

February 1998

FINANCIAL AUDIT

Examination of the Bureau of the Public Debt's Fiscal Year 1997 Schedule of Federal Debt





**United States
General Accounting Office
Washington, D.C. 20548**

**Accounting and Information
Management Division**

B-277771

February 27, 1998

The Honorable Robert E. Rubin
The Secretary of the Treasury

Dear Mr. Secretary:

This report presents the results of our audit of the Schedule of Federal Debt Managed by the Bureau of the Public Debt for the fiscal year ended September 30, 1997. The Schedule of Federal Debt presents the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Federal Debt Held by Federal Entities, (2) the related Interest Payables, and (3) the related Net Unamortized Discounts and Premiums, managed by the Bureau. At September 30, 1997, Federal Debt managed by the Bureau totaled about \$5.4 trillion, which consisted of \$3.8 trillion owed to the public and \$1.6 trillion owed to federal entities, such as the Social Security Trust funds, for monies borrowed to fund the government's operations. Total related interest expense for fiscal year 1997 was \$356 billion, which consisted of \$246 billion of interest expense on debt owed to the public and \$110 billion of interest expense on debt owed to federal entities.

This report contains our (1) opinion on the Schedule of Federal Debt for the fiscal year ended September 30, 1997, (2) opinion on Bureau management's assertion about the effectiveness of related internal controls, and (3) conclusions on the Bureau's compliance with significant laws and regulations we tested, and on whether the Bureau's financial management systems, related to the Schedule of Federal Debt, substantially comply with requirements of the Federal Financial Management Improvement Act of 1996.

We are sending copies of this report to the Acting Commissioner of the Bureau of the Public Debt; the Director of the Office of Management and Budget; the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations, Senate Subcommittee on Treasury and General Government, Senate Committee on Finance, Senate Committee on Governmental Affairs, and Senate Committee on the Budget; the Chairmen and Ranking Minority Members of the House Committee on Appropriations, House Subcommittee on Treasury, Postal Service, and General Government, House Committee on Ways and Means, House Committee on Government Reform and Oversight, House Subcommittee on Government Management, Information and Technology and House

Committee on the Budget; and other interested congressional committees. Copies will be made available to others upon request.

Should you or members of your staff have any questions concerning this report, please contact me on (202) 512-3406. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "Gary T. Engel".

Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues

Contents

| | |
|---|----|
| Letter | 1 |
| Opinion Letter | 6 |
| Schedule and | 13 |
| Footnotes | 13 |
| | 14 |
| Appendix I | 20 |
| Comments From the Bureau of the Public Debt | |
| Appendix II | 21 |
| Major Contributors to This Report | |

Abbreviations

| | |
|-------|--|
| BPD | Bureau of the Public Debt |
| CFO | Chief Financial Officer |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| GMRA | Government Management Reform Act of 1994 |
| OMB | Office of Management and Budget |

**Accounting and Information
Management Division**

B-277771

To the Acting Commissioner of the Bureau of the Public Debt

In accordance with the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994 (GMRA), this report presents the results of our audit of the Schedule of Federal Debt Managed by the Bureau of the Public Debt for the fiscal year ended September 30, 1997. GMRA requires the Director of the Office of Management and Budget (OMB) to identify components of executive agencies that must issue audited financial statements. OMB designated the Bureau of the Public Debt (BPD) as a component of the Department of the Treasury required to issue audited financial statements.¹

The Schedule of Federal Debt presents the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Federal Debt Held by Federal Entities, (2) the related Interest Payables, and (3) the related Net Unamortized Premiums and Discounts, managed by BPD.

In our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 1997, we found the following:

- The Schedule of Federal Debt was reliable in all material respects.
- Management fairly stated that the related internal controls in place on September 30, 1997, were effective in safeguarding assets, as reflected in footnote 5 to the Schedule of Federal Debt, from material loss, assuring material compliance with laws governing the use of budget authority and with other laws and regulations relevant to the Federal Debt managed by BPD, and assuring that there were no material misstatements in the Schedule of Federal Debt.
- There was no reportable noncompliance with selected provisions of laws and regulations we tested, and there were no instances where BPD financial management systems related to the Schedule of Federal Debt did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The following sections outline each conclusion in more detail and discuss the scope of our audit.

¹As approved by OMB, BPD's fiscal year 1997 financial statements submission, which also represents BPD's annual report, will consist of the (1) Administrative Financial Statements, (2) Schedule of Federal Debt Managed by the Bureau of the Public Debt for the fiscal year ended September 30, 1997, (3) Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt at September 30, 1997, and (4) Overview to the Financial Statements.

Opinion on Schedule of Federal Debt

The Schedule of Federal Debt including the accompanying notes presents fairly, in all material respects, in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, as described in note 1, the fiscal year 1997 activity relating to the Federal Debt, related Interest Payables, and related Net Unamortized Premiums and Discounts that were managed by BPD.

Opinion on Management's Assertion About the Effectiveness of Internal Controls

We evaluated management's assertion about the effectiveness of its internal controls designed to

- safeguard assets, as reflected in footnote 5 of the Schedule of Federal Debt, against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions on the Schedule of Federal Debt in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the Schedule of Federal Debt or that are listed in OMB audit guidance Bulletin 93-06, Audit Requirements for Federal Financial Statements, and could have a material effect on the Schedule of Federal Debt; and
- properly record, process, and summarize transactions to permit the preparation of a reliable Schedule of Federal Debt and to maintain accountability for assets, as reflected in footnote 5 to the Schedule of Federal Debt.

Management of BPD fairly stated that those controls in place on September 30, 1997, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the Schedule of Federal Debt would be prevented or detected on a timely basis. Management made this assertion based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and OMB Circular A-123, Management Accountability and Control.

We found matters involving the internal controls, including computer general controls, that we do not consider to be reportable conditions.² We will communicate these matters separately to BPD's management, along with our suggestions for improvement.

²Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with management's authority and in accordance with laws and regulations, or (3) properly record, process, and summarize transactions to permit the preparation of the schedule or to maintain accountability for assets.

Compliance With Laws and Regulations and FFMA Requirements

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards or OMB's Bulletin 93-06. Under FFMA and OMB Bulletin 98-04,³ our tests disclosed no instances where BPD financial management systems related to the Schedule of Federal Debt did not substantially comply with the following requirements:

- federal financial management systems,
- applicable federal accounting standards,⁴ and
- the United States Standard General Ledger at the transaction level.

However, the objective of our audit was not to provide an opinion on overall compliance with the laws, regulations, and requirements tested. Accordingly, we do not express such an opinion.

Year 2000 Date Conversion

The Year 2000 date conversion poses a challenge for many organizations, including federal agencies. The Year 2000 problem is rooted in the way dates are recorded and calculated in many computer systems. For the past several decades, systems have typically used two digits to represent the year in order to conserve on electronic data storage and reduce operating costs. With this two-digit format, however, the year 2000 is indistinguishable from the year 1900. As a result, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results when working with years after 1999.

Because many of BPD's core business areas and processes involve information systems, it is critical that BPD ensure that its mission-critical and other key systems are Year 2000 compliant. BPD officials stated that BPD has actions completed and planned to ensure that it is Year 2000 compliant. A review of such actions was not included in the scope of our audit of the Schedule of Federal Debt. We are working with the Congress and the executive branch to monitor the progress being made by federal agencies and identify specific recommendations for resolving the Year 2000 problem. In connection with this work, we will review BPD's actions.

³On January 16, 1998, OMB issued Bulletin 98-04 as an addendum to OMB Bulletin 93-06, which generally revised the Bulletin's reporting requirements and implemented the reporting requirements of the Federal Financial Management Improvement Act of 1996 (Public Law 104-208).

⁴The Federal Accounting Standards Advisory Board recommends accounting standards, and OMB, Treasury, and GAO decide whether to adopt the recommended standards; if they are adopted, the standards are published by OMB and GAO.

Objectives, Scope, and Methodology

Management is responsible for

- preparing the Schedule of Federal Debt in conformity with the basis of accounting described in note 1;
- establishing, maintaining, and assessing the internal controls to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met; and
- complying with applicable laws and regulations and FFMI requirements.

We are responsible for obtaining reasonable assurance about whether (1) the Schedule of Federal Debt is reliable (free of material misstatements and presented fairly, in all material respects, in conformity with the basis of accounting described in note 1) and (2) management's assertion about the effectiveness of related internal controls is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and OMB Circular A-123, Management Accountability and Control. We are also responsible for testing compliance with selected provisions of laws and regulations⁵ and FFMI requirements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Federal Debt;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Schedule of Federal Debt;
- obtained an understanding of the internal controls relevant to the Schedule of Federal Debt and related to safeguarding assets, as reflected in footnote 5 to the schedule, compliance with laws and regulations including execution of transactions in accordance with budget authority, and financial reporting;
- tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls related to the Schedule of Federal Debt;
- tested compliance with the following selected provisions of laws and regulations:
 - Government Management Reform Act of 1994, 31 U.S.C. 3515, 3521(e)-(f);
 - Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. 3512(d); and

⁵These are laws and regulations that have a direct and material effect on the Schedule of Federal Debt or that are listed in OMB guidance and could have a material effect on the Schedule of Federal Debt.

-
- Statutory Debt Limits, 31 U.S.C. 3101(b), as amended; and
 - tested whether BPD financial management systems related to the Schedule of Federal Debt substantially comply with the following FFMA requirements, considering the implementation guidance for FFMA issued by OMB on September 9, 1997:
 - federal financial management systems,
 - applicable federal accounting standards, and
 - the United States Standard General Ledger at the transaction level.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal controls, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

As the auditor of the Schedule of Federal Debt Managed by the Bureau of the Public Debt, we are reporting under FFMA whether BPD financial management systems related to the Schedule of Federal Debt substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. In making this report, we considered the implementation guidance for FFMA issued by OMB on September 9, 1997.

We did our work in accordance with generally accepted government auditing standards, OMB Bulletin 93-06 and OMB Bulletin 98-04.

Agency Comments

We requested comments on a draft of this audit report from BPD. On February 17, 1998, the Acting Commissioner of BPD provided us with written comments, which are presented in appendix I. BPD concurred with our audit report's conclusions.



Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues

January 23, 1998

Schedule and Footnotes

Schedule of Federal Debt

Schedule of Federal Debt
 Managed by the Bureau of the Public Debt
 For the Fiscal Year Ended September 30, 1997
 (Dollars in Millions)

| | Federal Debt | | | | | |
|--|-----------------------|---------------------|---|--------------------------|---------------------|---|
| | Held by the Public | | | Held by Federal Entities | | |
| | Principal (Note 2) | Interest Payable | Unamortized Net Premiums/ (Discounts) | Principal (Note 3) | Interest Payable | Unamortized Net Premiums/ (Discounts) |
| Beginning Balance at October 1, 1996 | \$3,778,759 | \$45,574 | (\$72,871) | \$1,431,051 | \$27,317 | \$13,194 |
| Increases | | | | | | |
| Borrowings from the Public | 2,343,511 | | (39,270) | | | |
| Net Increase in Amounts Borrowed from Federal Entities | | | | 152,408 | | (744) |
| Accrued Interest (Note 4) | | 204,230 | | | 110,513 | |
| Total Increases | 2,343,511 | 204,230 | (39,270) | 152,408 | 110,513 | (744) |
| Decreases | | | | | | |
| Repayments of Debt Held by the Public | 2,307,583 | | | | | |
| Interest Paid | | 203,752 | | | 108,906 | |
| Net Amortization (Note 4) | | | (41,889) | | | 235 |
| Total Decreases | 2,307,583 | 203,752 | (41,889) | 0 | 108,906 | 235 |
| Ending Balance at September 30, 1997 | \$3,814,687 | \$46,052 | (\$70,252) | \$1,583,459 | \$28,924 | \$12,215 |

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Federal Debt

Notes to the Schedule of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Year Ended September 30, 1997
(Dollars in Millions)

Note 1. Significant Accounting Policies

Basis of Presentation

Pursuant to the Government Management Reform Act of 1994, the Office of Management and Budget (OMB) designated the Bureau of the Public Debt (BPD) as a component of the Department of the Treasury required to issue audited financial statements. As approved by OMB, BPD's fiscal year 1997 financial statements submission consists of the (1) Administrative Financial Statements, (2) Schedule of Federal Debt Managed by BPD, (3) Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by BPD at September 30, 1997 (Schedule of Loans Receivable), and (4) Overview to the Financial Statements. This Schedule of Federal Debt Managed by BPD has been prepared to report fiscal year 1997 balances and activity relating to monies borrowed from the public and federal entities to fund the U.S. government's operations. The Administrative Financial Statements, Schedule of Loans Receivable, and Overview to the Financial Statements are separately reported.

Reporting Entity

The Constitution empowers Congress to borrow money on the credit of the United States. Congress has authorized the Secretary of the Treasury to borrow monies to operate the federal government. Within Treasury, BPD is responsible for issuing Treasury securities in accordance with such authority and to account for the resulting debt. Title 31 U.S.C. authorizes the Bureau of the Public Debt as an organizational entity within the Fiscal Service of the Department of the Treasury to prescribe the debt instruments and otherwise limit and restrict the amount and composition of the debt. In addition, BPD has been given the responsibility to issue Treasury securities to trust funds for trust fund receipts not needed for current benefits and expenses. BPD issues and redeems Treasury securities for the trust funds based on data provided by program agencies and other Treasury entities.

Basis of Accounting

This schedule was prepared using the accrual basis of accounting and from BPD's automated accounting system, Public Debt Accounting and Reporting System. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using the straight line method.

Schedule and Footnotes

Notes to the Schedule of Federal Debt Managed by the Bureau of the Public Debt
 For the Fiscal Year Ended September 30, 1997
 (Dollars in Millions)

Significant Accounting Policies (continued)

Budgetary Authority

Permanent indefinite appropriations are available for the payment of interest on the federal debt and on the redemption of Treasury securities.

Note 2. Federal Debt Held by the Public

As of September 30, 1997, Federal Debt Held by the Public consisted of the following:

| | | Average Interest Rates | Term |
|---------------------------------------|---------------------------|---------------------------|------------------------------------|
| Marketable: | | | |
| Treasury Bills | \$701,909 | 5.5% | 1 Year Or Less |
| Treasury Notes | 2,146,631 | 6.4% | More Than 1 Year - 10 Years |
| Treasury Bonds | <u>574,954</u> | 8.9% | More Than 10 Years |
| Total Marketable | <u>\$3,423,494</u> | | |
| Nonmarketable | <u>\$391,193</u> | 6.5% | On Demand to More Than 10 Years |
| Total Federal Debt Held by the Public | <u><u>\$3,814,687</u></u> | | |

Treasury issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on a Treasury bill represents the average effective yield on the security.

Treasury issues marketable notes and bonds as long term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate represents the stated interest rate adjusted by any discount or premium. Treasury marketable notes include \$24,384 million of inflation-indexed notes.

Schedule and Footnotes

Notes to the Schedule of Federal Debt Managed by the Bureau of the Public Debt
 For the Fiscal Year Ended September 30, 1997
 (Dollars in Millions)

Federal Debt Held by the Public (continued)

Nonmarketable securities primarily consist of \$186,315 million in U.S. savings securities and \$111,863 million in securities issued to state and local governments. Treasury issues nonmarketable securities at both par and discounted values. The average interest rate on the nonmarketable securities represents the weighted effective yield.

Some investments in Government Account Series (GAS) securities have been reclassified as Federal Debt Held by the Public. One example is the Thrift Savings Fund. Federal employees and retirees who have individual accounts own the securities held by the fund. For this reason, the fund is considered part of the Federal Debt Held by the Public rather than Held by Federal Entities. Also, the securities held by the Thrift Savings Fund consist of overnight investments redeemed one business day after their issue. The net increase in amounts borrowed from the fund during fiscal year 1997 are included in the Borrowings from the Public amount reported on the Schedule of Federal Debt.

Note 3. Federal Debt Held by Federal Entities

As of September 30, 1997, Federal Debt Held by Federal Entities is owed to the following:

| | | | |
|-----------|--|-------------|---|
| SSA: | Federal Old-Age and Survivors Insurance Trust Fund | \$567,445 | |
| OPM: | Civil Service Retirement and Disability Fund | 399,404 | * |
| DOD: | Military Retirement Fund | 126,022 | |
| HHS: | Federal Hospital Insurance Trust Fund | 116,621 | |
| SSA: | Federal Disability Insurance Trust Fund | 63,562 | * |
| DOL: | Unemployment Trust Fund | 61,923 | * |
| HHS: | Federal Supplementary Medical Insurance Trust Fund | 34,464 | |
| FDIC: | The Bank Insurance Fund | 26,329 | |
| DOT: | Highway Trust Fund | 22,341 | |
| OPM: | Employees' Life Insurance Fund | 18,038 | |
| RRB: | Railroad Retirement Account | 17,486 | |
| Treasury: | Exchange Stabilization Fund | 15,460 | |
| HUD: | FHA - Liquidating Account | 13,467 | |
| VA: | National Service Life Insurance Fund | 12,023 | |
| | Other Programs and Funds | 88,874 | |
| | | <hr/> | |
| | Total Federal Debt Held by Federal Entities | \$1,583,459 | |
| | | <hr/> | |

*These amounts include marketable Treasury securities as well as GAS securities as follows:

Schedule and Footnotes

Notes to the Schedule of Federal Debt Managed by the Bureau of the Public Debt
 For the Fiscal Year Ended September 30, 1997
 (Dollars in Millions)

Federal Debt Held by Federal Entities (continued)

| | GAS Securities | Marketable Treasury Securities | Total Securities |
|--|-------------------|--------------------------------------|---------------------|
| Civil Service Retirement and Disability Fund | \$398,242 | \$1,162 | \$399,404 |
| Federal Disability Insurance Trust Fund | 63,513 | 49 | 63,562 |
| Unemployment Trust Fund | 61,880 | 43 | 61,923 |

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Defense (DOD); Department of Health and Human Services (HHS); Department of Labor (DOL); Federal Deposit Insurance Corporation (FDIC); Department of Transportation (DOT); Railroad Retirement Board (RRB); Department of the Treasury (Treasury); Department of Housing and Urban Development (HUD); Department of Veterans Affairs (VA).

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal year 1997 consisted of the following:

| | |
|---|------------------|
| Federal Debt Held by the Public | |
| Accrued Interest | \$204,230 |
| Net Amortization of Premiums and Discounts | 41,889 |
| | <u>246,119</u> |
| Total Interest Expense on Federal Debt Held by the Public | 246,119 |
| Federal Debt Held by Federal Entities | |
| Accrued Interest | 110,513 |
| Net Amortization of Premiums and Discounts | (235) |
| | <u>110,278</u> |
| Total Interest Expense on Federal Debt Held by Federal Entities | 110,278 |
| Total Interest Expense on Federal Debt Managed by BPD | <u>\$356,397</u> |

Schedule and Footnotes

Notes to the Schedule of Federal Debt Managed by the Bureau of the Public Debt
 For the Fiscal Year Ended September 30, 1997
 (Dollars in Millions)

Note 5. Fund Balance With Treasury

| | Available | Restricted | Total at September 30, 1997 |
|--------------------|-----------|------------|--------------------------------|
| | <hr/> | | |
| Appropriated Funds | \$46,255 | \$0 | \$46,255 |

Interest accruals on federal debt held by the public are charged over the life of the security to the Interest on Public Debt appropriation. Such amounts are maintained in BPD's Fund Balance With Treasury (FBWT), an intragovernmental account, until the semi-annual interest payments are disbursed. The balance in the FBWT account at September 30, 1997, is primarily attributable to this process. Amounts related to other debt related accounts, which are minor, also make up this balance. The FBWT and other debt related accounts are not included on the Schedule of Federal Debt and are presented for informational purposes.

Note 6. Other Debt Related Balances

At September 30, 1997, other debt related balances consisted of the following:

| | |
|---|---------------------|
| Accounts Receivable from Overpayments | \$7 |
| Advances Received for Purchases of Federal Debt | (90) |
| Other Miscellaneous Liabilities | <hr/> (85) |
| Total Other Debt Related Balances | <hr/> <hr/> (\$168) |

Comments From the Bureau of the Public Debt



DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, D.C. 20239-0001

February 17, 1998

Mr. Gene L. Dodaro
Assistant Comptroller General
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Dodaro:

This letter represents our response to your audit of the Schedule of Federal Debt Managed by the Bureau of the Public Debt for the fiscal year ended September 30, 1997. We agree with your audit report's conclusions.

I would like to thank you and your staff for conducting a thorough audit of our operations. We appreciate the professionalism and considerable effort of your audit team. Our staffs worked well together during this audit and we look forward to continuing this productive and effective relationship.

Sincerely,

A handwritten signature in cursive script that reads "Van Zeck".

Van Zeck
Acting Commissioner

Major Contributors to This Report

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