressional staff. Subsequently, Pub. L. No. 109-295 provided for a National Emergency Child Locator Center to be established within NCMEC and requires the FEMA Administrator to establish procedures to make all relevant information available to the center in a timely manner to facilitate the expeditious identification and reunification of children with their families. The law also requires the center to enter into a cooperative agreement with federal and state agencies and with other organizations, such as the American Red Cross, as necessary to implement their missions.

**Improving FEMA information on the status of hurricane relief and recovery funds.** In September 2006, we recommended four actions to improve reporting by FEMA to the appropriations committees on the status of governmentwide hurricane relief and recovery. These actions included (1) explicitly recognizing that FEMA’s weekly reporting on mission assignment obligations and expenditures does not reflect the status from a governmentwide perspective, (2) requesting and including actual obligation and expenditure data from agencies performing mission assignments in FEMA reporting at specified intervals, (3) including in the weekly report amounts reimbursed to other agencies that are in suspense because FEMA has not yet reviewed and approved the documentation supporting the expenditures, and (4) reiterating to agencies performing mission assignments FEMA’s policies on (a) the detailed information required in supporting documentation for reimbursements and (b) the timeliness of agency billings. As requested, we provided language that was included in Pub. L. No. 109-295 which implemented these recommendations.
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<th>Act Title</th>
<th>Summary</th>
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<td>The John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364</td>
<td>In December 2005 and January 2007, we reported that DOD and NASA structured monetary incentives in ways that led to significant disconnects between the fees paid to contractors and program outcomes. We made recommendations aimed at strengthening the link between incentives and outcomes. The Comptroller General testified on this issue in April 2006 and we briefed multiple congressional committees. The result has been changes to award and incentive fee policies across several agencies including DOD, NASA, and the Department of Homeland Security (DHS). Pub. L. No. 109-364 incorporated our recommendations by requiring DOD to issue guidance to ensure that award fees are linked to acquisition outcomes. In addition, Pub. L. No. 110-28 required all DHS award fees to be linked to successful acquisition outcomes.</td>
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<td>Postal Accountability and Enhancement Act, Pub. L. No. 109-435</td>
<td>In April 2001, we designated USPS’s transformation and long-term outlook as a high-risk area because its financial outlook had deteriorated significantly and it had no comprehensive plan to address its financial, operational, or human capital challenges. We concluded that the need for a comprehensive transformation of USPS was more urgent than ever and called for the Congress to act on comprehensive postal reform legislation. Since then, USPS developed a transformation plan to guide its ongoing efforts related to implementing initiatives included in its plan and improved its financial outlook. Further, in December 2006, the Congress enacted comprehensive postal reform legislation to provide a framework for modernizing USPS’s rate-setting processes and strengthening regulatory oversight and financial transparency. Thus, in January 2007, we removed USPS transformation and long-term outlook from our high-risk list.</td>
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<tr>
<td>Foreign Investment and National Security Act of 2007, Pub. L. No. 110-49</td>
<td>The Exon-Florio amendment to the Defense Production Act authorizes the President to conduct investigations and to suspend or prohibit foreign acquisitions, mergers, or takeovers of U.S. companies that threaten to impair national security. The President delegated the authority to investigate transactions to an interagency committee, the Committee on Foreign Investment in the United States. In our September 2005 report, we found that some members of the committee have narrowly defined what constitutes a threat to national security, despite the broad coverage of the factors listed in Exon-Florio that may be considered in determining a threat to national security. In one case, this narrow view resulted in the weakening of enforcement provisions in an agreement to mitigate national security concerns. In our report, we suggested that the Congress consider amending Exon-Florio to more clearly emphasize factors that should be considered in determining the potential harm to national security. In response to our report and subsequent events, in 2007 the Congress amended Exon-Florio adding additional factors to be considered in determining the effect of a transaction on national security.</td>
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Our work is reflected in this law in different ways.

**Reexamining inspection exemptions for inbound cargo.** During our review of the Transportation Security Administration’s (TSA) inbound air cargo (i.e., cargo bound for the United States from a foreign country) security procedures, we briefed congressional staff on several occasions regarding the status of inbound air cargo security and the challenges that TSA faces to reducing the vulnerability of the air cargo system to terrorist attack. Based on a subsequent report, we recommended that TSA establish a time frame for completing an assessment of whether existing random inspection exemptions for inbound air cargo pose an unacceptable vulnerability to the security of air cargo, and take steps, if necessary, to address identified vulnerabilities. The Congress included a provision in the 9/11 Commission Act consistent with our recommendation that requires DHS to conduct an assessment of inspection exemptions for cargo transported on passenger aircraft and an analysis to assess the risk of maintaining such exemptions no later than 120 days from the enactment of the act.

**Reexamining inspection exemptions for domestic air cargo.** During our review of TSA’s domestic air cargo (i.e., cargo that is transported within the United States) security procedures, we briefed congressional staff regarding the status of domestic air cargo security and the challenges that TSA faces to reduce the vulnerability of the air cargo system to terrorist attack. Based on a subsequent report, we recommended that TSA reexamine the rationale for existing air cargo inspection exemptions, determine whether such exemptions leave the air cargo system unacceptably vulnerable to terrorist attack, and make any needed adjustments to the exemptions. The Congress included a provision in the 9/11 Commission Act consistent with this recommendation, by requiring DHS to conduct an assessment of inspection exemptions for cargo transported on passenger aircraft and an analysis to assess the risk of maintaining such exemptions no later than 120 days from the enactment of the act.
### Nonfinancial benefits that helped to improve services to the public

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<th>Strengthened screening procedures for all Department of Veterans Affairs (VA) health care practitioners</th>
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<td>We identified key screening requirements that VA uses to verify the professional credentials and personal backgrounds of its health care practitioners. We found adequate screening requirements for certain practitioners, such as physicians, for whom all licenses are verified by contacting state licensing boards. However, screening requirements for others, such as currently employed nurses and respiratory therapists, are less stringent because they do not require verification of all licenses and national certificates. Moreover, they require only physical inspection of the credential rather than contacting state licensing boards and national certifying organizations. Physical inspection alone can be misleading; not all credentials indicate whether they are restricted, and credentials can be forged. We recommended that VA expand the verification requirement that facility officials contact state licensing boards and national certifying organizations to include all state licenses and national certificates held by applicants and employed practitioners. In response to our recommendation, VA directed its medical facilities to document the verification of all state licenses and national certificates (held by all practitioners applying for VA positions) with the issuing state licensing board or national certifying organization. In December 2006, VA required facility officials to credential all health care practitioners who claim licensure, registration, or certification through its electronic credentialing system. In addition, VA required its facility officials to establish a mechanism to ensure that multiple licenses, registrations, and/or certifications were held in good standing by contacting the state boards or issuing organization. VA's actions will better ensure the safety of veterans receiving health care at VA medical facilities.</td>
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<th>Tightened monitoring criteria in the Environmental Protection Agency’s (EPA) rule on lead in drinking water</th>
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<td>In a January 2006 report, we recommended that EPA should reassess existing regulations and guidance to ensure the circumstances in which states approve water systems for reduced monitoring are appropriate and that systems resume standard monitoring following a major treatment change. We reported that lead rule implementation experiences to date have revealed weaknesses in the regulatory framework. In some cases, corrosion control can be impaired by changes to other water treatment processes, and controls that would help avoid such impacts may not be adequate. In July 2006, EPA proposed to change the federal regulations and disallow water systems that exceed the lead action level from initiating or remaining on a reduced lead and copper monitoring schedule based solely on the results of their water quality parameter monitoring (see <a href="https://www.federalregister.gov">Federal Register</a>, 71, FR 40828 (July 18, 2006)). EPA noted that this change would ensure that reduced monitoring would only be permitted in instances in which it has been demonstrated that corrosion control treatment is both effective and reliable. Compliance with water quality parameters alone may not always indicate that corrosion control is effective.</td>
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<td>Encouraged reporting of nursing home fire safety deficiencies</td>
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<td>Improved information security at the Securities and Exchange Commission (SEC)</td>
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<td>Improved coordination to enhance security of nuclear warhead sites in Russia</td>
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## Nonfinancial benefits that helped to promote sound agency and governmentwide management

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<th>FEMA establishes control to help limit disaster assistance payments to individuals with invalid Social Security numbers</th>
<th>As part of our audit of FEMA’s Individuals and Households Program (IHP) to assist the victims of hurricanes Katrina and Rita, we found that FEMA did not adequately validate the identity of registrants applying for disaster assistance. We identified payments to thousands of IHP registrants who provided Social Security numbers that were never issued or which belonged to deceased individuals. We recommended that FEMA improve internal controls over identity confirmation to provide reasonable assurance that disaster assistance payments are made only to qualified IHP applicants. FEMA subsequently implemented new edit controls intended to ensure that Social Security numbers and names submitted by IHP disaster assistance registrants are both appropriately matched and valid. FEMA’s improved control procedures in this area should improve up-front controls over the registration process to better ensure that only valid applicants receive IHP payments, thereby helping to reduce fraudulent IHP payments based on invalid registration data.</th>
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<td>NASA establishes policies for reimbursement by nonofficial travelers on passenger aircraft</td>
<td>In previous work we found that while NASA used its passenger aircraft to transport numerous nonofficial travelers to various events, it did not have effective procedures in place for collecting reimbursements from these travelers as required by OMB Circular No. A-126. We recommended that NASA establish procedures for identifying and recovering applicable costs associated with transporting these nonofficial travelers. In response to our recommendations, in fiscal year 2006, NASA revised its aircraft use policy to include specific instructions for identifying and obtaining reimbursements from nonofficial travelers. This policy change establishes necessary procedures for recovering the applicable costs of providing air transportation services to nonofficial travelers, and may result in savings to NASA and the federal government for the cost of transporting these passengers.</td>
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Army requires credit card vendors to conduct credit checks before issuing individually billed travel cards

During our audits of the Army’s controls over individually billed travel cards, we found substantial problems with controls over travel card accounts, including issuing cards to individuals without conducting credit checks. Credit checks could have revealed travel card applicants with poor prior credit histories and helped prevent the substantial delinquencies and amounts charged off identified in our audits. GAO recommended that the Army establish policies and procedures governing the issuance of individual travel cards to military and civilian employees, including evaluating the feasibility of extended use of credit checks for all travel card applicants. In response to our recommendation, pursuant to a revision to DOD’s Financial Management Regulation, the Army now requires its travel card contractor to perform a credit check on each new card applicant. Under this policy, (1) applicants who refuse to permit a credit checks may be asked to self-certify to their creditworthiness in order to obtain restricted travel cards and (2) applicants who are denied government travel cards due to poor credit scores, or inability to meet self-certification requirements, will be exempt from mandatory use of the individually billed account travel cards. By implementing these requirements, Army strengthened management oversight and internal controls over the individually billed travel card program and reduced the chance that travel cards will be issued to individuals at high risk of not making payments or not making payments timely, thus reducing fees and eliminating substantial resources spent pursuing and collecting past due accounts.

Source: GAO.

Past Recommendations Implemented

One way we measure our effect on improving the government’s accountability, operations, and services is by tracking the percentage of recommendations that we made 4 years ago that have since been implemented. At the end of fiscal year 2007, 82 percent of the recommendations we made in fiscal year 2003 had been implemented, primarily by executive branch agencies. Putting these recommendations into practice generates tangible benefits for the nation.

New Products Containing Recommendations

In fiscal year 2007, about 66 percent of the 647 written products we issued (excluding testimonies) contained recommendations. We track the percentage of new products with recommendations because we want to encourage staff to develop recommendations that when implemented by the Congress and agencies, produce financial and nonfinancial benefits for the nation. We exceeded our target of 60 percent by 6 percentage points because our audit teams are emphasizing the need to identify possible recommendations as they
plan and carry out their work. However, we set our target again in fiscal year 2008 at 60 percent because we recognize that our products do not always include recommendations and that the Congress and agencies often find such informational reports just as useful as those that contain recommendations. Our informational reports have the same analytical rigor and meet the same quality standards as those with recommendations and, similarly, can help to bring about significant financial and nonfinancial benefits. Hence, this measure allows us ample leeway to respond to requests that result in reports without recommendations.

Client Measures

To fulfill the Congress’s information needs, we strive to deliver the results of our work orally as well as in writing at a time agreed upon with our client.

Testimonies

Our clients often invite us to testify on our current and past work when it addresses issues that congressional committees are examining through the hearing process. During fiscal year 2007, experts from our staff testified at 276 congressional hearings covering a wide range of complex issues. (See fig. 5 for a summary of issues we testified on by strategic goal in fiscal year 2007.) Over 90 of our testimonies were related to high-risk areas and programs (see page 41 in our full fiscal year 2007 performance and accountability report).

In fiscal year 2007, we significantly exceeded our target for testimonies at 185 hearings and surpassed our performance on this measure over the last 4 years. In fact, only three times in the last 25 fiscal years have we delivered testimonies at more hearings. The Congress asked our executives to testify more than 10 times this fiscal year on Hurricane Katrina issues and about 20 times on issues related to both terrorism and the Iraq conflict.

Timeliness

To be useful to the Congress, our products must be available when our client needs them. We used the results of our client feedback survey as a barometer for how well we are getting our products to our congressional clients when they need the information. We used this survey as the primary data source for our external timeliness measure because the responses come directly from our clients. We tally responses from the surveys we send to key congressional staff working for the requesters of our testimony statements and more significant written products (e.g., engagements assigned an interest level of “high” by our
Figure 5: GAO’s Selected Testimony Issues in Fiscal Year 2007

SELECTED TESTIMONY ISSUES
FISCAL YEAR 2007

Goal 1: Address Challenges to the Well-Being and Financial Security of the American People
- Federal oversight of food safety
- Capacity and service gaps among homeless veterans programs
- Reauthorizing the State Children’s Health Insurance Program
- Claims processing challenges for veterans’ disability benefits
- FEMA payments on hurricane-damaged properties
- Nursing home oversight
- Private pension fees
- Small Business Administration’s disaster preparedness efforts
- Improved safety for coal miners
- Federal actions to improve child welfare services
- Oil and gas royalties
- Medicare physician payments
- Effects of seller-funded down payments on home loans
- Status of the future air traffic control system
- USPS reform efforts
- Federal real property issues
- Emergency management plans for schools

Goal 2: Respond to Changing Security Threats and the Challenges of Globalization
- Status of benchmarks for Iraqi government
- DOD’s management of systems and assets
- Improving the military’s supply chain
- Linking defense strategy with military personnel requirements
- Navy shipbuilding
- Using best practices for space acquisitions
- Vulnerabilities in U.S. export control systems
- Combating nuclear smuggling
- Securing radiological sources in foreign countries
- Improving the efficiency of U.S. food aid procedures
- National strategy to enforce intellectual property rights
- DHS’s major mission and management functions
- Risk-management principles and homeland security
- Secure border initiative
- Bankruptcy reform and credit counseling
- National strategy to improve financial literacy
- VA’s information security management

Goal 3: Help Transform the Federal Government’s Role and How It Does Business
- Contracting and security challenges in Iraq
- Federal acquisitions and contracting challenges
- Acquisition challenges at DHS
- Security vulnerabilities at unmonitored border locations
- Incomplete reporting of federal improper payments
- Fiscal stewardship challenges facing the United States
- Tax abuses by Medicare Part B providers
- Transforming DHS’s financial management systems
- Challenges facing the polar satellite program
- Electronic voting
- Balancing individual privacy with homeland security needs
- Health information technology and privacy
- Long-term fiscal challenges
- Tax compliance
- Human capital challenges facing the federal government
- Rebuilding the Gulf Coast
- Preparations for the 2010 Census

Source: See Image Sources.
senior management and those requiring an investment of 500 staff days or more), which represented 95 percent of the written products we issued in fiscal year 2007. Because our products usually have multiple requesters, we often survey more than one congressional staff person per testimony or product. Each survey asks the client whether the product was provided or delivered on time. In fiscal year 2007, we had a 28 percent response rate from the congressional staff surveyed, which provided us with feedback on 54 percent of the products for which we sent surveys.

In fiscal year 2007 we missed our timeliness target by 1 percentage point. We have always set our target for timeliness high because it is important for us to meet congressional needs when they occur, but we have yet to achieve this target. We will continue to emphasize to our audit teams the importance of communicating with our clients about when they will need testimony statements and products and delivering these statements and products when agreed to allow them enough time to prepare for hearings and other congressional activities. We anticipate these actions will enable us to meet our fiscal year 2008 target of 95 percent.

As part of our risk-based engagement management process, we identify a new engagement as high interest if the work we need to perform will likely require a large investment of our resources, involve a complex methodology, or examine controversial or sensitive issues.

People Measures

Our highly professional, multidisciplinary staff were critical to the level of performance we demonstrated in fiscal year 2007. Our ability to hire, develop, retain, and lead staff is a key factor to fulfilling our mission of serving the Congress and the American people.

New Hire Rate and Acceptance Rate

Our new hire rate is the ratio of the number of people hired to the number we planned to hire. Annually, we develop a workforce plan that takes into account strategic goals, projected workload changes, and other changes such as retirements, attrition, promotions, and skill gaps. The workforce plan for the upcoming year specifies the number of planned hires and, for each new hire, specifies the pay plan, skill type, and level. The plan is conveyed to each of our units to guide hiring throughout the year. Progress toward achieving the workforce plan is monitored monthly by the Chief Operating Officer and the Chief Administrative Officer. Adjustments to the workforce plan are made throughout the year, if necessary, to reflect changing needs and conditions. In fiscal year 2007, our adjusted plan was to hire 198 staff. However, we were only able to
bring on board 187 staff by year-end. Of the 198 staff positions, 3 positions were carried over to fiscal year 2008 because the applicants could not start until the new fiscal year. Our acceptance rate measure is a proxy for our attractiveness as an employer and an indicator of our competitiveness in bringing in new talent. It is the ratio of the number of applicants accepting offers to the number of offers made. We exceeded by 1 percentage point the targets we set for our new hire rate and met our acceptance rate target of 72 percent. (For more about our recruitment strategy and performance in fiscal year 2007, see app. 1, p. 182 in our full performance and accountability report for fiscal year 2007.)

Retention Rate

We continuously strive to make GAO a place where people want to work. Once we have made an investment in hiring and training people, we would like them to stay with us. This measure is one indicator of whether we are attaining this objective. We calculate this measure by taking 100 percent minus the attrition rate, where attrition rate is defined as the number of separations divided by the average on-board strength. We calculate this measure with and without retirements. Both of our retention rate targets have declined 2 percentage points since fiscal year 2003, but have remained relatively flat during the intervening years.

Staff Development and Utilization, Leadership, and Organizational Climate

One way that we measure how well we are supporting our staff and providing an environment for professional growth and improvement is through our annual employee feedback survey. This Web-based survey, which is conducted by an outside contractor to ensure the confidentiality of every respondent, is administered to all of our employees once a year. Through the survey, we encourage our staff to indicate what they think about our overall operations, work environment, and organizational culture and how they rate our managers—from their immediate supervisors to the Executive Committee—on key aspects of their leadership styles. The survey consists of over 100 questions.

In fiscal year 2007, about 72 percent of our employees completed the survey, and we met our target for staff development but missed the remaining three targets. Though we did not meet our targets for leadership or organizational climate in fiscal year 2007, the favorable responses were equal to or slightly better than
those in fiscal year 2006. We revised our fiscal year 2008 targets slightly for leadership and organizational climate and set them at 80 percent and 75 percent, respectively, to be more realistic, but still challenging. We anticipate continued improvement on these measures. Since fiscal year 2003, favorable responses to our staff utilization measure have generally increased, but declined in fiscal year 2007. We also adjusted this target slightly and set it at 75 percent for fiscal year 2008 to ensure that it is realistic and challenging, and we plan to perform a comprehensive analysis of the factors associated with staff utilization during the fiscal year.

Data from our employee feedback survey are also used by by the Partnership for Public Service to determine our standing in the annual Best Places to Work in the Federal Government rankings. We were cited as second on the list of large federal agencies according to rankings released in April 2007 by this organization. We were also selected by Washingtonian magazine in September 2007 as a “Great Place to Work” from more than 225 candidates because of our interesting work, good pay and benefits, collegial staff, employee development, and flexibility.

### Internal Operations Measures

Our mission and people are supported by our internal administrative services, including information management, facility management, knowledge services, human capital, financial management, and other services. To assess our performance related to how well our internal administrative services help employees get their jobs done or improve employees’ quality of work life, we use information from our annual customer satisfaction survey to set targets and assess our performance for both of these measures. We asked staff to rank 31 internal services available to them and to indicate on a scale from 1 to 5 their satisfaction with each service. In fiscal year 2006 we exceeded our target of 4.0 by a tenth of a percentage point for our help get job done measure and met our 4.0 target for our quality of work life measure. We will report actual data for fiscal year 2007 once the data from our November 2007 internal operations survey have been analyzed. Our internal operations measures are directly related to our goal 4 strategic objectives of continuously enhancing our business and management processes and becoming a professional services employer.
GAO’s High-Risk Program

Since 1990, our high-risk program has highlighted long-standing challenges facing the federal government. Increasingly, the program has focused on those major programs and operations that are in urgent need of broad-based transformation and congressional as well as executive branch action, to ensure that our national government functions in the most economical, efficient, and effective manner possible. Our latest regular update, released in January 2007, highlights 27 troubled areas across government. Many of these areas involve critical public service providers, such as USDA, IRS, and CMS, which provides services to Medicare and Medicaid recipients.

Issued to coincide with the start of each new Congress, our high-risk updates have helped sustain attention from Members of the Congress who are responsible for oversight and from executive branch officials who are accountable for performance. Our focus on high-risk problems contributed to the Congress enacting a series of governmentwide reforms to address critical human capital challenges, strengthen financial management, improve information technology practices, and instill a more results-oriented government. Overall, our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public.

In fiscal year 2007, we determined that sufficient progress was made to merit removing the high-risk designation from two areas—the USPS transformation efforts and long-term outlook and HUD's single-family mortgage insurance and rental housing assistance programs. We also designated three new areas as high risk: financing the nation's transportation system, ensuring the effective protection of technologies critical to U.S. national security interests, and transforming federal oversight of food safety.

Since our program began, the government has taken high-risk problems seriously and has made progress toward correcting them. The original high-risk list included 14 areas, but over the next 17 years, 33 areas were added, 18 areas were removed, and 2 were consolidated to reach the current 27 areas. DOD continues to dominate the list with 8 high-risk areas of its own and shared responsibility for 7 more. Table 2 lists each current high-risk area and the year it was placed on the high-risk list.
Our high-risk list work in fiscal year 2007:

- 221 reports
- 96 testimonies
- $13.55 billion in financial benefits

In fiscal year 2007, we issued 221 reports and delivered 96 testimonies related to our high-risk areas and documented financial benefits totaling approximately $13.55 billion. These results included, for example, reviews we completed in evaluating DOD’s weapon systems acquisition process. Some of our significant work in this area includes reviewing DOD’s progress in meeting cost, schedule, and performance goals for the Joint Strike Fighter—DOD’s most expensive aircraft acquisition program—and assessing the challenges to building a new type of aircraft carrier, the USS Gerald R. Ford, within budget. Our work in the DOD’s weapon systems acquisition area resulted in $2.6 billion in financial benefits. In addition, we examined how IRS could better enforce tax laws. For example, we made recommendations on how to increase the tax compliance of sole proprietors and improve the efficiency in the appeals process used by taxpayers facing liens or levies. We documented approximately $1.3 billion in financial benefits from our past work in the enforcement of tax laws area. To learn more about our work on the high-risk areas or to download our January 2007 high-risk update in full, go to www.gao.gov/docsearch/featured/highrisk.html.
Table 2: GAO’s 2007 High-Risk List

<table>
<thead>
<tr>
<th>High-risk area</th>
<th>Year designated high risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Addressing Challenges In Broad-Based Transformations</strong></td>
<td></td>
</tr>
<tr>
<td>■ Strategic Human Capital Management&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2001</td>
</tr>
<tr>
<td>■ Managing Federal Real Property&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2003</td>
</tr>
<tr>
<td>■ Protecting the Federal Government’s Information Systems and the Nation’s Critical Infrastructures</td>
<td>1997</td>
</tr>
<tr>
<td>■ Implementing and Transforming the Department of Homeland Security</td>
<td>2003</td>
</tr>
<tr>
<td>■ Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security</td>
<td>2005</td>
</tr>
<tr>
<td>■ DOD Approach to Business Transformation&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>■ DOD Business Systems Modernization</td>
</tr>
<tr>
<td></td>
<td>■ DOD Personnel Security Clearance Program</td>
</tr>
<tr>
<td></td>
<td>■ DOD Support Infrastructure Management</td>
</tr>
<tr>
<td></td>
<td>■ DOD Financial Management</td>
</tr>
<tr>
<td></td>
<td>■ DOD Supply Chain Management (formerly Inventory Management)</td>
</tr>
<tr>
<td></td>
<td>■ DOD Weapon Systems Acquisition</td>
</tr>
<tr>
<td>■ FAA Air Traffic Control Modernization</td>
<td>1995</td>
</tr>
<tr>
<td>■ Financing the Nation’s Transportation System&lt;sup&gt;a&lt;/sup&gt; (New)</td>
<td>2007</td>
</tr>
<tr>
<td>■ Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests&lt;sup&gt;a&lt;/sup&gt; (New)</td>
<td>2007</td>
</tr>
<tr>
<td>■ Transforming Federal Oversight of Food Safety&lt;sup&gt;a&lt;/sup&gt; (New)</td>
<td>2007</td>
</tr>
<tr>
<td><strong>Managing Federal Contracting More Effectively</strong></td>
<td></td>
</tr>
<tr>
<td>■ DOD Contract Management</td>
<td>1992</td>
</tr>
<tr>
<td>■ DOE Contract Management</td>
<td>1990</td>
</tr>
<tr>
<td>■ National Aeronautics and Space Administration Contract Management</td>
<td>1990</td>
</tr>
<tr>
<td>■ Management of Interagency Contracting</td>
<td>2005</td>
</tr>
<tr>
<td><strong>Assessing the Efficiency and Effectiveness of Tax Law Administration</strong></td>
<td></td>
</tr>
<tr>
<td>■ Enforcement of Tax Laws&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1990</td>
</tr>
<tr>
<td>■ IRS Business Systems Modernization</td>
<td></td>
</tr>
<tr>
<td><strong>Modernizing and Safeguarding Insurance and Benefit Programs</strong></td>
<td></td>
</tr>
<tr>
<td>■ Modernizing Federal Disability Programs&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2003</td>
</tr>
<tr>
<td>■ Pension Benefit Guaranty Corporation Single-Employer Insurance Program&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2003</td>
</tr>
<tr>
<td>■ Medicare Program&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1990</td>
</tr>
<tr>
<td>■ Medicaid Program&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2003</td>
</tr>
<tr>
<td>■ National Flood Insurance Program&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2006</td>
</tr>
</tbody>
</table>

Source: GAO.

<sup>a</sup>Legislation is likely to be necessary, as a supplement to actions by the executive branch, to effectively address this high-risk area.
Resource Issues and Management Challenges

Resources Used to Achieve Our Fiscal Year 2007 Performance Goals

Our financial statements for fiscal year 2007 received an unqualified opinion from an independent auditor. The auditor found our internal controls to be effective—which means that no material weaknesses were identified—and the auditor reported substantial compliance with the requirements for financial systems in the Federal Financial Management Improvement Act of 1996. In addition, the auditor also found no instances of noncompliance with the laws or regulations in the areas tested. The statements and their accompanying notes, along with the auditor’s report, appear later in this report. Table 3 summarizes key data.

Compared with the statements of large and complex agencies in the executive branch, our statements present a relatively simple picture of a small yet very important agency in the legislative branch. We focus most of our financial activity on the execution of our congressionally approved budget with most of our resources devoted to the human capital needed for our mission of supporting the Congress with professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information and analysis.

Our budget consists of an annual appropriation covering salaries and expenses, and revenue from reimbursable audit work and rental income. Our total assets were $106.5 million, consisting mostly of property and equipment (including the headquarters building, land and improvements, and computer equipment and software) and funds with the U.S. Treasury. Total liabilities of $94 million were composed largely of employees’ accrued annual leave, amounts owed to other government agencies, accounts payable, and employees’ salaries and benefits. The greatest change in the liabilities is a decrease of $6.1 million in intragovernmental accounts payable due to more timely billing from, and therefore payments to, other government entities. Also, $3.8 million in vendor-financed equipment is recorded on the balance sheet as a note payable.

The net cost of operating GAO during fiscal year 2007 and fiscal year 2006 was approximately $500 million and $511 million, respectively. Expenses for salaries and related benefits
accounted for 81 and 79 percent of our net cost of operations in fiscal years 2007 and 2006, respectively. Figure 6 shows how our fiscal year 2007 costs break down by category.

We report net cost of operations according to our four strategic goals, consistent with our strategic plan. Overall, our net costs of operations decreased by $11.8 million, due in part to the change in workers’ compensation methodology in fiscal year 2006, which increased liabilities and expenses by more than $5.5 million; there was no similar change in fiscal year 2007.

### Table 3: GAO’s Financial Highlights: Resource Information

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2007</th>
<th>Fiscal Year 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budgetary resources</td>
<td>$498.9</td>
<td>$497.2</td>
</tr>
<tr>
<td>Total outlays</td>
<td>$490.5</td>
<td>$488.1</td>
</tr>
<tr>
<td>Net cost of operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goal 1: Well-being and financial security of the American people</td>
<td>$177.4</td>
<td>$191.9</td>
</tr>
<tr>
<td>Goal 2: Changing security threats and challenges of globalization</td>
<td>157.5</td>
<td>154.7</td>
</tr>
<tr>
<td>Goal 3: Transforming the federal government’s role</td>
<td>146.6</td>
<td>146.8</td>
</tr>
<tr>
<td>Goal 4: Maximizing the value of GAO</td>
<td>23.9</td>
<td>23.7</td>
</tr>
<tr>
<td>Less reimbursable services not attributable to goals</td>
<td>(5.7)</td>
<td>(5.6)</td>
</tr>
<tr>
<td>Total net cost of operations</td>
<td><strong>$499.7</strong></td>
<td><strong>$511.5</strong></td>
</tr>
<tr>
<td>Actual full-time equivalents (FTEs)</td>
<td>3,152</td>
<td>3,194</td>
</tr>
</tbody>
</table>

Source: GAO.

*The net cost of operations figures include nonbudgetary items, such as imputed pension and depreciation costs, which are not included in the figures for total budgetary resources or total outlays.*

Our strategic goal 1 showed a reduction in net costs of $14.5 million in fiscal year 2007 compared to fiscal year 2006. This decline in goal 1 costs reflects the continuing shift in our resources towards the areas of homeland security, national disaster preparedness, and immigration issues, which reside in our strategic goal 2.
Figure 6: Use of Fiscal Year 2007 Funds by Category

<table>
<thead>
<tr>
<th>Percentage of total net costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits</td>
</tr>
<tr>
<td>Building and hardware</td>
</tr>
<tr>
<td>Maintenance services</td>
</tr>
<tr>
<td>Rent (space and hardware)</td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

Source: GAO.

Planned Resources to Achieve Our Fiscal Year 2008 Performance Goals

Our fiscal year 2008 appropriation of $507.3 million was signed by the President on December 26, 2007. Our fiscal year 2008 appropriation represents an increase of 3.7 percent over our fiscal year 2007 funding level. For the first 3 months of this fiscal year, we and most of the federal government operated under a continuing resolution appropriation at last fiscal year’s funding level.

Internal Management Challenges

At GAO, management challenges are identified by the Comptroller General, the Executive Committee, and the agency’s senior executives through the agency’s strategic planning, management, and budgeting processes. Our progress in addressing the challenges is monitored through our annual performance and accountability process. Under strategic goal 4, we establish performance goals focused on each of our management challenges, track our progress in completing the key efforts for those performance goals quarterly, and report each year on our progress toward meeting the performance goals. Each year we ask our IG to examine management’s assessment of the challenges and the agency’s progress in addressing them. (See page 56 for the IG’s assessment.)

For fiscal year 2007, we continued to address three management challenges—physical security, information security, and human capital. We anticipate that we will continue to need to address all three challenges in future years because they are evolving and will require us to continuously identify ways to adapt and improve.
Physical Security Challenge

We continue to build on our previous efforts and pursue new initiatives to protect our people and assets and ensure continuity of operations. The domestic and international climate remains such that we must constantly assess our physical security profile and continuity of operations programs and identify and implement improvements to strengthen them.

During fiscal year 2007, we realigned the Office of Emergency Preparedness (OEP). OEP is now under the Chief Information Officer, who has taken the lead for our continuity of operations and emergency preparedness operations. Since the realignment, OEP has centralized and strengthened policies and operations, improved internal and external communication and information-sharing efforts, and upgraded and enhanced its technical capabilities.

In its policy and oversight role for emergency planning, OEP developed program policy and documents to help ensure that we can continue to carry out our functions in the face of natural or man-made disasters or other disruptions.

OEP enhanced our capability to communicate to staff during emergency situations by developing and refining the emergency notification system.

In addition, we

- initiated a contract at the end of fiscal year 2007 for an updated security assessment to review all security programs, assess recent enhancements against our current threat environment, and revalidate our planned next steps;
- relocated and activated our Security Operations Center and the adjacent Emergency Operations Center; and
- improved our Integrated Electronic Security System, including installation of intrusion detection systems and infrastructure enhancements necessary for continued system upgrades.

We believe that physical security will remain a management challenge in fiscal year 2008. Some of our planned initiatives will be subject to collective bargaining as they may affect the terms and conditions of bargaining unit employees. Some of the most significant efforts planned to address this challenge in fiscal year 2008 include the following:

- Launching a formal test training and exercise program for continuity of operations in coordination with the legislative and executive branches and local law enforcement.
Implementing a security assessment of our current security programs and associated risks to personnel, property, and information.

Installing card readers that comply with Homeland Security Presidential Directive 12, which requires issuance of secure and reliable forms of identification to employees and contractors using U.S. government facilities and information services.

Information Security Challenge

Information system security continues to be a critical activity in ensuring our information system and assets are effectively protected and free from compromise.

In fiscal year 2007, we established a wide range of goals and embarked on numerous initiatives to address information system security. For example, we

- worked to improve the protection of data on workstations by identifying a desktop encryption product that converts all the data on the hard drive to a form that cannot be read by unauthorized people,
- enhanced our enterprise Internet security by increasing our capability to screen Internet traffic against potential threats and improved our ability to effectively monitor and better secure our computing assets, and
- improved our ability to respond and recover in the event of a disruption by enhancing communications and restoration capabilities at our disaster recovery operations to lessen our risks.

These and other efforts are discussed in detail in our report on our Federal Information Security Management Act (FISMA) efforts in our full performance and accountability report.

An overall information security program can only be effective when systems security efforts are fully integrated with technology improvements and with an agency’s physical security program. In recognition of this need for integration, several of our units—Information Systems and Technology Services, the Office of Security, the Learning Center, and Knowledge Services—partnered together to develop an integrated information security awareness education and training program. In 2007, we produced a video of the Comptroller General emphasizing our employees’ responsibilities regarding information security and data protection. We also produced a new information security computer-based training program and required all personnel to complete it. Our goal has been to ensure that information protection
requirements extend across the life cycle of documentation: from data collection, report production, and data transmission and storage to the eventual archival and destruction of data.

Given the constantly evolving nature of threats to information systems and assets, information security will continue to be a management challenge for us and all government and private sector entities in the foreseeable future. Some of our planned initiatives may be subject to collective bargaining as they may affect the terms and conditions of employment of bargaining unit employees. Some of the most significant efforts planned to address the information security challenge in fiscal year 2008 include

- focusing on data protection encryption and identity management to better control access to our internal network and information,
- increasing the centralized auditing and monitoring of network servers and devices to better secure our computing assets within the agency,
- enhancing our security awareness training for staff,
- responding to new and updated security guidance from the National Institute of Standards and Technology and OMB, and
- refining our security processes and procedures.

### Human Capital Challenge

Competition for talent among knowledge-based organizations is rising as the demographics of the workforce shift to a younger and less experienced workforce and knowledge and skill gaps occur—particularly at mid- and more senior levels—as a result of retirements. The need to sustain a knowledge- and skills-based workforce is critical as it is this workforce that makes it possible for us to deliver the results and performance expected by our clients and customers.

Our ability to have the right mix of experienced and knowledgeable staff to carry out our engagements and meet our client’s needs is an ongoing challenge. We continue to face continuity and succession issues from downsizing and reduced hiring from the mid- to late 1990s. At the beginning of fiscal year 2007, over 42 percent of our analysts and related staff had fewer than 5 years of agency experience, making learning and development—as well as leadership—of this staff a challenge of paramount importance. This demographic change has also created some cultural challenges as our workforce evolves into a multigenerational workforce, with many diverse interests and needs and with differing attitudes toward the workplace and a career. This is an area that we are currently reviewing and plan to focus on as we move forward, given the potential for changing turnover dynamics and the likelihood of greater mobility among this workforce.
Not surprisingly, recruiting, rewarding, and retaining a highly qualified, high-performing, and diverse workforce also remains one of our most important challenges. Over the past year, we have begun implementing enhancements to our recruitment and hiring activities that were recommended after an extensive review in 2006 of both our recruiting programs and best practice research. These enhancements are chiefly focused on recruiting and communications strategies/tools to ensure consistent and effective approaches for talent acquisition—from the first meeting on a college campus to the first day of employment. While we have focused these efforts primarily on our entry-level hiring and student intern programs, we have also extended them to upper-level hiring, as well. All efforts also include a focus on diversity to ensure that our programs and practices support a diverse workforce and reinforce our commitment to diversity.

To address learning and development, we continue to offer more courses electronically and have adopted a blended learning approach mixing classroom training with Web-based training to ensure that all staff members have access to learning. In fiscal year 2007, a team composed of staff and managers from various mission teams and units completed an evaluation of our leadership development programs and made recommendations to our Learning Board and Executive Committee for a comprehensive program to enhance the ability of staff at all levels to prepare for leadership roles. We plan to implement these recommendations in fiscal year 2008. In addition, in fiscal year 2007, we inaugurated a new agencywide mentoring program. We currently have 155 participants in both individual and group mentoring activities and expect the program to expand over the coming year.

We have been a leader in the federal government in implementing competency-based performance management, performance-based compensation, and more recently a market-based pay system in which (1) pay ranges are set competitive with the labor markets in which we compete for talent; (2) staff are rewarded based on their performance; (3) staff have the opportunity to advance to the top of the pay range; (4) pay ranges provide some overlap to adequately reward expertise, leadership and performance; and (5) pay policies are grounded in the principle of equal pay for work of equal value. From a change management perspective, such major transformational efforts affecting staff performance and pay, however, can be quite difficult and require strong leadership and commitment. This was true with the decoupling of our pay system from the governmentwide annual across-the-board adjustments, our move to market-based pay, and changes in the analyst Band II pay band. (For a discussion of our personnel flexibilities, see appendix 2 in our full performance and accountability report for fiscal year 2007.)
Our Office of Opportunity and Inclusiveness performs an annual review of our employees’ performance appraisal data to ensure that the ratings are fair and unbiased. In 2006, the trend showed that the most significant differences in performance rating averages were between African Americans and Caucasians at all mission analyst band levels, and that the gap was increasing. To address this challenge, in fiscal year 2007 we awarded a contract to an external consultant to analyze the African American and Caucasian performance appraisal data from 2002 through 2006 and to assess and compare the skills, assignments, engagement roles, training, education, and recruiting practices for African Americans and Caucasians. In addition, the consultant will identify best practices internally and externally that might enhance our performance management systems and assist in reducing the gap.

An organizing campaign by the International Federation of Professional and Technical Engineers (IFPTE) took place over the last year. On September 19, 2007, our Band I and Band II analysts elected the IFPTE as their exclusive representative in dealing with our management on the terms and conditions of their employment. In accordance with labor relations law, we postponed work on several initiatives regarding our current performance and pay programs and also maintained absolute neutrality during the election period. With the outcome of the union vote, our management is committed to working constructively with employee union representatives to forge a positive labor management relationship and to establish our first collective bargaining agreement.

Finally, over the past year, the expectations of our clients and customers have risen as requests for our services have increased, creating an ever burgeoning workload, and resulting in some supply and demand imbalances. Our ability to meet expectations and balance these workload demands is heavily dependent on our annual funding. Because our workforce costs constitute about 80 percent of our annual appropriations, only 20 percent of the budget is available to fund all other agency needs. Without funding to adequately staff the agency, invest in our people, and reward our top performers, our ability to deliver the requested services will ultimately be negatively affected.

While we have made much progress, we believe human capital will still present a management challenge next fiscal year. Some of our planned initiatives may be subject to collective bargaining as they may affect the terms and conditions of bargaining unit employees. Some of the most significant efforts planned in this area for fiscal year 2008 include the following:

- Working cooperatively and productively with the newly elected labor union to establish our first collective bargaining agreement.
Completing the implementation of the recruitment task team recommendations.

Implementing an aggressive hiring strategy to rebuild our workforce and acquire needed talents and skills.

Developing an action plan for addressing the findings and recommendations identified in the African American performance appraisal study.

For more information about our human capital challenge and other management challenges, see part I in our full performance and accountability report.

Mitigating External Factors That Could Affect Our Performance

Several external factors could affect the achievement of our performance goals, including the amount of resources we receive, shifts in the content and volume of our work, and national and international developments. Limitations imposed on our work by other organizations or limitations on the ability of other federal agencies to make the improvements we recommend are additional factors that could affect the achievement of our goals.

As the Congress focuses on unpredictable events—such as terrorism, natural disasters, and military conflicts and threats abroad—the mix of work we are asked to undertake may change, diverting our resources from some strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways. For example in fiscal year 2007, we stayed abreast of current events and communicated frequently with our congressional clients in order to be alert to possibilities that could shift the Congress's priorities or trigger new priorities, quickly redirected our resources when appropriate so that we could deal with major changes as they occurred, maintained broad-based staff expertise so that we could readily address emerging needs, and initiated evaluations under the Comptroller General's authority on a limited number of selected topics, including our high-risk work and fiscal challenges discussions.

We are experiencing heavy demand from the Congress for work in a number of subject areas, including monitoring the progress of the global war on terrorism and the continuing challenges it presents; exploring economic issues facing U.S. financial markets and American consumers, such as concerns facing the subprime mortgage market; analyzing where funds are being spent through off-budget vehicles such as tax expenditures; and continuing our work on disaster relief issues, such as reviews of the installation of new pumps in New Orleans and the reconstruction of areas ravaged by hurricanes Katrina and Rita. Yet our resources have declined: adjusted for inflation, our budget authority has declined by 3 percent in constant fiscal
year 2006 dollars since fiscal year 2003. Similarly, our FTE usage has declined by more than 3 percent since fiscal year 2003—from 3,269 to an estimated 3,152 FTEs. In fiscal year 2007, we worked with 42 fewer FTEs than last fiscal year. In short, both our budget authority and FTE usage are at their lowest level since fiscal year 2001. Our ability to effectively manage this demand could have an impact on our ability to meet our performance targets and satisfy congressional requests for our work. We will continue to manage the Congress’s requests in order to minimize any negative impact on our ability to meet its needs. However, if the Congress continues to rely on us to provide assistance in these and other areas, the growing imbalance between our workload and our available resources must be addressed. Over time, the consistently high performance that the Congress expects of us will simply be unsustainable if our workload continues to grow while our resources continue to lag.

Given large current federal budget deficits and the nation’s long-range fiscal imbalance, the Congress is likely to place increasing emphasis on fiscal constraint. While it is unclear how we will ultimately be affected, it is reasonable to assume that any attempt to exercise additional budgetary discipline in the legislative branch will include our agency. As a result, while we believe that we submit reasonable and responsible budget requests and we know that the return on investment that we generate is unparalleled, we must plan and prepare for the possibility of significant and recurring constraints on the resources made available to the agency. In addition, as we stated previously, almost 80 percent of our budget is composed of people-related costs, and any serious budget situation will have an impact on our human capital policies and practices. This, in turn, will have an impact on our ability to serve the Congress and meet our performance targets. While, as noted above, the nature and extent of any such budget constraints cannot be determined at the present time, our executive team is engaged in a range of related planning activities. It is both appropriate and prudent for us to engage in such planning. At the same time, we are hopeful that the Congress will recognize that performance-based budgeting concepts would support providing additional resources to entities with prudent budget requests and proven performance results. If the Congress employs such an approach, we should be in a good position to continue to provide a high rate of return on the resources invested in the agency.

A growing area for us involves our work on bid protests. As required by law, our General Counsel’s office prepares Comptroller General procurement law decisions that resolve protests filed by disappointed bidders. The number of protest filings in fiscal year 2007 was 23 percent higher than the number filed in fiscal year 2001 and 6 percent higher than the number filed in fiscal year 2006. In fiscal year 2005 the Congress enacted legislation that expanded our authority to allow certain representatives of affected
government employees to protest when the private sector wins a private-public competition. We will continue to monitor our workload in this area to ensure that we meet our statutory responsibilities with minimal negative impact on our other work.

Another external factor is the extent to which we can obtain access to certain types of information. With concerns about operational security being unusually high at home and abroad, we may have more difficulty obtaining information and reporting on sensitive issues. Historically, our auditing and information gathering have been limited whenever the intelligence community is involved. In addition, we have not had the authority to access or inspect records or other materials held by other countries or, generally, by the multinational institutions that the United States works with to protect its interests. Consequently, our ability to fully assess the progress being made in addressing national and homeland security issues may be hampered. Also, we anticipate that more of our reports may be subject to classification reviews than in the past, which means that the public dissemination of these products may be limited. We plan to work with the Congress to identify both legislative and nonlegislative opportunities for strengthening our access authority as necessary and appropriate.
January 2008

I am pleased to report that during fiscal year 2007 the U.S. Government Accountability Office continued to lead by example in government financial management. For the 21st consecutive year, independent auditors gave our financial statements an unqualified opinion with no material weaknesses and no major compliance problems. The financial statements that follow were prepared, audited, and made publicly available as an integral part of this performance and accountability report 45 days after the end of the fiscal year. Our fiscal year 2006 report received a certificate of excellence in accountability reporting from the Association of Government Accountants (AGA). Our annual reports have received this AGA honor each year since we first applied with our fiscal year 2001 performance and accountability report.

In fiscal year 2007 we institutionalized the rigorous process of documenting, updating, and reviewing internal controls after successfully implementing the Office of Management and Budget’s (OMB) revised Circular No. A-123, Appendix A last fiscal year. As a result of these efforts we have been able to improve on and strengthen the design and implementation of our internal control practices throughout the financial management process. This year we continued to address those minor weaknesses identified in fiscal year 2006 testing that remained outstanding by fiscal year end. We instituted a rotating testing schedule of the major cycles so that our A-123 testing team reviews, updates, and tests the designated cycles at least once every 3 years.

This fiscal year we also focused many of our resources on preparing for our new financial management system. The software solution is the Department of Transportation Enterprise Service Center’s (ESC) Delphi, Oracle Federal Financials. Implementation of our new financial management system, GAO Delphi, followed widely accepted best industry practices for project management including independent verification and validation of our interfaces, test approach, and cutover and contingency plans. In addition to the normal testing prior to
implementation, we built in a 2-month parallel processing phase to further validate our production readiness and ensure that GAO Delphi would meet agency business needs and internal and external reporting requirements. We plan to take advantage of ESC’s expertise and economies of scale as our service provider for select accounting functions, particularly those involving transaction data entry, while our staff will maintain appropriate control and oversight of the cross-serviced processes. Reducing the amount of data entry done in-house will allow our financial management staff to focus more on analysis and customer service. As fiscal year 2008 began, we successfully converted to the new system. Future phases include implementation of an integrated workforce planning and budget formulation solution and an E-Gov travel solution.

In addition to our extensive efforts on our financial systems, we have enhanced our product, business, and management processes to streamline operations and save the taxpayer money. During fiscal year 2007 we successfully completed our extended pilot of the electronic dissemination of our print engagement-related products avoiding $48,800 in costs, and we project future annual savings of about $300,000 annually in printing-related costs. The pilot showed that we can provide products more quickly to our client in electronic format while maintaining a high level of customer satisfaction. In tandem with this e-dissemination effort we have implemented a new digital printing contract which will provide the option to print only the quantity of the product needed for distribution to the requester and key recipients instead of the 150-copy minimum requested by outside contract print companies. To further improve our analysts’ business processes, we have enhanced our internal electronic audit system, the Financial Audit System (FAS), which enables our staff to more comprehensively and accurately audit the financial statements of executive branch agencies. In addition to enabling us to provide an improved consolidated financial statement to our clients, we expect the improvements we have implemented will allow us to: reduce travel costs by increasing remote access capability; increase the efficiency of our audit work through enhanced automated analysis capabilities and project management tools; and minimize the effort required for audit start-ups through automated planning, staffing, and audit documentation tools.

The coming fiscal year promises many challenges including institutionalizing the day-to-day use of the new financial management system. We expect to see our hard work pay off
with a smooth transition as we begin providing more meaningful management reporting throughout the organization and by taking advantage of our service provider’s services in entering accounting data. As always, we remain focused on our role in the legislative branch to support the Congress in meeting its constitutional responsibilities, to help improve the performance and ensure the accountability of the government for the benefit of the American people, and to continue to focus on and enhance our internal operations and services to better achieve our strategic goal of being a model federal agency.

Sallyanne Harper
Chief Financial Officer
Overview of Financial Management and Controls

Our condensed financial statements and accompanying notes begin on page 49. Our financial statements for the fiscal years ended September 30, 2007 and 2006, were audited by an independent auditor, Clifton Gunderson, LLP.

Clifton Gunderson, LLP, rendered an unqualified opinion on our financial statements and an unqualified opinion on the effectiveness of our internal controls over financial reporting and compliance with laws and regulations. The auditor also reported that we have substantially complied with the applicable requirements of the Federal Financial Management Improvement Act of 1996 (Improvement Act) and found no reportable instances of noncompliance with selected provisions of laws and regulations. In the opinion of the independent auditor, the financial statements are presented fairly in all material respects and are in conformity with generally accepted accounting principles.

Financial Systems and Internal Controls

We recognize the importance of strong financial systems and internal controls to ensure our accountability, integrity, and reliability. To achieve a high level of quality, management maintains a quality control program and seeks advice and evaluation from both internal and external sources.

We complied with the spirit and intent of Appendix A, OMB Circular No. A-123, Management’s Responsibility for Internal Control, which provides guidance for agencies’ assessments of internal control over financial reporting. We performed this assessment by identifying, analyzing, and testing internal controls for key business processes. Based on the results of the assessment, we have reasonable assurance that internal control over financial reporting, as of September 30, 2007, was operating effectively and that no material control weaknesses exist in the design or operation of the internal controls over financial reporting. Additionally, our independent auditor found that we maintained effective internal controls over financial reporting and compliance with laws and regulations. Consistent with our assessment, the auditor found no material internal control weaknesses.

We are also committed to fulfilling the internal control objectives of 31 U.S.C. 3512,
commonly referred to as the Federal Managers’ Financial Integrity Act. Although we are not subject to the act, we comply voluntarily with its requirements. Our internal controls are 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 our operations are properly recorded and accounted for to enable our agency to prepare reliable financial reports and maintain accountability over our assets.

In addition, we are committed to fulfilling the objectives of the Improvement Act, which are also covered within 31 U.S.C. 3512. Although not subject to the act, we voluntarily comply with its requirements. We believe that we have implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level as of September 30, 2007. We made this assessment based on criteria established under the Improvement Act and guidance issued by OMB. Also, our auditor reported that we had substantially complied with the applicable requirements of the Improvement Act as of September 30, 2007.

GAO’s IG also conducts audits and investigations that are internally focused, functions as an independent fact-gathering adviser to the Comptroller General, and reviews all accomplishment reports totaling $500 million or more. During fiscal year 2007, the IG examined compliance with our policy and procedures for conflict-of-interest determinations and conducted reviews of the Comptroller General’s vouchers for the official representation account, the compensatory time for travel program, and our information security program. In addition, the IG implemented and managed an internal hotline for use by our employees and contractors to report potential fraud, waste, and abuse in our operations. Finally, the IG independently tests our compliance with procedures related to our performance data on a rotating basis over a 3-year period. No material weaknesses were reported by the IG. During fiscal year 2007, we completed actions related to seven IG recommendations, none of which affected the financial statements. There are no unresolved issues.

Our Audit Advisory Committee assists the Comptroller General in overseeing the effectiveness of our financial reporting and audit processes, internal controls over financial operations, and
processes that ensure compliance with laws and regulations relevant to our financial operations. The committee is composed of individuals who are independent of GAO and have outstanding reputations in public service or business with financial or legal expertise. The current members of the committee are as follows:

- Sheldon S. Cohen (Chairman), a certified public accountant and practicing attorney in Washington, D.C.; a former Commissioner and Chief Counsel of the Internal Revenue Service; and a Senior Fellow of the National Academy of Public Administration.

- Edward J. Mazur, CPA; Senior Advisor for Governmental Financial Management at Cherry, Bekaert & Holland, LLP; past member of the Governmental Accounting Standards Board; former State Comptroller of Virginia; and a former Controller of the Office of Federal Financial Management in the Office of Management and Budget.

- Charles O. Rossotti, senior advisor at The Carlyle Group; former Commissioner of the Internal Revenue Service; and founder and former Chief Executive Officer and Chairman of American Management Systems, Inc., an international business and information technology consulting firm.

Limitation on Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements in this report rests with our managers. The statements were prepared to report our financial position and results of operations, consistent with the requirements of the Chief Financial Officers Act, as amended (31 U.S.C. 3515). The statements were prepared from our financial records in accordance with the formats prescribed in OMB Circular No. A-136, Financial Reporting Requirements. These financial statements differ from the financial reports used to monitor and control our budgetary resources. However, both were prepared from the same financial records.

Our financial statements should be read with the understanding that as an agency of a sovereign entity, the U.S. government, we cannot liquidate our liabilities (i.e., pay our bills) without legislation that provides resources to do so. Although future appropriations to fund these liabilities are likely and anticipated, they are not certain.
# Financial Statements

**U.S. Government Accountability Office**  
Condensed Balance Sheets  
As of September 30, 2007 and 2006  
(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental assets including</td>
<td></td>
<td></td>
</tr>
<tr>
<td>funds with the U.S. Treasury</td>
<td>$64,603</td>
<td>$64,941</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>41,566</td>
<td>40,293</td>
</tr>
<tr>
<td>Other</td>
<td>372</td>
<td>358</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$106,541</td>
<td>$105,592</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intragovernmental liabilities</td>
<td>$11,564</td>
<td>$16,784</td>
</tr>
<tr>
<td>Accounts payable and salaries and benefits</td>
<td>28,107</td>
<td>27,667</td>
</tr>
<tr>
<td>Accrued annual leave and other</td>
<td>29,572</td>
<td>30,299</td>
</tr>
<tr>
<td>Workers’ compensation</td>
<td>16,368</td>
<td>15,910</td>
</tr>
<tr>
<td>Capital leases and note payable</td>
<td>8,321</td>
<td>6,872</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>93,932</td>
<td>97,532</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpended appropriations</td>
<td>30,562</td>
<td>25,951</td>
</tr>
<tr>
<td>Cumulative results of operations</td>
<td>(17,953)</td>
<td>(17,891)</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>12,609</td>
<td>8,060</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Position</strong></td>
<td>$106,541</td>
<td>$105,592</td>
</tr>
</tbody>
</table>

The accompanying note is an integral part of these statements.
## Financial Statements

U.S. Government Accountability Office  
Condensed Statements of Net Cost  
For Fiscal Years Ended September 30, 2007 and 2006  
(Dollars in thousands)

<table>
<thead>
<tr>
<th>Goal Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal 1: Well-Being/Financial Security of American People</td>
<td>$177,376</td>
<td>$191,880</td>
</tr>
<tr>
<td>Goal 2: Changing Security Threats/Challenges of Global Interdependence</td>
<td>157,568</td>
<td>154,727</td>
</tr>
<tr>
<td>Goal 3: Transforming the Federal Government’s Role</td>
<td>146,568</td>
<td>146,769</td>
</tr>
<tr>
<td>Goal 4: Maximize the Value of GAO</td>
<td>23,924</td>
<td>23,664</td>
</tr>
<tr>
<td>Less: reimbursable services not attributable to goals</td>
<td>(5,730)</td>
<td>(5,561)</td>
</tr>
<tr>
<td><strong>Net Cost of Operations</strong></td>
<td><strong>$499,706</strong></td>
<td><strong>$511,479</strong></td>
</tr>
</tbody>
</table>

The accompanying note is an integral part of these statements.
Financial Statements  
U.S. Government Accountability Office  
Condensed Statements of Changes in Net Position  
For Fiscal Years Ended September 30, 2007 and 2006  
(Dollars in thousands) 

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative Results of Operations, Beginning of fiscal year</strong></td>
<td>($17,891)</td>
</tr>
<tr>
<td><strong>Budgetary Financing Sources - Appropriations used</strong></td>
<td>474,925</td>
</tr>
<tr>
<td><strong>Other Financing Sources</strong></td>
<td></td>
</tr>
<tr>
<td>Employee benefit costs imputed to GAO</td>
<td>24,746</td>
</tr>
<tr>
<td>Other</td>
<td>(27)</td>
</tr>
<tr>
<td><strong>Total Financing Sources</strong></td>
<td>499,644</td>
</tr>
<tr>
<td><strong>Net Cost of Operations</strong></td>
<td>(499,706)</td>
</tr>
<tr>
<td><strong>Net Change</strong></td>
<td>(62)</td>
</tr>
<tr>
<td><strong>Cumulative Results of Operations, End of fiscal year</strong></td>
<td>(17,953)</td>
</tr>
<tr>
<td><strong>Unexpended Appropriations, Beginning of fiscal year</strong></td>
<td>25,951</td>
</tr>
<tr>
<td><strong>Budgetary Financing Sources and Uses</strong></td>
<td></td>
</tr>
<tr>
<td>Current year appropriations</td>
<td>485,894</td>
</tr>
<tr>
<td>Appropriations used</td>
<td>(474,925)</td>
</tr>
<tr>
<td>Permanently not available and other</td>
<td>(6,358)</td>
</tr>
<tr>
<td><strong>Total Unexpended Appropriations, End of fiscal year</strong></td>
<td>30,562</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td>$12,609</td>
</tr>
</tbody>
</table>

The accompanying note is an integral part of these statements.
Financial Statements  
U.S. Government Accountability Office  
Condensed Statements of Budgetary Resources  
For Fiscal Years Ended September 30, 2007 and 2006  
(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unobligated balance, beginning of fiscal year</td>
<td>$8,492</td>
<td>$11,080</td>
</tr>
<tr>
<td>Appropriations</td>
<td>485,894</td>
<td>482,395</td>
</tr>
<tr>
<td>Spending authority from offsetting collections</td>
<td>10,834</td>
<td>11,119</td>
</tr>
<tr>
<td>Subtotal</td>
<td>496,728</td>
<td>493,514</td>
</tr>
<tr>
<td>Permanently not available and other</td>
<td>(6,358)</td>
<td>(7,366)</td>
</tr>
<tr>
<td><strong>Total Budgetary Resources</strong></td>
<td>$498,862</td>
<td>$497,228</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status of Budgetary Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations incurred</td>
<td>$488,852</td>
<td>$488,547</td>
</tr>
<tr>
<td>Unobligated balance - Apportioned</td>
<td>3,170</td>
<td>1,089</td>
</tr>
<tr>
<td>Unobligated balance not available</td>
<td>6,840</td>
<td>7,592</td>
</tr>
<tr>
<td><strong>Total Status of Budgetary Resources</strong></td>
<td>$498,862</td>
<td>$497,228</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in Obligated Balance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligated balance, beginning of fiscal year</td>
<td>$55,238</td>
<td>$54,798</td>
</tr>
<tr>
<td>Obligations incurred</td>
<td>488,852</td>
<td>488,547</td>
</tr>
<tr>
<td>Less: Gross Outlays</td>
<td>(490,474)</td>
<td>(488,107)</td>
</tr>
<tr>
<td><strong>Obligated balance, end of fiscal year</strong></td>
<td>$53,616</td>
<td>$55,238</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Outlays</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross outlays</td>
<td>$490,474</td>
<td>$488,107</td>
</tr>
<tr>
<td>Less: Offsetting collections</td>
<td>(10,645)</td>
<td>(11,119)</td>
</tr>
<tr>
<td><strong>Net Outlays</strong></td>
<td>$479,829</td>
<td>$476,988</td>
</tr>
</tbody>
</table>

The accompanying note is an integral part of these statements.
Note to Financial Statements

Summary of Significant Accounting Policies

Reporting Entity

The accompanying condensed financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of the United States Government Accountability Office (GAO). GAO, an agency in the legislative branch of the federal government, supports the Congress in carrying out its constitutional responsibilities. GAO carries out its mission primarily by conducting audits, evaluations, analyses, research, and investigations and providing the information from that work to the Congress and the public in a variety of forms.

Basis of Accounting

GAO’s financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles for the federal government. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities. The statements were also prepared in conformity with OMB Circular No. A-136, Financial Reporting Requirements.

Assets

Intragovernmental assets are those assets that arise from transactions with other federal entities. Funds with the U.S. Treasury comprise the majority of intragovernmental assets on GAO’s balance sheet.

Funds with the U.S. Treasury

The U.S. Treasury processes GAO’s receipts and disbursements. Funds with the U.S. Treasury represent appropriated funds Treasury will provide to pay liabilities and to finance authorized purchase commitments.

Property and Equipment

Generally, property and equipment individually costing more than $15,000 are capitalized at cost. Building improvements and leasehold improvements are capitalized when the cost is $25,000 or greater. Bulk purchases of lesser-value items that aggregate more than $150,000 are also capitalized at cost. Assets are depreciated on a straight-line basis over the estimated useful life of the property as follows: building improvements, 10 years; computer equipment, software, and capital lease assets, ranging from 3 to 6 years; leasehold improvements, 5 years; and other
equipment, ranging from 5 to 20 years. GAO's property and equipment have no restrictions as to use or convertibility except for the restrictions related to the GAO building’s classification as a multiuse heritage asset.

**Federal Employee Benefits**

GAO recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render services to GAO. The pension expense recognized in the financial statements equals the current service cost for GAO’s employees for the accounting period less the amount contributed by the employees. The Office of Personnel Management (OPM), the administrator of the plan, supplies GAO with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense over the amount contributed by GAO and employees 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 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 deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor and are paid, ultimately, by GAO.

GAO recognizes a current-period expense for the future cost of postretirement health benefits and life insurance for its employees while they are still working. GAO accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and GAO do not make current contributions to fund these future benefits.

**Annual, 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. All leave is funded when expensed.

**Contingencies**

GAO has certain claims and lawsuits pending against it. Provision is included in GAO’s financial statements for any losses considered probable and estimable. Management believes that losses from certain other claims and lawsuits are reasonably possible but are not material to the fair presentation of GAO’s financial statements, and provision for these losses is not included in the financial statements.
Independent Auditor’s Report

We have audited the balance sheets of the Government Accountability Office (GAO) as of September 30, 2007 and 2006, and the related statements of net costs, changes in net position, and budgetary resources, for the years then ended. In our report dated November 7, 2007, we expressed an unqualified opinion on those financial statements. We performed our audit in accordance with auditing standards generally accepted in the United States of America: Government Auditing Standards issued by the Comptroller General of the United States, and Office of Management and Budget’s (OMB) Bulletin 07-04, Audit Requirements for Federal Financial Statements.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

Our report also included our opinion that GAO maintained effective internal control over financial reporting (including the safeguarding of assets) and compliance with laws and regulations as of September 30, 2007. We did not evaluate all internal controls relevant to operating objectives. In addition, because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our report also included our opinion that GAO’s financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

We also reported that we found no reportable noncompliance with laws and regulations tested. However, the objective of our audit was not to provide an opinion on GAO’s overall compliance with laws and regulations, and we do not express such an opinion. We did not test compliance with all laws and regulations applicable to GAO. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2007. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Our conclusion on compliance with laws and regulations is intended for Congress and GAO’s management and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
November 7, 2007
From the Inspector General

Memorandum

Date: October 26, 2007

To: Comptroller General

From: Inspector General – Frances Garcia

Subject: GAO Management Challenges and Performance Measures

We have examined management’s assessment of the management challenges. Based on our work and institutional knowledge, we agree that physical security, information security, and human capital continue to be management challenges that may affect GAO’s performance. We also agree with management’s assessment of progress made in addressing these challenges.

During fiscal year 2007, we reviewed all accomplishment reports of $500 million or more, which totaled 74 percent of the total dollar value reported. Based on our reviews, we believe that GAO had a reasonable basis for claiming these benefits. In addition, we assessed GAO’s fiscal year 2006 performance measures for how well its internal administrative services help employees get their jobs done and improve the quality of their work life. Overall, we found that these measures were reasonable and that methods used to measure performance were appropriate, but we also made recommendations to help improve their objectivity and reliability.
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Front cover and page i: GAO (flag, Capitol balcony), Corbis (Statue of Thomas Jefferson and Inscription of his Words at the Jefferson Memorial, Capitol dome interior, Contemplation of Justice statue)

Page 13: GAO (flag), PhotoDisc (bills)

Page 17: GAO (flag), PhotoDisc (cogs)

Page 25: PhotoDisc (bills), GAO (Capitol)
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U.S. Government Accountability Office
441 G Street NW, Room 6K17Q
Washington, D.C. 20548

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