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GAO

UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE



On December 14, 2006, we reissued this report to include a link to supplemental information on our personnel flexibilities discussed in appendix 2.

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# PERFORMANCE & ACCOUNTABILITY REPORT

**FISCAL YEAR 2006**  
SERVING THE CONGRESS AND THE NATION

Accountability ★ Integrity ★ Reliability

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## GAO's 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

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ **Core Values** ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

### 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 both.

### 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.





Source: See Image Sources.

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# Abbreviations

<b>CAPPS</b>	Computer-Assisted Passenger Prescreening System	<b>HUD</b>	Department of Housing and Urban Development
<b>CMS</b>	Centers for Medicare & Medicaid Services	<b>IG</b>	Office of Inspector General
<b>CSRS</b>	Civil Service Retirement System	<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>DD(X)</b>	destroyer	<b>IRS</b>	Internal Revenue Service
<b>DHS</b>	Department of Homeland Security	<b>IT</b>	information technology
<b>DOD</b>	Department of Defense	<b>LHA(R)</b>	amphibious assault ship replacement
<b>DOE</b>	Department of Energy	<b>MCA</b>	managerial cost accounting
<b>DOT</b>	Department of Transportation	<b>MCC</b>	Millennium Challenge Corporation
<b>DTV</b>	digital television	<b>NFC</b>	National Finance Center
<b>EEO</b>	Equal Employment Opportunity	<b>NIST</b>	National Institute of Standards and Technology
<b>EEOC</b>	Equal Employment Opportunity Commission	<b>OMB</b>	Office of Management and Budget
<b>EPA</b>	Environmental Protection Agency	<b>OOI</b>	Office of Opportunity and Inclusiveness
<b>FAA</b>	Federal Aviation Administration	<b>OPM</b>	Office of Personnel Management
<b>FCC</b>	Federal Communications Commission	<b>QCI</b>	Quality and Continuous Improvement
<b>FDA</b>	Food and Drug Administration	<b>SSA</b>	Social Security Administration
<b>FECA</b>	Federal Employees' Compensation Act	<b>SSI</b>	Supplemental Security Income
<b>FEGLIP</b>	Federal Employees Group Life Insurance Program	<b>SSN</b>	Social Security number
<b>FEHBP</b>	Federal Employees Health Benefit Program	<b>TANF</b>	Temporary Assistance for Needy Families
<b>FEMA</b>	Federal Emergency Management Agency	<b>TSA</b>	Transportation Security Administration
<b>FERS</b>	Federal Employees Retirement System	<b>TVA</b>	Tennessee Valley Authority
<b>FFELP</b>	Federal Family Education Loan Program	<b>UN</b>	United Nations
<b>FICA</b>	Federal Insurance Contributions Act	<b>USACE</b>	U.S. Army Corps of Engineers
<b>FISMA</b>	Federal Information Security Management Act	<b>USAID</b>	U.S. Agency for International Development
<b>FSI</b>	Forensic Audits and Special Investigations	<b>USPS</b>	U.S. Postal Service
<b>FTE</b>	full-time equivalent	<b>US-VISIT</b>	United States Visitor and Immigrant Status Indicator Technology
<b>GAGAS</b>	generally accepted government auditing standards	<b>VA</b>	Department of Veterans Affairs
<b>GAO</b>	Government Accountability Office		
<b>HHS</b>	Department of Health and Human Services		

# How to Use This Report

This report describes the U.S. Government Accountability Office's (GAO) performance measures, results, and accountability processes for fiscal year 2006. In assessing our performance, we compared actual results against targets and goals that were set in our annual performance plan and performance budget and were developed to help carry out our strategic plan. Our complete set of strategic planning and performance and accountability reports is available on our Web site at <http://www.gao.gov/sp.html>.

This report has an introduction, four major parts, and supplementary appendixes as follows:

## ■ Introduction

This section includes the letter from the Comptroller General and a statement attesting to the reliability of our performance and financial data in this report and the effectiveness of our internal control over our financial reporting. This section also includes a summary discussion of our mission, strategic planning process, organizational structure, and process for assessing our performance.

## ■ Management's Discussion and Analysis

This section discusses our agencywide performance results and use of resources in fiscal year 2006. It also includes information on the strategies we use to achieve our goals and the management challenges and external factors that affect our performance.

## ■ Performance Information

This section includes details on our performance results by strategic goal in fiscal year 2006 and the targets we are aiming for in fiscal year 2007. It also includes an explanation of how we ensure the completeness and reliability of the performance data used in this report.

## ■ Financial Information

This section includes details on our finances in fiscal year 2006, including a letter from our Chief Financial Officer, audited financial statements and notes, and the reports from our external auditor and audit advisory committee. This section also includes information on our internal controls and an explanation of the kind of information each of our financial statements conveys.

## ■ From the Inspector General

This section includes our Inspector General's assessment of our agency's management challenges

## ■ Appendixes

These sections include detailed write-ups about our most significant accomplishments and contributions recorded in fiscal year 2006, and information on certain human capital management flexibilities and on information security management efforts.



# Introduction



# From the Comptroller General

Comptroller General of the United States, David M. Walker

Source: GAO.

November 15, 2006

I am now more than halfway through my 15-year tenure as Comptroller General of the United States. As time has passed, I have become more impressed with the breadth and quality of GAO's work, the ability and commitment of our staff, and the positive impact GAO's products and activities have on the economy, efficiency, effectiveness, and equity of federal programs supporting Americans everywhere. We strive each year to provide our client—the Congress—with the objective, fact-based, and reliable information it needs to improve the accountability of the federal government, and on the basis of our performance outcomes and the feedback we received from the Congress, we definitely accomplished this goal again in fiscal year 2006.

We generally exceeded the targets we set for all of our performance measures that indicate our ability to produce results for the nation. I am extremely proud to say that we helped the federal government achieve a total of \$51 billion in financial benefits—a record high for us that represents a \$105 return on every dollar the Congress invested in us. As a result of our work we also documented 1,342 nonfinancial benefits that like our financial benefits, helped to improve services to the public, change laws, and transform government operations. Our client-focused performance measures indicate that the Congress valued our work and was very pleased with it overall. For example, senior GAO executives and I delivered testimonies at 240 hearings covering a range of topics, including the tax gap and tax reform, U.S. border security, Iraq and Hurricane Katrina activities, and issues affecting the health and pay of military servicemembers. Our testimonies significantly surpassed the fiscal year 2006 target we set as well as our actual performance over the last 4 years, and 92 percent of the congressional staff responding to our client feedback survey either strongly or generally agreed that our testimonies and written products were delivered on time to them. Though we were 6 percentage points shy of our timeliness target, we will continue our quest to improve the timeliness of our products. In addition, we also met or exceeded four of our eight performance measures that gauge how well we developed, challenged, and managed our workforce.



I am also proud that we received a clean opinion from an external, independent auditor on our financial statements. I am confident that the performance information and the financial data included in this performance and accountability report are complete and reliable.

Reflecting on fiscal year 2006, I am reminded how often our work has focused on the major issues affecting this nation, such as the federal government's efforts to relieve the suffering and recover from the devastation of hurricanes Katrina and Rita and improve disaster preparedness and coordination for the future. In fiscal year 2006 we issued over 30 reports and testimonies related to disaster preparedness, response, and reconstruction. In numerous reports and testimonies, we also examined how the federal government funded and fought the global war on terrorism and the war in Iraq; managed the cost of prescription drugs for Medicare enrollees; and safeguarded sensitive information systems to protect U.S. citizens from the unauthorized use of their Social Security numbers, passports, and other personal information. In these and other areas of our work—some of which are highlighted on page 9—millions of average Americans benefited from our recommendations that were subsequently implemented by various federal agencies and the Congress.

We worked hard in fiscal year 2006 to help members of the Congress and the public better understand the trends and challenges facing the United States and its position in the world and to grasp the long-term and collateral implications of current policy paths. Through a number of reports, testimonies, presentations, and partnerships, we built on our groundbreaking report called *21st Century Challenges: Reexamining the Base of the Federal Government*. This unprecedented effort highlights several demographic, economic, and other trends—such as longer life spans, slowing workforce growth, and a large national deficit—that will have a significant adverse impact on our nation's fiscal future. The report also asks a series of questions about, among other things, mandatory and discretionary spending and tax policy. I, along with representatives from a broad range of concerned groups, discussed the serious fiscal imbalances facing the United States at town hall meetings in 10 different cities across the country. This "Fiscal Wake-up Tour," sponsored by the Concord Coalition, has helped to increase awareness about the nation's worsening financial situation and encourage discussion about possible solutions. I carried this message to congressional decision makers through various testimonies and information sessions with various congressional caucuses and many congressional members. In addition, we continued to examine federal areas and programs at risk of fraud, waste, abuse, and mismanagement and those in need of broad-based transformations, and added another troubled program to our high-risk list—the National Flood Insurance Program.

Change is not only essential for progress and innovation in the federal government as a whole, it is essential for the agencies and organizations that support the government, too—and GAO is no exception. During fiscal year 2006 we implemented a number of changes internally to move us toward our goal of becoming a world-class professional services organization. For example, we restructured our midlevel, policy analyst staff into two separate pay ranges in response to market data collected last year during the development of our competency-based

performance appraisal system for analysts. These data showed that our prior Band II pay range encompassed two distinct levels of responsibility, and we made changes to ensure that we achieve the goal of equal pay for work of equal value over time. We also established market-based pay ranges for our professional and administrative support staff as we had done previously for our analyst staff. In addition, we began a comprehensive review of how we recruit both mission and mission support staff. The review team focused on five broad areas: college recruitment, candidate assessment, annual hiring, negotiating and processing job offers, and recruiting issues affecting administrative and support staff. We also began an outreach program to recruit candidates for our new executive exchange program that will give private sector employees at various companies, including accounting firms and think tanks, a direct hands-on experience in the public sector.

It is vital for all organizations to understand the big picture, learn from the past, and be prepared for the future; we attempted to do these things in fiscal year 2006 by taking steps to position our workforce for the coming years. These actions helped to address some issues associated with our various human capital management challenges. We also took actions to address our other management challenges focused on securing the information we collect and produce and our physical environment. However, a significant challenge for us in fiscal year 2006 was, and will remain in the near term, the federal budget. We and other federal agencies took steps to deal with constrained budgets. We are currently operating under a continuing resolution at our fiscal year 2006 funding level. During the past fiscal year, we tried to absorb this funding reduction without seriously disrupting our operations by modifying the timing of our hiring decisions and offering eligible staff the opportunity to retire early on a targeted, expedited basis. We will continue to actively manage these challenges in the future.

During the rest of my tenure I intend to place additional attention on helping the Congress examine and address the nation's long-term fiscal outlook, health care reform, and the need to transform the Department of Defense. We will also work to enhance collaboration with our sister agencies in the legislative branch and continue to build partnerships with various accountability and other good government organizations. When it comes to improving government performance, strengthening accountability, and enhancing public trust, I take seriously my responsibility as Comptroller General and pledge to continue to guide GAO in its efforts to help the government work better for the benefit of the American people.

A handwritten signature in blue ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

# Financial Reporting Assurance Statements

November 15, 2006

We, as GAO's executive committee, are responsible for preparing and presenting the financial statements and other information included in this performance and accountability report. The financial statements included herein are presented in conformity with U.S. generally accepted accounting principles; incorporate management's reasonable estimates and judgments, where applicable; and contain appropriate and adequate disclosures. Based on our knowledge, the financial statements are presented fairly in all material respects, and other financial information included in this report is consistent with the financial statements.

We are also responsible for establishing and maintaining adequate internal control over financial reporting. GAO conducted its assessment of the effectiveness of GAO's internal control over financial reporting consistent with Appendix A, OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this assessment, GAO has reasonable assurance that internal control over financial reporting as of September 30, 2006, was operating effectively and that no material weaknesses exist in the design or operation of the internal controls over financial reporting.

On the basis of GAO's comprehensive management control program, we are pleased to certify, with reasonable assurance, the following:

- Our financial reporting is reliable—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- GAO is in compliance with all applicable laws and regulations—transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.
- Our performance reporting is reliable—transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with the criteria stated by GAO's management.

We also believe these same systems of accounting and internal controls provide reasonable assurance that GAO is in compliance with the spirit of 31 U.S.C. 3512 (commonly referred to as the Federal Managers' Financial Integrity Act). This is an objective that we set for ourselves even though as part of the legislative branch of the federal government, we are not legally required to do so.



David M. Walker  
Comptroller General  
of the United States



Gene L. Dodaro  
Chief Operating Officer



Sallyanne Harper  
Chief Financial Officer



Gary L. Kepplinger  
General Counsel



# About GAO

**We exist 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.**

Source: GAO.

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.<sup>1</sup> 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.

<sup>1</sup> The 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.

## Mission

Our mission is 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. The strategies and means that we use to accomplish this mission are described in the following pages. In short, 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.

### GAO’s History

**The Budget and Accounting Act of 1921 required the President to issue an annual federal budget and established GAO as an independent agency to investigate how federal dollars are spent. In the early years, we mainly audited vouchers, but after World War II we started to perform more comprehensive financial audits that examined the economy and efficiency of government operations. By the 1960s, GAO had begun to perform the type of work we are noted for today—program evaluation—which examines whether government programs are meeting their objectives.**

## Strategic Planning and Management Process

To accomplish our mission, we use a strategic planning and management process that is based on a hierarchy of four elements (see fig. 1), beginning at the highest level with the following four strategic goals:

- Strategic Goal 1: 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
- Strategic Goal 2: Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence
- Strategic Goal 3: Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges
- Strategic Goal 4: Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization

**Figure 1: GAO's Strategic Planning Hierarchy**



Source: GAO.

Our work is primarily aligned under the first 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).

**Figure 2: Examples of How GAO Assisted the Nation**

<b>In fiscal year 2006, GAO provided information that helped to...</b>	
<p><b>Strategic Goal 1</b> 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.</p>	<ul style="list-style-type: none"> <li>▪ protect Social Security numbers from abuse</li> <li>▪ ensure the effectiveness of federal investments in science, technology, engineering, and mathematics education programs</li> <li>▪ identify actions needed to improve Federal Emergency Management Agency (FEMA) and Red Cross coordination for the 2006 hurricane season</li> <li>▪ highlight weaknesses in the Department of Health and Human Services' communications with beneficiaries about the new Medicare prescription drug benefit</li> <li>▪ identify funding formula and drug pricing disparities in the federal AIDS/HIV program</li> <li>▪ strengthen the oversight of clinical laboratories</li> <li>▪ identify challenges the Department of Homeland Security (DHS) faces in controlling illegal immigration into the United States</li> <li>▪ assess the thoroughness of the federal fair housing complaint and investigation processes</li> <li>▪ improve the management of federal oil and natural gas royalty revenue</li> <li>▪ develop a strategy for managing wildfires</li> <li>▪ focus on the short- and long-term challenges of financing the nation's transportation infrastructure</li> <li>▪ identify outdated mail delivery performance standards used by the U.S. Postal Service (USPS)</li> </ul>
<p><b>Strategic Goal 2</b> Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.</p>	<ul style="list-style-type: none"> <li>▪ identify current and future funding and cost issues related to Department of Defense (DOD) operations in Iraq and Afghanistan</li> <li>▪ highlight inefficiencies that could hinder DOD's efforts to reform its business operations</li> <li>▪ improve controls over the issuance of passports and visas and increase fraud prevention</li> <li>▪ improve catastrophic disaster preparedness, response, and recovery</li> <li>▪ improve the ability of federal agencies to cost effectively acquire goods and services</li> <li>▪ improve the management of payments to U.S. producers injured financially by unfairly traded imports</li> <li>▪ alert the Congress to companies that are marketing costly mutual fund products with low returns to military servicemembers</li> <li>▪ identify steps needed to overhaul investment and management processes supporting major DOD acquisitions</li> <li>▪ improve security at nuclear power plants</li> <li>▪ improve DHS's ability to detect nuclear smuggling at U.S. ports</li> <li>▪ promote government efforts to secure sensitive systems and information</li> <li>▪ highlight the cost concerns of small public companies that must comply with internal control and auditing provisions of the Sarbanes-Oxley Act</li> </ul>
<p><b>Strategic Goal 3</b> Help transform the federal government's role and how it does business to meet 21st century challenges.</p>	<ul style="list-style-type: none"> <li>▪ improve congressional oversight of the process for reviewing foreign direct investment</li> <li>▪ strengthen DOD's information systems modernization efforts</li> <li>▪ highlight serious technical and cost challenges affecting the purchase of a critical weather satellite</li> <li>▪ highlight key practices federal agencies should adopt to prevent data breaches and better protect the personal information of U.S. citizens</li> <li>▪ monitor the development of the 2010 decennial census</li> <li>▪ identify strategies to reduce the gap between the taxes citizens pay and the taxes actually owed</li> <li>▪ focus attention on the revenue consequences of tax expenditures</li> <li>▪ identify fraud, waste, and abuse in a component of FEMA's disaster assistance program</li> <li>▪ emphasize the importance of reliable cost information for improving governmentwide cost efficiency</li> <li>▪ expose government contractors who used for personal gain federal payroll taxes withheld from their employees</li> </ul>
<p><b>Strategic Goal 4</b> Maximize the value of GAO by being a model federal agency and a world-class professional services organization.</p>	<ul style="list-style-type: none"> <li>▪ foster among other federal agencies GAO's innovative human capital practices, such as broad pay bands; performance-based compensation; and workforce planning and staffing strategies, policies, and processes</li> <li>▪ share GAO's model business and management processes with counterpart organizations in the United States and abroad</li> </ul>

Source: GAO.

The fourth goal is our only internal one and is aimed at maximizing our productivity through such efforts as investing steadily in information technology (IT) to support our work; ensuring the safety and security of our people, information, and assets; pursuing human capital transformation; and leveraging our knowledge and experience. We revisit the focus and appropriateness of these four strategic goals each time that we update our strategic plan. We are scheduled to issue our next strategic plan in early 2007.

The four strategic goals are supported by strategic objectives that are in turn supported by and achieved through numerous performance goals and key efforts. Our strategic planning framework for serving the Congress, which lists the strategic objectives under each goal, is depicted on the next page.

### An Example of Our Strategic Planning Elements

**Strategic Goal 1:** 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

**Strategic Objective:** An Effective System of Justice

**Performance Goal:** Assess Federal Efforts to Enforce Immigration and Customs Laws

#### Key Efforts:

- Evaluate DHS's border enforcement efforts
- Assess implementation of DHS systems for tracking people and cargo entering the United States
- Assess DHS efforts to process aliens' applications for benefits more efficiently
- Assess DHS efforts to enforce immigration laws inside U.S. borders

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>. This site also provides access to our annual performance plans since fiscal year 1999 and our performance and accountability reports since fiscal year 2001.

To ensure that we are well positioned to meet the Congress's current and future needs, we update our 6-year strategic plan every 3 years, consulting extensively during the update with our clients on Capitol Hill and with other experts (see our complete strategic plan at <http://www.gao.gov/sp/d04534sp.pdf>). Using the plan as a blueprint, we lay out the areas in which we expect to conduct research, audits, analyses, and evaluations to meet our clients' needs, and we allocate the resources we receive from the Congress accordingly. Given the increasingly fast pace with which crucial issues emerge and evolve, we design a certain amount of flexibility into our plans and staffing structure so that we can respond readily to the Congress's changing priorities. When we revise our plans or our allocation of resources, we disclose those changes in annual performance plans, which are posted—like our strategic plan—on the Web for public inspection (<http://www.gao.gov/sp.html>).

**Each year, we hold ourselves accountable to the Congress and to the American people for our performance, primarily through the annual performance and accountability report.**

We have included some information about our future plans in this report to provide as cohesive a view as possible of what we have done, what we are doing, and what we expect to do to support the Congress and to serve the nation. Last year, the Association of Government Accountants awarded us for the fifth consecutive year its Certificate of Excellence in Accountability Reporting for our fiscal year 2005 performance and accountability report. According to the association, this certificate means that we produced an interesting and informative report that achieved the goal of complete and fair reporting. We also received an award from Graphic Design USA for our fiscal year 2005 report. (See p. 13.)





# 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.



## CORE VALUES

Accountability	Integrity	Reliability
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Source: GAO.

Fiscal years 2004-2009

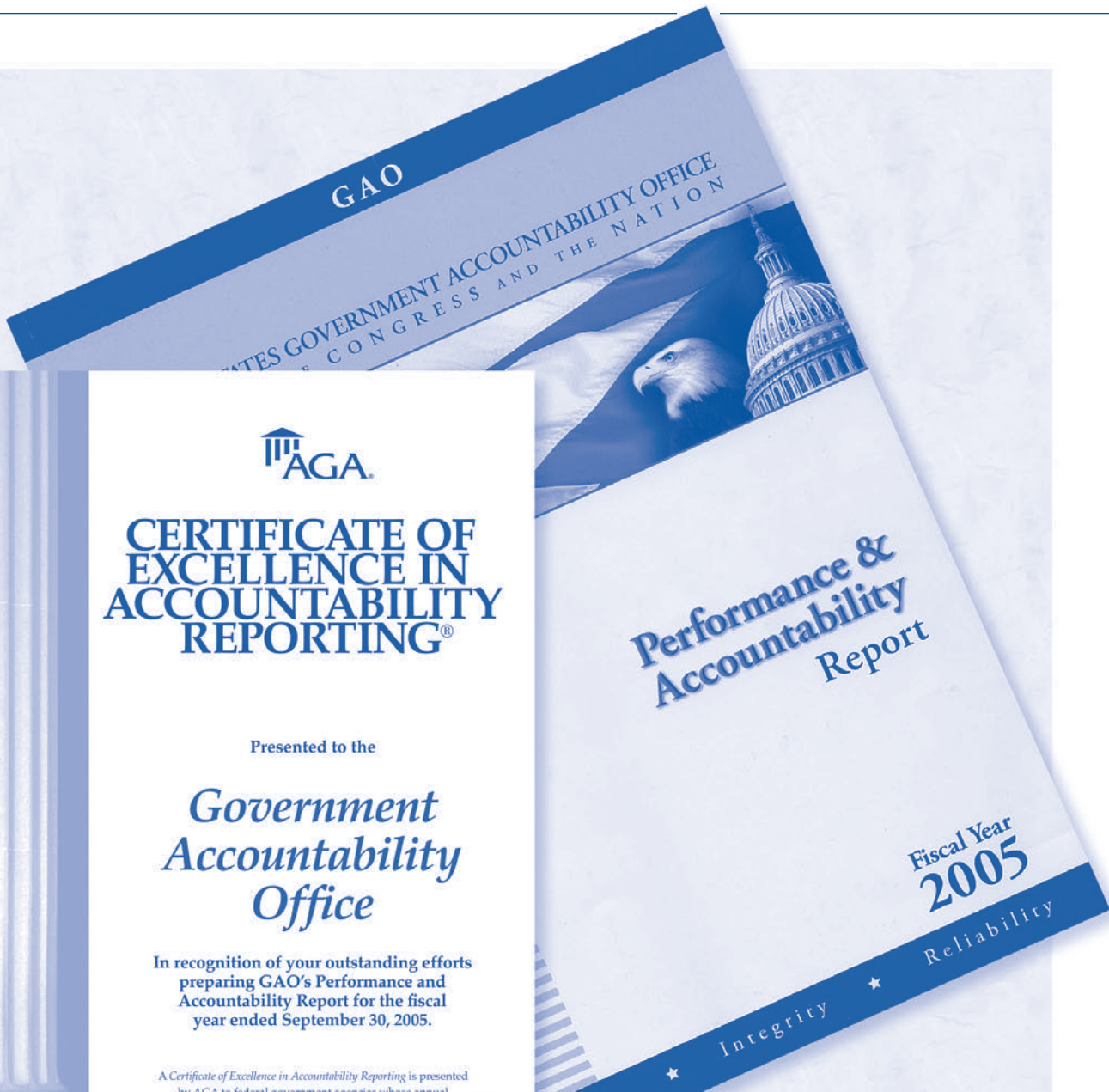
## Organizational Structure

As the Comptroller General of the United States, David M. Walker is the head of GAO and is serving a 15-year term that began in November 1998. Three other executives join Comptroller General Walker to form GAO's Executive Committee; these executives are Chief Operating Officer Gene L. Dodaro, Chief Administrative Officer/Chief Financial Officer Sallyanne Harper, and General Counsel Gary Kepplinger.

To achieve our strategic goals, our staff is organized as shown in figure 3. For the most part, our 13 research, audit, and evaluation teams perform the work that supports strategic goals 1, 2, and 3—our three external strategic goals—with several of the teams working in support of more than one strategic goal. Senior executives in charge of the teams manage a mix of engagements to ensure that we meet the Congress's need for information on quickly emerging issues as we also continue longer term work efforts that flow from our strategic plan. To serve the Congress effectively with a finite set of resources, senior managers consult with our congressional clients and determine the timing and priority of engagements for which they are responsible. In fiscal year 2005, we formed a new unit—Forensic Audits and Special Investigations (FSI)—within our Financial Management and Assurance team. FSI was designed to provide the Congress with high-quality forensic audits; investigations of fraud, waste, and abuse; and evaluations of security vulnerabilities and other appropriate investigative services as part of its own assignments or in support of other teams. FSI follows up on engagements and referrals from our other teams when its special services are required to help determine whether legislative or administrative actions are necessary. FSI is composed of investigators and staff from our former Office of Special Investigations; auditors from the Financial Management and Assurance team who have experience with forensic audits; and staff in General Counsel who worked with FraudNet—our online system designed to facilitate the reporting of allegations of fraud, waste, abuse, or mismanagement of federal funds.

As described below, General Counsel supports the work of all of our teams. In addition, the Applied Research and Methods team assists the other teams on matters requiring expertise in areas such as economics, research design, and statistical analysis. And staff in many offices such as Strategic Planning and External Liaison, Congressional Relations, Opportunity and Inclusiveness, Quality and Continuous Improvement, Public Affairs, and the Chief Administrative Office support the efforts of the teams. This collaborative process, which we refer to as matrixing, increases our effectiveness, flexibility, and efficiency in using our expertise and resources to meet congressional needs on complex issues.

General Counsel is structured organizationally along subject matter lines to facilitate the delivery of legal services. This structure allows General Counsel to (1) provide legal support to GAO and its audit teams concerning all matters related to their work and (2) produce legal decisions and opinions for the Comptroller General. Specifically, the goal 1, goal 2, and goal 3 groups in General Counsel are organized to provide each of the audit teams with a corresponding team of attorneys dedicated to supporting each team's needs for legal services. In addition, these groups prepare advisory opinions to committees and members of the Congress on agency adherence to laws applicable to their programs and activities. General Counsel's Legal Services group provides in-house support to GAO's management on a wide array of human capital matters and initiatives and on information management and acquisition matters and defends the agency in administrative and judicial forums. Finally, attorneys in the Procurement Law and the Budget and Appropriations Law groups prepare administrative decisions and opinions adjudicating protests to the award of government contracts or opining on the availability and use of appropriated funds.



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Rachel Goldberg, Awards Director

Source: GAO.

For strategic goal 4—our fourth and only internal strategic goal—staff in our Chief Administrative Office take the lead. They are assisted on specific key efforts by the Applied Research and Methods team and by staff offices such as Strategic Planning and External Liaison, Congressional Relations, Opportunity and Inclusiveness, Quality and Continuous Improvement, and Public Affairs. In addition, attorneys in General Counsel, primarily in the Legal Services group, provide legal support for goal 4 efforts.

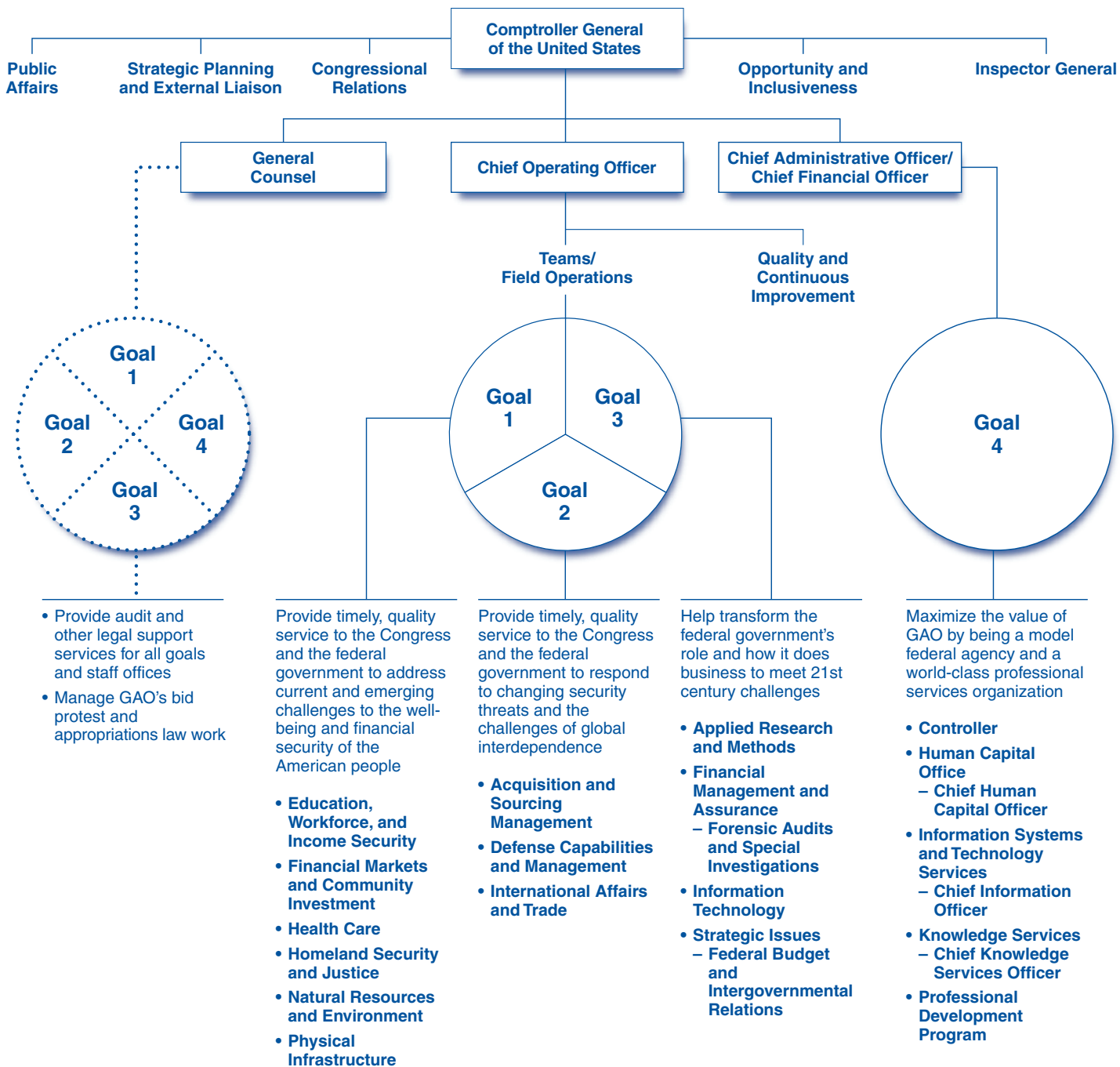
Throughout GAO, we maintain a workforce of highly trained professionals with degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, and the social and physical sciences. About three-quarters of our

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 in support of our external strategic goals.

#### **GAO Field Locations**

**Atlanta**  
**Boston**  
**Chicago**  
**Dallas**  
**Dayton**  
**Denver**  
**Huntsville**  
**Los Angeles**  
**Norfolk**  
**San Francisco**  
**Seattle**

Figure 3: Organizational Structure



Source: GAO.

Note: General Counsel's structure largely mirrors the agency's goal structure, and attorneys who are assigned to goals work with the teams on specific engagements. Thus, the dotted lines in this figure indicate General Counsel's support of or advisory relationship with the goals and teams rather than a direct reporting relationship.

## How We Measure Our Performance

We measure our performance using annual quantitative measures. Together, these indicators help us to determine how well we are meeting the needs of the Congress and maximizing our value as a world-class organization.

For several years, we assessed our performance annually using quantitative performance measures that are related to our work results and the usefulness of those results to our primary client—the Congress. Recently, we expanded our focus to include a more balanced set of performance measures that focus on four key areas—results, clients, people, and internal operations.<sup>2</sup> These categories of measures are briefly described below.

- **Results.** Focusing on results and the effectiveness of the processes needed to achieve them is fundamental to accomplishing our mission. To assess our results, we measure financial benefits, nonfinancial benefits, recommendations implemented, and percentage of new products with recommendations. Financial benefits and nonfinancial benefits provide quantitative and qualitative information, respectively, on the outcomes or results that have been achieved from our work. They often represent outcomes that occurred or are expected to occur over a period of several years. The remaining measures are intermediate outcomes in that they often lead to achieving outcomes that are ultimately captured in our financial and nonfinancial benefits.

For financial benefits and nonfinancial benefits, we first set targets for the agency as a whole and then we set targets for each of the external goals—that is, goals 1, 2, and 3—so that the sum of the targets

for the goals equals the agencywide targets. For past recommendations implemented and percentage of products with recommendations, we set targets and report performance for the agency as a whole because we want our performance on these measures to be consistent across goals. We track our performance by strategic goal in order to understand why we meet or do not meet the agencywide target. We also use this information to provide feedback to our teams on the extent to which they are contributing to the overall target and to help them identify areas in which they need to improve.

- **Clients.** To judge how well we are serving our clients, we count the number of congressional hearings where we are asked to present expert testimony as well as our timeliness in delivering products to the Congress. Our strategy in this area also draws upon a variety of data sources (e.g., our client feedback survey and in-person discussions with congressional staff) to obtain information on the services we are providing to our congressional clients.

We set a target at the agencywide level for the number of testimonies and then assign a portion of the testimonies as a target for each of the external goals—that is, goals 1, 2, and 3—based on their expected contribution to the agencywide total. As in measuring the results of our work, we track our progress on this measure at the goal level in order to understand why we met or did not meet the agencywide target. We set agencywide targets for timeliness because we want our performance on these measures to be consistent across goals.

- **People.** As our most important asset, our people define our character and capacity to perform. A variety of data sources, including an internal survey, provide information to help us measure how well we are attracting and retaining high-quality staff and how well we are developing, supporting, using, and leading staff. We set targets for these measures at the agencywide level.
- **Internal operations.** Our mission and people are supported by our internal administrative services, including information management, building management, knowledge services, human capital, and

<sup>2</sup> In addition, we are continuing to explore measures that could help us assess how well we develop mutually beneficial relationships with other accountability organizations. Such partnerships are important because they (1) create opportunities for collaboration and cooperation that help all organizations involved address common challenges and enhance their ability to improve government operations and serve the public better, (2) allow us and other organizations to make meaningful changes in our internal accountability processes and policies, and (3) allow us to better leverage available resources. Two sections in this report—Building and Sustaining Partnerships and Strategies for Achieving Our Goals—provide additional information on the partnerships we have established.

financial management services. Through an internal customer satisfaction survey, we gather information on how well our internal operations help employees get their jobs done or improve employees' quality of work life. Examples of surveyed services include providing secure Internet access and voice communication systems, performance management, and benefits information and assistance. Fiscal year 2006 was the first year that we reported how well we performed against the targets we set for our internal operations measures. We set targets for these measures at the agencywide level

To establish targets for all of these measures, we examine what we have been able to achieve in the past (for example, by looking at our past performance (see p. 21) our 4-year rolling averages for our testimonies measure and most of our results measures (see p. 23) and the external factors that influence our work (see pp. 56-57). The teams and offices that are directly engaged in the work discuss their views of what must be accomplished in the upcoming fiscal year with our top executives, who then establish targets for the performance measures.

Once approved by the Comptroller General, the targets become final and are presented in our annual performance plan and budget.<sup>3</sup> We may adjust these targets after they are initially published when our expected future work or level of funding provided warrant doing so. If we make changes, we include the changed targets in later documents, such as this performance and accountability report, and annotate that we have changed them. In part II, we include detailed information on data sources that we use to assess each of these measures, as well as the steps we take to verify and validate the data (see pp. 73-87).

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On the pages that follow, we assess our performance for fiscal year 2006 against our previously established performance targets. We also present our financial statements, the independent auditor's report, and a statement from GAO's Inspector General.

<sup>3</sup> Our most recent performance plan is available on our Web site at <http://www.gao.gov/cgi-bin/getrpt?rptno=GAO-07-146SP>.







# Part I

*Management's Discussion and  
Analysis*

# Helping the Federal Government Work Better and Be Accountable to the American People

In fiscal year 2006 major events like the nation's recovery from natural disasters, ongoing military conflicts abroad, terrorist threats, and potential pandemics focused the public lens again and again on the federal government's ability to operate effectively and efficiently and provide services to Americans when needed. Our work during the year helped the Congress and the public judge how well the federal government performed its functions and consider alternative approaches for improving operations and laws when performance was less than adequate. For example, teams supporting all three of our external strategic goals did work related to every facet of the hurricane Katrina and Rita disasters—preparedness, response, recovery, long-term recovery, and mitigation. We developed a coordinated and integrated approach to ensure that the Congress's need for factual information about disaster preparedness, response, recovery, and reconstruction activities along the Gulf Coast were met. We examined how federal funds were used during and after the disaster and identified the disaster rescue, relief, and rebuilding processes that worked well and not so well throughout the effort. To do this, staff drawn from across the agency spent time in the hardest hit areas of Louisiana, Mississippi, Alabama, and Texas collecting information from government officials at the federal, state, and local levels as well as from private organizations assisting with this emergency management effort. We briefed congressional staff on our preliminary observations early in the fiscal year and subsequently issued over 30 reports and testimonies on hurricanes Katrina and Rita by fiscal year end focusing on, among other issues, minimizing fraud, waste, and abuse in disaster assistance and rebuilding the New Orleans hospital care system.

In addition to our disaster-related work in the United States and abroad, we provided the Congress and the American people with critical information related to the oversight of Iraq through over 30 reports, briefings, and testimonies during fiscal year 2006. Our work, supplemented by staff's firsthand observations in the war zone, highlighted issues such as the cost of our nation's war

efforts in Iraq, the steadily deteriorating security situation in the region, long-term logistical challenges to Iraqi forces, and the lack of a comprehensive strategy to achieve U.S. goals. We also completed a number of reviews examining a wide variety of health care issues in the United States and overseas, including how grant funds for people with AIDS are distributed in the United States and the impact of certain program requirements on the use of funds to fight AIDS globally.

Through our reports, testimonies, and presentations, we also continued our efforts to heighten the awareness of policymakers and the public about the nation's worsening financial condition and growing long-term fiscal imbalance and the potential impact on programs and policies in almost every area of the federal government. We did work in fiscal year 2006 that continued to encourage debate about many of the long-term 21st century challenges that we identified last year in our report as well as produced reports and testimonies focused on federal programs we consider at high risk of fraud, waste, abuse, or mismanagement. We performed all of this work and more in accordance with our strategic plan, guided by our core values, and consistent with professional standards.

The work we did in fiscal year 2006 as well as some of our past work contributed greatly to our impressive performance on our results and client measures shown in table 1. We significantly surpassed our financial benefits target by \$12 billion this fiscal year and exceeded our annual target for nonfinancial benefits by about 28 percent. Our financial benefits of \$51 billion represent a \$105 return on every dollar invested in us, and 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. In addition, we exceeded our targets for past recommendations implemented and new products with recommendations by 2 percentage points and 5 percentage points, respectively.

**Table 1: Agencywide Summary of Annual Measures and Targets**

Performance measure	2002 actual	2003 actual	2004 actual	2005 actual	2006 Target	2006 Actual	Met/ Not met	2007 target
<b>Results</b>								
Financial benefits (dollars in billions)	\$37.7	\$35.4	\$44.0	\$39.6	\$39.0	\$51.0	Met	\$40.0
Nonfinancial benefits	906	1,043	1,197	1,409	1,050	1,342	Met	1,100
Past recommendations implemented	79%	82%	83%	85%	80%	82%	Met	80%
New products with recommendations	53%	55%	63%	63%	60%	65%	Met	60%
<b>Client</b>								
Testimonies	216	189	217	179	210	240	Met	185
Timeliness <sup>a</sup>	N/A <sup>b</sup>	N/A	89%	90%	98%	92%	Not met	95% <sup>c</sup>
<b>People</b>								
New hire rate	96%	98%	98%	94%	97%	94%	Not met	95% <sup>d</sup>
Acceptance rate	81%	72%	72%	71%	75%	70%	Not met	72% <sup>d</sup>
<b>Retention rate</b>								
With retirements	91%	92%	90%	90%	90%	90%	Met	90% <sup>d</sup>
Without retirements	97%	96%	95%	94%	94%	94%	Met	94% <sup>d</sup>
Staff development	71%	67%	70%	72%	74%	76%	Met	75%
Staff utilization	67%	71%	72%	75%	75%	75%	Met	78%
Leadership	75%	78%	79%	80%	80%	79%	Not met	80%
Organizational climate	67%	71%	74%	76%	75%	73%	Not met	76%
<b>Internal operations<sup>e</sup></b>								
Help get job done	N/A	3.98	4.01	4.10	4.00	N/A	N/A	4.00
Quality of work life	N/A	3.86	3.96	3.98	4.00	N/A	N/A	4.00

Source: GAO.

Note: Information explaining all of the measures included in this table appears in the Data Quality and Program Evaluations section in part II of this report.

<sup>a</sup>Since fiscal year 2004 we have collected data from our client feedback survey on the quality and timeliness of our products, and in fiscal year 2006 we began to use the independent feedback from this survey as a basis for determining our timeliness.

<sup>b</sup>N/A indicates that the data are not available yet or are not applicable because we did not collect the data during this period.

<sup>c</sup>Our fiscal year 2007 target for timeliness shown above differs from the target we reported for this measure in our fiscal year 2007 performance budget in January 2006. Specifically, we decreased our timeliness target by 3 percentage points to create a challenging target given our new method for calculating this measure.

<sup>d</sup>Our fiscal year 2007 targets for the first four people measures shown above differ from the targets we reported for these measures in our fiscal year 2007 performance budget in January 2006. Specifically, we lowered the new hire rate target by 2 percentage points and the acceptance rate target by 3 percentage points and decreased by 1 percentage point each of the targets associated with retention rate. We made these adjustments on the basis of our past performance and future budget projections.

<sup>e</sup>For our internal operations measures, we will report actual data for fiscal year 2006 once data from our November 2006 internal customer satisfaction survey have been analyzed.

We believe we served the Congress very well during fiscal year 2006. Our senior executives delivered testimony at 240 hearings, exceeding our target of 210 by 14 percent. Many of these testimonies focused on fraudulent activity and mismanagement associated with the Hurricane Katrina relief effort, the global war on terrorism, and information security weaknesses (see p. 34 for a list of other topics we testified on during fiscal year 2006). Though we missed our timeliness target of 98 percent by 6 percentage points, our performance indicates that 92 percent of congressional staff responding to our client feedback survey either strongly or generally agreed that our written products were delivered on time. We now use our client feedback survey as a basis for our timeliness performance measure. It is an electronic survey completed by a sample of our congressional clients who requested our testimonies and significant products. We discuss the client feedback survey in detail part II of this report.

Concerning our eight people measures, we met or exceeded our targets for four of them—retention rate with retirements, retention rate without retirements, staff development, and staff utilization—but did not meet the remaining four measures—new hire rate, acceptance rate, leadership, and organizational climate. We missed our target of 97 percent for new hire rate by 3 percentage points because we were unable to fill the number of positions we had planned for. Similarly, fewer prospective employees accepted our job offers than we anticipated, which prevented us from meeting our acceptance rate target by 5 percentage points. We missed our leadership and organizational goals by 1 percentage point and 2 percentage points, respectively.

In fiscal year 2006, we used two new performance measures 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. These measures are directly related to our goal 4 strate-

gic objectives of continuously enhancing our business and management processes and becoming a professional services employer of choice. We use information from our annual customer satisfaction survey to set targets and assess our performance for both of these measures. We will report actual data for fiscal year 2006 once data from our November 2006 internal operations survey have been analyzed. There will always be a lag in reporting on this measure because our customer feedback survey is distributed after we issue the performance and accountability report.

To help us examine trends over time we also look at 4-year averages of our actual performance for our results and client measures except the percentage of past recommendations implemented—because it is a composite that is drawn from a number of years rather than an annual percentage—and timeliness—because we have no trend data for our current timeliness measure. Calculating 4-year rolling averages for the other measures minimizes the effect of an atypical result in any given year. We consider this calculation, along with other factors, when we set our performance targets. Table 2 shows that from fiscal year 2002 through fiscal year 2006 financial and nonfinancial benefits increased steadily along with the percentage of new products with recommendations. The average number of testimonies, on the other hand, declined from fiscal year 2003 through fiscal year 2004, but has increased in fiscal years 2005 and 2006. When we set our fiscal year 2007 target for financial benefits, we considered the rolling averages for this measure and the fact that federal agencies are facing serious budget constraints that could affect their ability to implement recommendations we made for improving their programs. We therefore set our fiscal year 2007 target between our fiscal year 2006 and 2007 rolling averages. For our nonfinancial benefits measure, we tried to set a target for fiscal year 2007 that is challenging but that does not encourage staff to develop recommendations simply to meet a higher agencywide target each year.

**Table 2: Four-Year Rolling Averages for Selected GAO Measures**

Performance measure	2002	2003	2004	2005	2006
<b>Results</b>					
Financial benefits (billions)	\$26.9	\$30.7	\$35.9	\$39.2	\$43.0
Nonfinancial benefits	775	884	986	1,139	1,248
New products with recommendations	42%	48%	54%	58%	61%
<b>Client</b>					
Testimonies	215	205	193	200	206

Source: GAO.

Though we consider our 4-year rolling averages and our past performance when setting our target for the number of hearings at which our senior executives testify, we base our testimonies target largely on the cyclical nature of the congressional calendar. Our experience has shown that during the fiscal year in which an election occurs, generally the Congress holds fewer hearings which provide fewer opportunities for us to be invited to testify. We believe this decrease in the number of hearings occurs because the congressional members are reorganizing during the months after the election. We therefore set our fiscal year 2007 target lower than our past and average performance in anticipation of fewer opportunities to testify at congressional hearings.

## Focusing on Results

Focusing on outcomes and the efficiency of the processes needed to achieve them is fundamental to accomplishing our mission. The following four annual measures—financial benefits, nonfinancial benefits, past recommendations implemented, and new products containing recommendations—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 regula-

tions, (2) improve services to the public, and (3) promote sound agency and governmentwide management. In many cases, the benefits we claimed in fiscal year 2006 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.

To claim either type of benefit, our staff must document the connection between the benefits reported and the work that we performed.

#### *Financial Benefits*

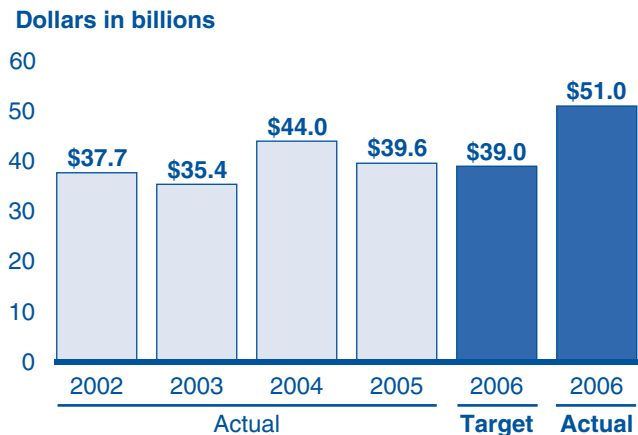
Our findings and recommendations produce measurable financial benefits for the federal government when the Congress or agencies act on them and the funds are made available to reduce government expenditures or are reallocated to other areas. The monetary effect realized can be the result of changes in

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

For example, financial benefits could result if 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.

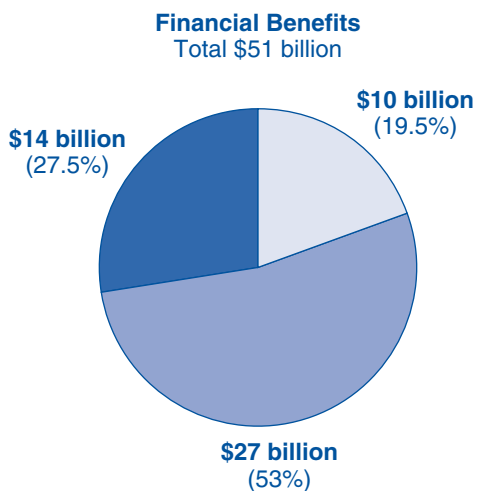
In fiscal year 2006, our work generated about \$51 billion in financial benefits (see fig. 4), exceeding our target by about 31 percent. Of the total amount documented, about \$27 billion (or approximately 53 percent) resulted from changes in laws or regulations (see fig. 5).

**Figure 4: Financial Benefits GAO Recorded in Fiscal Year 2006**



Source: GAO.

**Figure 5: Types of Financial Benefits Recorded in Fiscal Year 2006 from Our Work**



**Categories**

- Agencies acted on GAO information to improve services to the public
- Information GAO provided to the Congress resulted in statutory or regulatory changes
- Core business processes improved at agencies and governmentwide management reforms advanced by GAO's work

Source: GAO.

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. Multiyear reductions in long-term projects, changes in tax laws, program terminations, or sales of government assets are limited to 5 years. In general, estimates come from non-GAO sources and are reduced by any identifiable offsetting costs. 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 (QCI) office, reviews all financial benefits and approves benefits of \$100 million or more, which amounted to 96 percent of the total dollar value of benefits recorded in fiscal year 2006. Our Office of Inspector General (IG) also performed an independent review of accomplishment reports claiming benefits of \$100 million or more in fiscal year 2006.

Figure 6 lists several of our major financial benefits for fiscal year 2006 and briefly describes some of our work contributing to financial benefits.

Figure 6: GAO’s Selected Major Financial Benefits Reported in Fiscal Year 2006



Description	Amount
<p><b>Ensured continued monetary benefits from federal spectrum auctions.</b> In 1993 the Congress provided the Federal Communications Commission (FCC) authority to use auctions to assign certain spectrum licenses, and since then the FCC has conducted 59 auctions that have generated over \$14.5 billion for the U.S. Treasury. However, critics of these auctions asserted, among other things, that auctions raised consumer prices, slowed infrastructure deployment, and distorted competition. The FCC’s auction authority was scheduled to expire on September 30, 2007. We reported that auctions had little to no negative impact on the wireless industry and are more effective than previous assignment mechanisms. We therefore recommended that the Congress consider extending the FCC’s auction authority beyond the scheduled expiration date, which it acted on in 2006. Additionally, the Congress established December 31, 2006, as the target date for the completion of the digital television (DTV) transition and eventual auction of a substantial portion of this spectrum —however, this date could be extended if an insufficient number of households adopt DTV technologies. We reported in 2002 that the DTV transition would be unlikely to occur in 2006 and at the request of the Congress, we examined the cost of a subsidy program for DTV technologies to speed the DTV transition. In 2005, we testified and provided information on (1) the potential cost of a DTV technologies program under various scenarios and (2) issues and complexities in the administration of a subsidy program. Using much of our work during its deliberations on these issues, the Congress subsequently passed legislation that among other things, (1) sanctioned a DTV subsidy program and (2) extended the FCC’s auction authority until 2011. The Congressional Budget Office projects a net savings of \$7.2 billion from 2006 through 2010, which has a net present value of about \$6.1 billion. (Goal 1)</p>	<p>\$6.1</p>
<p><b>Encouraged DOD to identify and reduce unobligated funds in the military services’ operations and maintenance budget.</b> DOD estimates that in past years the Congress has reduced its operations and maintenance accounts by an average of almost \$200 million a year on the basis of our unobligated balance analyses. Therefore, to address the persistent problem of unobligated balances and to protect DOD resources, DOD reduced by about \$4.3 billion the military services’ operations and maintenance baseline program at the appropriation level for fiscal years 2007 through 2011 using a methodology similar to the one we used to identify unobligated balances. DOD officials stated that they took this action because they would rather make the adjustments themselves than have the Congress make reductions based on our annual analyses. The net present value of the \$4.3 billion reduction by DOD is about \$3.9 billion. (Goal 2)</p>	<p>\$3.9</p>

<p><b>Recommended payment methods that cut Medicare costs for durable medical equipment, orthotics, and prosthetics.</b> Medicare’s supplementary medical insurance program (Medicare Part B) spent almost \$7.8 billion for durable medical equipment, prosthetics, orthotics, and supplies in 2002 on behalf of its beneficiaries. For most of these items, Medicare payments are primarily based on historical charges from the mid-1980s, adjusted for inflation in some years, rather than market prices. We have repeatedly reported that Medicare payments for some medical equipment and supplies are out of line with actual market prices. This can occur when providers’ costs for equipment and supplies have declined over time as competition and efficiencies have increased. We suggested several options to the Congress to better align Medicare fees with market prices, such as giving the Centers for Medicare &amp; Medicaid Services (CMS) authority to conduct competitive bidding for these items. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 requires CMS to implement competitive acquisition of durable medical equipment, off-the-shelf orthotics, and supplies in 10 of the largest metropolitan statistical areas in 2007, 80 of the largest areas in 2009, and in other areas thereafter. CMS can use information on the amounts paid in competitive acquisition areas to adjust Medicare payments in other localities. The Congressional Budget Office estimated that competitive bidding and the other changes to payment methods for durable medical equipment, orthotics, prosthetics, and supplies would result in a net reduction in Medicare spending of \$6.8 billion from fiscal years 2005 through 2013. The Congressional Budget Office’s estimate would result in a present value financial benefit to the Supplementary Medical Insurance Trust Fund of \$2.972 billion for fiscal year 2005 through fiscal year 2009. After subtracting estimated costs, the net present value of the total financial benefit is \$2.905 billion. (Goal 1)</p>	<p>\$2.9</p>
<p><b>Helped to ensure that certain USPS retirement-related benefits would be funded.</b> The Office of Personnel Management (OPM) analyzed the funding of USPS’s retirement plans and reported in 2002 that the current level of pension fund contributions would result in a surplus of funds and that this surplus would adequately cover future pension benefit obligations. At the request of the Congress, we reviewed this analysis and a proposal by the administration to change the funding formula. We emphasized to the Congress that even though USPS had projected a funds surplus, at the time we conducted our review USPS had not yet funded \$40 billion to \$50 billion in postretirement health benefits. In response, the Congress passed Pub. L. No. 108-018, the Postal Civil Service Retirement System Funding Reform Act of 2003, which, among other things, required that any reduction in USPS’s annual pension fund after 2005 resulting from changes to the funding formula be held in an escrow account. The Congress wanted the funds made available from any pension payment reductions to be used to address USPS’s unfunded postretirement health obligations. In 2005, USPS determined that it would not generate enough revenue in 2006 to fully fund the \$3.1 billion escrow requirement for that fiscal year. USPS responded by raising postal rates effective January 2006 solely to fund the escrow requirement. This action by USPS avoided substantial costs to the federal government in the form of appropriations that would have been used to cover the escrow shortfall. Raising rates to fund the escrow account is projected to result in additional revenue during fiscal year 2006 that has a net present value of about \$2.2 billion. (Goal 3)</p>	<p>\$2.2</p>
<p><b>Identified recoverable costs for the Tennessee Valley Authority (TVA).</b> In past years, we reported that TVA—an independent federal government corporation that among other things, provides the public with electricity produced by several dams constructed in the Tennessee Valley area—had far greater financing and deferred asset costs than its competitors. TVA’s financial condition gives it little flexibility to meet potential future competitive challenges, threatens its long-term viability, and places the federal government at financial risk. We also reported that the costs associated with TVA’s three mothballed nuclear units (referred to in our work as deferred assets) did not represent viable construction projects and concluded that generally accepted accounting principles required TVA to begin immediately writing off and recovering the cost of these assets. We identified several options for improving TVA’s financial condition, including raising its electricity rates and using the additional cash generated from the rate increase to reduce borrowing or pay down debt. In July 2005, TVA announced a rate increase of 7.5 percent effective October 1, 2005. This action by TVA will avoid substantial costs to the federal government in the form of appropriations that would have to be used to address TVA’s fiscal challenges. TVA projects that the 7.5 percent rate increase will provide about \$524 million in additional annual revenue beginning in fiscal year 2006 and will enable it to reduce its debt and amortize the \$3.9 billion deferred asset balance from one of its mothballed nuclear plants. This financial benefit pertains to the first 5 years of the rate increase. The net present value of the associated increase in federal revenues is about \$1.8 billion over 5 years. (Goal 3)</p>	<p>\$1.8</p>



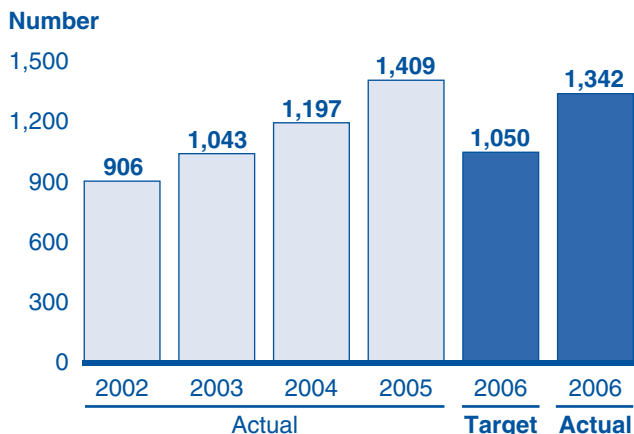
<p><b>Helped to increase collections of civil debt.</b> In July 2001, we reported that the Department of Justice’s (Justice) financial litigation units, which are responsible for both criminal and civil debt collection, did not have adequate procedures for enforcing collections. We made a number of recommendations 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. In conjunction with implementing our recommendation, Justice has also provided training materials to unit staff involved in debt collection. These actions helped it to increase collections of civil debt by about \$683.8 million in fiscal year 2002, and \$719.4 million in fiscal year 2003. The net financial benefit has a present value of about \$1.58 billion. (Goal 3)</p>	<p>\$1.6</p>
<p><b>Encouraged the Department of Housing and Urban Development (HUD) to take actions to reduce improper payments.</b> For many years HUD had done very little to oversee third-party entities (such as local public housing agencies and property owners) that are responsible for administering its rental assistance programs, including determining subsidy amounts and household eligibility. HUD responded to the high-risk designation by establishing the Rental Housing Integrity Improvement Project in the spring of 2001. As part of the Rental Housing Integrity Improvement Project initiative, HUD developed annual goals for reducing improper payments from the baseline fiscal year 2000 level: 15 percent by fiscal year 2003 and 30 percent by fiscal year 2004. HUD implemented on-site reviews of program administrators—a key component of the Rental Housing Integrity Improvement Project initiative—starting in June 2002. Other significant actions initiated under the Rental Housing Integrity Improvement Project included automating the process used to verify tenant-reported income, offering additional training to program administrators, and improving program guidance. HUD has met its goals for reducing improper payments and attributed this reduction to the aggressive steps it has taken under the Rental Housing Integrity Improvement Program initiative. The amount of financial benefit is the reduction in the estimated improper payments in fiscal years 2003 and 2004 relative to those in fiscal year 2000. The computed reductions were \$658 million in fiscal year 2003 and \$660 million in fiscal year 2004—a total of \$1.318 billion with a net present value of \$1.43 billion. (Goal 1)</p>	<p>\$1.4</p>
<p><b>Supported the Department of Energy’s (DOE) efforts to reduce its carryover funds.</b> Beginning in its 2001 annual report on carryover balances, DOE formally acknowledged our role in helping the agency identify, monitor, and reduce its uncostered obligations—funds that have been allocated to specific projects, but have not yet been spent and are not needed to meet near-term commitments. These uncostered obligations are essentially carryover balances that could be used to reduce future budget requests. In 1992, we identified (1) uncostered obligations as a growing DOE problem and (2) the need for an effective system to monitor these funds. Over the years, DOE has developed an analytical approach to better identify the portion of its uncostered obligations that could be used to offset annual appropriations requests, and we have monitored its efforts through our annual review of the DOE budget. In 2001, the Congress began working with DOE on how to use the carryover balances to offset programmatic costs and reduce potential budget requests, and DOE has continued to analyze and provide information to the Congress on its reprogramming of carryover balances. The appropriation reductions resulting from the congressional actions taken in concert with DOE—in response to our work—for fiscal years 2001 through 2005 are about \$1 billion. The implementation costs are considered negligible. The net present value is about \$1.2 billion. (Goal 1)</p>	<p>\$1.2</p>

Source: GAO.

### Nonfinancial Benefits

Many of the benefits that result from our work cannot be measured in dollar terms. During fiscal year 2006, we recorded a total of 1,342 nonfinancial benefits (see fig. 7).

**Figure 7: Nonfinancial Benefits GAO Recorded in Fiscal Year 2006**

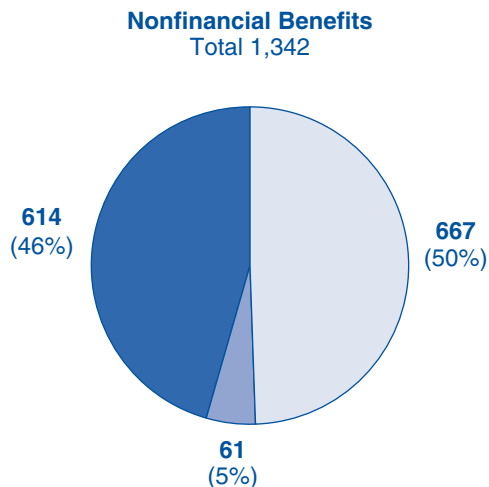


Source: GAO.

We documented 667 instances where federal agencies used our information to improve services to the public, 61 instances where the information we provided to the Congress resulted in statutory or regulatory changes, and 614 instances where agencies improved core business processes or governmentwide reforms as a result of our work. (See fig. 8.) These actions spanned the full spectrum of issues, from identifying the adverse tax impact of combat pay and certain tax credits on low-income military families to improving the Department

of State’s process for developing staffing projections for new embassies. In figure 9, we provide examples of some of the nonfinancial benefits we claimed as accomplishments in fiscal year 2006. The laws that we cite in the first section of this figure were passed in fiscal year 2006.

**Figure 8: Types of Nonfinancial Benefits Recorded in Fiscal Year 2006 from Our Work**



**Categories**

- Agencies acted on GAO information to improve services to the public
- Information GAO provided to the Congress resulted in statutory or regulatory changes
- Core business processes improved at agencies and governmentwide management reforms advanced by GAO’s work

Source: GAO.

Note: Percentages do not add due to rounding.

Figure 9: GAO's Selected Nonfinancial Benefits Reported in Fiscal Year 2006



## Nonfinancial benefits that helped to change laws

### Deficit Reduction Act of 2005, Pub. L. No. 109-171

Our work is reflected in this law in different ways.

**Strengthening Medicaid program integrity.** Our 2005 work was considered in writing the provisions of this act that provided for the creation of the Medicaid Integrity Program—which seeks to combat fraud, waste, and abuse in the Medicaid program—and specified appropriations to fund the program. Consistent with our findings, the act also required CMS to devote more staff to combating Medicaid provider fraud and abuse; to develop a comprehensive plan for the Medicaid Integrity Program every 5 fiscal years; and to report annually to the Congress on the use, and the effectiveness of activities supporting the use, of the appropriated funds. (Goal 1)

**Improving oversight of the states' performance under the Temporary Assistance for Needy Families (TANF) program.** We determined that differences in how states define the categories of work that count toward meeting the federal work requirements under TANF led to inconsistent measurement across states and to work participation data that could not be used to compare the performance of states. We also found that some states lacked internal controls to help ensure the work data were reliable. Congressional staff relied heavily on our report in writing provisions of this act that require HHS to provide additional direction and oversight regarding how to count and verify TANF work participation. (Goal 1)

**Addressing domestic violence.** In 2005, we reported that specifically addressing domestic violence is important to ensuring that marriage and responsible fatherhood programs address its dangers. We concluded that while most of these programs did not address the issues of domestic violence explicitly, evidence suggested that these issues should be explicitly addressed. Our findings influenced lawmakers to require through this act that all entities seeking grants to fund marriage promotion and responsible fatherhood programs describe how they will address domestic violence. (Goal 1)

**Improving oversight of schools that are lenders.** Congressional members cited our report on Federal Family Education Loan Program lenders as a catalyst for helping them to enact changes addressing the lending, contracting, and compliance practices on which we had reported. As a result, critical program measures are now in place to cover all school lenders, allowing the Department of Education (Education) to assess the adequacy of loan procedures, the financial resources of lenders, and the accreditation status of all school lenders. (Goal 1)

### Safe and Timely Interstate Placement of Foster Children Act of 2006, Pub. L. No. 109-239

Our work found that data to assess the timeliness of interstate placements of foster children were lacking, and that HHS was not able to identify states that may need improvements in their processes or may be burdened by other states' requests for assistance with placements. Congressional staff stated that our findings played a critical role in deliberations on the bill that became this act. Consistent with our findings, the act requires a state receiving a request to place a child for adoption or foster care to complete a home study within 60 days and requires the state making the request to respond within 14 days of receiving the home study. In addition, the act authorizes funding for an incentive program of \$1,500 for every home study completed within 30 days and requires that state plans for child welfare services include reference to state efforts to facilitate orderly and timely intrastate and interstate placements. (Goal 1)

## Nonfinancial benefits that helped to improve services to the public

### Strengthening passport and visa issuance processes

Our work led the Department of State (State), in coordination with other agencies, to improve passport and visa controls. Thousands of names have been added to data systems to prevent persons with outstanding federal felony warrants from obtaining passports to leave the United States, passport information sharing among law enforcement agencies has increased, and staff received additional fraud prevention training. Also, State directed overseas posts to strengthen visa oversight and improve compliance with internal control requirements to ensure the integrity of the visa function; increase information sharing, especially regarding visa applicants who may pose security risks; and improve visa officers' ability to detect fraudulent visa applicants. (Goal 2)

### Identified vulnerabilities in the process to verify personal information about new drivers

To help make states less vulnerable to identity fraud, we recommended that the Social Security Administration (SSA) match drivers license verification requests submitted by states with SSA's records of deceased Social Security number (SSN) owners. At the time of our review, SSA was already matching requests with the names, birth dates, and SSNs of living SSN owners. By March 2006, SSA had implemented the software needed to modify its batch verification process and had begun notifying state agencies when the SSNs they were checking on belonged to deceased individuals. (Goal 1)

### Contributed to the increased visibility of a transportation information sharing program for seniors

We recommended that the Administration on Aging take the lead in developing a plan—in consultation with the Coordinating Council—for publicizing the Eldercare Locator Service as a central forum for sharing information on senior transportation and for reaching out to seniors and providers who do not use the Internet. In response, Administration on Aging officials developed a multifaceted marketing campaign to broaden awareness of the service, especially among special target groups such as low-income seniors. In addition, the Administration on Aging is working to increase public awareness of the service through its partnerships with various community and faith-based organizations, businesses, and special interest groups. (Goal 1)

### Identified a problem with untimely pay allowances to deployed soldiers

In an April 2005 report, we concluded that deployed military servicemembers and their families may face more financial problems related to pay than their nondeployed counterparts. We found that almost 6,000 servicemembers had experienced delays in obtaining their family separation allowance each month during their deployment. As a result of our recommendation, DOD's military pay operations organizations notified their field staff that the family separation allowance process should start immediately once they are notified that such a transaction is necessary so that the allowance begins within 30 days of a servicemember's deployment if it is certain the servicemember will be on temporary duty for more than 30 days. (Goal 2)

### Helped to protect the public from exposure to pesticides in tobacco products

The Department of Agriculture implemented our recommendation to periodically review and update the pesticides used on tobacco for which the department sets residue limits and conducts test. At the time of our review in 2003, the department tested tobacco for 20 pesticides using 15 residue limits. The department currently tests domestic and imported tobacco for 36 pesticides using 44 residue limits and will continue to review and update the list of pesticides it tests for and establish residue limits. (Goal 1)

## Nonfinancial benefits that helped to promote sound agency and governmentwide management

### Improved the quality of federal voluntary voting system standards

Our work on federal voluntary voting equipment standards, and the processes for managing them, identified weaknesses that could impede effective management of voting systems throughout their life cycles and resulted in recommendations for adding usability and quality assurance requirements to the standards. The federal *Voluntary Voting System Guidelines*, issued by the U.S. Election Assistance Commission in December 2005, satisfied our recommendations by adding requirements for usability (such as voter verification of ballots) and accessibility (for persons with visual, hearing, mobility, or other limitations), as well as quality assurance provisions for voting system vendors. In addition, our work recognized that no federal entity held statutory authority for updating the standards and asked the Congress to consider explicitly assigning this responsibility. The approval of the 2005 federal guidelines demonstrated the first time federal voting system standards were updated by the commission, under authority granted by the Help America Vote Act of 2002. The updated standards will help increase citizens' confidence and ease in voting, while the execution of federal responsibility for maintaining voting standards increases the likelihood that they will be current, complete, relevant, and utilized by the states. (Goal 3)

### Highlighted weaknesses in the Federal Aviation Administration's (FAA) control over computers and other assets

During our audit of FAA we found that the agency lacked adequate controls over purchases to ensure that physical assets were recorded and accounted for in its property management system. We also observed instances where computers were not stored in separate and secured storage rooms, which gave employees unlimited access to these assets. In the fall of 2003, FAA reemphasized that responsible staff should record all newly acquired assets in the agency's property management system within 30 days of receipt and subsequently revised its guidance to require staff to document their entries in the system within 30 days. FAA also revised its guidance outlining storage requirements for high-risk assets, such as computers and computer-related equipment, and established procedures to ensure that only authorized personnel have access to secured areas where such items are stored. (Goal 3)

### Strengthened oversight of federal personnel actions

In our February 2002 report on conversions of political appointees in the federal government from noncareer to career positions, we referred 17 conversions to OPM for its review and action because the circumstances surrounding each case could have given the appearance of favoritism or political preference even if proper procedures were followed. OPM took a number of actions in 2005 in response to our work, such as giving four of the six candidates who were bypassed for positions priority consideration for equivalent vacancies. OPM also took disciplinary action on two of its employees who handled the conversions. (Goal 3)

### Encouraged federal agencies to seek savings on purchase cards

We recommended that the Director of the Office of Management and Budget (OMB) focus governmentwide management attention on the need to take advantage of opportunities to achieve savings on purchase card buys for goods and services that support official federal activities. In 2005, OMB issued a new appendix to its Circular A-123 to consolidate and update governmentwide charge card requirements. It also established minimum standards and best practices for management of the government charge card program. In related guidance, OMB also directs purchase card managers to be aware of any agencywide or multi-agencywide contracts that will yield better pricing for their organizations. (Goal 3)

### Identified improper payments in DOD's travel accounts

As part of our audit of internal controls over DOD's centrally billed travel accounts, we found that DOD had made potentially improper reimbursements on about 27,000 travel claims. These payments were improper because the airline tickets that the travelers claimed as reimbursable expenses were actually purchased by DOD for the travelers. We recommended that DOD periodically issue guidance to its officials who approve travel vouchers instructing them on how to determine reimbursable airline ticket expenses. (Goal 3)

Source: GAO.

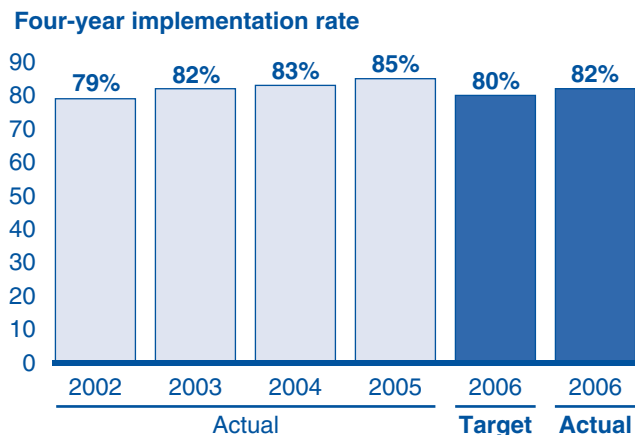
In addition to the nonfinancial benefits claimed in fiscal year 2006 from our audit work, the Congress and the public also benefited from some of our other activities in the following ways:

- On the basis of our work, we referred a number of issues to agency inspectors general and the Internal Revenue Service (IRS) for further investigation and follow up. Specifically, we referred to FEMA's Inspector General 7,000 cases of possible criminal fraud that occurred in the agency's Individuals and Households Program for disaster assistance during the aftermath of Hurricane Katrina. We also referred to IRS 25 cases involving federal contractors who did not forward payroll taxes withheld from their employees and other taxes to IRS and 15 charities that also engaged in abusive and potentially criminal activity related to the federal tax system and the Combined Federal Campaign—an annual charity drive that gives federal employees the opportunity to contribute to more than 22,000 charities.
- We issued appropriations law decisions and opinions on, among other things, the purposes for which appropriated funds may be used, the proper disposition of funds received by the government, and potential Antideficiency Act violations.
- We established a repository of Antideficiency Act reports and developed a Web site to make selected information from those reports publicly available. The Web site allows congressional members and staff, heads of agencies, auditors, inspectors general, other federal officers, and the public to monitor federal agency performance and compliance with the Antideficiency Act. The Congress amended the Antideficiency Act in December 2004, authorizing the Comptroller General to establish this repository. The repository will include, for example, the Antideficiency Act report filed by Education in fiscal year 2006 for improperly using appropriations for the purpose of covert propaganda. Its report was in response to our September 2005 opinions that Education had engaged in covert propaganda when it produced and distributed a prepackaged news story on its No Child Left Behind program without identifying Education as the source of the communication and when it hired a political commentator to endorse the program without identifying that the department had paid for the endorsement. In the 2005 opinions, we recommended that Education report Antideficiency Act violations because it had no appropriation available for purposes of covert propaganda.
- We handled more than 1,000 protests filed by bidders who challenged the way individual federal procurements were conducted or how federal contracts were awarded, and we issued merit decisions on more than 400 protests addressing a wide range of issues involving compliance with, and the interpretation of, procurement statutes and regulations. In fiscal year 2006, we addressed a number of significant protests addressing government contracts associated with the aftermath of Hurricane Katrina and the war in Iraq.
- Several of our attorneys served on the Contract Appeals Board to resolve appeals on claims by contractors under contract with the Architect of the Capitol involving the Capitol Visitor Center, the West Refrigeration Plant Expansion, and the Longworth House Office Building.
- We issued the third edition of volume II of *The Principles of Federal Appropriations Law*, commonly known as the Red Book. The Red Book is considered the primary resource in the federal financial community. Topics covered in volume II include the availability of appropriations (amount); obligation of appropriations; continuing resolutions; liability; and relief of accountable officers, grants and cooperative agreements, and guaranteed and insured loans.

## 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 2006, 82 percent of the recommendations we made in fiscal year 2002 had been implemented (see fig. 10), primarily by executive branch agencies. Putting these recommendations into practice will generate tangible benefits for the nation in the years ahead.

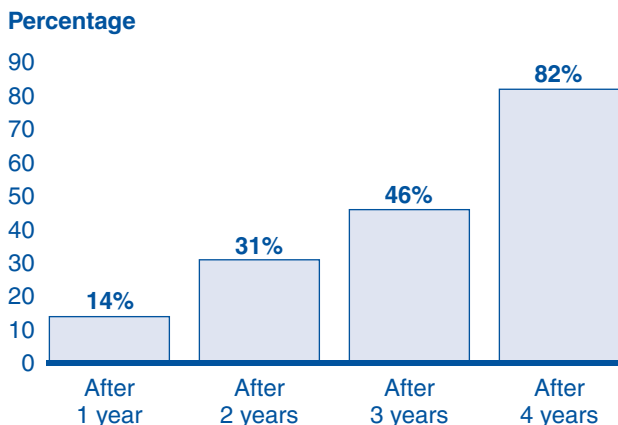
**Figure 10: Percentage of Past Recommendations Implemented in Fiscal Year 2006**



Source: GAO.

The 82 percent implementation rate for fiscal year 2006 exceeded our target for the year by 2 percentage points, exceeding and matching our performance in fiscal years 2002 and 2003, respectively. As figure 11 indicates, agencies need time to act on recommendations. Therefore, we assess recommendations implemented after 4 years, the point at which experience has shown that if a recommendation has not been implemented, it is not likely to be.

**Figure 11: Cumulative Implementation Rate for Recommendations Made in Fiscal Year 2002**

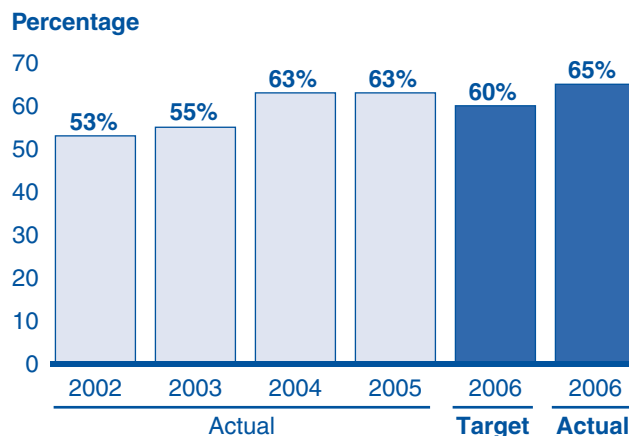


Source: GAO.

## New Products Containing Recommendations

This year, about 65 percent of the 672 written products we issued (excluding testimonies) contained recommendations. (See fig. 12.) 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. However, by setting our target at 60 percent, 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.

**Figure 12: Percentage of New Products with Recommendations in Fiscal Year 2006**



Source: GAO.

## Focusing on Our Client

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. Our performance this year indicates that we assisted our client—the Congress—well, by significantly exceeding our target on the number of hearings we participated in and delivering

# Selected Testimony Issues

Fiscal Year 2006

## Goal 1:

*Address Challenges to the Well-Being and Financial Security of the American people*

- Health savings accounts
- Guardianships that protect incapacitated seniors
- Lake Pontchartrain hurricane protection project
- Funds to first responders for 9/11 health problems
- Immigration enforcement at worksites
- Future air transportation system
- Nursing home care for veterans
- Passenger rail security issues
- Freight railroad rates
- AIDS drug assistance programs
- Federal Housing Administration reforms
- Improving intermodal transportation
- Hanford nuclear waste treatment plant
- Evaluations of supplemental educational services
- Factors affecting gasoline prices
- Telecommunication spectrum reform
- H-1B visa program
- Federal crop insurance program

## Goal 2:

*Respond to Changing Security Threats and the Challenges of Globalization*

- A comprehensive strategy to rebuild Iraq
- Deploying radiation detection equipment in other countries
- Protecting military personnel from unscrupulous financial products
- Sensitive information at DOD and DOE
- Hurricane Katrina preparedness, response, and recovery
- Alternative mortgage products
- Global war on terrorism costs
- Transportation Security Administration's (TSA) Secure Flight program
- DOD's business systems modernization
- U.S. tactical aircraft
- National Capital Region Homeland Security Strategic Plan
- Polar-orbiting operational environmental satellites
- Worldwide AIDS relief plan
- Financial stability and management of the National Flood Insurance Program
- Information security laws
- Procurement controls at the United Nations

## Goal 3:

*Help Transform the Federal Government's Role and How It Does Business*

- Contract management challenges rebuilding Iraq
- DOD's financial and business management transformation
- Business tax reform
- Astronaut exploration vehicle risks
- Improving federal financial management governmentwide
- Long-term fiscal challenges
- Federal contracting during disasters
- Improving tax compliance to reduce the tax gap
- Protecting the privacy of personal information
- DOD acquisition incentives
- Decennial Census costs
- Information security weaknesses at the Department of Veterans Affairs
- Improper federal payments for Hurricane Katrina relief
- Strengthening OPM's ability to lead human capital reform
- Public/private recovery plan for the Internet
- Tax system abuses by General Services Administration contractors
- Compensation for federal executives and judges



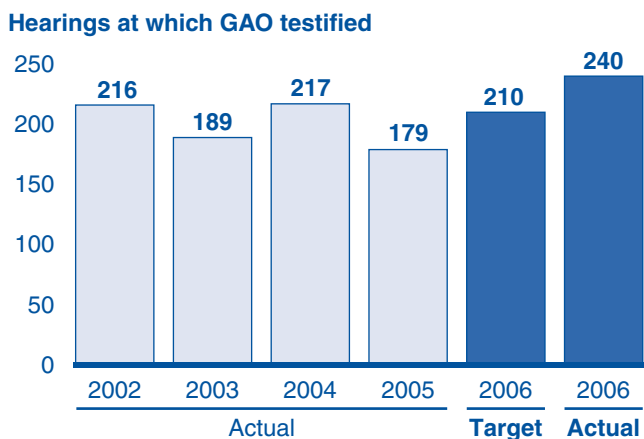
many of our products on time based on the feedback from our client.

### 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 2006, experts from our staff testified at 240 congressional hearings covering a wide range of complex issues (see fig. 13). For example, our senior executives testified on a variety of issues, including freight rail rates, AIDS assistance programs, and federal contracting. (See p. 34 for a summary of issues we testified on by strategic goal in fiscal year 2006.) Over 100 of the hearings where we testified were related to high-risk areas and programs, which are discussed on page 41.

In fiscal year 2006, we significantly exceeded our target of testimonies at 210 hearings by 14 percent and surpassed our performance on this measure over the last 4 years. The Congress asked our executives to testify about 30 times this fiscal year on Hurricane Katrina issues and about 30 times on issues related to terrorism and the Iraq conflict, which helped us to perform exceptionally well in this area.

Figure 13: Testimonies



Source: GAO.

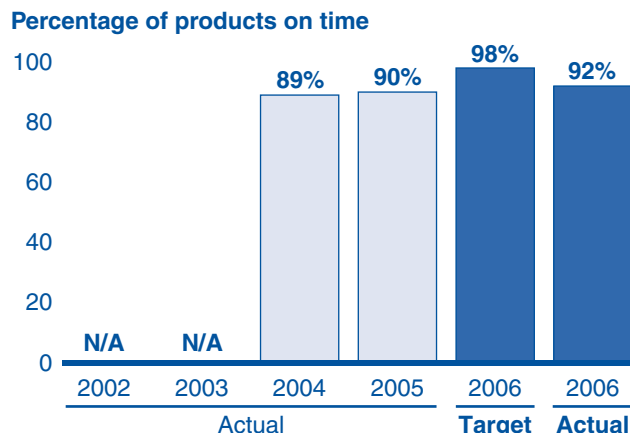
### Timeliness

To be useful to the Congress, our products must be available when our client needs them. In fiscal year 2006, 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. As shown in figure 14, in fiscal year 2006 we missed our timeliness target by 6 percentage points. We pilot tested this survey in 2002 and 2003 and began collecting actual data in 2004.

We tally responses from the survey we send to key staff working for the requesters of our testimony statements and our more significant written products (e.g., engagements assigned an interest level of “high” by our senior management<sup>4</sup> and those requiring an investment of 500 staff days or more). Each survey asks the client whether the product was delivered on time. Because our products often have multiple requesters, we often survey more than one congressional staff person per product. In fiscal year 2006, we sought feedback on more than 50 percent of the written products (including all testimonies) we issued that year and had a 28 percent response rate from the congressional staff surveyed. We received comments from one or more people for 53 percent of the products for which we sent surveys. Overall, 92 percent of those responding to the survey either strongly or generally agreed that our products were delivered on time.

Figure 14: Timeliness



Source: GAO.

Note: We pilot tested our client feedback survey beginning in March 2002 and collected actual data on our client’s satisfaction with the timeliness of our products in fiscal year 2004.

<sup>4</sup> 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.

## Focusing on Our People

We could not have performed as well as we did in fiscal year 2006 without the support and commitment of our highly professional, multidisciplinary staff. Our ability to hire, develop, retain, and lead staff is critical to fulfilling our mission of serving the Congress and the American people.

Since 2002, we have refined our processes for measuring how well we manage our human capital and have benchmarked our performance in this area. In fiscal year 2006, we met four of our eight measures—only slightly missing our target for leadership and organizational climate by 1 and 2 percentage points, respectively. All eight measures are directly linked to our goal 4 strategic objective of becoming a professional services employer of choice. For more information about our people measures, see [Verifying and Validating Performance Data](#) in part II of this report.

### 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 projected workload changes, as well as other changes such as retirements, other 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 2006, our adjusted plan was to hire 450 staff. However, we were only able to bring on board 392 staff by year-end. Of the 450 staff positions, 33 positions were carried over to fiscal year 2007 because the applicants could not start until the new fiscal year.

Our acceptance rate measure is a proxy for GAO’s 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. Table 3 shows that we missed the targets we set for new hire rate and acceptance rate by 3 percentage points and 5 percentage points, respectively. Our calculations for each of these measures do not include offers extended to applicants for fiscal year 2006 vacancies who accepted but will not report for duty until the first quarter of fiscal year 2007. In addition, we made a conscious decision during the summer to adjust our hiring targets for fiscal year 2007. This was done because our future budget forecast indications were that we may not be able to support hiring at levels we requested in our fiscal year 2007 budget request. We therefore reduced the number of new hires in the summer to put us in a better position at the end of fiscal year 2006 for managing full-time equivalents (FTE) into the next fiscal year until the Congress appropriates funds for our fiscal year 2007 budget. (For more about our recruitment strategy and performance in fiscal year 2006, see app. 1, p. 176.)

**Table 3: Actual Performance and Targets Related to Our New Hire Rate and Acceptance Rate Measures**

Performance measures	2002 actual	2003 actual	2004 actual	2005 actual	2006 target	2006 actual
New hire rate	96%	98%	98%	94%	97%	94%
Acceptance rate	81%	72%	72%	71%	75%	70%

Source: GAO.

Notes: The fiscal year 2006 percentage for our new hire rate (actual) does not include offers extended to applicants for fiscal year 2006 vacancies who accepted but will not report for duty until the first quarter of fiscal year 2007. In addition, we made a conscious decision during the summer to adjust our hiring targets. This was done because our future budget forecast indications were that we may not be able to support hiring at levels we requested in our fiscal year 2007 requests. We reduced hires in the summer to put us in a better position at the end of the fiscal year for

managing FTEs into fiscal year 2007 until our budget situation was better known. For our fiscal year 2006 acceptance rate (actual), the number of offers excludes 24 offers made for staff reporting in 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 of the on-board strength 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. Table 4 shows that we met each of our retention rate targets in fiscal year 2006. Our actual retention rate including retirements has been relatively flat over the last 5 years, and our actual retention rate excluding retirements has generally declined by 1 percentage point each year during this period.

### 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 GAO’s 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 2006, 80 percent of our employees completed the survey, and we met our target for two of the four measures and slightly missed the remaining two targets. We first conducted this survey in fiscal year 2002, and since then favorable responses to our staff utilization question increased steadily and leveled off in fiscal year 2006. Favorable responses to our leadership question also increased from fiscal years 2002 through 2005, dropping only slightly in fiscal year 2006 (see table 5). In fiscal year 2006, we also revised some of the demographic questions to match the categories used 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 one of seven federal agencies included in an article entitled “Great Places to Work” published in the November 2005 issue of *Washingtonian* magazine.

**Table 4: Actual Performance and Targets Related to Our Retention Rate Including and Excluding Retirements**

Performance measures	2002 actual	2003 actual	2004 actual	2005 actual	2006 target	2006 actual
Retention rate						
With retirements	91%	92%	90%	90%	90%	90%
Without retirements	97%	96%	95%	94%	94%	94%

Source: GAO.

**Table 5: Actual Performance and Targets Related to Our Measures of Employee Satisfaction with Staff Development, Staff Utilization, Leadership, and Organizational Climate**

Performance measures	2002 actual	2003 actual	2004 actual	2005 actual	2006 target	2006 actual
Staff development	71%	67%	70%	72%	74%	76%
Staff utilization	67%	71%	72%	75%	75%	75%
Leadership	75%	78%	79%	80%	80%	79%
Organizational climate	67%	71%	74%	76%	75%	73%

Source: GAO.

## Focusing on Our Internal Operations

Our mission and people are supported by our internal administrative services, including information management, building management, knowledge services, human capital, financial management, and other services. In fiscal year 2006, we used two new performance measures 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. These measures are directly related to our goal 4 strategic objectives of continuously enhancing GAO's business and management processes and becoming a professional services employer of choice. We use information from our annual customer satisfaction survey to set targets and assess our performance for both of these

measures, which are shown in table 6 along with baseline data that we recorded for them in fiscal year 2003 and fiscal year 2004. The first measure encompasses 21 services that help employees get their jobs done, such as Internet access, desktop computer equipment, voice and video communication systems, shared service centers for copying and courier assistance, travel services, and report production. The second measure encompasses another 10 services that affect quality of work life, such as assistance related to pay and benefits, building security and maintenance, and workplace safety and health. Using survey responses, we calculate a composite score for each service category that reflects employee ratings for (1) satisfaction with the service and (2) importance of the service. (For a more in-depth explanation of this measure see table 16 in Part II of this report.)

**Table 6: Actual Performance and Targets Related to Our Internal Operations Measures**

Performance measures	2002 actual	2003 actual	2004 actual	2005 actual	2006 target	2006 actual
Help get job done	N/A	3.98	4.01	4.1	4.0	N/A
Quality of work life	N/A	3.86	3.96	3.98	4.0	N/A

Source: GAO.

Notes: We will report actual data for fiscal year 2006 once the data from our November 2006 internal operations survey have been analyzed. N/A indicates that the data are not available yet or are not applicable because we did not collect the data during this period.

## Continuing the Dialogue on 21st Century Challenges

Last fiscal year, we published an unprecedented report called *21st Century Challenges: Reexamining the Base of the Federal Government* that asks a series of probing, sometimes provocative, questions about current government policies, programs, and operational practices in 12 broad areas. The report highlights how much the U.S. government reflects organizational models, labor markets, life expectancies, transportation systems, security strategies, and other conditions that are rooted in the past and uses our analysis of the nation's worsening long-term fiscal outlook as the context for raising these questions now. Because many of the issues raised in our report cannot be resolved quickly in the near term, policymakers will need to develop a strategic approach for addressing them over time. Thus, our report was intended as one input among many that the Congress will consider as it decides (1) its agenda for oversight and program review in the years to come and (2) which federal programs and policies should remain priorities, which should be overhauled, and which have simply outlived their usefulness.

Through our work and professional partnerships in fiscal year 2006, we attempted to provide the information necessary to keep policymakers and public and private stakeholders focused on the adverse affects of these very serious challenges and thinking about ways to address them. Below are a few examples of how our work advanced the discussion of many of the issues presented in our 21st Century Challenges report and how we contributed to the dialogue.

- **What opportunities exist to streamline and simplify the current tax system and thereby make it more transparent, reduce opportunities for tax evasion, and decrease taxpayer compliance burden?** Fiscal year 2006 saw a growing debate about the fundamental design of the tax system. Concerns about complexity, efficiency, and equity have motivated calls for a substantial restructuring of the individual income tax. The debate is partly about whether to reform the current income tax so that it has a broader base and lower rates or switch in whole or part to some form of a consumption tax. But it is also about other fundamental design issues, such

as whether to maintain different tax treatment for corporate and noncorporate business. We testified at three hearings examining the current system of taxation for corporations, individuals, and businesses and providing principles to guide tax reform as well as common dimensions for comparing alternative reform proposals (see *Tax Compliance: Challenges to Corporate Tax Enforcement and Options to Improve Securities Basis Reporting*, GAO-06-851T, June 13, 2006; *Individual Income Tax Policy: Streamlining, Simplification, and Additional Reforms Are Desirable*, GAO-06-1028T, Aug. 3, 2006; and *Business Tax Reform: Simplification and Increased Uniformity of Taxation Would Yield Benefits*, GAO-06-1113T, Sept. 20, 2006). The Comptroller General also participated in an October 2005 tax reform roundtable and highlighted the need for tax reform during his fiscal wake-up tour.

- **Has the government's approach to competitive sourcing—using the private sector to do more of the government's business—proven successful? Should it be modified to improve results and reduce costs in a timely, fair, and equitable manner?** Our work this fiscal year has continued to highlight problematic aspects associated with the government's continually increasing dependence on contractors to carry out critical functions, from management and oversight of vital government operations and high-dollar investments, to protection of government and military facilities, to emergency and large-scale logistics operations such as hurricane response and recovery and the war in Iraq. In testimonies, we have commented on broader trends that have added risks to the contracting function and the government's ability to ensure that it is hiring the right contractors at the right price. These include the increasing complexity and scope of large investments, skill gaps in the acquisition workforce, and long-standing weaknesses in oversight. At this time, we are working with the Congress to identify work needed to further illuminate problems in contractor selection and oversight. Moreover, this year, the Comptroller General convened a panel of government management and acquisition experts from the private and public sectors and academia, among other things, to share insights on the challenges associated with the government's growing reliance on contractors and

the need to keep inherent government functions in the hands of the government.

- **How can we make our current Medicare and Medicaid programs sustainable?** We met with representatives of the Medicare Payment Advisory Commission during fiscal year 2006 to discuss issues related to Medicare inpatient hospital payments. At \$119.4 billion, spending for hospital inpatient services accounted for over a third of total Medicare spending in fiscal year 2005. Our discussions with the commission centered around (1) its recommendation to CMS to establish a new cost methodology for calculating Medicare hospital payments and (2) the preliminary results of GAO's research in this area. We also continued discussions with the commission once CMS published its new cost methodology for public comment. Our report on inpatient hospital payments concluded that although there were issues with the traditional cost methodology, the overall CMS approach was promising (see *Medicare: CMS's Proposed Approach to Set Hospital Inpatient Payments Appears Promising*, GAO-06-880, July 28, 2006). CMS staff addressed some of the methodological issues we raised with their proposal. Although the hospital industry did not agree with our conclusions, it did agree with our analysis of the problems with the traditional cost methodology.
- **Are the active and reserve components appropriately sized, structured, and used to meet the current and future national security demands? Is the current business model sustainable for the reserve components?** In several reports and testimonies issued in fiscal year 2006, we documented the changing role of the Army's reserve components and the mismatch between their new operational responsibilities overseas and at home and DOD's approach for organizing, training, and equipping these forces as a strategic reserve. For example, we have reported on such issues as the declining Army reserve component equipment levels caused in part by the large quantities of equipment left behind in Iraq to support follow-on forces and the effects of the Army's strategy of maintaining reserve forces in peacetime with fewer personnel and less equipment than they would need to deploy, and on the Army National Guard and the Army Reserve's ability to continue to

provide ready forces for current operations to train for future missions. During fiscal year 2006, our work contributed to a growing debate in the Congress and DOD about the need for changes in Army reserve component equipping, personnel, and training strategies. The Comptroller General testified at a House Government Reform Committee hearing in October 2005 on the Army National Guard's growing equipment challenges and the need for DOD to provide more detailed plans and greater transparency in how the Army National Guard will be integrated into Army transformation initiatives. In addition, the Congress recently established the Commission on the National Guard and Reserves to examine the roles and missions of the guard and its compensation, organization, and capabilities. We testified at a commission hearing on September 21, 2006, about Army National Guard equipment and personnel challenges and highlighted the need for reassessing the Army reserve components' business model in light of the reserves' ongoing role in supporting overseas operations and homeland missions. We provided the commission with briefings, reports, and other support throughout the year. Additionally, we shared the results of our work on reserve component issues with the Center for Strategic and International Studies, which completed a major study of reserve roles, missions, and organization in 2006. The study made numerous recommendations that are intended to bring about a better match between expectations and roles of the reserve components for the 21st century and organizational structures, equipping policies, funding, and human capital strategies.

- **How can existing policies and programs be reformed to encourage older workers to work longer and to facilitate phased retirement approaches to employment?** Demographic changes, such as longer life spans and the retirement of the baby boomers, pose serious challenges for older Americans, employers, and the economy. Our past work as well as our work in fiscal year 2006 on older workers has led to congressional and federal action that addresses these challenges. For example, we reported on the impact that existing policies and programs have on encouraging older workers to work longer and facilitate phased retirement (see *Older Workers: Labor Can Help Employers and Employees Plan Better for the Fu-*

ture, GAO-06-80, Dec. 5, 2005, and *Older Workers: Demographic Trends Pose Challenges for Employers and Workers*, GAO-02-85, Nov. 16, 2001). Building on our prior work, which recommended that the Department of Labor (Labor) convene an interagency task force of relevant government agencies to identify policies and legislation to extend the work life of older Americans, we determined that all areas of the labor market are likely to be affected by the aging of the workforce, but that most employers have not made hiring and retaining older workers a priority, and many had no specific plans or programs to recruit or retain older workers. We identified barriers to offering more opportunities as well as examples of programs targeted toward older workers. Labor implemented our recommendation and created the Taskforce on the Aging of the American Workforce to focus on the impact of the aging workforce. Labor noted that this effort responded directly to our recommendation as well as to a request from the Senate Special Committee on Aging to implement our recommendation. The taskforce includes federal agencies from across the government, such as the Departments of Commerce, Education, Transportation, and the Treasury, and is identifying strategies that enhance the ability of older Americans to remain in or reenter the labor market and pursue self-employment opportunities and enable businesses to take full advantage of this skilled labor pool. In addition, the Comptroller General spoke at the White House Conference on Aging, which issued a report in fiscal year 2006 to the President and the Congress that resolved to promote incentives for older workers to continue working and to remove barriers to retaining and hiring older workers, and identified strategies to implement them.

- **Is the federal government effectively informed by a key national indicator system about the position and progress of the nation as a whole—both on absolute and relative bases compared to other nations—as a guide to helping set agency and program goals and priorities?** Following a 2003 forum convened by the Comptroller General, a number of organizations, led by the National Academies, came together to form the Key National Indicators Initiative (Initiative), an effort to develop a system to measure the United States' position and progress in

key social, economic, and environmental dimensions (go to <http://keyindicators.org/> for more information). Key national indicators, for example, can help policymakers and the public better understand which programs, policies, and functions are working and which are not, helping to inform choices and better target scarce resources. During fiscal year 2006, the Initiative developed a prototype set of indicators as well as a prototype State of the USA Web site. Interest in national indicator systems has grown at the international level as well, and in 2006 the Comptroller General participated in the planning for the second World Forum sponsored by the Organisation for Economic Cooperation and Development that would focus on "Measuring and Fostering the Progress of Societies." These efforts helped forge links between the Initiative in the United States and other efforts under way by other countries and several international organizations.

## GAO's High-Risk Program

Since 1990, our high-risk program has highlighted long-standing challenges facing the federal government that affect its efficient and effective operation. Increasingly, the program has focused on those major programs and operations that are in urgent need of broad 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 2005, highlighted 25 troubled areas across government. In March 2006, we added the National Flood Insurance Program to the high-risk list in recognition of the unexpected challenges facing FEMA in managing this program in the wake of the catastrophic losses in 2005 resulting from hurricanes Katrina, Rita, and Wilma. Many of the current high-risk areas involve critical public service providers, such as USPS and IRS, and services provided to Medicare and Medicaid recipients through CMS.

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 high-risk list work in fiscal year 2006:**

- 217 reports
- 107 testimonies
- Approximately \$22 billion in financial benefits

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 IT 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. Of the 44 areas that have appeared on our high-risk list since 1990, 16 have improved enough to be removed from the list and 2 have been consolidated with other areas. We also continue to identify other areas that require attention and should be added to the list. [Table 7](#) lists each high-risk area, the year it was placed on the high-risk list, and the strategic goal under which our work related to each high-risk area is generally performed.



**Table 7: GAO's High-Risk List**

High-risk area	Year designated high risk	GAO's strategic goal
<b>Addressing challenges in broad-based transformations</b>		
■ Strategic Human Capital Management <sup>a</sup>	2001	3
■ USPS Transformation Efforts and Long-Term Outlook <sup>a</sup>	2001	1
■ Managing Federal Real Property <sup>a</sup>	2003	1
■ Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997	3
■ Implementing and Transforming DHS	2003	2
■ Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005	3
■ DOD Approach to Business Transformation <sup>a</sup>	2005	2
■ DOD Business Systems Modernization	1995	3
■ DOD Personnel Security Clearance Program	2005	2
■ DOD Support Infrastructure Management	1997	2
■ DOD Financial Management	1995	3
■ DOD Supply Chain Management (formerly Inventory Management)	1990	2
■ DOD Weapon Systems Acquisition	1990	2
<b>Managing federal contracting more effectively</b>		
■ DOD Contract Management	1992	3
■ DOE Contract Management	1990	1
■ National Aeronautics and Space Administration Contract Management	1990	3
■ Management of Interagency Contracting	2005	3
<b>Assessing the efficiency and effectiveness of tax law administration</b>		
■ Enforcement of Tax Laws <sup>a, b</sup>	1990	3
■ IRS Business Systems Modernization <sup>c</sup>	1995	3
<b>Modernizing and safeguarding insurance and benefit programs</b>		
■ Modernizing Federal Disability Programs <sup>a</sup>	2003	1
■ Pension Benefit Guaranty Corporation Single-Employer Insurance Program <sup>a</sup>	2003	1
■ Medicare Program <sup>a</sup>	1990	1
■ Medicaid Program <sup>a</sup>	2003	1
■ HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994	1
■ National Flood Insurance Program	2006	1
<b>Other</b>		
■ FAA Air Traffic Control Modernization	1995	3

Source: GAO.

<sup>a</sup>Legislation is likely to be necessary as a supplement to actions by the executive branch, in order to effectively address this high-risk area.<sup>b</sup>Two high-risk areas—collection of unpaid taxes and earned income credit noncompliance—have been consolidated to make this area.<sup>c</sup>The IRS financial management high-risk area has been incorporated into this high-risk area.

In fiscal year 2006, we issued 217 reports and delivered 107 testimonies related to our high-risk areas and documented financial benefits totaling about \$22 billion. These results included reviews we completed during the fiscal year on the Medicare program that resulted in 20 reports and 4 testimonies. For example, we reported on the need for HHS to improve communications to prescription drug beneficiaries and its contingency plans to address potential problems with the transition of dual-eligible beneficiaries from Medicaid to Medicare drug coverage. We documented \$4.5 billion in financial benefits from our past work on the Medicare program. In addition, we evaluated DOD's weapon system acquisition process. Some of our significant work in this high-risk area included improving the agency's business case for both future combat systems and the F-22A Raptor—the Air Force's newest fighter aircraft. Our past work in the DOD weapon systems acquisition area resulted in approximately \$3.34 billion in financial benefits for fiscal year 2006. Also, on the basis of our work examining the transformation of USPS, we realized \$2.2 billion in financial benefits. Our efforts continue to bring attention to areas in urgent need of improvement and to help the Congress and federal government institute reforms to address these high-risk areas.

We plan to issue our next high-risk update early in 2007. To learn more about our work on the high-risk areas or to download our January 2005 high-risk update in full, go to [www.gao.gov/docsearch/featured/highrisk.html](http://www.gao.gov/docsearch/featured/highrisk.html).

## Building and Sustaining Partnerships

Increasingly, the process for developing solutions to organizational and societal problems will require partnering for progress. Such partnerships are important because they create opportunities for collaboration and cooperation that help all of the organizations involved join forces to apply their collective knowledge, experience, and expertise to address common challenges. Partnerships help us and our partners to enhance our ability to improve government operations and service to the public as well as make meaningful changes in our internal accountability processes and policies and leverage available resources.

Again this fiscal year, teams and units supporting all four of our strategic goals have continued or established important new partnerships with a number of organizations. For example, our partnership with the International Organization of Supreme Audit Institutions (INTOSAI) has been a long-standing relationship—cultivated primarily through goal 4's external liaison activities—that has resulted in tangible benefits for both organizations. In fiscal year 2006, we actively worked on several INTOSAI committees, such as the Working Group on Environmental Auditing and the Task Force on Accountability for and Audit of Disaster-Related Aid, to discuss mutual points of interest, share knowledge, and identify opportunities for joint audit activities. Also, we, along with our counterpart audit agency in Morocco, acted as INTOSAI emissaries to promote the role of supreme audit institutions as partners in a worldwide effort to fight corruption, enhance transparency, and promote good governance. In addition, our external liaison activities helped to sustain partnerships with organizations such as the intergovernmental audit forums, the Partnership for Public Service, the Council for Excellence in Government, and the Woodrow Wilson International Center for Scholars. (For more information about these partnerships, see *Strategies for Achieving Our Goals* later in this section of the report.)

Teams supporting goals 1 through 3 established or maintained partnerships with organizations that helped them to exchange information about issues related to our performance goals and key efforts. For example, some teams continued their ongoing partnerships with the National Academies of Sciences, sharing information on such areas as the academic knowledge of students with limited English proficiency, drinking water security, and the cleanup of radioactive wastes. Other teams have an ongoing partnership with the Special Inspector General for Iraq Reconstruction and other accountability organizations on work related to Iraq reconstruction and U.S. military operations. This partnership involves audit notifications, quarterly meetings to share knowledge, and reflections of GAO's work in the Special Inspector General for Iraq Reconstruction's report to the Congress.

Building on a literature review we performed last fiscal year to identify metrics for assessing the quality of partnerships, we began in fiscal year 2006 a more formal effort to identify indicators that could help us measure

how well we develop mutually beneficial relationships with other accountability organizations. We have yet to identify any agencies that have developed quantitative indicators for measuring the effectiveness of partnerships. However, we found the following qualitative indicators for assessing these collaborative relationships: commitment of time and resources, a clear definition of the roles and responsibilities of the partners, the partnerships contribution to outcomes, the success of the activity or project supported by the partnership, and value for the resources spent. Until we identify a satisfactory set of metrics, we will continue to describe the partnerships that our teams and units participate in and the outcomes and benefits derived from them to help us assess our performance in this area.

## Managing Our Resources

### Resources Used to Achieve Our Fiscal Year 2006 Performance Goals

Our financial statements for fiscal year 2006 received an unqualified opinion from an independent auditor. The auditor also found our internal controls to be effective—which means that no material weaknesses were identi-

fied—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 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 8 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.

**Table 8: GAO's Financial Highlights: Resource Information (Dollars in millions)**

	Fiscal year 2006	Fiscal year 2005
Total budgetary resources <sup>a</sup>	\$497.2	\$491.5
Total outlays <sup>a</sup>	\$488.1	\$478.7
Net cost of operations		
Goal 1: Well-being and financial security of the American people	\$191.9	\$197.7
Goal 2: Changing security threats and challenges of globalization	154.7	144.2
Goal 3: Transforming the federal government's role	146.8	147.3
Goal 4: Maximizing the value of GAO	23.7	22.0
Less reimbursable services not attributable to goals	(5.6)	(5.4)
<b>Total net cost of operations<sup>a</sup></b>	<b>\$511.5</b>	<b>\$505.8</b>
Actual FTEs	3,194	3,189

Source: GAO.

<sup>a</sup>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 budget consists of an annual appropriation covering salaries and expenses, and revenue from reimbursable audit work and rental income. For fiscal year 2006, our total budgetary resources increased by \$5.7 million from fiscal year 2005. This increase consists of funds needed to cover mandatory and uncontrollable costs and a one time transfer of budgetary authority from the U.S. Agency for International Development (USAID) for the analysis of U.S.-funded international basic education programs.

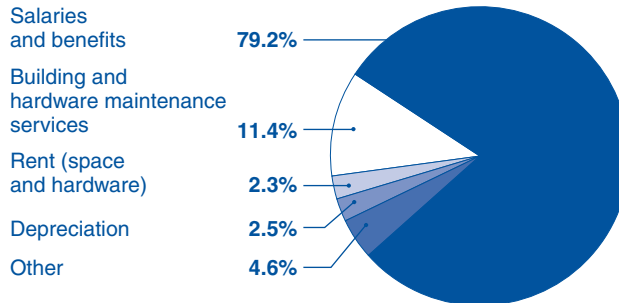
Our total assets were \$105.6 million, consisting mostly of property and equipment (including the headquarters building, land and improvements, and computer equipment and software) and funds with the U.S. Treasury. The largest dollar change in our assets was in the net value of property and equipment, which decreased by \$7 million in fiscal year 2006 as a result of normal depreciation amounts being greater than asset purchases. Total liabilities of \$97.5 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 an increase in workers' compensation liability. For fiscal year 2006 GAO engaged an independent actuarial firm to calculate the Federal Employees' Compensation Act (FECA) liability. The methodology used to calculate the liability this year more closely reflects GAO's claims' experience when compared to the formula provided by Labor used in prior years.

The net cost of operating GAO during fiscal year 2006 and fiscal year 2005 was approximately \$511 million and \$506 million, respectively. Expenses for salaries and related benefits accounted for 79 and 78 percent of our net cost of operations in fiscal years 2006 and 2005, respectively. Figure 15 shows how our fiscal year 2006 costs break down by category.

We report net cost of operations according to our four strategic goals, consistent with our strategic plan. Goal 2 accounted for the greatest dollar increase in our net cost of operations from fiscal year 2005 through fiscal year 2006. The increase is due to work on Hurricane Katrina and Iraq as well as continued efforts in the area of homeland security.

**Figure 15: Use of Fiscal Year 2006 Funds by Category**

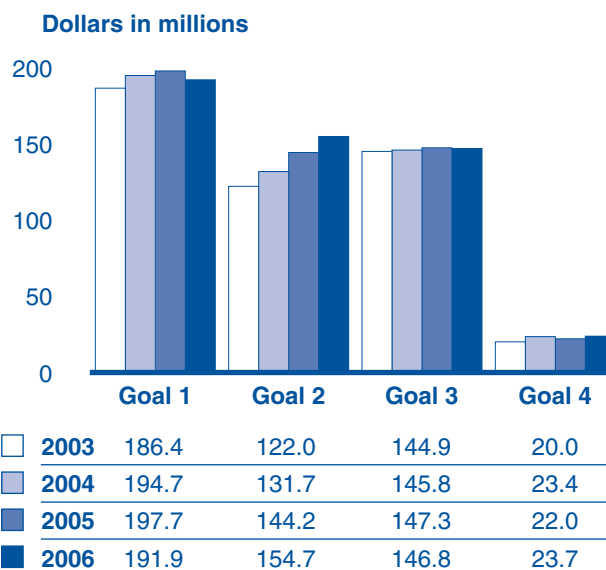
**Percentage of total net costs**



Source: GAO.

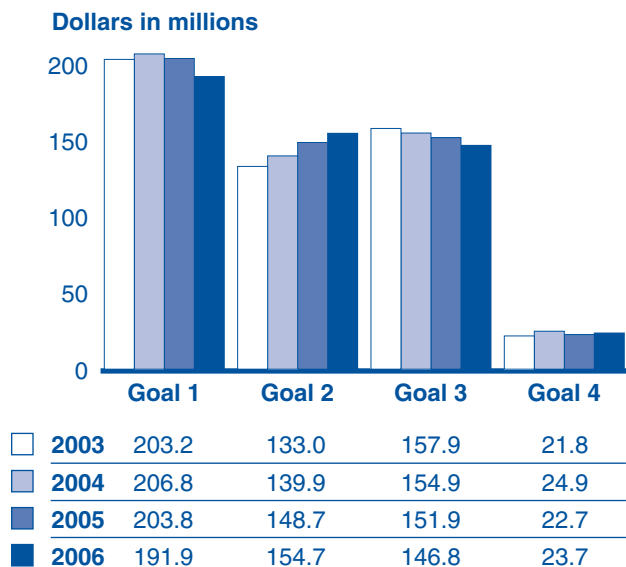
Figures 16 and 17 show our net costs by goal for fiscal year 2003 through fiscal year 2006. Figure 16 shows costs unadjusted for inflation, while figure 17 shows the same costs in 2006 dollars, that is, adjusted for inflation.

**Figure 16: Net Cost by Goal, Unadjusted for Inflation**



Source: GAO.

**Figure 17: Net Cost by Goal, Adjusted for Inflation**



Source: GAO.

### 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) in conformity with generally accepted accounting principles for the federal government. The statements were prepared from our financial records in accordance with the formats prescribed in OMB Circular 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.

### Planned Resources to Achieve Our Fiscal Year 2007 Performance Goals

As we go to press on this report, the Congress has not yet completed action on our fiscal year 2007 budget, and we, like most other federal government agencies, are operating at fiscal year 2006 levels under a continuing resolution through November 17, 2006, pending enactment of the fiscal year 2007 appropriations bills for the federal government. We requested \$509.4 million—an increase of 5 percent over our fiscal year 2006 revised funding level—primarily to cover uncontrollable mandatory pay and price level increases and an FTE increase to help address supply and demand imbalance issues in responding to congressional requests for studies in areas such as health care, disaster assistance, homeland security, the global war on terrorism, and forensic auditing. At this time, the House has approved a 2 percent increase and the full Senate has not acted on our budget request. Table 9 reflects our requested budget level and FTE positions. Once final appropriations decisions are enacted, we will adjust our resources to reflect the appropriated amount.

**Table 9: Requested Fiscal Year 2007 Budgetary Resources by Strategic Goal**

Strategic goal	FTEs	Amount (dollars in millions)
Goal 1 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.	1,307	\$201.1
Goal 2 Provide timely, quality service to the Congress and the federal government to respond to changing threats and the challenges of global interdependence.	955	147.1
Goal 3 Help transform the federal government's role and how it does business to meet 21st century challenges.	863	134.1
Goal 4 Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	142	27.1
<b>Total</b>	<b>3,267</b>	<b>\$509.4</b>

Source: GAO.

Our fiscal year 2007 budget request will fund the human capital, ongoing operations, and targeted initiatives needed to achieve all four of our strategic goals in support of the Congress and the American people. Our budget request will support our activities in three broad budget areas:

- human capital, which primarily includes funding for salaries, benefits, other compensation, awards and recognition, and training;
- engagement support, which includes funding for staff travel expenses needed to complete our performance and financial audits as well as other engagements, contracts for expert advice or assistance to meet congressional time frames, and overseas support to enhance our ability to conduct oversight of programs and activity in Iraq and elsewhere in the Middle East; and
- infrastructure operations, which include funding for building maintenance, computer hardware maintenance and software, rent, financial management activities, recruitment and retention

expenses, and targeted initiatives to improve, for example, our knowledge services and information technology.

These resources also allow us to continue to address major management challenges, such as human capital, information security, and physical security. For example, we have taken actions to improve and strengthen our physical security position by working toward completing implementation of the Integrated Electronic Security System and smart card technology. These enhancements allow improved internal and external communications and operations with other federal entities. We continue to strengthen the technical and physical aspects of our emergency preparedness efforts.

Regarding information security, we continue our focus on data protection using encryption at the desktop, increasing our vigilance of the centralized auditing of network servers and devices. This will give us the ability to securely access and transmit classified data and information.

To ensure our ability to recruit, reward, and retain a highly qualified, high-performing, and diverse workforce, human capital remains one of our most important challenges. We continue to utilize hiring flexibilities and a variety of sourcing strategies that will allow us to continue moving to a more performance-oriented and market-based compensation system. This will help ensure that we are well equipped to serve the Congress and the American people.

## Strategies for Achieving Our Goals

The Government Performance and Results Act directs agencies to articulate not just goals, but also strategies for achieving those goals. As detailed in the following sections, our strategies primarily emphasize providing information from our work to the Congress and the public in a variety of forms and continuing and strengthening our internal operations. For all four strategic goals, the multiyear, qualitative performance goals included in our current strategic plan describe specific areas of work that we addressed in fiscal year 2006.

Our strategies also emphasize the importance of two overarching approaches: (1) working with other organizations on crosscutting issues and (2) effectively addressing the challenges to achieving our agency's goals and recognizing the internal and external factors that could impair our performance. Through these strategies, which have proven successful for us for a number of years, we plan to achieve the level of performance that is needed to do the work we agreed to do for the Congress (reflected in our qualitative performance goals) and meet our annual performance measures, and that, in turn, will allow us to achieve our strategic goals.

Attaining our three external strategic goals (goals 1, 2, and 3) and their related objectives rests, for the most part, on providing professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information to support the Congress in carrying out its constitutional responsibilities. To implement the performance goals and key efforts related to these three goals, we develop and present information in a number of ways, including

- evaluating federal policies, programs, and the performance of agencies;
- overseeing government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- investigating whether illegal or improper activities are occurring;
- analyzing the financing for government activities;
- conducting various constructive engagements in which we work proactively with agencies, when appropriate, to provide advice that may assist their efforts toward positive results;
- providing legal opinions that determine whether agencies are in compliance with applicable laws and regulations;
- conducting policy analyses to assess needed actions and the implications of proposed actions; and
- providing additional assistance to the Congress in support of its oversight and decision-making responsibilities.

We conduct specific engagements as a result of requests from congressional committees and mandates written into legislation, resolutions, and committee reports. In fiscal year 2006, we devoted 85 percent of our engagement resources to work requested or mandated by the Congress. We initiated the remaining 15 percent of the engagement work under the Comptroller General's authority. Much of this work addressed various challenges that are of broad-based interest to the Congress, such as the global war on terrorism, the cost and status of the reconstruction efforts in Iraq, and our reviews related to the 2005 hurricane season.<sup>5</sup> Also covered by this work were government programs and operations that we have identified as high risk for fraud, abuse, and mismanagement as well as reviews of agencies' budget requests to help support congressional decision making. By making

<sup>5</sup> In fiscal years 2004 and 2005, the work performed under the Comptroller General's authority represented 10 percent and 13 percent, respectively, of our engagement efforts.

recommendations to improve the accountability, operations, and services of government agencies, we contribute to increasing the effectiveness of federal spending and enhancing the taxpayers' trust and confidence in their government.

Our staff are responsible for gathering all the relevant data and for following high standards for documenting and supporting the information we collect and analyze. This information is documented, more often than not, in a product that is made available to the public. In some cases, we develop products that contain classified or sensitive information that cannot be made available publicly. We generally issue around 1,200 to 1,300 products each year, either electronically or in printed format. Our products include the following:

- letter reports and chapter reports that when printed, are issued with our traditional blue cover;
- correspondence, which is a written letter that does not have a blue cover;
- testimonies and statements for the record, where the former are delivered orally by one or more of our senior executives at a hearing and the latter are provided for inclusion in the congressional record; and
- oral briefings, which are usually given directly to congressional staff members.

We also produce special publications on specific issues of general interest to all Americans, such as our primer on motor fuels that we prepared to help improve public understanding of the major factors that influence the U.S. price of gasoline and our guide on Social Security that answers concisely some basic questions about how the program works and why it needs to be reformed.<sup>6</sup> Collectively, our products always contain information and often conclusions and recommendations that allow us to achieve our external strategic goals.

Another means of ensuring that we are achieving our goals is through examining the impact of our past work

<sup>6</sup> GAO, *Motor Fuels: Understanding the Factors That Influence the Retail Price of Gasoline*, GAO-05-525SP (Washington, D.C.: May 2005), and *Social Security Reform: Answers to Key Questions*, GAO-05-193SP (Washington, D.C.: May 2005).

and using that information to shape our future work. Consequently, we evaluate actions taken by federal agencies and the Congress in response to our past recommendations. The results of these evaluations are reported in terms of the financial benefits and nonfinancial benefits that reflect the value of our work. We actively monitor the status of our open recommendations—those that remain valid but have not yet been implemented—and report our findings annually to the Congress and the public (<http://www.gao.gov/openrecs.html>).

Similarly, we will use our biennial high-risk report, most recently issued in January 2005, to provide a status report on major government operations that we consider high risk because they are vulnerable to waste, fraud, abuse, and mismanagement or are in need of broad-based transformation. And we will use our report on 21st century challenges, which was issued in February 2005, to alert the nation's leaders to current and emerging issues facing the nation, including the long-range budget challenge, the human capital crisis, postal reforms, and the federal government's financial management efforts. These reports are valuable planning tools because they help us to identify those areas where our continued efforts are needed to maintain the focus on important policy and management issues that the nation faces.

To attain our fourth strategic goal—an internal goal—and the five related objectives, we conduct surveys of our congressional clients and internal customers to obtain feedback on our products, processes, and services, and perform studies and evaluations to identify ways in which to improve them.

Because achieving our strategic goals and objectives also requires strategies for coordinating with other organizations with similar or complementary missions, we

- use advisory panels and other bodies to inform our strategic and annual work planning and
- initiate and support collaborative national and international audit, technical assistance, and other knowledge-sharing efforts.

These two types of strategic working relationships allow us to extend our institutional knowledge and experience;



leverage our resources; and in turn, improve our service to the Congress and the American people. Our Strategic Planning and External Liaison office takes the lead and provides strategic focus for the work with external partner organizations, while our research, audit, and evaluation teams lead the work with most of the issue-specific organizations.

## Strategic and Annual Work Planning

Through a series of forums, advisory boards, and panels; periodic scans of international and national issues that affect the political and social environment we work in, and our speakers' series, we gather information and perspectives for our strategic and annual planning efforts. In fiscal year 2006, the Comptroller General convened various experts from the public, private, and nonprofit sectors in a series of forums and panels intended to enhance our understanding of emerging issues and to identify opportunities for action.

- In July 2006, we hosted a forum on federal procurement sourcing management.
- In September 2006, we convened a forum on global competitiveness, specifically on implications for the nation's higher education system.
- In March 2006, we continued our speakers' series, Conversations on 21st Century Challenges, wherein prominent leaders speak to our staff on issues affecting the United States and its place in the world. Robert Reich, former Secretary of Labor and professor of public policy at the University of California at Berkeley spoke to the staff about strategies for building public support for good government. Past speakers have included Connie Morella, Ambassador of the Organization for Economic Cooperation and Development and General Wesley K. Clark, a 4-star military officer and NATO Supreme Allied Commander.

Advisory boards and panels also support our strategic and annual work planning for alerting us to issues, trends, and lessons learned across the national and international audit community that we should factor into our work. These groups include the Comptroller General's Advisory Board, whose 40 members from the

public and private sectors have broad expertise in areas related to our strategic objectives. Through the National Intergovernmental Audit Forum, chaired by the Comptroller General, and 10 regional intergovernmental audit forums, we consult regularly with federal inspectors general and state and local auditors. In addition, through the Domestic Working Group, the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate.

We also work with a number of issue-specific and technical panels to improve our strategic and annual work planning, including the following:

- The Advisory Council on Government Auditing Standards provides us guidance on promulgating auditing standards. These standards articulate auditors' responsibilities when examining government organizations; programs; activities; functions; and government assistance received by contractors, nonprofits, and other nongovernmental organizations. The council's work ensured that the revised standards would be generally accepted and feasible.
- The Accountability Advisory Council, made up of experts in the financial management community, advises us on audits of the U.S. government's consolidated financial statements and emerging issues involving financial management and accountability reporting in the public and private sectors.
- The Executive Council on Information Management and Technology, whose 19 members are experts from the public and private sectors and representatives of related professional organizations, helps us to identify high-risk and emerging issues in the IT arena.
- The Comptroller General's Educators' Advisory Panel, composed of deans, professors, and other academics from prominent universities across the United States, advises us on recruiting, retaining, and developing staff and on strategic planning matters.

Internationally, we participate in INTOSAI—the pro-

fessional organization of the national audit offices of 186 countries. During the fall of 2004, the INTOSAI Congress unanimously adopted a 5-year strategic plan—the first in INTOSAI’s 50-year history—that was developed by a 10-nation task force chaired by the Comptroller General. This plan has provided the foundation for the Governing Board to engage member institutions in advancing professional audit standards and promoting knowledge sharing.

## Collaborating with Others

By collaborating with others to implement the INTOSAI strategic plan, we have strengthened professional standards, provided technical assistance, leveraged resources, and developed best practices. In our work with INTOSAI, we chair the accounting and reporting subcommittee and are active members of INTOSAI’s auditing standards, internal control, and other technical subcommittees. We publish INTOSAI’s quarterly *International Journal of Government Auditing* in five languages to foster global understanding of standards, best practices, and technical issues. To help ensure that the public sector perspectives are reflected in the International Federation of Accountants Standards Development project, we are working as a member of INTOSAI’s Professional Standards Committee as it collaborates closely with the International Auditing Assurance Standards Board and the World Bank to develop international auditing standards.

To build capacity in the national audit offices around the world, we conduct an international audit fellows program for mid- to senior-level staff from other countries. In 2006, 12 audit fellows from Africa, Asia, Europe, Latin America, and the South Pacific spent about 4 months at GAO learning how we are organized to do our work, how we plan our work, and what methodologies we use, particularly for performance audits. As part of our strategy to promote continuous learning and sustainability once the fellows return to their countries, we are working with major donors—such as the World Bank and USAID—to identify or support relevant capacity-building projects in fellows’ institutions. Seven current and eight former auditors general as well as several deputy auditors general, including the current chair of INTOSAI, are graduates of this program.

Other collaborative activities undertaken by our staff during 2006 included the following:

- Participating in three Domestic Working Group collaborative efforts of federal, state, and local audit officials to address issues regarding access to records, grants management, and governance. Collaborative efforts with the Domestic Working Group and the National Association of State Auditors, Comptrollers, and Treasurers facilitated our work involving the states by fostering a cooperative working relationship with the state auditors on over a dozen engagements, including our work on the federal response to hurricanes Katrina and Rita.
- Implementing the National Intergovernmental Audit Forum strategic plan that was adopted in December 2004. This plan was developed by a task force composed of federal, state, and local auditors and an independent public accountant. The newly established committees have begun organizing to implement the plan, which seeks to help maximize the forum’s effectiveness in promoting good government and accountability at all levels of government. In 2006, the forum advanced its strategic plan through the activities of its knowledge sharing, communications, standards liaison, and emerging issues committees. In addition, 12 regional forum meetings were held, which brought together auditors at all government levels. We also cosponsored the 16th Biennial Forum of Government Auditors, which was attended by over 300 members of the U.S. accountability community. This conference helped advance the public sector accountability profession’s understanding of and ability to respond to the many challenges facing the nation in the 21st century. In addition, we also held a forum on Federal Oversight and the Inspectors General in May 2006.
- Facilitating collaboration between our teams and federal and state auditors, which, among other things, helped us to minimize duplication of efforts, leverage resources, and gain access to people and information.
- Supporting the Comptroller General as part of the Concord Coalition’s initiative to educate the public on America’s long-term fiscal challenges.

- Hosting a series of meetings to “connect people to people” in an effort to improve our working relationships and better leverage our resources with our sister agencies and IGs. We hosted the first of what we hope to be a series that introduced the leadership and senior executives of the Congressional Research Service to our leadership and team managing directors. Also, we hosted the first ever meeting between our leadership and team managing directors with members of the President’s Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, whose respective members are primarily inspectors general appointed by the President and by agency heads.
- Receiving about 700 visitors from 94 countries, including officials from our counterpart organizations, parliaments, and central government ministries.
- Engaging in capacity-building efforts on a bilateral basis with our Iraqi counterparts with plans to leverage that work to benefit other counterparts in the region.
- Redesigning our external Web page for the auditing and accountability community to enhance access to information available from us and other sources. This effort updated both the content and the format of the Web page to facilitate accessing desired information based on user’s comments. The Web page now highlights what users believe is most important and provides expanded access to auditing guidance and methodology not previously available.
- Implementing the authority for an executive exchange program granted under the Human Capital Reform Act of 2004. After the GAO order was finalized, we developed the operating program, which involved establishing policies and procedures as well as the process from program application to exit. We also developed materials and collaborated with our Public Affairs office and our accountability partners to publicize the program. In addition, we outreached to a number of private sector organizations to recruit candidates.
- Developing and issuing the international protocols to strengthen our relationships with our stakeholders

in the international community. We issued the final version in January 2006.

## Using Our Internal Experts

We coordinated extensively within our own organization on our strategic and annual performance planning efforts, as well as on the preparation of our performance and accountability reports. Our efforts are completed under the overall direction of the Comptroller General and the Chief Operating Officer. We relied on our Chief Administrative Officer and her staff to provide key information, such as the financial information that is included in part III of this report. Her staff also coordinated with others throughout the agency to provide the information on goal 4’s results, which appears in part II of this report, and provided input on other efforts dealing with issues that include financial management, budgetary resources, training, and security. We obtained input on all aspects of our strategic and annual performance planning and reporting efforts from each of our engagement teams and organizational units through their respective managing directors, as well as other staff responsible for planning or engagement activities in the teams. Staff from QCI office prepared the report, ensuring, among other things, that the report was responsive to comments and suggestions received from the Association of Government Accountants and other reviewers. In short, we involved virtually every part of GAO and used our internal expertise in our planning and reporting efforts.

## Addressing Management Challenges That Could Affect Our Performance

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 part IV for the IG's assessment.)

For fiscal year 2006, we continued to address three management challenges—physical security, information security, and human capital. We anticipate that we may need to continue to address all three of these management challenges in future years because they are evolving and will require us to continuously identify ways to adapt and improve. We revisit the challenges each year and refine them when appropriate, and when we believe we have sufficiently addressed these challenges we will remove them from our list. We will report any changes as we monitor and report on our progress in addressing the challenges through our annual performance and accountability process. The following sections describe our recent and planned efforts to address these challenges.

### Physical Security Challenge

We continue to take essential actions to protect our people and our assets to ensure continuity of agency operations. The domestic and international climate demands that we constantly assess our physical security profile and seek ways to improve and strengthen it. We took positive steps in fiscal year 2006 to centralize and strengthen our policies and operations, improve our internal and external communications and information-sharing efforts, and upgrade and enhance our technical capabilities.

In the third quarter of fiscal year 2006, we established our Office of Emergency Preparedness to help ensure that GAO can continue to carry out its functions in the face of natural or man-made disasters or other disruptions. The unit also provides policy and oversight for GAO's emergency planning activities, including continuity of operations, information systems disaster recovery, GAO building occupant emergency plans, and shelter-in-place plans, and better integration with GAO's field offices.

To strengthen our internal and external communications and information sharing we meet on a regular basis with the Legislative Branch Continuity of Operations Plan Working Group as well as the Executive Branch

Continuity of Operations Working Group. The Office of Emergency Preparedness provides proactive coordination with sister agencies in the legislative branch, executive branch agencies, and local law enforcement in the area of contingency planning and for information/intelligence-sharing purposes. In fiscal year 2006 we also sought to better inform, educate, and prepare our staff by conducting a shelter-in-place drill; conducting awareness activities in September, National Preparedness Month; and briefing approximately 1,100 employees in the areas of handling classified information, handling sensitive but unclassified information, shelter in place, identity theft, DOE security requirements, and espionage.

To enhance our capability to communicate to staff during emergency situations we procured an emergency notification system. We also initiated implementation of the Integrated Electronic Security System with the relocation of the Emergency Operations Center from the first floor of the headquarters building to its new location in the basement.

In fiscal year 2007, we plan to complete a number of initiatives; these will address many of the aspects of the physical security management challenge, but we will need to complete other initiatives in order to remove it from our list. For example, in fiscal year 2007, we plan to make progress on the implementation of the Integrated Electronic Security System, including the installation of turnstiles and upgrading of the access control and intrusion detection systems for headquarters; however, the implementation of smart card technology, a critical component of our physical security efforts, will not be completed during the upcoming fiscal year. In addition, during fiscal year 2007, the Office of Emergency Preparedness plans to update the continuity of operations plan; develop and disseminate a pandemic influenza implementation plan; create a working group and establish continuity points of contact throughout GAO to help ensure that the needs of the organization, including GAO's field locations, are considered in developing and implementing emergency plans; and create an emergency preparedness Web site on GAO's intranet.

### The 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 2006, we established a wide range of goals and implemented numerous initiatives to address information system security. These included implementing centralized/correlated auditing of network servers and devices to effectively monitor and better secure our computing assets within GAO, refining our information security procedures to maintain compliance with new federal guidance, implementing improvements to our disaster recovery operations, and improving our ability to respond and recover in the event of a disruption by implementing additional technologies to lessen our risks. These efforts are described in detail in appendix 3.

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. In fiscal year 2007, we will further address the challenge of keeping our systems and information secure by focusing on data protection using encryption at the desktop, increasing our vigilance of the centralized auditing of network servers and devices to better secure our computing assets within GAO, responding to new and updated security guidance from the National Institute of Standards and Technology and OMB, refining our security processes and procedures, expanding our capabilities for identity management to better control access to the GAO network, implementing improvements to our contingency operations, and improving our overall ability to respond to the changing threats by implementing appropriate new technologies to reduce or manage risks.

## Human Capital Challenge

The skills, knowledge, and dedication of our workforce make it possible for the agency to deliver the results and performance expected of us by our clients and customers. A scan of the strategic environment suggests that competition for talent among knowledge-based organizations will only continue to increase, challenging our ability to maintain a top-notch workforce capable of providing quality products and services to the Congress. To prepare for this competitive environment as well as for the retirement of our “baby boom” employees, we have initiated efforts aimed at retention of institutional

knowledge and experience and enhancement of our succession planning and talent acquisition efforts.

Recruiting, rewarding, and retaining a highly qualified, high-performing, and diverse workforce in today’s competitive environment remains one of our most important challenges. In fiscal year 2006, we completed a comprehensive review of our recruitment and hiring activities, resulting in over 40 recommendations, which will begin to be implemented in fiscal year 2007 in the areas of college recruitment, candidate assessment, interviewing/hiring, offer negotiating and processing, and administrative and professional support staff and other hires. In addition, we continued to utilize hiring flexibilities and a variety of sourcing strategies, including our student employment program. By working with outside organizations, such as the Hispanic Association of Colleges and Universities, we have sought to strengthen our workforce diversity. To improve consistency in the consideration process we revised our entry-level analyst hiring strategy. The interview process is now more centralized and structured than in the past.

One of our greatest challenges is maintaining the right mix of experienced and knowledgeable staff to carry out our engagements and meet our client’s needs. GAO is facing unusual circumstances because of continuity and succession concerns resulting from downsizing and reduced hiring in the 1990s. Currently, over 41 percent of GAO’s analysts and related staff have fewer than 5 years of agency experience, requiring even greater emphasis on learning and development than previously. To help ensure that our newest entry-level staff acquire the skills they need to become proficient performers as quickly as possible, we implemented a training and development program consisting of 12 courses encompassing 159 hours of orientation and core analytic skills training that must be completed by entry-level employees within their first 2 years with GAO. Courses are developed to align with GAO’s strategic goals as well as the competencies we use to manage performance and evaluate proficiency.

We continued to focus on implementing and enhancing a market-based compensation system in which (1) pay ranges are set to be competitive with the labor markets in which GAO competes for talent, (2) all staff have the opportunity but not the entitlement to advance to the top of the pay range, and (3) pay ranges may

overlap to adequately reward expertise, leadership, and performance. GAO's compensation system is the result of a 2-year effort in which a leading compensation consulting firm assisted us in establishing salary ranges for GAO employees that are competitive with those of comparable organizations, including selected government, not-for-profit, and professional services entities in the labor markets in which GAO competes for talent. In fiscal year 2006, our efforts to further enhance our compensation systems include restructuring our Band II analyst position, creating two pay ranges to better align individual staff according to whether a Band II employee has responsibility for work activities involving the development of staff. We also adopted the use of a standardized rating score in our competency-based appraisal system, to mitigate differences in organizational rating patterns and convert an employee's appraisal average to a number that reflects the relative position of an individual appraisal average to a comparative group average. Finally, we decoupled from the General Schedule annual across-the-board increase, and established a new performance-oriented market-based compensation system that includes an annual adjustment component.

While we have made progress in addressing human capital issues, more work remains to be done and we will keep human capital as a management challenge. Some of the key efforts planned in this area for fiscal year 2007 include the following:

- Implementing the recruitment task force recommendations
- Establishing a community of practice involving senior leadership, recruiters, and human capital professionals to enhance the recruiting and hiring process
- Implementing a voluntary mentoring program to maximize successful development at GAO
- Enhancing the leadership development programs to prepare managerial talent
- Improving the integration of human capital metrics systems

- Increasing the transparency and the staff's knowledge of the market-based compensation process

## 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 various 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 2006, we

- stayed abreast of current events (such as protecting our ports and borders and preventing possible pandemics) 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 (e.g., on the cost and recovery efforts related to Hurricane Katrina) so that we could deal with major changes as they occurred;
- maintained broad-based staff expertise (i.e., in our Social Security, health care financing, and homeland security areas) so that we could readily address emerging needs; and
- initiated research under the Comptroller General's authority on several selected topics, including various issues relating to Iraq, the U.S. federal elections, and our 21st century challenges and high-risk work.

We are experiencing heavy demand from the Congress for work in a number of subject areas, especially in the disaster recovery and preparedness areas in the aftermath of Hurricane Katrina and in the health care area. Our ability to effectively manage this demand could have an impact on our ability to meet our performance targets. We will continue to manage these requests in order to minimize any negative impact they may have on our ability to meet the needs of the Congress and the American people. 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, because almost 80 percent of our budget is composed of people-related costs, any serious budget situation will likely have an impact on our human capital policies and practices. This, in turn, would 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 prepares Comptroller General procurement law decisions that resolve protests filed by disappointed bidders. These bidders challenge the way individual federal procurements are being conducted or how the contracts were awarded. In recent years, we have experienced an increase in the number of bid protests that have been filed, and 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 several national and homeland security issues may be hampered. Given the heightened security environment, we also 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.







# Part II

## *Performance Information*

# Performance Information by Strategic Goal

In the following sections, we discuss how each of our four strategic goals contributed to our fiscal year 2006 performance results. Specifically, for goals 1, 2, and 3—our external goals—we present performance results

for the three annual measures that we assess at the goal level. Most teams and units also contributed toward meeting the targets for the agencywide measures that were discussed in the previous part of this report.



Our first strategic goal upholds our mission to support the Congress in carrying out its constitutional responsibilities by focusing on work that helps address the current and emerging challenges affecting the well-being and financial security of the American people and American communities. Our strategic objectives under this goal are to provide information that will help address

- the health needs of an aging and diverse population;
- the education and protection of the nation's children;
- the promotion of work opportunities and the protection of workers;
- a secure retirement for older Americans;
- an effective system of justice;
- the promotion of viable communities;
- responsible stewardship of natural resources and the environment; and
- a safe, secure, and effective national physical infrastructure.

These objectives, along with the performance goals and key efforts that support them, are discussed fully in our strategic plan, which is available on our Web site at <http://www.gao.gov>. The work supporting these objectives was performed primarily by headquarters and field office staff in the following teams: Education, Workforce, and Income Security; Financial Markets and Community Investment; Health Care; Homeland Security and Justice; Natural Resources and Environment; and Physical Infrastructure. Almost every goal 1 team

## Selected Work under Goal 1

**Informing beneficiaries about the new Medicare prescription drug benefit:** We identified shortcomings in the quality of communications with beneficiaries about Medicare's new prescription drug benefit and their prescription drug plan choices. We found that selected publications, the 1-800-MEDICARE help line, and the Medicare Web site were not always clear, accurate, and easy to use. We recommended that the CMS Administrator enhance the quality of its communications through these outlets. (See app. 1, item 1.12.C.)

**Protecting SSNs from identity fraud and abuse:** We found that private entities—such as banks and telecommunication companies—shared SSNs with contractors for limited purposes, relied on accepted industry practices, and used the terms of their contracts to protect the personal information shared with contractors. However, our review of four industries revealed gaps in federal law and agency oversight. We recommended that the Congress consider possible options for addressing gaps in federal requirements for safeguarding SSNs shared with contractors. (See app. 1, item 1.30.N.)

examined some aspect of the hurricane Katrina and Rita disasters. Also, in line with our performance goals and key efforts, goal 1 staff reviewed a variety of programs affecting the nation's students and schools, employees and workplaces, health providers and patients, and social service providers and recipients. In addition, rather than focusing on the federal court and prison system, goal 1 performed more work related to the nation's election system in response to the interests of our congressional clients.

To accomplish our work under these strategic objectives in fiscal year 2006, we conducted engagements, audits, analyses, and evaluations of programs at major federal agencies, such as the Departments of Education, Health and Human Services, Homeland Security, Transportation, Housing and Urban Development, and the Interior, and developed reports and testimonies on the efficacy and soundness of programs they administer.

As shown in table 10, we met our fiscal year 2006 performance targets for financial benefits, nonfinancial benefits, and testimonies for goal 1.

**Table 10: Strategic Goal 1’s Annual Performance Results and Targets**

Performance measure	2002 actual	2003 actual	2004 actual	2005 actual	2006 target	2006 actual	Met/not met	2007 target
Financial benefits (billions of dollars)	\$24.1	\$23.7	\$26.6	\$15.6	\$18.7 <sup>a</sup>	\$22.0	Met	\$20.2
Nonfinancial benefits	226	217	252	277	242 <sup>a</sup>	268	Met	256
Testimonies	111	80	85	88	89	97	Met	78

Source: GAO.

<sup>a</sup>Our fiscal year 2006 targets for financial benefits and nonfinancial benefits differ from the targets we reported for these measures in our fiscal year 2006 performance plan. Based on our performance in fiscal year 2005, we lowered these targets from \$19.5 billion in financial benefits and 255 in nonfinancial benefits, because we anticipated that these benefits during fiscal year 2006 were more likely to stem from work performed under goal 2. We did not change the agencywide targets for these measures, but we made corresponding changes to targets for goals 2 and 3.

To help us examine trends for these measures over time, we look at their 4-year averages, which minimize the effect of an unusual level of performance in any single year and are shown in table 11. This table indicates that financial and nonfinancial benefits have generally risen over time, while the number of testimonies has generally declined for goal 1 since fiscal year 2002.

**Table 11: Four-Year Rolling Averages for Strategic Goal 1**

Performance measure	2002	2003	2004	2005	2006
Financial benefits (dollars in billions)	\$15.2	\$17.7	\$20.8	\$22.5	\$22.0
Nonfinancial benefits	190	209	226	243	254
Testimonies	110	99	87	91	88

Source: GAO.

The following sections describe our performance under goal 1 for each of these three quantitative performance measures and describe the targets for fiscal year 2007.

## Financial Benefits

**Our work influenced legislation that ultimately resulted in a net reduction in Medicare spending that had a net present value of about \$2.9 billion from 2005 through 2009. (See app. 1, item 1.4.F.)**

The financial benefits reported for this goal in fiscal year 2006 totaled \$22 billion, exceeding the target of \$18.7 billion by about \$3 billion. This was largely due to a single financial benefit of over \$6 billion that resulted from our work involving the Federal Communications Commission's spectrum license auctions. Other financial benefits resulting from our work under goal 1 included reducing Medicare spending and costs, recapturing unexpended balances from some HUD programs, reducing improper payments at HUD, and reducing the Department of Energy's appropriations by better managing carryover balances. We describe these and other accomplishments in the goal 1 section of appendix 1.

Because financial benefits often result from work completed in prior years, we set our fiscal year 2007 target on the basis of our assessment of the progress agencies are making in implementing our past recommendations. Our analysis indicates that financial benefits in the future for goal 1 are likely to decline. We, therefore, have set the target for fiscal year 2007 at \$20.2 billion.

## Nonfinancial Benefits

### Examples of Goal 1's Nonfinancial Benefits

**Improving agency coordination for the 2006 hurricane season:** We identified FEMA's lack of a system to track Red Cross requests for assistance as one of three specific areas where inadequate coordination between these two organizations hampered the provision of federal mass care assistance to victims of the 2005 Gulf Coast hurricanes. We recommended improvements in these areas, and in response to our work, the agencies have signed an agreement that confirms their commitment to sharing information about and coordinating their disaster relief activities. (See app. 1, item 1.21.N.)

**Improving access to transportation for disadvantaged communities:** We reported that the Department of Transportation (DOT) needs to improve its oversight of how transit agencies and metropolitan planning agencies are implementing DOT's guidance on making transportation services accessible to persons with limited English proficiency. DOT has taken some action to implement our recommendations, including creating a new limited English proficiency Web site that provides a clear link to its guidance. (See app. 1, item 1.51.N.)

Nonfinancial benefits reported for goal 1 in fiscal year 2006 included 248 actions taken by federal agencies to improve their services and operations in response to our work and another 20 in which information we

provided to the Congress resulted in statutory or regulatory changes. This total of 268 nonfinancial benefits exceeded our target of 242. We report some of our major accomplishments in detail in the goal 1 section of appendix 1. For fiscal year 2007, we have set a target of 256 for nonfinancial benefits. While this target is lower than what we achieved this year, it is about the same as the 4-year average for the goal and is consistent with our recognition that we are more likely to achieve these benefits under goals 2 and 3 in the next few years.

## Testimonies

Our witnesses testified at 97 congressional hearings related to this strategic goal, which exceeded the fiscal year 2006 target of 89 testimonies. Among the testimonies given were those on nursing home care for veterans, the Hanford nuclear waste treatment plant, telecommunications spectrum reform, and federal crop insurance. (See p. 34 for a list of testimony topics by goal.) On the basis of our assessment of the potential need to testify on issues under this goal, we have set a target of presenting testimony at 78 hearings during fiscal year 2007.



Source: See Image Sources.

Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence

## Goal 2 Overview

The federal government is working to promote foreign policy goals, sound trade policies, and other strategies to advance the interests of the United States and its allies while also seeking to anticipate and address emerging threats to the nation's security and economy. Given the importance of these efforts, our second strategic goal focuses on helping the Congress and the federal government respond to changing security threats and the challenges of global interdependence. Our strategic objectives under this goal are to support the congressional and federal efforts to

- respond to emerging threats to security,
- ensure military capabilities and readiness,
- advance and protect U.S. international interests, and
- respond to the impact of global market forces on U.S. economic and security interests.

These objectives, along with the performance goals and key efforts that support them, are discussed fully in our strategic plan, which is available on our Web site at <http://www.gao.gov>. The work supporting these objectives is performed primarily by headquarters and field staff in the following teams: Acquisition and Sourcing Management, Defense Capabilities and Management, and International Affairs and Trade. In addition, the work supporting some performance goals

### Selected Work under Goal 2

**Improving the military's plans for and response to disasters:** While the military mounted a massive response after Hurricane Katrina that saved many lives, we found that among other things, a lack of timely damage assessments, communications difficulties, uncoordinated search and rescue efforts, and unexpected logistics responsibilities adversely affected its response. DOD has begun to implement many of our recommendations to address such problems, including developing more proactive, detailed operational plans for how the military will respond to future catastrophes. (See app. 1, item 2.25.C.)

**Increasing accountability and transparency related to reconstruction in Iraq:** We recommended that the National Security Council take several steps to complete the U.S. strategy for rebuilding Iraq to improve its usefulness to the Congress and identify the current costs and future resources needed to implement the strategy, such as the costs of maintaining U.S. military operations and training and equipping Iraqi security forces. Our work also identified the need to clarify the roles and responsibilities of U.S. government agencies involved in the reconstruction and improve performance measures to help track the impact of U.S. efforts. (See app. 1, item 2.43.C.)

and key efforts is performed by headquarters and field staff from the Information Technology, Homeland Security and Justice, Financial Markets and Community Investment, and Natural Resources and Environment teams.

To accomplish our work in fiscal year 2006 under these strategic objectives, we conducted engagements and audits that involved fieldwork related to programs that took us across multiple continents, including Europe, Africa, Asia, South America, and North America. As in the past, we developed reports, testimonies, and briefings on our work.

As shown in table 12, we met our fiscal year 2006 performance targets for financial benefits, nonfinancial benefits, and testimonies for this goal.

**Table 12: Strategic Goal 2's Annual Performance Results and Targets**

Performance measure	2002 actual	2003 actual	2004 actual	2005 actual	2006 target	2006 actual	Met/not met	2007 target
Financial benefits (billions of dollars)	\$8.4	\$7.1	\$9.7	\$12.9	\$10.5 <sup>a</sup>	\$12.0	Met	\$9.8
Nonfinancial benefits	218	273	369	365	282 <sup>a</sup>	449	Met	290
Testimonies	38	48	70	42	58	68	Met	52

Source: GAO.

<sup>a</sup>Our fiscal year 2006 targets for financial benefits and nonfinancial benefits differ from the targets we reported for these measures in our fiscal year 2006 performance plan. On the basis of our performance in fiscal year 2005, we raised these targets from \$9.1 billion in financial benefits and 275 in nonfinancial benefits. We did not change the agencywide targets for these measures, but we made corresponding changes to targets for goals 1 and 3.

To help us examine trends for these measures over time, we look at their 4-year averages, which minimize the effect of an unusual level of performance in any single year and are shown in table 13. This table indicates that financial and nonfinancial benefits derived from our work have risen. At the same time, the number of testimonies for goal 2 has remained stable.

**Table 13: Four-Year Rolling Averages for Strategic Goal 2**

Performance measure	2002	2003	2004	2005	2006
Financial benefits (dollars in billions)	\$6.9	\$7.9	\$8.9	\$9.5	\$10.4
Nonfinancial benefits	154	202	262	306	364
Testimonies	41	44	48	50	57

Source: GAO.

The following sections describe our performance under goal 2 for each of our quantitative performance measures and describe the targets for fiscal year 2007.



## Financial Benefits

**Our work highlighting challenges in developing and implementing a passenger prescreening program influenced TSA to cancel its program, resulting in financial benefits of over \$300 million from fiscal year 2005 through fiscal year 2008. (See app. 1, item 2.3.F.)**

The financial benefits reported for this goal in fiscal year 2006 totaled \$12 billion, exceeding the target of \$10.5 billion. Among other things, these accomplishments stemmed from engagements related to unobligated balances in DOD operations and maintenance accounts as well as reductions in appropriations for the Millennium Challenge Corporation, the global war on terrorism, military personnel, and the V-22 aircraft program. We describe these and other accomplishments in the goal 2 section of appendix 1.

Given the large portion of the U.S. budget that defense spending consumes, we expect our work under this goal to continue to produce economies and efficiencies that yield billions of dollars in financial benefits for the American people each year. We set our fiscal year 2007 target at \$9.8 billion based on our assessment of the progress agencies are making in implementing our past recommendations that might yield financial benefits.

## Nonfinancial Benefits

The nonfinancial benefits reported for goal 2 in fiscal year 2006 included 419 actions taken by federal agencies to improve their services and operations in response to our work and another 30 in which information we provided to the Congress resulted in statutory or regulatory changes. This total of 449 nonfinancial benefits exceeded our target of 282. Our success in this area arose from our increased emphasis on follow-up efforts and increased monitoring of our progress toward the targets throughout the year. Some of our major accomplishments are reported in detail in the goal 2 section of appendix 1.

Looking ahead, our assessments of the executive branch's current efforts to implement our recommendations made under this goal led us to set our fiscal year 2007 target at 290. This target is lower than our fiscal year 2006 actual performance and 4-year average for this measure because we want to encourage staff to identify significant and meaningful nonfinancial benefits rather than numerous, narrowly focused ones that would easily ensure that we meet a higher target.

### Examples of Goal 2's Nonfinancial Benefits

**Improving outcomes of DOD's sea system acquisitions:**

We identified challenges facing the Navy's long-range shipbuilding plan—including demanding mission requirements that can result in more costly ships that cannot be built in the numbers desired to meet program missions and sustain shipyard workload. In response to our work, the Navy has taken steps to increase overall confidence in cost estimates and plans to conduct independent reviews of cost estimates for future aircraft carriers. (See app. 1, item 2.19.N.)

**Better managing foreign language requirements:** The Army and the Foreign Commercial Service have taken actions in response to our recommendation that they adopt a strategic, results-oriented human capital approach to manage their foreign language requirements. For example, after we found that the Army's strategies did not fully meet the need for some foreign language skills and were not part of a coordinated plan of action, the Secretary of the Army issued a detailed road map, which fully addressed our recommendations. The Foreign Commercial Service completed a worldwide review to more accurately identify existing language proficiency shortfalls and developed a detailed corrective plan of action, which has been aggressively implemented. (See app. 1, item 2.42.N.)

## Testimonies

Our witnesses testified at 68 congressional hearings related to this strategic goal, exceeding our target of presenting testimony at 58 hearings. Among other things, we testified on Hurricane Katrina preparedness, response, and recovery; alternative mortgage products; polar-orbiting operational environmental satellites; and the worldwide AIDS relief plan. (See p. 34 for a list of testimony topics by goal.) We have set our target for presenting testimony at hearings at 52 for fiscal year 2007.



Our third strategic goal focuses on the collaborative and integrated elements needed for the federal government to achieve results. The work under this goal highlights the intergovernmental relationships that are necessary to achieve national goals. Our multiyear (fiscal years 2004-2009) strategic objectives under this goal are to

- reexamine the federal government's role in achieving evolving national objectives;
- support the transformation to results-oriented, high-performing government;
- support congressional oversight of key management challenges and program risks to improve federal operations and ensure accountability; and
- analyze the government's fiscal position and strengthen approaches for addressing the current and projected fiscal gap.

These objectives, along with the performance goals and key efforts that support them, are discussed fully in our strategic plan, which is available on our Web site at <http://www.gao.gov>. The work supporting these objectives is performed primarily by headquarters and field staff from the Applied Research and Methods, Financial Management and Assurance, Information Technology, and Strategic Issues teams. In addition, the work supporting some performance goals and key efforts is performed by headquarters and field staff from the Acquisition and Sourcing Management and Natural

### Selected Work under Goal 3

**Improving grant effectiveness:** We recommended that OMB take further steps to obtain grantees' views and concerns to streamline and simplify grant management processes. We also identified strategies to improve the timing, targeting, and flexibility of increased federal Medicaid assistance to states during economic downturns and options for improving the targeting of Community Development Block Grant funds toward communities with the greatest need and least capacity to meet those needs. (See app. 1, item 3.2.C.)

**Improving the information used to decide how billions of federal IT dollars are spent:** In fiscal year 2006, agencies submitted capital asset plan and business case information for IT investments totaling over \$65 billion. We found that there was inadequate underlying support for information reported at selected agencies, raising questions regarding the sufficiency of the business cases for major IT investments. (See app. 1, item 3.20.C.)

**Identifying commercial tax preparation problems:** In a limited study that included an undercover investigation, we found that paid tax preparers employed by national tax preparation chains made mistakes in all 19 of our undercover visits. Some of the mistakes were substantial. (See app. 1, item 3.41.C.)

Resources and Environment teams. This goal also includes our bid protest and appropriations law work, which is performed by staff in General Counsel, and our fraud investigations, which are conducted by staff from the Financial Management and Assurance team.

To accomplish our work under these four objectives, we plan to conduct audits, evaluations, and analyses in response to congressional requests and to carry out work initiatives under the Comptroller General's authority. As in the past, we will develop reports, testimonies, and briefings on our work.

As shown in table 14, we exceeded our fiscal year 2006 performance targets for financial benefits, nonfinancial benefits, and testimonies for this goal.

**Table 14: Strategic Goal 3's Annual Performance Results and Targets**

Performance measure	2002 actual	2003 actual	2004 actual	2005 actual	2006 target	2006 actual	Met/not met	2007 target
Financial benefits (billions of dollars)	\$5.2	\$4.7	\$7.6	\$11.0	\$9.8 <sup>a</sup>	\$17.0	Met	\$10.0
Nonfinancial benefits	462	553	576	767	526 <sup>a</sup>	625	Met	554
Testimonies	65	56	60	47	63	73	Met	55

Source: GAO.

<sup>a</sup>Our fiscal year 2006 targets for financial benefits and nonfinancial benefits differ from the targets we reported for these measures in our fiscal year 2006 performance plan. On the basis of our performance in fiscal year 2005, we lowered the financial benefit target from \$10.4 billion. We also raised the target for nonfinancial benefits from 520. We did not change the agencywide targets for these measures, but we made corresponding changes to targets for goals 1 and 2.

To help us examine trends for these measures over time, we look at their 4-year averages, which minimize the effect of an unusual level of performance in any single year and are shown in table 15. This table indicates that documentation of financial and nonfinancial benefits derived from our work under this goal have risen, while the number of testimonies for goal 3 has declined overall.

**Table 15: Four-Year Rolling Averages for Strategic Goal 3**

Performance measure	2002	2003	2004	2005	2006
Financial benefits (dollars in billions)	\$5.5	\$5.5	\$6.1	\$7.1	\$10.1
Nonfinancial benefits	445	480	498	590	630
Testimonies	78	67	56	57	59

Source: GAO.

The following sections describe our performance under goal 3 for each of our quantitative performance measures and describe the targets for fiscal year 2007.

## Financial Benefits

**Our work on vehicles donated to charities led to legislation that revises the tax rules by limiting the value that taxpayers can claim for donated vehicles, which will result in increased tax revenues of over \$1 billion over a 5-year period collections. (See app. 1, item 3.40.F.)**

The financial benefits reported for this goal in fiscal 2006 totaled \$17 billion, exceeding our target of \$9.8 billion. These efforts included work that led to the National Aeronautics and Space Administration reducing planned funding for its Prometheus 1 project, IRS increasing tax collections, the Tennessee Valley Authority taking steps to increase revenues, and the Department of Justice increasing debt collections. We describe these and other accomplishments in the goal 3 section of appendix 1.

Under goal 3, we typically work on core government business processes and governmentwide management reforms. Our assessments of the executive branch's current efforts to implement the recommendations we made in our work under this goal indicate that financial benefits related to this goal are likely to be in line with our 4-year average; consequently, we set the target for financial benefits at \$10 billion for fiscal year 2007.

## Nonfinancial Benefits

Nonfinancial benefits reported for goal 3 in fiscal year 2006 included 614 instances in which agencies' core business processes were improved or governmentwide management reforms were advanced because of our work. In addition, there were 11 instances in which information we provided to the Congress resulted in statutory or regulatory changes. This total of 625 nonfinancial benefits exceeded our target of 526. The larger number of nonfinancial benefits occurred mainly in our financial management and IT areas where we tend to make multiple, specific recommendations for change to more than one entity. We describe some of our major accomplishments in the goal 3 section of appendix 1.

Looking ahead, our assessments of the executive branch's current efforts to implement our recommendations made under this goal led us to set a fiscal year 2007 target

of 554 nonfinancial benefits for goal 3. We recognize that this target is lower than our fiscal year 2006 actual performance, but we set it at this level because we want to encourage staff to identify significant and meaningful nonfinancial benefits rather than numerous, narrowly focused ones that would easily ensure that we meet a higher target.

### Examples of Goal 3's Nonfinancial Benefits

**Connecting contract award fee payments to program outcomes:** We reported that while DOD contractors can earn award and incentive fees for strong contract performance, DOD generally did not link award fees to desired outcomes and paid an estimated \$8 billion in award fees over a 5-year period regardless of outcomes. The Congress subsequently passed legislation that should improve the administration of award and incentive fees. (See app. 1, item 3.3.N.)

**Reducing financial hardships on battle-injured soldiers:** We reported that financial hardships of battle-injured soldiers who served in Iraq and Afghanistan resulted from problems with pay and travel reimbursement systems and processes and left battle-injured soldiers and their families without sufficient funds to meet everyday expenses. In response, legislation was enacted to alleviate these hardships and the Department of the Army canceled debts totaling over \$2.3 million for 2,835 soldiers. (See app. 1, item 3.28.N.)

## Testimonies

Our witnesses testified at 73 congressional hearings related to this strategic goal, exceeding the target of 63. Among the testimonies presented were those on astronaut exploration vehicle risks, improving tax compliance to reduce the tax gap, improper federal payments for Hurricane Katrina relief, and compensation for federal executives and judges. (See p. 34 for a list of testimony topics by goal.) For fiscal year 2007, we have set a target of presenting testimony at 55 hearings because we expect the level of hearings to be lower than it was in fiscal year 2006.



Maximize the value of GAO by being a model federal agency and a world-class professional services organization

## Goal 4 Overview

Source: See Image Sources.

The focus of our fourth strategic goal is to make GAO a model organization. For us, this means that our work is driven by our external clients and internal customers, our managers exhibit the characteristics of leadership and management excellence, our employees are devoted to ensuring quality in our work process and products through continuous improvement, and our agency is regarded by current and potential employees as an excellent place to work. Our strategic objectives under this goal are to

- continuously improve client and customer satisfaction and stakeholder relationships,
- lead strategically to achieve enhanced results,
- leverage GAO's institutional knowledge and experience,
- continuously enhance GAO's business and management processes, and
- become a professional services employer of choice.

These objectives, along with the performance goals and key efforts that support them, are discussed fully in our strategic plan, which is available on our Web site at <http://www.gao.gov>. The work supporting these objectives, which consists of internal studies and projects, is performed under the direction of the Chief Administrative Officer with assistance on specific key efforts being provided by staff from the Applied Research and Methods team and from offices such as Strategic Planning and External Liaison, Congressional Relations, Opportunity and Inclusiveness, Quality and Continuous Improvement, and Public Affairs.

### Selected Work under Goal 4

**Integrating planning, budgeting, and performance measurement:** We integrated our budget and workforce planning management functions to ensure alignment of our people, assets, and costs with other organizational needs. To help achieve our performance targets, we established monthly hiring targets, which enabled us to achieve a 99 percent utilization rate of our authorized personnel strength this year. (See app. 1, item 4.5.C.)

**Strengthening our human capital management:** We strengthened our competency-based performance system by implementing a market-based compensation system that makes pay ranges competitive with the labor markets in which GAO competes for talent, restructuring our Band II analyst staff into two pay levels to better align individual staff with our institutional compensation policies, and establishing a uniform appraisal and pay process and timeline for all staff. (See app. 1, item 4.6.C.)

**Improving our records management process:** We implemented the Electronic Records Management System to improve our records management process and provide an institutionalized and transparent means for staff to comply with records management. (See app. 1, item 4.10.C.)

**Improving engagement support services:** We developed and launched the Web-based Hurricane Central portal to provide rapid, comprehensive access to past GAO work; act as an easily accessible collection and coordination point for data being gathered; and serve as the prototype for other portals. (See app. 1, item 4.11.C.)

**Improving our emergency preparedness profile:** We established the Office of Emergency Preparedness to provide a unified, proactive focus on emergency preparedness planning in our headquarters and field offices and to coordinate with other legislative branch agencies and local law enforcement entities. (See app. 1, item 4.18.C.)

# Data Quality and Program Evaluation

## Verifying and Validating Performance Data

Each year, we measure our performance by evaluating our annual performance on measures that cover the outcomes and outputs related to our work results, client service, and management of our people and internal operations. To assess our performance in fiscal year 2006, we used performance data that were complete and

actual (rather than projected) for all of our performance measures. We believe the data to be reliable because we followed the verification and validation procedures described here to ensure the data's quality.

The specific sources of the data for our annual performance measures, procedures for independently verifying and validating these data, and the limitations of these data are described in [table 16](#).

**Table 16: How We Ensure Data Quality for Our Annual Performance Measures**

<b>Results measures</b>	
<b>Financial benefits</b>	
<b>Definition and background</b>	<p>Our work—including our findings and recommendations—may produce benefits to the federal government that can be estimated in dollar terms. These benefits can result in better services to the public, changes to statutes or regulations, or improved government business operations. A financial benefit is an estimate of the federal monetary effect of agency or congressional actions. These financial benefits generally result from work that we completed over the past several years. The funds made available as a result of the actions taken in response to our work may be used to reduce government expenditures, increase revenues, or reallocate funds to other areas. Financial benefits included in our performance measures are net benefits—that is, estimates of financial benefits that have been reduced by the identifiable 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.</p> <p>Financial benefits are linked to specific recommendations or other work. To claim that financial benefits have been achieved, our staff must file an accomplishment report documenting that (1) the actions taken as a result of our work have been completed or substantially completed, (2) the actions generally were taken within 2 fiscal years prior to the filing of the accomplishment report, (3) a cause-and-effect relationship exists between the benefits reported and our recommendation or work performed, and (4) generally estimates of financial benefits were based on information obtained from non-GAO sources. Prior to fiscal year 2002, we limited the period over which the benefits from an accomplishment could be accrued to no more than 2 years. Beginning in fiscal year 2002, we extended the period to 5 years for certain types of accomplishments known to have multiyear effects, such as those associated with multiyear reductions in longer term projects, changes embodied in law, program terminations, or sales of government assets yielding multiyear financial benefits. Financial benefits can be claimed for past or future years. In addition, for financial benefits involving events that occur on a regular but infrequent basis—such as the decennial census—we may extend the measurement period until the event occurs in order to compute the associated financial benefits using GAO’s present value calculator.</p> <p>Managing directors decide when their staff can claim financial benefits. A managing director may choose to claim a financial benefit all in 1 year or decide to claim it over several years, especially if the benefit spans future years and the managing director wants greater precision as to the amount of the benefit.</p>

Data sources	<p>Our Accomplishment Reporting System provides the data for this measure. Teams use this Web-based data system to prepare, review, and approve accomplishments and forward them to QCI for its review. Once accomplishment reports are approved, they are compiled by QCI, which annually tabulates total financial benefits agencywide and by goal.</p>
Verification and validation	<p>Our policies and procedures require us to use the Accomplishment Reporting System to record the financial benefits that result from our work. They also provide guidance on estimating those financial benefits. The team identifies when a financial benefit has occurred as a result of our work. Generally, the team develops estimates based on non-GAO sources, such as the agency that acted on our work, a congressional committee, or the Congressional Budget Office, and files accomplishment reports based on those estimates. The estimates are reduced by significant identifiable offsetting costs. The team develops workpapers to support accomplishments with evidence that meets our evidence standard, supervisors review the workpapers, and an independent person within GAO reviews the accomplishment report. The team's managing director or director is authorized to approve financial accomplishment reports with benefits of less than \$100 million.</p> <p>The team forwards the report to QCI, which reviews all accomplishment reports and approves accomplishment reports claiming benefits of \$100 million or more. QCI provides summary data on approved financial benefits to unit managers, who check the data on a regular basis to make sure that approved accomplishments submitted by their staff have been accurately recorded. Our Engagement Reporting System also contains accomplishment data for the fiscal year. In fiscal year 2006, QCI approved accomplishment reports covering 96 percent of the dollar value of financial benefits we reported.</p> <p>Every year, our IG reviews accomplishment reports that claim benefits of \$500 million or more. In addition, on a periodic basis, the IG independently tests compliance with our process for claiming financial benefits of less than \$500 million. For example, the IG reviewed fiscal year 2006 financial benefits of \$100 million or more. The IG suggested clarification to certain policies for claiming financial benefits and improvements to documenting accomplishment reports. We clarified our guidance and will update our policy manual in fiscal year 2007.</p>
Data limitations	<p>Not every financial benefit from our work can be readily estimated or documented as attributable to our work. As a result, the amount of financial benefits is a conservative estimate. Estimates are based on information from non-GAO sources and are based on both objective and subjective data, and as a result, professional judgment is required in reviewing accomplishment reports. We feel that the verification and validation steps that we take minimize any adverse impact from this limitation.</p>



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## Nonfinancial benefits

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**Definition and background** Our work—including our findings and recommendations—may produce benefits to the federal government that cannot be estimated in dollar terms. These nonfinancial benefits can result in better services to the public, changes to statutes or regulations, or improved government business operations. Other (nonfinancial) benefits generally result from work that we completed over the past several years.

Nonfinancial benefits are linked to specific recommendations or other work that we completed over several years. To claim that nonfinancial benefits have been achieved, staff must file an accomplishment report that documents that (1) the actions taken as a result of our work have been completed or substantially completed, (2) the actions generally were taken within the past 2 fiscal years of filing the accomplishment report, and (3) a cause-and-effect relationship exists between the benefits reported and our recommendation or work performed.

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**Data sources** Our Accomplishment Reporting System provides the data for this measure. Teams use this automated system to prepare, review, and approve accomplishments and forward them to QCI for its review. Once accomplishment reports are approved, they are compiled by QCI, which annually tabulates total other (nonfinancial) benefits agencywide and by goal.

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**Verification and validation** Our policies and procedures require us to use the Accomplishment Reporting System to record the nonfinancial benefits that result from our findings and recommendations. Staff in the teams file accomplishment reports to claim that benefits have resulted from their work. The team develops workpapers to support accomplishments with evidence that meets our evidence standard. Supervisors review the workpapers; an independent person within GAO reviews the accomplishment report; and the team's managing director or director approves the accomplishment report to ensure the appropriateness of the claimed accomplishment, including attribution to our work.

The team forwards the report to QCI, where it is reviewed for appropriateness. QCI provides summary data on nonfinancial benefits to unit managers, who check the data on a regular basis to make sure that approved accomplishments from their staff have been accurately recorded. Additionally, on a periodic basis, the IG independently tests compliance with our process for claiming nonfinancial benefits. For example, the IG tested this process in fiscal year 2005 and found it to be reasonable. The IG also suggested actions to strengthen documentation of our nonfinancial benefits and to encourage the timely processing of the supporting accomplishment reports.

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**Data limitations** The data may be underreported because we cannot always document a direct cause-and-effect relationship between our work and benefits it produced. However, we feel that this is not a significant limitation on the data because the data represent a conservative measure of our overall contribution toward improving government.

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## Percentage of products with recommendations

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**Definition and background** We measure the percentage of our written products (chapter and letter reports and numbered correspondence) issued in the fiscal year that included at least one recommendation. We make recommendations that specify actions that can be taken to improve federal operations or programs. We strive for recommendations that are directed at resolving the cause of identified problems; that are addressed to parties who have the authority to act; and that are specific, feasible, and cost-effective. Some products we issue contain no recommendations and are strictly informational in nature.

We track the percentage of our written products that are issued during the fiscal year and contain recommendations. This indicator recognizes 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. For example, informational reports, which do not contain recommendations, can help to bring about significant financial and nonfinancial benefits.

**Data sources** Our Documents Database records recommendations as they are issued. The database is updated daily. As our staff monitor implementation of recommendations, they submit updated information to the database.

**Verification and validation** Through a formal process, each team identifies the number of recommendations included in each product and an external contractor enters them into a database. We provide our managers with reports on the recommendations being tracked to help ensure that all recommendations have been captured and that each recommendation has been completely and accurately stated. Additionally, on a periodic basis, the IG independently tests the teams' compliance with our policies and procedures related to this performance measure. For example, during fiscal year 2006, the IG tested and determined that our process for determining the percentage of written products with recommendations was reasonable. The IG also suggested actions to improve the process for developing, compiling, and reporting these statistics.

**Data limitations** This measure is a conservative estimate of the extent to which we assist the Congress and federal agencies because not all products and services we provide lead to recommendations. For example, the Congress may request information on federal programs that is purely descriptive or analytical and does not lend itself to recommendations.

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**Past recommendations implemented**

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**Definition and background**

We make recommendations designed to improve the operations of the federal government. For our work to produce financial or nonfinancial benefits, the Congress or other federal agencies must implement these recommendations. As part of our audit responsibilities under generally accepted government auditing standards, we follow up on recommendations we have made and report to the Congress on their status. Experience has shown that it takes time for some recommendations to be implemented. For this reason, this measure is the percentage rate of implementation of recommendations made 4 years prior to a given fiscal year (e.g., the fiscal year 2006 implementation rate is the percentage of recommendations made in fiscal year 2002 products that were implemented by the end of fiscal year 2006). Experience has shown that if a recommendation has not been implemented within 4 years, it is not likely to be implemented.

This measure assesses action on recommendations made 4 years previously, rather than the results of our activities during the fiscal year in which the data are reported. For example, the cumulative percentage of recommendations made in fiscal year 2002 that were implemented in the ensuing years is as follows: 14 percent by the end of the first year (fiscal year 2003), 31 percent by the end of the second year (fiscal year 2004), 46 percent by the end of the third year (fiscal year 2005), and 82 percent by the end of the fourth year (fiscal year 2006).

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**Data sources**

Our Documents Database records recommendations as they are issued. The database is updated daily. As our staff monitor implementation of recommendations, they submit updated information to the database.

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**Verification and validation** Through a formal process, each team identifies the number of recommendations included in each product, and an external contractor enters them into a database.

Policies and procedures specify that our staff must verify, with sufficient supporting documentation, that an agency's reported actions are adequately being implemented. Staff update the status of the recommendations on a periodic basis. To accomplish this, our staff may interview agency officials, obtain agency documents, access agency databases, or obtain information from an agency's IG. Recommendations that are reported as implemented are reviewed by a senior executive in the unit and by QCI.

Summary data are provided to the units that issued the recommendations. The units check the data regularly to make sure the recommendations they have reported as implemented have been accurately recorded. We also provide the Congress access to a database with the status of recommendations that have not been implemented, and we maintain a publicly available database of open recommendations that is updated daily.

Additionally, on a periodic basis, the IG independently tests our process for calculating the percentage of recommendations implemented for a given fiscal year. For example, the IG determined that our process was reasonable for calculating the percentage of recommendations that had been made in our fiscal year 2002 products and implemented by the end of fiscal year 2006. The IG also suggested actions to improve the process for developing, compiling, and reporting this statistic.

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**Data limitations** The data may be underreported because sometimes a recommendation may require more than 4 years to implement. We also may not count cases in which a recommendation is partially implemented. However, we feel that this is not a significant limitation to the data because the data represent a conservative measure of our overall contribution toward improving government.

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## Client measures

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### Testimonies

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#### Definition and background

The Congress may ask us to testify at hearings on various issues. Participation in hearings is one of our most important forms of communication with the Congress, and the number of hearings at which we testify reflects the importance and value of our institutional knowledge in assisting congressional decision making. When multiple GAO witnesses with separate testimonies appear at a single hearing, we count this as a single testimony.

This measure does not include statements for the record that we prepare for congressional hearings. This measure may be influenced by factors other than the quality of our performance in any specific year. The number of hearings held each year depends on the Congress's agenda, and the number of times we are asked to testify may reflect congressional interest in work in progress as well as work completed that year or the previous year. We try to adjust our target to reflect cyclical changes in the congressional schedule. We also outreach to our clients on a continuing basis to increase their awareness of our readiness to participate in hearings.

#### Data sources

The data on hearings at which we testify are compiled in our congressional hearing system managed by staff in our Congressional Relations office.

#### Verification and validation

The units responding to requests for testimony are responsible for entering data in the congressional hearing system. After a GAO witness has testified at a hearing, our Congressional Relations office verifies that the data in the system are correct and records the hearing as one at which we testified. Congressional Relations provides weekly status reports to unit managers, who check to make sure the data are complete and accurate. Additionally, on a periodic basis, the IG independently examines the process for recording the number of hearings at which we testified. For example, the IG determined that our process for recording hearings during fiscal year 2006 was reasonable.

#### Data limitations

None.

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## Timeliness

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### Definition and background

The likelihood that our products will be used is enhanced if they are delivered when needed to support congressional and agency decision making. To determine whether our products are timely, we compute the proportion of favorable responses to questions related to timeliness from our electronic client feedback survey. Because our products often have multiple requesters, we often survey more than one congressional staff person per product. Thus, we base our timeliness result on the surveys sent out for key products issued during the fiscal year. We send a survey to key staff working for the requesters of our testimony statements and a survey to requesters of our more significant written products—specifically, engagements assigned an interest level of “high” by our senior management and those requiring an investment of 500 GAO staff days or more. One question on each survey asks the respondent whether the product was delivered on time. When a product that meets our survey criteria is released to the public, we electronically send relevant congressional staff an e-mail message containing a link to a survey. When this link is accessed, the survey recipient is asked to respond to the questions using a five-point scale—strongly agree, generally agree, neither agree nor disagree, generally disagree, strongly disagree—or choose “not applicable/no answer.” For this measure, favorable responses are “strongly agree” and “generally agree.”

### Data sources

To identify the products that meet our survey criteria (all testimonies and other products that are high interest or involve 500 staff days or more), we run a query against GAO’s Documents Database maintained by a contractor. To identify appropriate recipients of the survey for products meeting our criteria, we ask the engagement teams to provide in GAO’s Product Numbering Database e-mail addresses for congressional staff serving as contacts on a product. Relevant information from both of these databases is fed into our Product by Product Survey Approval Database that is managed by QCI. This database then combines product, survey recipient, and data from our Congressional Relations staff and creates an e-mail message with a Web link to a survey. (Congressional Relations staff serve as the GAO contacts for survey recipients.) The e-mail message also contains an embedded client password and unique client identifier to ensure that a recipient is linked with the appropriate survey. Our Congressional Feedback Database creates a survey record with the product title and number and captures the responses to every survey sent back to us electronically.

### Verification and validation

QCI staff review a hard copy of a released GAO product or access its electronic version to check the accuracy of the addressee information in the Product by Product Survey Approval Database. QCI staff also check the congressional staff directory to ensure that survey recipients listed in the Product by Product Survey Approval Database appear there. In addition, our Congressional Relations staff review the list of survey recipients entered by the engagement teams and identify the most appropriate congressional staff person to receive a survey for each requester. Survey e-mail messages that are inadvertently sent with incorrect e-mail addresses automatically reappear in the survey approval system. When this happens, QCI staff correct any obvious typing errors and resend the e-mail message or contact the congressional staff person directly for the correct e-mail address and then resend the message.

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**Data limitations** We do not measure the timeliness of all of our external products because we do not wish to place too much burden on busy congressional staff. Testimonies and written products that meet our criteria for this measure represent more than 50 percent of the congressionally requested products we issued during fiscal year 2006. We exclude from our timeliness measure low and medium interest reports requiring fewer than 500 staff days to complete, reports addressed to agency heads or commissions, some reports mandated by the Congress, classified reports, and reports completed under the Comptroller General's authority. Also, if a requester indicates that he or she does not want to complete any surveys, we will not send a survey to this person again, even though a product subsequently requested meets our criteria. The response rate for our client feedback survey is about 28 percent. We received comments from one or more people for 53 percent of the products for which we sent surveys.

### People measures

#### New hire rate

**Definition and background** This performance measure 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 projected workload changes, as well as other changes, such as retirements, other 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 skill type and the 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.

**Data sources** The Executive Committee approves the workforce plan. The workforce plan is coordinated and maintained by the Chief Administrative Office. Data on accessions—that is, new hires coming on board—is taken from a database that contains employee data from the Department of Agriculture's National Finance Center (NFC) database, which handles payroll and personnel data for GAO and other agencies.

**Verification and validation** The Chief Administrative Office maintains a database that monitors and tracks all our hiring offers, declinations, and accessions. In coordination with our Human Capital Office, our Chief Administrative Office staff input workforce information supporting this measure into the Chief Administrative Office database. While the database is updated on a daily basis, monthly reports are provided to the Chief Operating Officer and the Chief Administrative Officer so they can monitor progress by GAO units in achieving workforce plan hiring targets. The Chief Administrative Office continuously monitors and reviews accessions maintained in the NFC data against its database to ensure consistency and to resolve discrepancies. The office follows up on any discrepancies. In addition, on a periodic basis, the IG examines our process for calculating the new hire rate. During fiscal year 2004, the IG independently reviewed this process and found it to be reasonable. The IG also suggested actions to improve the documentation of the process used to calculate this measure. We have implemented the IG's suggestions.

Data limitations	There is a lag of one to two pay periods (up to 4 weeks) before the NFC database reflects actual data. We generally allow sufficient time before requesting data for this measure to ensure that we get accurate results.
<b>Acceptance rate</b>	
Definition and background	This measure is the ratio of the number of applicants accepting offers to the number of offers made. Acceptance rate is a proxy for GAO's attractiveness as an employer and an indicator of our competitiveness in bringing in new talent.
Data sources	The information required is the number of job offers made (excluding interns, experts/consultants, and reemployed annuitants), the number of offers declined, and the number of individuals who come on board. Our Chief Administrative Office staff maintains a database that contains the job offers made and accepted or declined. Data on accessions—that is, new hires coming on board—are taken from a database that contains employee data from the Department of Agriculture's NFC database, which handles payroll and personnel data for GAO and other agencies.
Verification and validation	Human capital managers in the Human Capital Office work with the Chief Administrative Office staff to ensure that each job offer made and its outcome (declination or acceptance) is noted in the database that is maintained by Chief Administrative Office staff; periodic checking is performed to review the accuracy of the database. In addition, on a periodic basis, the IG examines our process for calculating the acceptance rate. During fiscal year 2004, the IG independently reviewed this process and found it to be reasonable. The IG also suggested actions to improve the documentation of the process used to calculate this measure and the reporting of this measure. We have implemented the IG's suggestions.
Data limitations	See New hire rate, Data limitations.
<b>Retention rate</b>	
Definition and background	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 to retain them. This measure is one indicator that we are attaining that objective and is the inverse of attrition. We calculate this measure by taking 100 percent of the onboard strength minus the attrition rate, where attrition rate is defined as the number of separations divided by the average onboard strength. We calculate this measure with and without retirements.
Data sources	Data on retention—that is, people who are on board at the beginning of the fiscal year and are still here at the end of the fiscal year as well as the average number of people on board during the year—are taken from a Chief Administrative Office database that contains some data from the NFC database, which handles payroll and personnel data for GAO and other agencies.



Verification and validation	Chief Administrative Office staff continuously monitor and review accessions and attritions against the contents of their database that has NFC data and they follow up on any discrepancies. In addition, on a periodic basis, the IG examines our process for calculating the retention rate. During fiscal year 2004, the IG reviewed this process and found it to be reasonable. The IG also suggested actions to improve the documentation of the process used to calculate this measure. We have implemented the IG's suggestions.
Data limitations	See New hire rate, Data limitations.
<b>Staff development</b>	
Definition and background	<p>One way that we measure how well we are doing and identify areas for 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 GAO's overall operations, work environment, and organizational culture and how they rate our managers—from the immediate supervisor to the Executive Committee—on key aspects of their leadership styles. The survey consists of over 100 questions.</p> <p>This measure is based on staff's favorable responses to three of the six questions related to staff development on our annual employee survey. This subset of questions was selected on the basis of senior management's judgment about the questions' relevance to the measure and specialists' knowledge about the development of indexes. Staff were asked to respond to three questions on a five-point scale or choose "no basis to judge/not applicable" or "no answer."</p>
Data sources	<p>These data come from our staff's responses to an annual Web-based survey. Two of the survey questions we used for this measure ask staff how much positive or negative impact (1) external training and conferences and (2) on-the-job training had on their ability to do their jobs during the last 12 months. From the staff who expressed an opinion, we calculated the percentage of staff selecting the two categories that indicate satisfaction with or a favorable response to the question. For this measure, the favorable responses were either "very positive impact" or "generally positive impact." In addition, one survey question asks staff how useful and relevant internal (Learning Center) training courses are to their work. From staff who expressed an opinion, we calculated the percentage of staff selecting the three categories that indicate satisfaction with or a favorable response to the question. For this measure, the favorable responses were "very greatly useful and relevant," "greatly useful and relevant," and "moderately useful and relevant."</p>

**Verification and validation**

The employee feedback survey gathers staff opinions on a variety of topics. The survey is password protected, and only the outside contractor has access to passwords. In addition, when the survey instrument was developed, extensive focus groups and pretests were undertaken to refine the questions and provide definitions as needed. We have historically achieved a high response rate (over 80 percent) to the survey, which indicates that its results are largely representative of the GAO population. In addition, many teams and work units conduct follow-on work to gain a better understanding of the information from the survey.

In addition, on a periodic basis, the IG independently examines our process for calculating the percentage of favorable responses for staff development. The IG examined this process during fiscal year 2004 and found it to be reasonable. The IG also suggested actions to improve the documentation of the process used to calculate this measure. We have implemented the IG's suggestions.

**Data limitations**

The information contained in the survey is the self-reported opinions of staff expressed under conditions of confidentiality. Accordingly, there is no way to further validate those expressions of opinion.

The practical difficulties of conducting any survey may introduce errors, commonly referred to as nonsampling errors. These errors could result from, for example, respondents misinterpreting a question or data entry staff incorrectly entering data into a database used to analyze the survey responses. Such errors can introduce unwanted variability into the survey results. We took steps in the development of the survey to minimize nonsampling errors. Specifically, when we developed the survey instrument we held extensive focus groups and pretests to refine the questions and define terms used to decrease the chances that respondents would misunderstand the questions. We also limited the chances of introducing nonsampling errors by creating a Web-based survey for which respondents entered their answers directly into an electronic questionnaire. This approach eliminated the need to have the data keyed into a database by someone other than the respondent, thus removing an additional source of error.

**Staff utilization****Definition and background**

This measure is based on staff's favorable responses to three of the six questions related to staff utilization on our annual employee survey. This subset of questions was selected on the basis of senior management's judgment about the questions' relevance to the measure and specialists' knowledge about the development of indexes. Staff were asked to respond to these three questions on a five-point scale or choose "no basis to judge/not applicable" or "no answer." (For background information about our entire employee feedback survey, see Staff development.)

Data sources	These data come from our staff's responses to an annual Web-based survey. The survey questions we used for this measure ask staff how often the following occurred in the last 12 months: (1) my job made good use of my skills; (2) GAO provided me with opportunities to do challenging work; and (3) in general, I was utilized effectively. From the staff who expressed an opinion, we calculated the percentage of staff selecting the two categories that indicate satisfaction with or a favorable response to the question. For this measure, the favorable responses were either "very positive impact" or "generally positive impact."
Verification and validation	See Staff development, Verification and validation.
Data limitations	See Staff development, Data limitations.
<b>Leadership</b>	
Definition and background	This measure is based on staff's favorable responses to 10 of 20 questions related to six areas of leadership on our annual employee survey. This subset of questions was selected on the basis of senior management's judgment about the questions' relevance to the measure and specialists' knowledge about the development of indexes. Specifically, our calculation included responses to 1 of 4 questions related to empowerment, 2 of 4 questions related to trust, all 3 questions related to recognition, 1 of 3 questions related to decisiveness, 2 of 3 questions related to leading by example, and 1 of 3 questions related to work life. Staff were asked to respond to these 10 questions on a five-point scale or choose "no basis to judge/not applicable" or "no answer." (For background information about our entire employee feedback survey, see Staff development, Definition and background.)
Data sources	These data come from our staff's responses to an annual Web-based survey. The survey questions we used for this measure ask staff about empowerment, trust, recognition, decisiveness, leading by example, and work life as they pertain to the respondent's immediate supervisor. For example, we looked at the responses related to specific qualities of our managers, such as "My immediate supervisor gave me the opportunity to do what I do best" and "My immediate supervisor provided meaningful incentives for high performance." From the staff who expressed an opinion, we calculated the percentage of staff selecting the two categories that indicate satisfaction with or a favorable response to the question. For this measure, the favorable responses were either "always or almost always" or "most of the time."
Verification and validation	See Staff development, Verification and validation.
Data limitations	See Staff development, Data limitations.

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## Organizational climate

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Definition and background	This measure is based on staff's favorable responses to 5 of the 13 questions related to organizational climate on our annual employee survey. This subset of questions was selected on the basis of senior management's judgment about the questions' relevance to the measure and specialists' knowledge about the development of indexes. Staff were asked to respond to these 5 questions on a five-point scale or choose "no basis to judge" or "no answer." (For background information about our entire employee feedback survey, see Staff development.)
Data sources	These data come from our staff's responses to an annual Web-based survey. The survey questions we used for this measure ask staff to think back over the last 12 months and indicate how strongly they agree or disagree with each of the following statements: (1) a spirit of cooperation and teamwork exists in my work unit; (2) I am treated fairly and with respect in my work unit; (3) my morale is good; (4) sufficient effort is made in my work unit to get the opinions and thinking of people who work here; and (5) overall, I am satisfied with my job at GAO. From the staff who expressed an opinion, we calculated the percentage of staff selecting the two categories that indicate satisfaction with or a favorable response to the question. For this measure, the favorable responses were either "strongly agree" or "generally agree."
Verification and validation	See Staff development, Verification and validation.
Data limitations	See Staff development, Data limitations.

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## Internal operations measures

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### Help get job done and Quality of work life

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Definition and background	From an annual employee survey, we calculate a composite score from questions related to how well internal processes help employees get their jobs done and how these processes affect employees' quality of work life. To measure satisfaction with 31 internal administrative services and solicit ideas on ways to improve them, we administer an annual survey that asks employees to rate, on a scale of 1 (low) to 5 (high), those services that are important to them and that they have experience with or used recently. Then, for each selected service, employees are asked to indicate their level of satisfaction (from 1 to 5), and provide a written reason for their rating and recommendations for improvement if desired. This Web-based survey covers 21 work-related services and 10 quality of work life areas and is conducted by an outside contractor.
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Data sources	To determine how satisfied GAO employees are with internal operations, we calculate composite scores for two measures. One measure reflects the satisfaction with the 21 services that help employees get their job done. These services include Internet and intranet services, IT customer support, mail services, and voice communication services. The second measure reflects satisfaction with another 10 services that affect quality of work life. These services include assistance related to pay and benefits, building maintenance and security, and workplace safety and health. The composite score represents how employees rated their satisfaction with services in each of these areas relative to how they rated the importance of those services to them. The importance scores and satisfaction levels are both rated on a scale of 1 (low) to 5 (high).
Verification and validation	The survey is housed on a Web site maintained by an outside contractor, and only the contractor has access to the password-protected results. We analyze the results by demographic representation (unit, tenure, location, band level, and job type) to ensure that the results are largely representative of the GAO population. In addition, each GAO unit responsible for administrative services conducts follow-on work, including analyzing the written comments to gain a better understanding of the information from the survey.
Data limitations	The information contained in the survey is self-contained. Therefore, there is no information with which to validate the views expressed by staff. We do not plan any actions to remedy this limitation because we feel it would violate the pledge of confidentiality that we make to our staff regarding the survey responses.

Source: GAO.

## Program Evaluation

To assess our progress toward our first three strategic goals and their objectives and to update them for our strategic plan, we evaluate actions taken by federal agencies and the Congress in response to our recommendations. The results of these evaluations are conveyed in this performance and accountability report as financial benefits and nonfinancial benefits that reflect the value of our work.

In addition, we actively monitor the status of our open recommendations—those that remain valid but have not yet been implemented—and report our findings annually to the Congress and the public (<http://www.gao.gov/openrecs.html>). We use the results of that analysis to determine the need for further work in particular areas. For example, if an agency has not implemented a recommended action that we consider to be worthwhile, we may decide to pursue further action with agency officials or congressional committees, or we may decide to undertake additional work on the matter.

We also use our biennial high-risk series to provide a status report on those major government operations considered high risk because of their vulnerabilities to waste, fraud, abuse, and mismanagement or the need for broad-based transformation. The series is a valuable evaluation and planning tool because it helps us to identify those areas where our continued efforts are needed to maintain the focus on important policy and management issues that the nation faces. (See [www.gao.gov/docsearch/featured/highrisk.html](http://www.gao.gov/docsearch/featured/highrisk.html).)

To continuously improve the quality of our work supporting strategic goals 1, 2, and 3, we formed several task teams to address suggestions resulting from an external peer review of our performance auditing processes and practices. For example, one task team examined whether we could achieve process efficiencies for nonaudit services and documented the wide variation in the types of activities GAO conducts and the size of the potential universe of work that could be properly classified as nonaudits. Because nonaudits do not meet the generally accepted government auditing

standards (GAGAS) definition of an audit, they do not require the same level of documentation as audits. The team developed proposed GAGAS revisions intended to improve the identification and categorization of nonaudit services.

In fiscal year 2006 we reviewed several of our performance measures to ascertain whether the measures were effectively achieving desired results. As a result of this review, we modified our measure of timeliness (see p. 80) and eliminated as a measure the extent to which we have achieved our multiyear qualitative performance goals. In past years we used two elements in our strategic planning hierarchy—performance goals and key efforts—as qualitative indicators of our performance and have referred to them as multiyear performance goals. We revised these performance goals and key efforts when we updated our strategic plan, and we asked senior managers to determine whether the performance goals established in our strategic plan had been met over a multiyear period. However, we never set targets for these performance goals; rather, we used our qualitative assessment of them to help us gauge whether and to what extent the work we did annually for the Congress linked to the broader efforts outlined in our 6-year strategic plan. Therefore, we decided that beginning in fiscal year 2006 (1) this progress assessment should serve as tracking or management information and should not be characterized as a performance measure and (2) we will no longer report publicly on the status of these performance goals unless our work deviates significantly from our strategic plan. In our next strategic plan update, which will cover fiscal years 2007 through 2012, we will establish revised performance goals and key efforts that cover fiscal years 2007 through 2009 and will use them to track internally whether our work was consistent with our strategic plan. We will continue to describe in our performance and accountability reports the work we did that supported each of our strategic goals and helped us to achieve our annual quantitative performance measures during the fiscal year.

In addition, an organizational and performance consulting firm examined the mission, job roles and responsibilities, hiring, and retention issues associated with our administrative and professional support staff and matched their jobs duties and compensation with those of comparable federal and private sector employees

in the Washington, D.C., area. Based on the results of this study, the firm developed recommended pay ranges based on market median salaries, and we restructured the compensation ranges for these staff into three pay plans. (This study is available publicly.)

We also completed a number of other studies and evaluations related to goal 4's strategic objectives. These studies resulted in internal products or briefings in fiscal year 2006 that are not available publicly.

- **Customer satisfaction with internal operations and services.** We conducted our third customer satisfaction survey to measure customer satisfaction with internal operational services, determine the impact of our improvement efforts launched in response to customer feedback from previous surveys, refine our targets, and make necessary adjustments to improve services and reduce the gaps between what our customers expect and the services available to them. We also used the information from this survey to refine our internal operations measures.
- **Human capital sourcing strategies.** A task team comprehensively reviewed all aspects of our recruitment and hiring processes for all types of staff. This team organized into five task teams focused on college recruitment, candidate assessment, interviewing and hiring, offer negotiating and processing, and administrative and professional support staff and other hires. The team made over 40 recommendations for refining and enhancing our human capital sourcing strategies and processes. Some of the more immediate recommendations have already been implemented.
- **Financial management.** We conducted internal reviews of our compliance with requirements set forth in 31 U.S.C. 3512 (commonly referred to as the Federal Managers' Financial Integrity Act); OMB Circular A-127, *Financial Management Systems*; and OMB Circular A-123, *Management's Responsibility for Internal Control, Appendix A*. The Federal Managers' Financial Integrity Act review covered the quarterly review of payroll transactions and the financial management systems review covered reporting requirements, security controls, and training. We assessed our internal control over financial reporting consistent with OMB Circular A-123, documenting our business processes; identifying, analyzing, and

testing major internal controls over financial reporting; and taking corrective action where necessary. Based on the results of this assessment, we concluded that GAO has reasonable assurance that internal control over financial reporting as of September 30, 2006, was operating effectively and that no material weaknesses exist in the design or operation of the internal controls over financial reporting. This is the first year that GAO has provided this internal control assertion.

- **Enterprise architecture management.** Our Information Technology team completed an audit of the status of GAO's enterprise architecture management program using the same Enterprise Architecture Management Maturity Framework and criteria used to assess the content of executive branch agencies' enterprise architecture programs. We determined that our enterprise architecture program had reached stage 3 (with stage 1 being the lowest maturity level and stage 5 being the highest) and is making progress toward reaching stage 4. This compares very favorably with the 28 enterprise architecture programs we reviewed, where 21 were at stage 1, 3 were at stage 2, 4 were at stage 3, and none were at higher stages.
- **GAO's Internet and intranet.** We contracted with the Nielsen Norman Group to evaluate our Internet and intranet and make recommendations to improve the presence and usability of these sites. The Nielsen Norman Group delivered an evaluation of the external Web site in July 2006 and a preliminary evaluation of the internal Web site in September 2006. A project team was assembled in August 2006, and it developed a schedule and milestones for addressing the external Web site findings. Some changes have already been implemented and others are planned through January 2007.
- **IT total cost of ownership benchmark study.** We completed our Total Cost of Ownership Benchmark study with a contractor, comparing our fiscal year 2005 budgeted expenditures to the spending of private sector professional services peers in 15 different IT areas. The results of the analysis showed that in total, we accomplish the same workload as the most efficient quartile of peers. Our overall IT costs, within the contractor's model, were \$5.5 million lower than the peer average and \$2 million lower than the average for the most efficient quartile of peers. The contractor made recommendations concerning telecommunications and cell phones. We addressed the telecommunications issues through the rollout of a new telephone system in headquarters and a new voicemail system agencywide, and we are conducting a review of the cell phone program to address those concerns.
- **Publishing services benchmark study.** We contracted for a benchmark study comparing our publishing services to five other agencies and private organizations. The results showed that we produce the second highest number of publications among those reviewed, and we do so at a significantly lower average cost per product. We are now in the process of implementing recommendations from the study and forming a community of practice with the benchmark partners to further improve our operations.







# Part III

## *Financial Information*



# From the Chief Financial Officer

Chief Financial Officer, Sallyanne Harper

Source: GAO.

November 15, 2006

I am pleased to report that in fiscal year 2006 the U.S. Government Accountability Office continued to focus on leading by example in government financial management. For the 20th consecutive year, independent auditors gave our financial statements an unqualified opinion with no material weaknesses and no major compliance problems. In keeping with a widely recognized best practice, we contract with a different audit firm every 5 years to ensure that our financial operations continue to be reviewed objectively. Consequently, this fiscal year we used a different independent accounting firm than we have used for the past 5 years to audit our financial statements. 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. In addition, for the fifth year in a row, the Association of Government Accountants awarded us a certificate of excellence in accountability reporting for our fiscal year 2005 performance and accountability report.

During fiscal year 2006 we achieved milestones in two major financial management initiatives. We successfully implemented the Office of Management and Budget's (OMB) revised Circular A-123, Appendix A, which provides for federal agencies to take steps to review, document, and improve internal control practices. The process was resource intensive, requiring substantial time commitment from personnel throughout GAO as well as contractors. Our testing team found some internal control weaknesses with our existing internal control design and implementation. We were able to put remediation plans into place by September 30, 2006, for those weaknesses considered to be the highest priority. The results of this effort include management's assurance statement regarding the effectiveness of our internal controls, more thorough documentation of processes and related internal controls, and a vision of how to integrate this effort into our culture for the long term.

Another significant milestone this fiscal year was in our efforts to replace our outdated financial management system, taking full advantage of today's improved

technological offerings. We selected our next generation financial management system, along with a service provider, after a disciplined process to review and define our financial management requirements. As a result, we have entered into an interagency agreement with DOT, an OMB-designated financial management line of business service provider, to implement our new official system of record for fiscal year 2008. We are also considering DOT for provision of other financial services as part of our strategy of focusing our financial management efforts on greater value-added input to our activities by shifting staff away from routine transaction processing and toward a greater role in strategic business decision analysis and support.

This fiscal year we explored and implemented multiple improvements to streamline our business operations and find potential cost savings to the agency. By implementing mandatory electronic earnings and leave statements, we have eliminated processing issues and thousands of paper forms per year, resulting in a \$30,000 per year savings to the agency. By outsourcing the domestic and international mail processing function and reducing agency mail costs early in fiscal year 2006, we realized a 32 percent reduction in postage costs this year, improved the level of service, and gained more flexibility in the deployment of resources. To provide all staff equal access to core training, we implemented a structure of “learning hubs,” where training is provided to field-based entry-level (Band I) analysts at specified field offices. This structure also enables us to use adjunct faculty time more efficiently and reduces travel costs associated with core training by 50 percent. For more details on these and other goal 4 accomplishments, refer to appendix 1, Strategic Goal 4, on page 175 of this report.

The coming fiscal year promises many challenges, including the implementation of our new financial management system and institutionalizing the internal control review process begun this year. As always, we remain focused on our role in the legislative branch to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the government for the benefit of the American people.



Sallyanne Harper  
Chief Financial Officer

# Overview of Financial Statements

Our financial statements and accompanying notes begin on page 102.<sup>7</sup> Our financial statements for the fiscal years ended September 30, 2006 and 2005, were audited by the independent audit firms Clifton Gunderson LLP and Cotton & Co. LLP, respectively.

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 (Improvement Act) of 1996 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 of OMB Circular 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, 2006, was operating effectively and that no material control

<sup>7</sup> Note 14 to the financial statements describes our Davis–Bacon Act trust function. For more detailed Davis–Bacon Act financial information, contact our General Counsel.

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 (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 is 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 *U.S. Government Standard General Ledger* at the transaction level as of September 30, 2006. We made this assessment based on criteria established under the Improvement Act and guidance issued by OMB.

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 2006, the IG examined compliance with our policy and procedures for conflict-of-interest determinations, recruiting and hiring, continuing professional education, audit

documentation security and retention, performance-based compensation for administrative professional and support staff, and GAO's information security program. In addition, the IG tests our compliance with procedures related to our performance data on a rotating basis over a 3-year period; these actions are specifically identified in table 16 that begins on page 73. No material weaknesses were reported by the IG. During fiscal year 2006, we completed actions related to two IG recommendations and several IG suggestions, 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; Member of the Governmental Accounting Standards Board, former State Comptroller of Virginia, and a former Controller of the Office of Federal Financial Management in OMB.
- 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.

The committee's report and that of our independent auditors are included on the following pages.

# Audit Advisory Committee's Report

The Audit Advisory Committee (the Committee) assists the Comptroller General in overseeing the U.S. Government Accountability Office's (GAO) financial operations. As part of that responsibility, the Committee meets with agency management and its internal and external auditors to review and discuss GAO's external financial audit coverage, the effectiveness of GAO's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact GAO's financial statements. GAO's external auditors are responsible for expressing an opinion on the conformity of GAO's audited financial statements with the U.S. generally accepted accounting principles. The Committee reviews the findings of the internal and external auditors, and GAO's responses to those findings, to ensure that GAO's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft Performance and Accountability Report, including its financial statements, and provides comments to management who has primary responsibility for the Performance and Accountability report. The Committee met three times with respect to its responsibilities as described above. During these sessions, the Committee met with the internal and external auditors without GAO management being present and discussed with the external auditors the matters that are required to be discussed by generally accepted auditing standards. Based on procedures performed as outlined above, we recommend that GAO's audited statements and footnotes be included in the 2006 Performance and Accountability Report.



Sheldon S. Cohen  
Chairman  
Audit Advisory Committee

# Independent Auditor's Report



## Independent Auditor's Report

Comptroller General of the United States

We have audited the accompanying balance sheet of Government Accountability Office (GAO) as of September 30, 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. The financial statements of GAO as of September 30, 2005 were audited by other auditors whose report dated November 1, 2005, expressed an unqualified opinion on those financial statements. In our audit of GAO for fiscal year 2006, we found

- the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- GAO had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- GAO's financial management systems substantially complied with the applicable requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other accompanying information and (2) the scope of our audit.

### Opinion on Financial Statements

In our opinion, the accompanying 2006 financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of GAO as of September 30, 2006, and its net cost, changes in net position, budgetary resources and financing for the year then ended.

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### **Opinion on Internal Control**

In our opinion, GAO maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2006, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act, and the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*.

We noted other nonreportable matters involving internal control and its operation that we will communicate in a separate management letter.

### **Opinion on FFMIA Compliance**

In our opinion, GAO's financial management systems substantially complied 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, 2006. Our opinion is based on criteria established under FFMIA section 803 (a) requirements.

### **Compliance with Laws and Regulations**

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under *Government Auditing Standards* or OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

This conclusion is intended solely for the use of the management of GAO, OMB, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties.

### **Consistency of Other Information**

The Management's Discussion and Analysis (MD&A) included as Part I is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory information, performance information and appendixes listed in the table of contents are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.



### Objectives, Scope, and Methodology

Management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that broad control objectives of FMFIA are met; (3) implementing, maintaining and assessing financial management systems to provide reasonable assurance of substantial compliance with the requirements of FFMIA; and (4) complying with applicable laws and regulations.

We are responsible for planning and performing our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We are responsible for planning and performing our examination to obtain reasonable assurance about whether management maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with applicable laws and regulations based on criteria established under 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act, and OMB Circular A-123, *Management's Responsibility for Internal Control*. Our examination included obtaining an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); testing relevant internal controls over financial reporting (including safeguarding assets) and compliance, evaluating the design and operating effectiveness of internal control; and performing such other procedures as we considered necessary in the circumstances. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act.

With respect to internal control related to significant performance measures included in the MD&A, we obtained an understanding of the design of the internal control relating to the existence and completeness assertions and determined whether they had been placed in operation, as required by OMB Bulletin No. 06-03. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

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.

We are responsible for planning and performing our examination to obtain reasonable assurance about whether GAO's financial management systems substantially complied with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level based on criteria established under FFMIA section 803 (a) requirements. We examined, on a test basis, evidence

about GAO's substantial compliance with those requirements, and performed such other procedures as we considered necessary in the circumstances.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. 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, 2006. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audit and examinations 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; attestation standards established by the American Institute of Certified Public Accountants; and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. We believe that our audit and examinations provide a reasonable basis for our opinions.

*Clifton Henderson LLP*

Calverton, Maryland  
November 3, 2006

# Purpose of Each Financial Statement

The financial statements on the next five pages present the following information:

- A balance sheet presents the combined amounts we had available to use (assets) versus the amounts we owed (liabilities) and the residual amounts after liabilities were subtracted from assets (net position).
- A statement of net cost presents the annual cost of our operations. The gross cost less any offsetting revenue earned from our activities is used to arrive at the net cost of work performed under our four strategic goals.
- A statement of changes in net position presents the accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the fiscal year.
- A statement of budgetary resources presents how budgetary resources were made available to us during the fiscal year and the status of those resources at the end of the fiscal year.
- A statement of financing reconciles the resources available to us with the net cost of operating the agency.

**Financial Statements**  
**U.S. Government Accountability Office**  
**Balance Sheets**  
**As of September 30, 2006 and 2005**  
(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Intragovernmental		
Funds with the U.S. Treasury and cash (Note 3)	\$63,919	\$65,878
Accounts receivable	1,022	877
<b>Total Intragovernmental</b>	<u>64,941</u>	<u>66,755</u>
Property and equipment, net (Note 4)	40,293	47,291
Other	<u>358</u>	<u>310</u>
<b>Total Assets</b>	<u>\$105,592</u>	<u>\$114,356</u>
<b>Liabilities</b>		
Intragovernmental		
Accounts payable	\$12,068	\$11,805
Employee benefits (Note 6)	2,379	2,262
Workers' compensation (Note 7)	2,337	2,121
<b>Total Intragovernmental</b>	<u>16,784</u>	<u>16,188</u>
Accounts payable	10,815	12,121
Salaries and benefits (Note 6)	16,852	16,493
Accrued annual leave and other (Note 5)	30,299	30,093
Workers' compensation (Note 7)	15,910	10,357
Capital leases (Note 9)	<u>6,872</u>	<u>9,657</u>
<b>Total Liabilities</b>	<u>97,532</u>	<u>94,909</u>
<b>Net Position</b>		
Unexpended appropriations	25,951	27,003
Cumulative results of operations	<u>(17,891)</u>	<u>(7,556)</u>
<b>Total Net Position (Note 13)</b>	<u>8,060</u>	<u>19,447</u>
<b>Total Liabilities and Net Position</b>	<u>\$105,592</u>	<u>\$114,356</u>

The accompanying notes are an integral part of these statements.

**Financial Statements**  
**U.S. Government Accountability Office**  
**Statements of Net Cost**  
**For Fiscal Year Ended September 30, 2006 and 2005**  
(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
<b>Net Costs by Goal</b>		
<b>Goal 1: Well-Being/Financial Security of American People</b>	\$191,880	\$197,761
Less: reimbursable services	-	(31)
<b>Net goal costs</b>	<u>191,880</u>	<u>197,730</u>
<b>Goal 2: Changing Security Threats/Challenges of Global Interdependence</b>	154,727	144,281
Less: reimbursable services	-	(81)
<b>Net goal costs</b>	<u>154,727</u>	<u>144,200</u>
<b>Goal 3: Transforming the Federal Government's Role</b>	149,913	150,196
Less: reimbursable services	(3,144)	(2,878)
<b>Net goal costs</b>	<u>146,769</u>	<u>147,318</u>
<b>Goal 4: Maximize the Value of GAO</b>	23,664	22,034
Less: reimbursable services	-	-
<b>Net goal costs</b>	<u>23,664</u>	<u>22,034</u>
<b>Less: reimbursable services not attributable to goals</b>	<u>(5,561)</u>	<u>(5,432)</u>
<b>Net Cost of Operations (Note 10)</b>	<u>\$511,479</u>	<u>\$505,850</u>

The accompanying notes are an integral part of these statements.

**Financial Statements**  
**U.S. Government Accountability Office**  
**Statements of Changes in Net Position**  
**For Fiscal Years Ended September 30, 2006 and 2005**  
(Dollars in thousands)

	<b>2006</b>	<b>2005</b>
<b>Cumulative Results of Operations, Beginning of fiscal year</b>	(\$7,556)	(\$1,132)
<b>Budgetary Financing Sources - Appropriations used</b>	476,081	474,118
<b>Other Financing Sources</b>		
Intragovernmental transfer of property and equipment	(61)	(1)
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 6)	25,124	25,309
<b>Total Financing Sources</b>	501,144	499,426
<b>Net Cost of Operations</b>	(511,479)	(505,850)
<b>Net Change</b>	(10,335)	(6,424)
<b>Cumulative Results of Operations, End of fiscal year</b>	(17,891)	(7,556)
<b>Unexpended Appropriations, Beginning of fiscal year</b>	27,003	34,621
<b>Budgetary Financing Sources and Uses</b>		
Current year appropriations	482,395	470,973
Appropriations transferred in	250	1,644
Permanently not available	(7,616)	(6,117)
Appropriations used	(476,081)	(474,118)
<b>Total Unexpended Appropriations, End of fiscal year</b>	25,951	27,003
<b>Net Position</b>	\$8,060	\$19,447

The accompanying notes are an integral part of these statements.

**Financial Statements**  
**U.S. Government Accountability Office**  
**Statements of Budgetary Resources**  
**For Fiscal Years Ended September 30, 2006 and 2005**  
(Dollars in thousands)

	<b>2006</b>	<b>2005</b>
<b>Budgetary Resources (Note 11)</b>		
Unobligated balance, beginning of fiscal year	\$11,080	\$14,066
Budget authority		
Appropriations	482,395	470,973
Spending authority from offsetting collections		
Earned and collected	10,930	10,892
Changes in unfilled customer orders - advance received	189	-
Subtotal	493,514	481,865
Nonexpenditure transfers, net, anticipated and actual	250	1,644
Permanently not available	(7,616)	(6,117)
<b>Total Budgetary Resources</b>	<b>\$497,228</b>	<b>\$491,458</b>
<b>Status of Budgetary Resources</b>		
Obligations incurred		
Direct	\$479,842	\$471,956
Reimbursable	8,705	8,422
Subtotal	488,547	480,378
Unobligated balance - Apportioned	1,089	1,299
Unobligated balance not available	7,592	9,781
<b>Total Status of Budgetary Resources</b>	<b>\$497,228</b>	<b>\$491,458</b>
<b>Change in Obligated Balance</b>		
Obligated balance, beginning of fiscal year	\$54,798	\$53,103
Obligations incurred	488,547	480,378
Less: Gross Outlays	(488,107)	(478,683)
Obligated balance, end of fiscal year	\$55,238	\$54,798
<b>Net Outlays</b>		
Gross outlays	\$488,107	\$478,683
Less: Offsetting collections	(11,119)	(10,892)
<b>Net Outlays</b>	<b>\$476,988</b>	<b>\$467,791</b>

The accompanying notes are an integral part of these statements.

**Financial Statements**  
**U.S. Government Accountability Office**  
**Statements of Financing**  
**For Fiscal Years Ended September 30, 2006 and 2005**  
(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$488,547	\$480,378
Less: Reimbursable services (Note 10)	(8,705)	(8,422)
Cost sharing and pass-through contract reimbursements	(2,225)	(2,470)
Net obligations	<u>477,617</u>	<u>469,486</u>
<b>Other Resources</b>		
Intragovernmental transfer of property and equipment	(61)	(1)
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 6)	25,124	25,309
Net other resources used to finance activities	<u>25,063</u>	<u>25,308</u>
<b>Total resources used to finance activities</b>	<u>502,680</u>	<u>494,794</u>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Net (increase)/decrease in unliquidated obligations	(1,536)	4,632
Costs capitalized on the balance sheet	(8,939)	(9,069)
<b>Total resources used to finance items not part of the net cost of operations</b>	<u>(10,475)</u>	<u>(4,437)</u>
<b>Total resources used to finance the net cost of operations</b>	<u>492,205</u>	<u>490,357</u>
<b>Components That Require Resources in Future Periods</b>		
Increase in Workers' Compensation, Accrued Annual Leave, and Other Liabilities (Note 12)	5,764	732
<b>Costs That Do Not Require Resources</b>		
Depreciation	<u>13,510</u>	<u>14,761</u>
<b>Net Cost of Operations</b>	<u>\$511,479</u>	<u>\$505,850</u>

The accompanying notes are an integral part of these statements.



# Notes to Financial Statements

## Note 1. Summary of Significant Accounting Policies

### *Reporting Entity*

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing 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. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. The revenue from audit services and rental income is included on the Statement of Budgetary Resources as "reimbursable services." The financial statements, except for federal employee benefit costs paid by OPM and imputed to GAO, do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as interest on the federal debt, which may in part be attributable to GAO; they also do not include activity related to GAO's trust function described in Note 14.

### *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 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.

### *Accounts Receivable*

GAO's accounts receivable are due principally from federal agencies for reimbursable services; therefore, GAO has not established an allowance for doubtful accounts.

### *Property and Equipment*

The GAO headquarters building qualifies as a multiuse heritage asset, is GAO's only heritage asset, and is reported with property and equipment on the balance sheet. The designation of multiuse heritage asset is a result of both being listed in the National Register of Historic Places and being used in general government operations. Statement of Federal Financial Accounting Standards No. 29 requires accounting for multiuse heritage assets as general property, plant, and equipment to be included in the balance sheet and depreciated. Maintenance of the building has been kept on a current basis. The building is depreciated on a straight-line basis over 25 years.

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.

### *Liabilities*

Liabilities represent amounts that are likely to be paid by GAO as a result of transactions that have already occurred.

### *Accounts Payable*

Accounts payable consists of amounts owed to federal agencies and commercial vendors for goods and services received.

### *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. 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 (see Note 6).

FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor (Labor) and are paid, ultimately, by GAO (see Note 7).

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.

Federal employee benefit costs paid by OPM and imputed to GAO are reported on the Statements of Changes in Net Position and Financing and are also included as a component of net cost by goal on the Statement of Net Cost.

### *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 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.

### *Estimates*

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates.

### *Reclassifications*

Certain prior year amounts have been reclassified to conform to current year presentation.

## Note 2. Intragovernmental Costs and Exchange Revenue

Intragovernmental costs arise from exchange transactions made between two reporting entities within the federal government in contrast with public costs that arise from exchange transactions made with a nonfederal entity. Intragovernmental costs and exchange revenue for the years ended September 30, 2006 and 2005, are as follows:

### Dollars in thousands

	2006	2005
<b>Goal 1:</b>		
Intragovernmental costs	\$19,857	\$12,911
Public costs	<u>172,023</u>	<u>184,850</u>
Total goal 1 costs	<u>191,880</u>	<u>197,761</u>
Intragovernmental earned revenue	-	(31)
Public earned revenue	-	-
Total goal 1 earned revenue	<u>-</u>	<u>(31)</u>
Net goal 1 costs	<u>191,880</u>	<u>197,730</u>
<b>Goal 2:</b>		
Intragovernmental costs	16,012	9,419
Public costs	<u>138,715</u>	<u>134,862</u>
Total goal 2 costs	<u>154,727</u>	<u>144,281</u>
Intragovernmental earned revenue	-	(81)
Public earned revenue	-	-
Total goal 2 earned revenue	<u>-</u>	<u>(81)</u>
Net goal 2 costs	<u>154,727</u>	<u>144,200</u>
<b>Goal 3:</b>		
Intragovernmental costs	15,513	9,805
Public costs	<u>134,400</u>	<u>140,391</u>
Total goal 3 costs	<u>149,913</u>	<u>150,196</u>
Intragovernmental earned revenue	(3,144)	(2,878)
Public earned revenue	-	-
Total goal 3 earned revenue	<u>(3,144)</u>	<u>(2,878)</u>
Net goal 3 costs	<u>146,769</u>	<u>147,318</u>
<b>Goal 4:</b>		
Intragovernmental costs	2,449	1,438
Public costs	21,215	20,596
Earned revenue	<u>-</u>	<u>-</u>
Net goal 4 costs	<u>23,664</u>	<u>22,034</u>
<b>Earned revenue not attributable to goals</b>		
Intragovernmental	(5,492)	(5,365)
Public	<u>(69)</u>	<u>(67)</u>
Total earned revenue not attributable to goals	<u>(\$5,561)</u>	<u>(\$5,432)</u>

GAO's pricing policy for reimbursable services is to seek reimbursement for actual costs incurred, including overhead costs where allowed by law. Therefore, revenues, as listed above, and costs that generated those revenues are equivalent.

### Note 3. Funds with the U.S. Treasury and Cash

GAO's funds with the U.S. Treasury consist of only appropriated funds. GAO also maintains cash imprest funds for use in daily operations. The status of these funds as of September 30, 2006 and 2005, is as follows:

#### Dollars in thousands

	2006	2005
Unobligated balance		
Available	\$1,087	\$1,296
Unavailable	7,592	9,781
Obligated balances not yet disbursed	55,238	54,798
Total funds with U.S. Treasury	63,917	65,875
Cash	2	3
Total funds with U.S. Treasury and cash	<u>\$63,919</u>	<u>\$65,878</u>

### Note 4. Property and Equipment, Net

The composition of property and equipment as of September 30, 2006, is as follows:

#### Dollars in thousands

Classes of property and equipment	Acquisition value	Accumulated depreciation	Book value
Building	\$15,664	\$11,278	\$4,386
Land	1,191	–	1,191
Building improvements	115,048	98,246	16,802
Computer and other equipment and software	34,791	24,502	10,289
Leasehold improvements	6,237	5,432	805
Assets under capital lease	23,014	16,194	6,820
Total property and equipment	<u>\$195,945</u>	<u>\$155,652</u>	<u>\$40,293</u>

The composition of property and equipment as of September 30, 2005, is as follows:

**Dollars in thousands**

<b>Classes of property and equipment</b>	<b>Acquisition value</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Building	\$15,664	\$10,652	\$5,012
Land	1,191	—	1,191
Building improvements	112,855	93,638	19,217
Computer and other equipment and software	33,663	22,290	11,373
Leasehold improvements	5,956	5,152	804
Assets under capital lease	20,223	10,529	9,694
Total property and equipment	<u>\$189,552</u>	<u>\$142,261</u>	<u>\$47,291</u>

## Note 5. Liabilities Not Covered by Budgetary Resources

The liabilities on GAO's Balance Sheets as of September 30, 2006 and 2005, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2006 and 2005, is as follows:

**Dollars in thousands**

	<b>2006</b>	<b>2005</b>
Intragovernmental liabilities—Workers' compensation	\$2,337	\$2,121
Salaries and benefits—Comptrollers General retirement plan	2,982	2,836
Accrued annual leave and other	30,299	30,093
Workers' compensation	15,910	10,357
Capital leases	6,872	9,657
Total liabilities not covered by budgetary resources	<u>\$58,400</u>	<u>\$55,064</u>

## Note 6. Federal Employee Benefits

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's financial statements. GAO makes contributions to CSRS, FERS, and FICA and matches certain employee contributions to the thrift savings component of FERS. All of these payments are recognized as operating expenses.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGGLIP) and may continue to participate after retirement. GAO makes contributions through OPM to FEHBP and FEGGLIP for active employees to pay for their current benefits. GAO's contributions for active employees are recognized as operating expenses. Using the cost factors supplied by OPM, GAO has also recognized an expense in its financial statements for the estimated future cost of postretirement health benefits and life insurance for its employees. These costs are financed by OPM and imputed to GAO.

Amounts owed to OPM and Treasury as of September 30, 2006 and 2005, are \$2,379,000 and \$2,262,000, respectively, for FEHBP, FEGGLIP, FICA, FERS, and CSRS contributions and are shown on the Balance Sheets as an employee benefits liability.

Details of the major components of GAO's federal employee benefit costs for the years ended September 30, 2006 and 2005, are as follows:

### Dollars in thousands

Federal Employee Benefits Costs	2006	2005
Federal employee retirement benefit costs paid by OPM and imputed to GAO:		
Estimated future pension costs (CSRS/FERS)	\$10,369	\$11,476
Estimated future post-retirement health and life insurance (FEHBP/FEGGLIP)	14,755	13,833
Total	<u>\$25,124</u>	<u>\$25,309</u>
Pension expenses (CSRS/FERS)	\$29,145	\$28,583
Health and life insurance expenses (FEHBP/FEGGLIP)	\$15,765	\$15,130
FICA payment made by GAO	\$15,882	\$15,261
Thrift Savings Plan – matching contribution by GAO	\$8,836	\$ 8,439

Comptrollers general and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are paid from current year appropriations. Because GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits of \$2,982,000 as of September 30, 2006, and \$2,836,000 as of September 30, 2005, is included as a component of salary and benefit liabilities on GAO's Balance Sheets.

## Note 7. Workers' Compensation

For fiscal year 2005, GAO used estimates provided by Labor to report the FECA liability. This practice is consistent with the practices of other federal agencies. For fiscal year 2006, GAO utilized the services of an independent actuarial firm to calculate its FECA liability. As a result, the actuarial methodology has changed and is more closely reflective of GAO's claims experience. The FECA liability increased by \$5,553,000 in fiscal year 2006, and is reflected as a current year expense distributed to the four goals on the fiscal year 2006 Statement of Net Cost.

GAO recorded an estimated liability for claims incurred but not reported as of September 30, 2006 and 2005, which is expected to be paid in future periods. This estimated liability of \$15,910,000 and \$10,357,000 as of September 30, 2006 and 2005, respectively, is reported on GAO's Balance Sheets. GAO also recorded a liability for amounts paid to claimants by Labor as of September 30, 2006 and 2005, of \$2,337,000 and \$2,121,000, respectively, but not yet reimbursed to Labor by GAO. The amount owed to Labor is reported on GAO's Balance Sheets as an intragovernmental liability.

## Note 8. Building Lease Revenue

In fiscal year 2000, the U.S. Army Corps of Engineers (USACE) entered into an agreement with GAO to lease the entire third floor of the GAO building. USACE provided all funding for the third floor renovation. Occupancy began August 3, 2000, for an initial period of 3 years, with options to renew on an annual basis for 7 additional years. Total rental revenue to GAO includes a base rent, which remains constant for the entire 10-year period, plus operating expense reimbursements at a fixed amount for the first 3 years, with escalation clauses from year 4 through year 10 if the option years are exercised. Beginning in fiscal year 2002, USACE leased additional space on the sixth floor with occupancy lasting through the original lease term.

Rent received by GAO for fiscal years 2006 and 2005 was \$4,978,000 and \$4,856,000, respectively. These amounts are included in reimbursable services shown on

both the Statements of Net Cost and the Statements of Financing. Total rental revenue for the remaining period of the 10-year lease is as follows:

### Dollars in thousands

Fiscal year ending September 30	Total rental revenue*
2007	\$4,978
2008	5,045
2009	5,111
2010	5,179
Total	<u>\$20,313</u>

\* If option years are exercised.

## Note 9. Leases

### Capital Leases

GAO has entered into capital leases for office equipment and computer equipment under which the ownership of the equipment covered under the leases transfers to GAO when the leases expire. When GAO enters into these leases, the present value of the future lease payments is capitalized, net of imputed interest, and recorded as a liability. The acquisition value and accumulated depreciation of GAO's capital leases are shown in Note 4, Property and Equipment, Net. As of September 30, 2006 and 2005, the capital lease liability was \$6,872,000 and \$9,657,000, respectively. The decrease in capital lease liability is a result of fewer lease agreements entered into in fiscal year 2006 than in fiscal year 2005.

These lease agreements are written as contracts with a base year and option years. The option years are subject to the availability of funds. Early termination of the leases for reasons other than default is subject to a negotiation between the parties. These leases are lease-to-ownership agreements. GAO's leases are short term in nature and no liability exists beyond the years shown in the table below. GAO's estimated future minimum lease payments under the terms of the leases are as follows:

**Dollars in thousands**

<b>Fiscal year ending September 30</b>	<b>Total</b>
2007	\$4,702
2008	2,029
2009	635
2010	173
Total estimated future lease payments	7,539
Less: imputed interest	(667)
Net capital lease liability	<u>\$6,872</u>

**Operating Leases**

GAO leases office space, predominately for field offices, from the General Services Administration and has entered into various other operating leases for office communication and computer equipment. Lease costs for office space and equipment for fiscal year 2006 and fiscal year 2005 amounted to approximately \$11,477,000 and \$10,752,000, respectively. Leases for equipment under operating leases are generally less than 1 year, therefore there are no associated future minimum lease payments. Estimated future minimum lease payments for field office space under the terms of the leases are as follows:

**Dollars in thousands**

<b>Fiscal year ending September 30</b>	<b>Total</b>
2007	\$7,986
2008	4,151
2009	3,757
2010	3,535
2011	3,412
2012 and thereafter	8,362
Total estimated future lease payments	<u>\$31,203</u>

Leased property and equipment must be capitalized if certain criteria are met (see [Capital Leases](#) description). Because property and equipment covered under GAO's operating leases do not satisfy these criteria, GAO's operating leases are not reflected on the Balance Sheets. However, annual lease costs under the operating leases

are included as components of net cost by goal in the Statements of Net Cost.

**Note 10. Net Cost of Operations**

Expenses for salaries and related benefits for fiscal year 2006 and fiscal year 2005 amounted to \$405,199,000 and \$395,783,000, respectively, which were about 79 percent of GAO's annual net cost of operations in fiscal year 2006 and 78 percent in fiscal year 2005. Included in the net cost of operations are federal employee benefit costs paid by OPM and imputed to GAO of \$25,124,000 in fiscal year 2006 and \$25,309,000 in fiscal year 2005.

Revenues from reimbursable services are shown as an offset against the full cost of the goal to arrive at its net cost. Earned revenues that are insignificant or cannot be associated with a major goal are shown in total, the largest component of which is rental revenue from the lease of space in the GAO building. Revenues from reimbursable services for fiscal year 2006 and fiscal year 2005 amounted to \$8,705,000 and \$8,422,000, respectively.

The net cost of operations represents GAO's operating costs that must be funded by financing sources other than revenues earned from reimbursable services. These financing sources are presented in the Statements of Changes in Net Position.



## Note 11. Budgetary Resources

Budgetary resources made available to GAO include current appropriations, spending authority from budget transfers, prior years' unobligated appropriations, and reimbursements arising from both revenues earned by GAO from providing goods and services to other federal entities for a price (reimbursable services) and cost-sharing and pass-through contract arrangements with other federal entities.

For fiscal year 2005 a difference exists between the unobligated balance at the beginning of the fiscal year and the unobligated balances not available shown on the Statements of Budgetary Resources and the Program and Financing Schedule in the fiscal year 2007 Budget of the United States (President's Budget). These differences are due to the fact that unobligated balances in expired accounts are not included in the President's Budget submission. Also, a difference exists in the reimbursable obligations incurred because the Statements of Budgetary Resources exclude reimbursements from cost-sharing and pass-through contract arrangements. As the fiscal year 2008 President's Budget will not be published until February 2007, a comparison between the fiscal year 2006 data reflected on the Statements of Budgetary Resources and fiscal year 2006 data in the President's Budget cannot be performed. The fiscal year 2008 President's Budget will be available on OMB's Web site and directly from the Government Printing Office.

Comparison of GAO's fiscal year 2005 Statement of Budgetary Resources with the corresponding information presented in the 2007 President's Budget is as follows:

### Dollars in thousands

	Budgetary Resources	Obligations Incurred
Fiscal year 2005 Statement of Budgetary Resources	\$491,458	\$480,378
2007 President's Budget – Fiscal Year 2005 Actual	<u>483,000</u>	<u>482,000</u>
Difference	<u>\$8,458</u>	<u>(\$1,622)</u>

For fiscal year 2006, budget transfers consisted of budget authority transferred from USAID for the analysis of U.S.-funded international basic education programs. Reimbursements from cost-sharing and pass-through contract arrangements consisted primarily of collections from other federal entities (1) for the support of the Federal Accounting Standards Advisory Board and (2) to utilize GAO contracts to obtain services. The costs and reimbursements for these activities are not included in the Statements of Net Cost.

Budgetary resources obligated for undelivered orders at the end of fiscal years 2006 and 2005 totaled \$17,459,000 and \$15,922,000, respectively.

GAO's apportionments fall under Category A, quarterly appointment. Apportionment categories of obligations incurred for fiscal years 2006 and 2005 are as follows:

### Dollars in thousands

Fiscal year ending September 30	2006	2005
Direct – Category A	\$479,842	\$471,956
Reimbursable – Category A	<u>8,705</u>	<u>8,422</u>
Total obligations incurred	<u>\$488,547</u>	<u>\$480,378</u>

## Note 12. Components That Require Resources in Future Periods

Increases in workers' compensation, accrued annual leave, and other liabilities are reported in the Statements of Financing. These changes represent the increases in liabilities not covered by budgetary resources, as reported in Note 5.

### Dollars in thousands

Fiscal year ending September 30	2006	2005
Liabilities not covered by budgetary resources	\$58,400	\$55,064
Liabilities that are not components of net cost:		
Capital leases	(6,872)	(9,657)
Other	(357)	-
Current year liabilities not covered by budgetary resources that are components of net cost	51,171	45,407
Prior year liabilities that are not components of current year net costs	(45,407)	(44,675)
Increase in workers' compensation, accrued annual leave, and other liabilities, as reported on the Statements of Financing	\$5,764	\$732

## Note 13. Net Position

Net position on the Balance Sheets comprises unexpended appropriations and cumulative results of operations. Unexpended appropriations are the sum of the total unobligated appropriations and undelivered goods and services. Cumulative results of operations represent the excess of financing sources over expenses since inception. Details of the components of GAO's cumulative results of operations for the fiscal years ended September 30, 2006 and 2005, are as follows:

### Dollars in thousands

	2006	2005
Investment in property and equipment, net	\$40,293	\$47,291
Other – supplies inventory	216	217
Liabilities not covered by budgetary resources	(58,400)	(55,064)
Cumulative results of operations	(\$17,891)	(\$7,556)

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. See Note 5 for breakdown.

## Note 14. Davis-Bacon Act Trust Function

GAO is responsible for administering for the federal government the trust function of the Davis-Bacon Act receipts and payments and publishes separate, audited financial statements for this fund. GAO maintains this fund to pay claims relating to violations of the Davis-Bacon Act and Contract Work Hours and Safety Standards Act. Under these acts, Labor investigates violation allegations to determine if federal contractors owe additional wages to covered employees. If Labor concludes that a violation has occurred, GAO collects the amount owed from the contracting federal agency, deposits the funds into an account with the U.S. Treasury, and remits payment to the employee. GAO is accountable to the Congress and to the public for the proper administration of the assets held in the trust. Trust assets under GAO's administration as of September 30, 2006 and 2005, totaled approximately \$4,485,000 and \$4,666,000, respectively. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal years 2006 and 2005, receipts in the trust amounted to \$774,000 and \$526,000 and disbursements amounted to \$954,000 and \$612,000, respectively. Because the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying financial statements.



# Part IV

*From the Inspector General*


# From the Inspector General



## Memorandum

Date: November 2, 2006

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 are management challenges that may affect our performance. We are in agreement with management's assessment of progress made in addressing these challenges.

During fiscal year 2006, we reviewed accomplishment reports totaling 96 percent of the total dollar value reported, including most accomplishment reports of \$100 million or more, and found that GAO had a reasonable basis for claiming these benefits. In addition, we assessed GAO's processes for determining performance on the number of testimonies, the percentage of new products with recommendations, and the percentage rate of recommendations implemented and found that statistics reported for these measures were reasonable. We also completed our review of fiscal year 2005 qualitative measures, which led to GAO discontinuing public reporting of these measures and retaining them for internal use.



# Part V

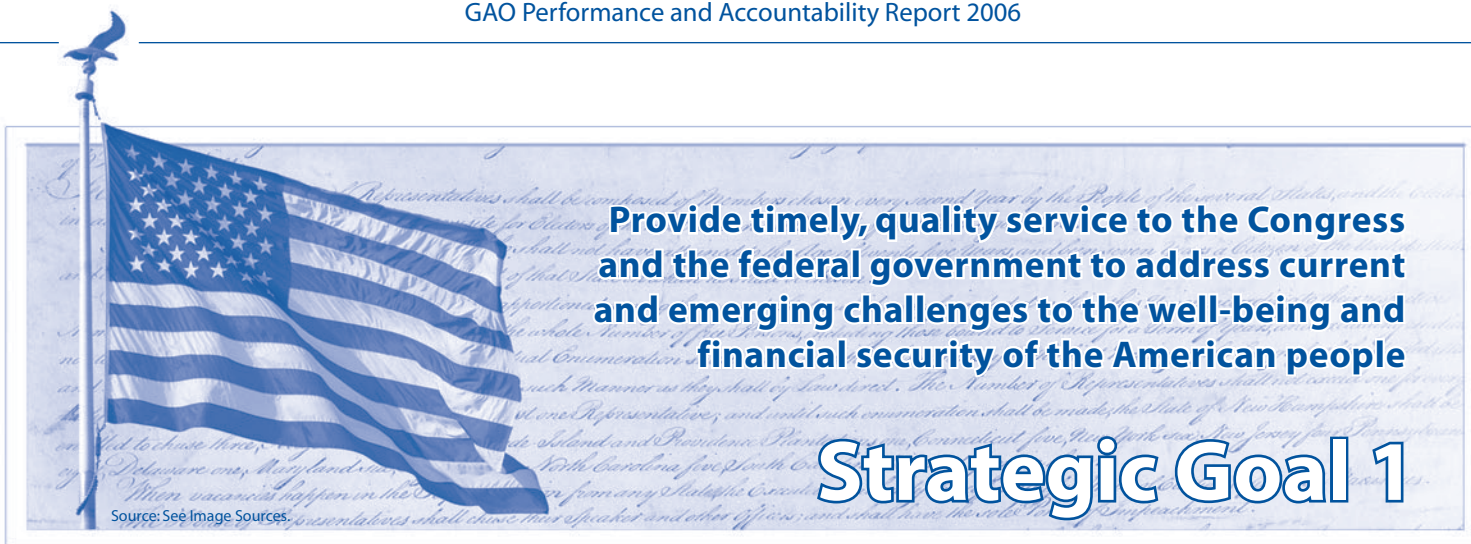
## *Appendixes*

# 1. Accomplishments and Other Contributions

In pursuing our strategic goals during fiscal year 2006, we recorded hundreds of accomplishments and made numerous other contributions. This appendix provides details on the most significant of these. In reporting financial benefits, nonfinancial benefits, and contributions (designated by an F, N, or C in the item number below), we are holding ourselves accountable for the resources we received to implement our strategic plan.

Typically, the accomplishments describe work that we completed in prior fiscal years because it takes time

to implement recommendations, realize benefits, and record them. The other contributions, which often refer to work completed in fiscal year 2006, describe instances in which we provided information or recommendations that aided congressional decision making or informed the public debate to a significant degree. At the end of each accomplishment and contribution summary, we list the reference number for products associated with the work discussed. In the online PDF version of this document, readers can link directly to these products if they want additional information.



## The health care needs of an aging and diverse population

**1.1.N. Developing a Planning Model for Managing Excess Department of Veterans Affairs (VA) Real Property:** In 2003, we recommended that VA pilot test, and modify if necessary, a capital asset planning model to be used in its Capital Asset Realignment for Enhanced Services process to manage excess buildings found throughout VA's national health care system. As we recommended, VA used the model in the Great Lakes network to evaluate and dispose of unneeded buildings, principally through enhanced-use leasing arrangements. In addition, VA made several modifications to the model, including establishing new capital asset managers in each network to facilitate disposal or lease of excess property, developing a scorecard to track facility utilization and condition, and creating a departmentwide information technology (IT) system for analyzing, monitoring, and managing its capital assets. The Capital Asset Realignment for Enhanced Services process resulted in the realignment of inpatient services at a number of VA's inpatient facilities and decisions regarding the continued use of existing structures at many of these locations. For example, in January 2005, VA transferred an underutilized hospital in Chicago through an enhanced-use lease, and is advancing numerous other enhanced-use arrangements and is examining the continued use of existing buildings through 21 capital plan and reuse studies. (GAO-03-326)

**1.2.N. Including Conflict-of-Interest Questions in the Food and Drug Administration's (FDA) Protocol for Evaluating the Performance of Mammography Certification Agencies:** The Mammography Quality Standards Act of 1992 and its reauthorization acts of 1998 and 2004 established national quality standards for mammography to help ensure the quality of mammography services. Under these acts, FDA is responsible for ensuring that all mammography facilities are accredited by an FDA-approved accreditation body and have obtained a certificate from FDA or an FDA-approved certification body permitting them to provide mammography services. In addition, FDA is responsible for reviewing and approving measures that accreditation and certification bodies use to avoid conflicts of interest in carrying out their work. Regulations require that FDA conduct annual performance evaluations of accreditation bodies' and certification bodies' compliance with certain standards. As part of our study on access to mammography services, we examined the measures state accreditation and certification bodies have taken to avoid conflicts of interest and FDA's oversight of state bodies' performance in this area. As a result of conversations that we had with FDA officials during the course of our work, FDA revised its protocol for evaluating the performance of certification bodies to include specific inquiries related to conflicts of interest. The revised protocol requires FDA officials to (1) review any changes that the certification bodies made to their conflict-of-interest policies and procedures since FDA's last annual evaluation, (2) review any complaints related to conflicts-of-interest involving state personnel or inspectors and the resolution of the complaints, and (3) cover the

topic of conflict of interest issues in the annual reports it prepares on the performance of certification bodies. In the past, FDA officials had informally asked questions about conflicts of interest during conversations with state bodies' staff. Including questions on conflicts of interest in the protocols gives FDA officials greater assurance that this issue is consistently covered during annual performance evaluations of state certification agencies. (GAO-06-724)

### **1.3.N. Strengthening Medicaid Program Integrity:**

Fraud, waste, and abuse drain vital Medicaid program dollars in ways that hurt both taxpayers and beneficiaries. States are the first line of defense against Medicaid fraud, waste, and abuse; but at the federal level, the Centers for Medicare & Medicaid Services (CMS) is responsible for supporting and overseeing states' efforts. In 2005, we testified that while CMS had activities to oversee and support state efforts to address fraud and abuse in the Medicaid program, the agency had not devoted the staff and financial resources to its efforts commensurate with the risks involved. For example, in fiscal year 2005, CMS dedicated an estimated eight full-time equivalent employees to support and oversee states' anti-fraud-and-abuse operations for a program that spent over \$168 billion for Medicaid benefits in fiscal year 2004. Furthermore, we testified that funding for some of CMS's most promising anti-fraud-and-abuse activities had declined in recent years, threatening the continuation of these efforts. We also pointed out that CMS lacked plans to guide federal and state agencies that were working to prevent or deter Medicaid fraud and abuse. Our 2005 work was considered during development of provisions of the Deficit Reduction Act, enacted in February 2006, which provided for the creation of the Medicaid Integrity Program and specified appropriations to fund the program. The act also required CMS to devote an additional 100 full-time equivalent (FTE) staff to combating Medicaid provider fraud and abuse; to develop a comprehensive plan for the Medicaid Integrity Program every 5 fiscal years; and to report annually to the Congress on the use, and the effectiveness of activities supporting the use, of the appropriated funds. (GAO-05-855T)

**1.4.F. Using Competition and Other Cost-Reducing Techniques to Set Medicare Payments for Durable Medical Equipment and Supplies:** Medicare's Supplementary Medical Insurance program (Medicare Part B) spent almost \$7.8 billion for durable medical equipment, prosthetics, orthotics, and supplies in 2002. For most of these items, Medicare payments are primarily based on historical charges from the mid-1980s, adjusted for inflation in some years, rather than market prices. We have repeatedly reported that Medicare payments for some medical equipment and supply items are out of line with actual market prices and have suggested several options to the Congress to better align Medicare fees with market prices. These included giving CMS authority to conduct competitive bidding for durable medical equipment, prosthetics, orthotics, and supplies or basing Medicare payments on the lower of the fee schedule amount or the lowest amount a provider has agreed to accept from other payers. In June 2002, we testified on these issues. Additionally, we were consulted by key congressional staff about pricing for these items and competitive bidding issues during 2003 and provided guidance as they were drafting legislative provisions that affected Medicare payment for these products. In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 was signed into law. This law requires CMS to implement competitive acquisition of durable medical equipment, off-the-shelf orthotics, and supplies in 10 of the largest metropolitan statistical areas in 2007, 80 of these areas in 2009, and in other areas thereafter. CMS can use information on the amounts paid in competitive acquisition areas to adjust Medicare payments in other localities. The law also instituted a multiyear freeze on payment increases for certain products and mandated reductions beginning in 2005 for certain products that the Department of Health and Human Services (HHS) Office of Inspector General had reported as having overly high Medicare payment rates. Competitive bidding and the other changes to Medicare's payment methods for durable medical equipment, orthotics, prosthetics, and supplies stemming from the law—exclusive of the administrative costs—would result in an estimated net present value financial benefit of \$2.9 billion to the Supplementary Medical Insurance Trust Fund for fiscal years 2005 through 2009. (GAO-03-1006, GAO-03-101, GAO-02-833T, GAO-02-576, and GAO/HEHS-00-79)



**1.5.N. Improving Inspections of Medicare Suppliers:** CMS, the agency that administers Medicare, contracts with the National Supplier Clearinghouse to screen potential suppliers of durable medical equipment, prosthetics, orthotics, and supplies and to enroll and reenroll those that comply with the program's standards. Suppliers, with certain exceptions, are subject to unannounced on-site inspections by the clearinghouse. The inspections verify that the supplier meets Medicare's standards, including whether the supplier can fill orders from inventory. Suppliers may store inventory off-site or rely on another business to provide their inventory. However, a supplier cannot contract to obtain inventory with a business that is excluded from the Medicare program, any state health programs, or any other federal procurement or nonprocurement program. In September 2005, we reported that neither CMS nor the clearinghouse explicitly requires site inspectors to verify that a supplier has a genuine source of inventory when it is stored at, or purchased from, another location, or to assess the company serving as the source of inventory. Without such verification, the clearinghouse would not know whether the off-site inventory exists or whether the source of inventory is legitimate. We also reported that prior to a reenrollment inspection, the clearinghouse does not routinely provide its site inspectors with the dollar amounts and specific items a supplier has billed to Medicare. Knowing a supplier's billing history would enable inspectors to determine whether the supplier's submitted claims coincide with its inventory, invoices, and other documentation in beneficiary files. Based on our findings we recommended that CMS require the clearinghouse to (1) evaluate the legitimacy of the supply location or source and any related contracts when suppliers report having inventory that is primarily maintained off-site or supplied through another company and (2) provide information from suppliers' billing histories to inspectors before they conduct on-site inspections to help them assess whether suppliers' inventory or contracts to obtain inventory are congruent with the suppliers' Medicare payments. In its fiscal year 2006 statement of work, CMS required the clearinghouse to make site visits to a supplier's off-site inventory storage location and to make site visits to businesses that sell the supplier inventory or fill orders through inventory-supply contracts. CMS also required the clearinghouse to provide suppliers' billing histories to inspectors prior to having them conduct on-site inspections. (GAO-05-656)

**1.6.N. Collecting Better Data on Veterans in Nursing Homes:** In November 2004, we recommended that VA collect and report data on the number of veterans (1) served in community nursing homes and state veterans' nursing homes based on the requirements of the Millennium Act or VA's policy on nursing home eligibility and (2) with long and short stays in community nursing homes and state nursing homes. This lack of data impeded VA's ability to strategically plan how best to serve veterans. In response to our recommendations, VA now has information on the eligibility of veterans (based on the requirements of the Millennium Act or VA's eligibility policy) in community nursing homes as well as information on the number of veterans with long and short stays in community nursing homes for the 15-month period from October 1, 2004, to December 30, 2005. (GAO-05-65)

**1.7.N. Identifying and Recording the Sprinkler Status of Nursing Homes:** We found that CMS did not know the sprinkler status of nursing homes, lacked a way to capture this information on its survey report forms, and that such information was not recorded in its On-Line Survey, Certification, and Reporting system database. We recommended that CMS identify the extent to which each nursing home does or does not have sprinklers. According to a CMS official, the agency revised its survey report forms and, as of August 2006, had identified the sprinkler status of virtually all nursing homes nationwide. The agency also began recording nursing home sprinkler-status information in its On-Line Survey, Certification, and Reporting system database. (GAO-04-660)

**1.8.N. Eliminating Dietary Supplements Containing Ephedrine Alkaloids:** In July 1999, we reported on FDA's proposed rule that would establish a dosing regimen, require warning statements, and affect other aspects of product labeling for dietary supplements containing ephedrine alkaloids. Among other issues, we reported concerns about the strength of the information upon which FDA based specific elements of its proposed rule. Specifically, we found that FDA needed to provide stronger evidence on the relationship between the intake of dietary supplements containing ephedrine alkaloids and the occurrence of adverse reactions that support the proposed dosing levels and duration of use limits. Consistent with one of our recommendations,

in 2003 FDA withdrew the provisions of the ephedrine alkaloids proposal relating to the dietary dosing regime and duration limits and reopened the proposed rule for further comment. After obtaining and reviewing further evidence concerning ephedrine alkaloids' safety and effectiveness, FDA issued a final rule prohibiting the sale of dietary supplements containing ephedrine alkaloids in February 2004. (GAO/HEHS/GGD-99-90)

**1.9.N. Encouraging Manufacturers of Controlled Substances to Develop Risk Management Plans:**

In early 2000, media reports began to surface in several states that OxyContin, a schedule II controlled substance, was being abused, that is, used for nontherapeutic purposes or for purposes other than those for which it was prescribed, and illegally diverted. We reported that according to FDA and the Drug Enforcement Administration, the abuse of OxyContin is associated with serious consequences, including addiction, overdose, and death. We recommended that FDA guidance encourage drug manufacturers that submit applications for schedule II controlled substances to include risk management plans that contain a strategy for monitoring the use of these drugs and identifying potential abuse and diversion problems. Consistent with our recommendation, FDA issued guidance in March 2005 that recommends sponsors of schedule II controlled substances develop and use risk minimization action plans. Though FDA had approved one schedule II controlled substance since our recommendation and that application included a detailed risk minimization action plan, the manufacturer of this controlled substance subsequently provided FDA information showing abuse of the controlled substance and suspended sales and marketing of it. (GAO-04-110)

**1.10.N. Using a More Accurate Measure of VA Home-Based Primary Care Workload:**

In September 2004, we recommended that VA use the number of visits to measure and report the amount of home-based primary care veterans receive. We had determined that the amount of home-based primary care that veterans receive was overstated in the workload measurement that VA used, noting that a more precise measurement would offer a better comparison of home-based primary care with other noninstitutional long-term care services. In response to our recommendation, VA began measuring in fiscal year 2005 the number of visits veterans receive that it reviews (along with unduplicated number of patients served and

average daily census) as part of program management. (GAO-04-913)

**1.11.N. Holding Nursing Homes Accountable for Past Noncompliance with Federal Quality Standards:**

In November 2004, we reported that CMS's policy on citing deficiencies arising from nursing homes' past noncompliance with federal quality standards was flawed and ambiguous. Previously, past noncompliance occurred when a current survey revealed no deficiencies but determined that an egregious violation of federal standards occurred in the past and was not identified during an earlier survey. However, CMS's policy did not define what constituted an egregious violation or relate egregious violations to its scope and severity grid (which defines serious deficiencies as actual harm or immediate jeopardy). Thus, we recommended that the Administrator of CMS revise the agency's policy in order to hold nursing homes more accountable for all past noncompliance resulting in harm to residents. In October 2005, CMS issued a revised past noncompliance policy that holds homes accountable for all past noncompliance resulting in harm to residents, not just care problems deemed to be egregious; clarifies how to address recently identified past deficiencies; and clarifies the methods for determining whether past noncompliance has been corrected. (GAO-05-78)

**1.12.C. Informing Beneficiaries about the New Medicare Prescription Drug Benefit:**

In a series of reports and a testimony, we identified shortcomings in the quality of communications with beneficiaries about Medicare's new prescription drug benefit and their prescription drug plan choices. Examining media used by CMS to inform beneficiaries, we found that selected publications, the 1-800-MEDICARE help line, and the Medicare Web site were not always clear, accurate, and easy to use. Our review of call centers operated by prescription drug plan sponsors found that customer service representatives' responses were generally prompt and courteous, but the accuracy of the information provided was relatively low and highly variable. These findings highlight the need to improve both CMS and plan sponsor communication to better serve Medicare beneficiaries faced with important and difficult plan choices. (GAO-06-715T, GAO-06-710, and GAO-06-654)

**1.13.C. Identifying Limitations in Federal Evacuation Assistance for Health Facilities:** In reports and testimony following Hurricane Katrina and the 2005 hurricane season, we identified challenges faced in evacuating hospital patients and nursing home residents during recent hurricanes and limitations that constrain the federal government's assistance with these evacuations. We found two limitations in the National Disaster Medical System—a program identified in the National Response Plan to assist state and local governments with evacuations. First, it is not designed to move patients or residents out of hospitals or nursing homes to mobilization points, such as airports, where National Disaster Medical System transportation begins, and relies on state and local governments to provide this transportation. This reliance on state and local governments is inadequate when multiple facilities in the community have to evacuate simultaneously and compete for too few vehicles. Second, the National Disaster Medical System is not designed for nursing home residents or other people who do not need hospital care, and the needs of this population during evacuations have been overlooked in federal plans. We recommended that the Department of Homeland Security (DHS) clearly delineate (1) how the federal government will assist state and local governments with the transportation of patients and residents out of hospitals and nursing homes and (2) how to address the needs of nursing home residents during evacuations. DHS stated that it will take the recommendations under advisement as it revises the National Response Plan. (GAO-06-826, GAO-06-790T, and GAO-06-443R)

**1.14.C. Strengthening Oversight of Clinical Lab Quality:** We identified numerous weaknesses in oversight of the approximately 36,000 clinical labs that must be surveyed biennially because they perform certain complex tests and made 13 recommendations to CMS to strengthen its oversight of lab quality. Lab oversight is critical because inaccurate or unreliable lab tests may lead to improper treatment, unnecessary mental and physical anguish for patients, and higher health care costs. We found that CMS lacked comparable data from all survey organizations to allow it to monitor trends in the quality of lab testing. Furthermore, oversight weaknesses made it difficult to determine the quality of lab testing because the weaknesses masked quality problems. For example, the greater weight that CMS and survey

organizations sometimes placed on their educational, as opposed to their regulatory, role may lead to an understatement of serious lab quality problems. Moreover, CMS agencywide staffing limitations have prevented the program from hiring staff sufficient to ensure adequate oversight. Our key recommendations to the Administrator of CMS intended to strengthen oversight included (1) standardizing the reporting of survey deficiencies to permit meaningful comparisons across survey organizations; (2) working with survey organizations to ensure that educating lab workers does not preclude appropriate regulation, such as identifying and reporting deficiencies that affect lab testing quality; and (3) hiring sufficient staff to fulfill CMS's oversight responsibilities. CMS concurred with 11 of our 13 recommendations and noted that the report provided insights into areas where it can improve, augment, and reinforce oversight. (GAO-06-416)

**1.15.C. Improving the Distribution of Ryan White Comprehensive AIDS Resources Emergency Act Funds and Oversight of AIDS Drug Assistance Programs:** Through a series of testimonies and reports, we assisted the Congress in its preparation for reauthorizing the Ryan White Comprehensive AIDS Resources Emergency Act by examining (1) how grant funds that provide health care, medications, and support services for people with HIV/AIDS are distributed under the act and (2) prices AIDS Drug Assistance Programs paid for HIV/AIDS drugs. We found that multiple provisions of the act's grant funding formulas result in funding not being comparable per AIDS case across grantees and that funding would shift among grantee jurisdictions if HIV case counts were incorporated along with estimated living AIDS case counts in allocating fiscal year 2004 grants. We also found that some AIDS Drug Assistance Programs reported paying prices for some drugs that were above amounts HHS's Health Resources and Services Administration identified as a measure of an economical use of grant funds—340B prices—and that the agency does not routinely determine whether the prices that the AIDS Drug Assistance Programs report paying are no higher than the 340B prices. We suggested that the Congress take six specific actions to modify provisions of the act, including revising the funding formulas. The Congress is using our work in reauthorizing the act. (GAO-06-703T, GAO-06-681T, GAO-06-646, GAO-06-332, and GAO-05-841T)

## The education and protection of the nation's children

### 1.16.F. Changing Lender Yields on Federal Student Loans to Save Billions of Dollars:

Over \$1.2 billion in subsidy payments was saved because of our review of federal subsidy payments for certain Federal Family Education Loan Program (FFELP) loans. We examined loans financed with tax-exempt bonds issued prior to October 1, 1993, with a guaranteed minimum 9.5 percent yield and found that under existing laws and regulations, lenders used various methods to increase the volume of loans guaranteed the minimum 9.5 percent yield. Federal subsidy payments for FFELP loans increased from \$209 million in fiscal year 2001 to over \$600 million in fiscal year 2004, in part, because of these methods. We recommended that the Congress change the yield for loans made or purchased in the future with the proceeds of pre-October 1, 1993, tax-exempt bonds, and any refunding bonds, to better reflect market interest rates. The Congress relied heavily on our report to develop and promote legislation to change the lender yield, frequently citing our findings as it debated legislation. In October 2004, the Congress passed the Taxpayer-Teacher Protection Act, which temporarily changed the lender yield on loans financed with pre-October 1, 1993, tax-exempt bonds. These changes were in effect until December 31, 2005, but the law was extended for 3 additional months until March 31, 2006. The combined financial benefits from the original law plus the extension totaled over \$344 million. In February 2006, the Congress passed the Deficit Reduction Act of 2005, which permanently changed the lender yield, requiring that loans made or purchased after February 8, 2006, with proceeds of tax-exempt bonds issued prior to October 1, 1993, have a lender yield based on market interest rates. Lenders that hold less than \$100 million in 9.5 percent loans will be able to continue to receive the minimum 9.5 percent yield until December 31, 2010, at which time the yield will change to one based on market interest rates. Financial benefits generated by this change will continue over 10 years and will total \$930 million in fiscal year 2006 alone. The combined financial benefits from the temporary and permanent lender yield changes are over \$1.2 billion. (GAO-04-1070 and GAO-04-107)

**1.17.N. Improving Oversight of Schools That Are Lenders:** The Congress addressed our findings and recommendations from our review of FFELP, which helps students pay for postsecondary education. We found that schools serving as lenders under FFELP reported differing interpretations of the law regarding their authority to originate Parent Loans for Undergraduate Students, that the Department of Education (Education) had not issued guidance available to all school lenders on this issue, and that school lenders occasionally lent to students who did not attend their schools. We also found that not all school lenders asked for contract proposals in selecting the organizations they would use to finance, originate, service, and purchase their FFELP loans. Further, the law did not specify how the premiums received for the sale of loan portfolios should be used, but schools used the funds to meet institutional needs, such as student recruitment or faculty improvement. Finally, only schools that originate or hold more than \$5 million in loans under FFELP were required to submit an annual independent compliance audit to the Office of Federal Student Aid for the purposes of assessing regulatory compliance and financial management. In passing the Deficit Reduction Act of 2005, the Congress addressed these issues, with members citing our report as inspiration. The act restricts school lenders from providing Parent Loans for Undergraduate Students and from providing loans to students not enrolled at their schools. Not only did this clarify loan requirements under FFELP, it also ensured consistent compliance across lending institutions. In addition, the act now requires schools to enter into contracts on a competitive basis with outside organizations that finance, service, or administer loans, and requires them to use the proceeds received from the sale of their loans for need-based grant programs. This clarifies how schools should administer FFELP and can ensure that schools provide another source of funds for needy students. Finally, the act expanded the audit requirement to all lenders. As a result, critical program measures are now in place to cover all school lenders, allowing Education to assess the adequacy of loan procedures, the financial resources of lenders, and the accreditation status of all school lenders. (GAO-05-184)

**1.18.N. Expediting Interstate Placements of Special Needs Adoptions:** Our work played a critical role in shaping legislation to facilitate the placement and improve the protection of adoptive and foster children across state lines. Concerns were raised that interstate placements delayed adoptions of children with special needs, often because of delays in completing home studies of prospective families that may result in special needs children lingering in foster care. Our work found that data to assess the timeliness of interstate placement were lacking, and that HHS was not been able to identify states that may need improvements in their processes or may be burdened by other states' requests for assistance with placements. We recommended that HHS help states collect and report data related to the interstate placement processes, especially the time needed to complete home studies and the sending and receiving state for each child placed across state lines. We also recommended that the agency assess the extent to which home studies cause delays or impede interstate adoptions and identify which states are facilitating timely interstate placements. And if the agency's findings supported such action, it should consider proposing legislation to reward states for facilitating placements across state lines. Congressional staff stated that our findings played a critical role in deliberations on the bill that became The Safe and Timely Interstate Placement of Foster Children Act of 2006 (Pub. L. No. 109-239). Enacted in July 2006, the act aims to accelerate inter-jurisdictional placements and improve the protection of adoptive and foster children across state lines. It requires a state receiving a request to place a child for adoption or foster care to complete a home study within 60 days and the state making the request to then respond within 14 days of receiving the home study. In addition, the law authorizes funding for an incentive program of \$1,500 for every home study completed within 30 days and requires that state plans for child welfare services include reference to state efforts to facilitate orderly and timely placements within and between states. (GAO-05-292)

**1.19.N. Improving the Collection of Child Support Payments:** State child support enforcement programs rely on Social Security numbers (SSN) to locate the addresses, income, and assets of noncustodial parents. In 2002, we reported that six states were not collecting SSNs for child support enforcement, as required.

We recommended that HHS's Office of Child Support Enforcement more effectively track compliance with this requirement and take formal actions when necessary. As a result, the agency committed to strengthen its efforts to monitor and oversee state plan compliance regarding SSNs and drivers' licenses. Specifically, the agency notified states of its intent to disapprove their child support plans and cease all federal child support funding if immediate action was not taken. Subsequently, all six states identified by the agency as noncompliant took action. For example, two states amended their state plans, effective June 2004, to include the use of SSNs. In addition, the Office of Child Support Enforcement determined that one state had the required legislation but had not implemented the requirement for SSNs on drivers' licenses. After receiving notice from the agency, the state implemented the legislation in May 2004. As a result, all states are now in compliance and able to use this enforcement tool to help collect child support payments. (GAO-02-239)

**1.20.C. Ensuring the Effectiveness of Federal Investments in Science, Technology, Engineering, and Mathematics Programs:** In October 2005, we reported that the federal government funded 207 education programs across 13 separate federal agencies at a cost of \$2.8 billion in fiscal year 2004. Despite the importance of ensuring that the United States remains a world leader in scientific and technological innovation, we noted that agencies had reported little about the effectiveness of federal investments in increasing the number of students and graduates pursuing science, technology, engineering, and mathematics degrees and occupations or improving educational programs in these fields. While some experts suggest that additional investments are warranted, we noted that it was important to know the extent to which existing federal programs are appropriately targeted and making the best use of available federal resources. Based on our report, the Congress established an Academic Competitiveness Council and charged it to (1) identify all federal programs with a mathematics and science focus, (2) identify the target populations being served by such programs, (3) determine the effectiveness of such programs, (4) identify areas of overlap or duplication in such programs, and (5) recommend ways to efficiently integrate and coordinate such programs. The Congress continued to rely on our work concerning science, technology, engineering,

and mathematics issues throughout 2006. In May 2006, for example, we provided updated information on these issues in testimony at a hearing that examined American competitiveness issues. Additionally, our report and testimony have subsequently been cited during congressional deliberations over newly proposed legislation concerning federal science, technology, engineering, and mathematics programs. (GAO-06-114 and GAO-06-702T)

## The promotion of work opportunities and the protection of workers

**1.21.N. Improving Agency Coordination for the 2006 Hurricane Season:** We identified three specific areas where inadequate coordination between the Federal Emergency Management Agency (FEMA) and the Red Cross hampered the provision of federal mass care assistance to victims of the 2005 Gulf Coast hurricanes. These areas were (1) differing views of FEMA and the Red Cross about certain key roles and responsibilities, which strained their working relationships; (2) frequent rotations of Red Cross staff, which constrained their ability to develop strong working relationships with employees of other agencies; and (3) FEMA's lack of a system to track requests for assistance submitted by the Red Cross, which slowed service delivery. We recommended improvements in all these areas, and some progress has been made. For example, the Red Cross has hired additional employees to improve coordination with state emergency management agencies. In addition, the Red Cross is revising training and taking additional steps to improve coordination. Furthermore, FEMA and the Red Cross have executed a new memorandum of understanding that sets forth their agreement to cooperate in a variety of areas related to disaster response and recovery. The memorandum confirms the organizations' commitment to sharing information about relief operations and coordinating their activities with respect to disaster operations, service delivery, training, the issuance of public information, and communications technology. These efforts can help ensure greater coordination after the next disaster. (GAO-06-712)

**1.22.N. Reducing Unemployment Insurance Overpayments:** Our 2002 testimony on the Unemployment Insurance program helped to convince the Congress that access to data sources could help states avoid overpayments of unemployment insurance benefits. We reported that the Department of Labor (Labor) and the states do not always take the necessary steps to adequately verify unemployment insurance claimants' initial and continuing eligibility for benefits. We found that some states rely heavily on claimants to self-report information concerning whether they are working when determining their eligibility for benefits, contributing to overpayments. Furthermore, we concluded that states could reduce overpayments if they had access to additional data sources, such as the National Directory of New Hires. This directory is a comprehensive source of unemployment insurance, wage, and new hires data for the whole nation. However, the law limited access to the directory and did not permit individual states to obtain data from it for purposes of verifying claimants' eligibility for unemployment insurance. We testified that having such access would allow Labor to verify unemployment insurance claimants' employment and benefit status in other states. In August 2004, the Congress passed the State Unemployment Tax Act Dumping Prevention Act (Pub. L. No. 108-295), which included language that provided states with the authority to access the directory. Congressional staff confirmed that our testimony was instrumental in showing the utility of providing states with access to this database as a means of reducing overpayments and preventing fraud. (GAO-02-820T)

**1.23.N. Reducing Fraud in Benefit Payments to Veterans:** Our review of the Veterans Benefits Administration's efforts to prevent payments to deceased veterans led to the arrest of individuals who were defrauding the government. We examined the Veterans Benefits Administration's interagency database matching process and found that it did not identify veterans who died during the application process, which resulted in improper benefit payments to veterans after their deaths. We discovered this by matching VA data on beneficiaries with Social Security Administration (SSA) data on deaths and identifying 857 veterans or survivors receiving VA disability compensation or pension benefits at a time when SSA identified them as deceased. Of these cases, we reviewed 28 and found evidence that deceased veterans were receiving benefits. We recommended that

VA review the remaining cases that were not included in our assessment to determine the extent to which payments were improperly sent to beneficiaries after they had died and, when appropriate, to recover those payments. VA agreed to review these cases and, after doing so, forwarded several cases to VA's Inspector General for follow-up. After investigating, the Inspector General determined that VA had improperly sent benefits to deceased veterans in several cases. This led to the arrest of individuals who were defrauding the government in three cases. (GAO-03-906)

#### **1.24.N. Ensuring Effective and Equitable Measures to Assess States' Performance and Penalties under the Temporary Assistance for Needy Families (TANF) Program:**

Under TANF, welfare recipients are expected to participate in work activities comprising 12 different categories. HHS is responsible for reporting participation rates in these work activities to the Congress and using them to identify states that are not meeting the required participation levels and, thus, may be subject to penalties. However, we found that states are being measured by different standards and the participation rates cannot be used to compare states' performance. Specifically, we determined that differences in how states define the categories of work that count toward meeting the federal work participation requirements led to inconsistent measurement of work participation across states. Unless the measure is clear and consistent for all those potentially subject to penalty, it can result in misleading information and inequitable penalty assessments. We also found that some states lacked internal controls to help ensure the work participation data were reliable. We recommended that HHS issue regulations providing for its oversight of states' definitions and more guidance to states on counting hours of work activities. Congressional staff relied heavily on our report when they drafted new requirements for TANF reauthorization. As a result, the Deficit Reduction Act of 2005 (Pub. L. No. 109-171), which reauthorized TANF, included requirements for HHS to provide additional direction and oversight regarding how to count and verify allowable work activities. To comply with the law, HHS issued regulations that more fully define the categories of work, require each state to provide a Work Verification Plan that includes a description of how each work activity counted by the state meets the federal definitions and how the state ensures its work participation data are

reliable, and provide for HHS to review and approve the plans and impose a penalty if a state fails to maintain adequate procedures for ensuring the accuracy of its work participation data. These revised regulations should help make the work participation data useful for assessing states' performance under TANF and imposing penalties on states that do not meet required levels of work participation. (GAO-05-821)

**1.25.N. Addressing Domestic Violence:** Our work influenced lawmakers to require certain marriage promotion programs to include education on domestic violence. In 2005, we examined the extent to which state TANF programs were spending TANF funds on marriage and responsible fatherhood programs and how, if at all, they were addressing domestic violence. We reported that research funded by HHS found that many unmarried parents face a variety of challenges that may impede their ability to form stable marriages. Assessment of these barriers, in particular domestic violence, could point out the need for referral to other kinds of appropriate help. Furthermore, addressing domestic violence specifically is important to ensuring that programs address its dangers. We concluded that while most marriage and fatherhood promotion programs did not address the issues of domestic violence explicitly, evidence suggested that these issues should be explicitly addressed. Our findings significantly influenced lawmakers to require that marriage promotion programs include education on domestic violence. In February 2006, the Congress enacted the Deficit Reduction Act of 2005, which reauthorized the TANF program. This act requires that all entities seeking grants to fund marriage promotion and responsible fatherhood activities consult with domestic violence experts or coalitions to develop these activities and describe how they will address domestic violence. (GAO-05-701)

**1.26.N. Expanding Eligibility for and Awareness of Worker Benefits:** The trade adjustment assistance program, the primary federal program serving workers laid off as a result of international trade, added two new benefits in 2002: health insurance assistance, known as the health coverage tax credit, and wage insurance for older workers, known as alternative trade adjustment assistance. To be eligible for the health coverage tax credit, trade adjustment assistance participants must be eligible for or receiving extended income support or

receiving benefits under the trade adjustment assistance program's wage insurance program. Labor's implementing guidance required that to be eligible for extended income support, and therefore for the health coverage tax credit, workers had to be enrolled in training or have a waiver of the training requirement—even before the workers had reached their statutory training enrollment deadlines. In 2004, we reported that as a result, almost all states increased the number of training waivers issued to workers who are eligible for trade adjustment assistance to help them quickly become eligible for the health coverage tax credit. Labor officials reported that this increase in waivers resulted in a significant administrative workload. On May 25, 2006, Labor issued guidance to states that revised the eligibility criteria for extended income support and the health coverage tax credit. Under this new guidance, workers who have not yet reached their training enrollment deadlines may be eligible for extended income support and the health coverage tax credit without being in training or having a training waiver. In the guidance, Labor cites our findings as a significant reason for its revision of the eligibility criteria. This new policy will reduce the administrative burden on states, allow workers to have quicker access to the health coverage tax credit, and let states devote more resources to assessing workers' needs and developing meaningful service plans that lead to reemployment. In a related report issued in 2006, we found that many workers were unaware of and did not receive health coverage tax credits and alternative trade adjustment assistance benefits. States' efforts to inform workers about these benefits were mixed; some states did not believe their duties included conducting outreach on these benefits. We recommended ways to improve awareness and noted that workers need information beyond what is available at initial informational meetings. Labor subsequently raised these issues at its national conferences for state trade adjustment assistance and rapid response coordinators. The agency discussed how to conduct better outreach, and encouraged states to ensure that counseling sessions assess a worker's need for these benefits and to distribute fact sheets at rapid response meetings with workers. (GAO-04-1012)

**1.27.N. Improving the Delivery of Youth Services:** Labor implemented several recommendations we made to enhance youth programs under the Workforce Investment Act. Our February 2004 report recommended that Labor coordinate with Education to clarify how schools can work with workforce officials to connect school dropouts with local Workforce Investment Act youth programs, increase the availability of guidance and technical assistance to local areas, and establish regional monitoring procedures to oversee state efforts to validate performance data. Labor addressed these recommendations with several actions. In July 2004, the agency issued guidance articulating a new strategic vision to serve out-of-school youth that encourages state and local workforce systems to partner with public school systems. Conversely, alternative education institutions are encouraged to work with the Workforce Investment Act one-stop career centers to obtain information on local workforce training programs and local labor markets, including career information. Labor and Education held Regional Youth Forums and conference calls that convened education and workforce groups to exchange information and provide technical assistance. Through its Web site, Labor now provides information on specific strategies for partnerships between the workforce system and community colleges to reach youth who are out of school or at risk of dropping out. In addition, Labor disseminated guidance through its Performance Enhancement Project, which uses online training, face-to-face workshops, and targeted technical assistance to help states and local areas most in need. One workshop focused on designing and delivering effective Workforce Investment Act youth programs, including programs serving out-of-school youth. These efforts can help ensure states and localities get the necessary training and assistance to broaden services to out-of-school youth. Finally, Labor developed its *Core Monitoring Guide* in 2005 that provides a consistent framework for on-site monitoring of all employment and training grants. It requires monitoring officials to review the grantee's management information system and determine whether it incorporates a data validation process to ensure accuracy. Several regions conducted monitoring visits to review data validation files and compare findings against data submitted to Labor. This guide can improve the consistency of oversight procedures and reliability of Workforce Investment Act youth performance outcome data. (GAO-04-308)



## A secure retirement for older Americans

**1.28.F. Reducing Liabilities of Social Security Trust Funds by Billions of Dollars:** Our findings on the Social Security coverage of medical residents helped the Social Security Trust Funds avert losses of \$3.9 billion. A court ruled in 1998 that medical residents were not liable for Social Security contributions for wages paid because the court considered medical residents to be students and, therefore, qualified for an exception to paying Federal Insurance Contributions Act taxes and Social Security coverage. The Congress asked us to review the matter. We found that no federal law provides that medical residents are uniformly subject to, or exempt from, paying Federal Insurance Contributions Act taxes. However, federal law contains provisions that medical residents could potentially be exempt if they are employed by the school, college, or university at which they are students, enrolled and regularly attending classes. We also noted that the ruling had generated applications for tax refunds from medical residents (and medical institutions paying the employer's share of Social Security) totaling more than \$162 million as of August 2000. SSA estimated that the exemption would increase liabilities to the Social Security Trust Funds by \$3.9 billion from 2001 through 2010. The Department of the Treasury, the Internal Revenue Service (IRS), and SSA used our findings to develop and promote regulatory changes to address this issue. IRS issued final regulations, which took effect on April 1, 2005, clarifying that employees who are working enough hours to be considered full-time employees (40 hours or more per week) are not students for the purposes of the exception. Thus, medical residents working at least 40 hours per week would now be covered by Federal Insurance Contributions Act and Social Security. As a result, the Social Security Trust Funds will avert liabilities of \$3.9 billion spanning a 10-year period, including \$410 million in fiscal year 2006 alone. (GAO/HEHS/GGD-00-184R)

**1.29.N. Targeting Supplementary Security Income Residency Violations:** Our work has contributed to better targeting of overpayments of Supplementary Security Income (SSI) benefits resulting from residency violations, which totaled about \$118 million from 1997 through 2001. We recommended ways that SSA, which administers SSI, could address weaknesses we found in

detecting and deterring residency violations. The agency agreed with our recommendations and took action. We recommended that SSA expand the use of unannounced home visits to help target violations and investigate the potential of emerging third-party databases to help field staff more accurately verify whether SSI recipients are violating program regulations. SSA subsequently contacted the remaining states, whose Medicaid agencies generally conduct the visits for both SSI residency and Medicaid purposes, to determine their willingness to enter into similar agreements. This led to agreements with seven additional states. SSA also reported that these visits would lead local SSA offices to take action to stop benefit payments to ineligible beneficiaries. As recommended, SSA began using third-party data sources to detect SSI residency requirement violations, including data exchanges with DHS regarding individuals deported from the United States and individuals who notify DHS that they will be out of the country for an extended period, and therefore not eligible for benefits. With more data at its disposal, SSA forwarded over 2,000 alerts to its field offices for further investigation. Finally, we recommended high-risk factors that the agency could test for effectiveness as part of its risk analysis system, which identifies recipients who are more likely to be overpaid. SSA considered the factors and incorporated some, such as past period of excess resources, into its redetermination profiling system to select cases for redetermination. These efforts can improve detection and deterrence so that only eligible individuals receive SSI benefits. (GAO-03-724)

**1.30.N. Protecting SSNs from Identity Fraud and Abuse:** Our work on the protection of SSNs led to agency and congressional action, and continues to be used by the Congress. Members of the Congress were concerned about what types of entities were sharing personal information, including SSNs, with contractors; what industry practices, if any, were being followed; and what federal agencies were doing to regulate and monitor the sharing of SSNs between private sector entities and their contractors. In 2003, we recommended that SSA change the way it verified driver license information and SSNs, otherwise states would be vulnerable to customers who may be fraudulently using a deceased person's identity information to obtain a driver license. The Intelligence Reform and Terrorism Prevention Act of 2004 required SSA to address this recommenda-

tion. As of March 2006, SSA had installed software that revised its verification method and began informing driver licensing agencies when the SSNs for which they request verification belong to deceased individuals. In a 2005 report, we recommended that to fully protect against fraud and abuse, SSA establish procedures for handling, securing, and tracking birth certificates obtained for verification purposes. In 2006, SSA issued procedures for handling and securing birth certificates in its Program and Operations Manual System. In 2006, we issued a report describing when private entities—such as banks, telecommunication companies, and tax preparation companies—share SSNs with contractors. We found that these entities share SSNs with contractors for limited purposes and rely on accepted industry practices and used the terms of their contracts to protect the personal information shared with contractors. Our review of four industries revealed gaps in federal law and agency oversight. At the Congress's request, we testified about the gaps in SSN protection practices within government agencies and across industry sectors, noting that two recommendations we made to strengthen government agency practices were implemented, and that some agencies began taking steps to eliminate SSNs from their identification cards. To address remaining issues, the Congress is considering actions such as convening a group of government officials to develop a unified approach to safeguarding SSNs and restricting the use and display of SSNs to third-party contractors. These efforts can better protect SSNs from identity fraud and abuse. (GAO-06-586T, GAO-06-238, GAO-05-115, and GAO-03-920)

**1.31.C. Contributing to the Understanding of the Relationship between Demographics, Financial Markets, and Retirement Security:** The first wave of baby boomers will become eligible for Social Security early retirement benefits in 2008. In addition to concerns about how the boomers' retirement will strain the nation's retirement and health systems, concerns also have been raised about the possibility of boomers selling large amounts of financial assets in retirement, with relatively fewer younger U.S. workers available to purchase these assets. Some observers have suggested that such a sell-off could precipitate a market "meltdown," a sharp and sudden decline in asset prices, or reduce long-term rates of return, while others have noted that such an outcome could be mitigated by a rising demand for U.S. financial

assets from developing countries and by immigration. Because views range widely on the potential impact, our July 2006 report put this issue into perspective by analyzing the concern from several different angles—analyzing the distribution of financial assets among boomers; synthesizing the academic research and views of financial industry representatives; and highlighting the importance of rates of return in the context of trends affecting other sources of retirement income, such as Social Security and traditional pensions. We found that while the boomers' retirement is not likely to cause a sharp decline in asset prices, the retirement security of boomers and others will likely depend more on individual savings and returns on such savings. This is due, in part, to the decline in traditional pensions that provide guaranteed retirement income and the rise in account-based defined contribution plans. Also, fiscal uncertainties surrounding Social Security and rising health care costs will ultimately place more personal responsibility for retirement saving on individuals. Our report will help the Congress, policymakers, and citizens better understand the potential range of effects that economic and demographic trends have on retirement income and how to weigh those risks and make better decisions about retirement planning. (GAO-06-718)

## An effective system of justice

**1.32.C. Addressing the Challenges of Immigration Reform:** In several reports this past year, we identified challenges DHS faced in controlling illegal immigration into the United States. We reported that the widespread use of counterfeit documents has allowed unauthorized workers to obtain jobs and that a voluntary electronic employment eligibility verification program operated by DHS, for which about 9,000 employers have registered, holds promise for limiting the ability of unauthorized workers to obtain jobs. We also reported that DHS faces extensive challenges in meeting a congressionally mandated deadline that required all persons entering the United States to present a passport or other document or combination of documents by January 2008—a deadline that has since been extended to June 1, 2009. We also reported that immigration benefit fraud remains a serious problem and that most who committed immigration fraud were not penalized. The Congress used these reports in developing proposed legislation that

would require all employers to electronically verify all new employees' authorization to work, extend the deadline requiring all persons to present a passport or other documents, and increase penalties for those who commit immigration fraud. (GAO-06-1055, GAO-06-814R, GAO-06-741R, GAO-06-259, and GAO-05-813)

## The promotion of viable communities

### 1.33.C. Improving the Federal Housing Administration's Risk Management and Estimation of Program Costs:

In 2005 and 2006, we issued a series of reports identifying weaknesses in the Federal Housing Administration's ability to manage risks and estimate costs for its single-family mortgage insurance products. For example, we noted that the agency lacked sufficient controls to manage risks associated with the growing proportion of loans with down-payment assistance, consistently underestimated the costs associated with claims on its insured loans, and developed its mortgage scorecard (an automated credit assessment tool) using data that were outdated by the time the agency implemented the scorecard. In response to our recommendations, the Federal Housing Administration incorporated the source of down-payment assistance in its actuarial review of the insurance fund, plans to update its mortgage scorecard on a regular basis, and is testing additional variables found to influence credit risk for possible inclusion in the scorecard. These changes will help the agency reduce the risk of losses in its single-family mortgage insurance program and more reliably estimate program costs. (GAO-06-868T, GAO-06-435, GAO-06-24, GAO-05-875, and GAO-05-194)

### 1.34.C. Identifying Improvements Needed in Credit Card Disclosures:

We found that consumers had difficulty identifying and understanding the rates and fees that could affect their credit card costs. As part of reviews we conducted of credit card issues, we found that credit card pricing now features a variety of interest rates and other charges. For example, cardholders who make late payments may pay a penalty of as high as \$39 per occurrence and could have their interest rates increased to 30 percent or more. However, our interviews with consumers revealed that their understanding of the terms and conditions in disclosure statements supplied

by credit card providers was limited. We interviewed consumers and used a usability consultant to analyze the readability of the disclosures that the largest issuers provide to cardholders. We found that the disclosures obscured important information in text, failed to group and label related material, and used small typefaces. We recommended that as the Federal Reserve completes its efforts to revise card disclosures that it involve consumers in assessing the usability and readability of new disclosure formats and language and consider using usability experts to assist with the design and testing of any new disclosures. We also identified information that the Federal Reserve could use in developing newly mandated disclosures to inform consumers of the consequences of making only the minimum payment on their credit cards. (GAO-06-929)

### 1.35.C. Providing More Timely Disaster Assistance:

We evaluated the Small Business Administration's disaster loan program. We determined that several factors affected the agency's ability to provide timely disaster assistance and caused a significant loan application backlog for several months following Hurricane Katrina. We recommended, in a July 2006 report, that the agency reassess the maximum user capacity of its Disaster Credit Management System based on lessons learned from the Gulf Coast hurricanes and information available from catastrophe risk modeling firms and disaster simulations. We also recommended that the agency expedite plans to identify ways to more efficiently process disaster loan applications. The agency said that it was considering using catastrophe risk models and disaster simulations as part of its disaster planning process. The agency also said it was considering resuming its business process reengineering efforts to provide for a secure Internet-based application for disaster loans. These actions will improve the agency's ability to provide timely assistance in response to future disasters. (GAO-06-860)

**1.36.C. Improving the Fair Housing Intake and Investigation Processes:** As a follow-up to an April 2004 report on the Department of Housing and Urban Development's oversight and management of the fair housing process, in October 2006, we reported on the thoroughness of fair housing intake (the receipt and recording of inquiries and complaints) and investigation (the collection of evidence) processes, as well as complainants' satisfaction with these processes and with

attempts to reach mutually acceptable solutions on their complaints. We found that (1) the department needed better assurance that intake and investigation processes were consistently thorough and (2) significant numbers of complainants were dissatisfied with the fair housing complaint process, its outcome, and certain aspects of intake and investigation. We recommended that the department establish standards and benchmarks for initial intake activities, improve data needed to monitor the timeliness of these activities, and improve planning and documentation of investigations. The department has taken steps to better monitor the fair housing intake and investigation processes and has incorporated some of our recommendations into its policies and procedures. (GAO-06-79 and GAO-04-463)

**1.37.C. Improving Oversight of Community Development Block Grants:** In our July 2006 report we determined that recipients of Community Development Block Grants spend the majority of their grants on public improvements (such as water lines and street improvements) and housing, but the Department of Housing and Urban Development does not centrally maintain the data needed to determine recipient compliance with statutory spending limits on public services and administration and planning. We recommended that the department maintain the data needed to determine whether recipients comply with these limits. In addition, the department uses a computerized risk-based system and approach to determine whether additional recipient oversight is needed. However, the department failed to solicit adequate staff input on the system's development and has not planned how to backfill these oversight positions with needed skills for monitoring as existing oversight employees retire or leave the agency. We recommended that the department develop a workforce plan and seek opportunities to solicit input from its staff who will be using the computer system. Further, the department has not developed guidance establishing a consistent framework for holding grant recipients accountable for deficiencies identified through monitoring. We recommended the department consider developing guidance for the program that details what conditions should be considered when taking corrective actions and what specific conditions warrant different types of corrective actions. The department agreed with our findings and recommendations. (GAO-06-732)

**1.38.C. Improving the National Flood Insurance Program:** For nearly 30 years we have reported on a variety of issues that affect the National Flood Insurance Program, including concerns related to the sufficiency of the program's financial resources, compliance with mandatory purchase requirements, the costly impact of repetitive loss properties, and most recently our concerns about FEMA's billion-dollar flood map modernization efforts and management and oversight of the program. In March 2006, we designated the National Flood Insurance Program as a high-risk program. Because of the unprecedented magnitude and severity of floods resulting from hurricanes in 2005, the program incurred losses more than the total claims paid in the history of the program. It is highly unlikely that the program will generate sufficient revenues to repay funds borrowed from the Treasury to cover the 2005 flood losses. In response in part to our recommendations, FEMA has taken some steps to address these concerns, for example, by working to increase participation in the program; implement requirements of the Flood Insurance Reform Act of 2004 and improve its management and oversight of the program; and more strategically plan to update the nation's flood maps, the foundation of the program. (GAO-06-497T, GAO-06-335T, GAO-06-183T, GAO-06-174T, and GAO-06-119)

**1.39.C. Improving the Nation's Public Housing:** In February 2006, we testified on the roles that the Department of Housing and Urban Development, public housing agencies, capital markets, and service organizations play in the operation of the nation's public housing. Our testimony was based on several reports we have issued regarding public housing since 2002, including a series of three reports on the department's multibillion-dollar HOPE VI program to revitalize severely distressed public housing and, more recently, the extent of severe distress in public housing for the elderly and persons with disabilities. The department has implemented a number of our recommendations aimed at improving its guidance to public housing authorities and its oversight of programs. Our testimony also noted the challenges public housing authorities face in carrying out their required management and reporting responsibilities, including difficulty with the department's data systems and the lack of resources for hiring and training staff, and their use of community service organizations to assist public housing residents—particularly the elderly and residents

with disabilities. (GAO-06-419T, GAO-06-163, GAO-04-109, GAO-03-91, and GAO-03-55)

#### **1.40.C. Evaluating Community and Economic Development Programs:**

We evaluated the Empowerment Zone and Enterprise Community programs. These programs provided additional tax benefits and \$1 billion in grants to selected high-poverty communities. A variety of activities were used by the selected communities intended to improve social and economic conditions. However, the federal agencies responsible for the programs did not collect information on the program expenditures for these activities and did not provide state and local entities with the guidance necessary to ensure consistent program monitoring. Further, as we noted in our 2004 report, data on the actual amounts of tax benefits used nationwide or in individual communities were not available from IRS or other sources. Our September 2006 report noted that these communities and zones showed some improvements in poverty, unemployment, and economic growth, but we could not definitively tie these changes to participation in the programs. A number of challenges exist in this type of evaluation, and the lack of data on the use of program funds and tax benefits further limited our analysis. We observed that if the Congress authorizes similar programs it should consider requiring that data on the use of program funds and tax benefits be collected. (GAO-06-734SP, GAO-06-727, and GAO-04-306)

#### **1.41.C. Estimating the Cost of Section 8 Rental Housing Assistance:**

The annual appropriations for the Department of Housing and Urban Development's Section 8 rental housing assistance programs doubled over a 6-year period to over \$20 billion. The Congress has sought ways to limit its growth in costs. Section 8—a key federal tool for subsidizing rents for low-income households—consists of two major programs: housing choice vouchers, which allow households to rent units of their choice in the private market, and project-based, which pays subsidies to landlords to subsidize specific units. Analysis of factors driving the cost growth has been limited in part because the department did not separately report budgetary costs for each program. In an April 2006 report, we provided, for the first time, information on outlays for the individual Section 8 programs and found that allowing for inflation, the voucher program was driving the growth in costs. More

specifically, over 40 percent of the growth in voucher outlays from 1998 through 2004 was due to decisions to expand the number of assisted households, while over 50 percent of the growth was due to increases in the average cost per voucher household. We also found that over half of the increase in the average cost per voucher household resulted from rising market rents and about one-quarter from program administrators' decisions to increase the maximum allowable amount of rental subsidy they can pay for assisted households. Our analysis of the impact of these factors will help inform the Congress as it considers options for reforming the voucher program. (GAO-06-405)

## **Responsible stewardship of natural resources and the environment**

**1.42.F. Reducing Nuclear Waste Cleanup Costs:** Our work helped to avoid an increase in the cost of treating and disposing of radioactive high-level waste in 11 tanks at the Department of Energy's (DOE) Idaho National Laboratory. A legal challenge could have required DOE to treat and dispose of its waste at Idaho using an expensive vitrification technology and to exhume and dispose of the storage tanks holding the waste. We recommended that DOE seek legislative clarification from the Congress to ensure that possible delays and cost increases could be minimized. In response, DOE sought and obtained clarification of its waste determination authority from the Congress. In October 2004, the Congress passed and the President signed legislation (Fiscal Year 2005 National Defense Authorization Act), which, among other things, clarified DOE's authority to define certain wastes as other than high-level waste. As a result, DOE was able to apply less expensive treatment technologies and disposal options at the Idaho site, thus realizing a financial benefit of about \$441 million through fiscal year 2010. (GAO-03-593, GAO-03-930T, and GAO-04-611)

**1.43.C. Improving Management of Federal Oil and Natural Gas Royalty Revenue:** In 2006, in response to congressional concerns about the amount of oil and natural gas royalties collected by the federal government in a period of ever-increasing energy prices, we provided

a series of briefings and a report to the Congress that has improved the understanding and future management of federal oil and natural gas royalties. Specifically, we explained that oil and gas royalties have not kept pace with the increases in oil and gas prices from 2001 to 2005 largely because of decreases in production sold. In addition, we have brought to light that royalty relief provisions could result in forgone revenue on future oil and gas production, according to the Minerals Management Service's preliminary estimates, of up to \$60 billion depending on the results of pending litigation. The Congress has several active proposals to change and clarify these royalty relief provisions so that these significant royalty revenues are collected in the future. (GAO-06-786R)

**1.44.C. Reducing the Threat of Wildland Fires to Our Nation's Communities and Ecosystems:** In a series of reports and testimonies over the past several years, we reported on and made several recommendations related to Forest Service and Department of the Interior efforts to reduce the accumulation of dense vegetation on federal lands that has been fueling large, intense, and sometimes catastrophic wildland fires. Consistent with our findings and recommendations, the House and Senate appropriations committees, in their reports on the Department of the Interior, Environment, and Related Agencies Appropriation Bill for fiscal year 2007, each provided direction to the agencies regarding their wildland fire management activities. Both agencies were directed to (1) develop and implement a comprehensive and cohesive strategy that identifies long-term options and funding required to respond to wildland fire management needs; (2) outline, by January 31, 2007, the tactical details on how they will produce such a strategy by June 30, 2007; and (3) not expend funds on the fire program analysis system, designed to identify the most cost-efficient and effective distribution of firefighting resources, unless and until the Secretaries of Agriculture and the Interior certify that the systems will be completed in a timely fashion and include full participation of state partners. In addition, the Forest Service was directed to (1) indicate, before distributing any funds, how fuel reduction funding will be prioritized and allocated to regions and (2) separately track acreage of fuel reductions designed to maintain safe conditions, in addition to acreage where fuels are reduced to improve conditions, in order to more accurately capture the results of agency

activities. (GAO-06-671R, GAO-05-923T, GAO-05-627T, GAO-05-147, and GAO-03-805)

**1.45.C. Improving Federal Agency Management of Electronic Waste:** The federal government spends more than \$60 billion per year on electronic equipment, making it the world's largest purchaser of electronics, yet federal agencies have little incentive to procure, operate, and dispose of electronic equipment in an environmentally friendly manner. The Environmental Protection Agency (EPA) has implemented several promising voluntary programs that with broader federal agency participation, could (1) position the federal government in a leadership role to help develop a nationwide electronics recycling infrastructure and (2) ensure environmentally preferable management of products with significant amounts of toxic substances. However, participation in these programs is quite limited. We recommended that EPA take more significant steps to require federal agencies to participate in the budding voluntary programs. As a direct result of our report, in February 2006, EPA strengthened its Federal Electronics Challenge (a program with some Energy Star-like attributes for electronic products) by expanding outreach to nonparticipating federal facilities—increasing federal facility participation from 26 to 113, or 20 percent of the federal workforce. According to the program manager for the Federal Electronics Challenge, in addition to the environmental benefits associated with more responsible handling of federal electronic waste, EPA's fiscal year 2006 environmental benefits calculations will show substantial dollar savings associated with increased participation in the Federal Electronics Challenge resulting from our recommendation. (GAO-06-47)

**1.46.C. Improving Security at Nuclear Power Plants:** Our work has resulted in the Nuclear Regulatory Commission taking actions to improve its regulatory and oversight processes related to protecting commercial nuclear power plants against potential terrorist attacks. We recommended that responsibility for obtaining feedback from the nuclear industry and other stakeholders on proposed changes to the design basis threat (the threat that nuclear power plants must be prepared to defend against) be assigned to a commission office outside the threat assessment section. This action would enable staff to assess the threat without creating the potential for or appearance of the industry influencing their analysis. We

also recommended that the Nuclear Regulatory Commission continue to evaluate and implement measures to strengthen the force-on-force exercises (mock attacks) that it uses to test the plants' defenses. In response to our recommendations, the commission has transferred the responsibility for accepting stakeholder feedback on proposed design basis threat changes to other sections, and stakeholder feedback will not be obtained until after the threat assessment staff has provided its initial threat assessment to senior commission management. The Nuclear Regulatory Commission also has further efforts under way to improve its force-on-force inspection methodology, particularly looking for ways to reduce artificiality in these mock attacks. (GAO-06-555T and GAO-06-388)

**1.47.C. Reducing Vulnerability to Fraud, Waste, and Abuse in the Federal Crop Insurance Program:**

Federal crop insurance protects producers against losses from natural disasters. In 2005, the crop insurance program provided \$44 billion in protection, at a cost of \$2.7 billion, including an estimated \$117 million in losses from fraud, waste, and abuse. In September 2005, we reported on the need for the Department of Agriculture to strengthen procedures and processes to prevent and detect fraud, waste, and abuse in the federal crop insurance program. We testified on this issue in June 2006. Among other things, we found that the department's data-mining analyses were incomplete because of a lack of coordination and data sharing among the department's agencies. We also found that approved insurance providers did not complete all required quality assurance reviews of claims. As a result, we identified millions of dollars in improper claims payments in 2003 and 2004. Based on our recommendations, the department has taken steps to strengthen its processes by (1) improving coordination and information sharing between its Risk Management Agency and its Farm Service Agency, (2) strengthening oversight of insurance providers' use of quality controls, and (3) developing regulations to implement new sanction authorities. (GAO-06-878T and GAO-05-528)

**1.48.C. Improving the Consistency of Federal Jurisdiction over the Nation's Waters and Wetlands:** In February 2004, we reported on the lack of consistency in how district offices of the U.S. Army Corps of Engineers (USACE) were interpreting and applying federal

regulations when determining which waters and wetlands are subject to federal jurisdiction. In our report, we recommended that USACE evaluate these differences and resolve them, as appropriate. During the time when USACE was implementing our recommendations, the Supreme Court decided to hear two prominent cases challenging USACE's jurisdiction over certain kinds of wetlands. The Supreme Court issued its decision in June 2006. Although a divided Court failed to produce a majority opinion clarifying the extent of USACE's jurisdiction under the Clean Water Act, each of the three opinions given by the justices in the case relied on the information contained in our 2004 report. The cases have now been remanded back to the U.S. Court of Appeals for the 6th Circuit and most experts believe that lower courts will continue to address the jurisdictional issue on a case-by-case basis unless the Congress acts or USACE promulgates clear guidelines. (GAO-04-297)

**1.49.C. Improving Coordination and Leadership for Restoring Environmental Conditions in the Great Lakes Basin:**

Our work identified over 148 federal and 51 state programs funding environmental restoration activities in the Great Lakes Basin using several different strategies that were not coordinated or unified in a manner comparable to other large restoration projects. Measurable indicators for assessing restoration progress were absent for determining whether environmental conditions were improving. Our findings to improve coordination and develop measurable indicators were instrumental in the formation of the Great Lakes Inter-agency Task Force by executive order. Using a unique collaborative process involving all levels of government, tribes, and local communities, the task force developed the Great Lakes Regional Collaboration Strategy in December 2005. This strategy was developed by eight teams over the course of a year and represented a coordinated approach we recommended for addressing environmental issues such as invasive species and a coordinated approach for developing indicators. (GAO-03-515)

**1.50.C. Improving the Safety of Underground Storage Tanks:** In May 2001, we reported a number of problems with EPA's and states' implementation of the federal underground storage tank program. At the time, the states and EPA could not ensure that all active tanks had been upgraded to meet the federal leak

detection and spill, overflow, and corrosion protection requirements, nor could they guarantee that the installed equipment was being properly operated and maintained. In addition to specific recommendations to EPA that the agency has implemented over the years, we recommended that the Congress take a number of actions to strengthen EPA's and states' ability to inspect the tanks and enforce federal requirements. Acting on our recommendations, the Congress included specific provisions in the Energy Policy Act of 2005, enacted in August 2005, to increase enforcement and tighten the standards for underground storage tanks. Specifically, the Energy Policy Act establishes minimum inspection requirements for all regulated tanks, prohibits delivery of regulated substances into noncompliant tanks, and establishes training requirements for personnel responsible for daily tank operation and maintenance. The Energy Policy Act provides for a gradual phase-in of the new requirements over several years, beginning in August 2006. Currently, EPA is working closely with the states to implement the act's requirements. (GAO-01-464)

## A safe, secure, and effective national physical infrastructure

**1.51.N. Improving Access to Transportation for Disadvantaged Communities:** We issued two reports in 2005 on improvements that are needed in federal efforts to improve transportation access for disadvantaged communities. First, in the aviation area, we reported that the Department of Transportation's (DOT) implementation of the Small Community Air Service Development Program—which provides grants to help small, underserved airports improve their air service—has achieved mixed results since only about half of the airports that had received grants as of September 2005 reported air service improvements that were self-sustaining after the grant was over. We also found that DOT's Air Service Development Zone concept—where DOT works annually with one grant recipient on ways to attract business to areas surrounding the airport and to develop land use options—had no identifiable effect on any one of the three locations designated from 2002 through 2004. In response to our recommendation, DOT developed enhanced guidance for communities requesting designation as an Air Service Development Zone. Second, in the transit area, we reported that DOT needed to

improve its oversight of how transit agencies and metropolitan planning agencies are implementing DOT's guidance on making transportation services accessible to persons with limited English proficiency. DOT has taken some action to implement our recommendations, including creating a new limited English proficiency Web site that provides a clear link to its guidance. (GAO-06-52 and GAO-06-21)

### 1.52.F. Improving Spectrum Management by Extending the Federal Communications Commission's Auction Authority and Speeding the Digital Television Transition:

Since 1993, the Federal Communications Commission has conducted auctions to assign certain spectrum licenses, which are used for various commercial wireless communications services. This market-based mechanism has generated over \$14.5 billion for the U.S. Treasury. However, some parties have raised concerns about the use of auctions, contending that the auctions raise consumer prices. In December 2005, we reported that auctions appeared to have little or no impact on end-user prices, infrastructure deployment, and competition, and that they mitigated the problems associated with comparative hearings and lotteries, which the commission previously used to assign licenses. We therefore recommended that the Congress extend the commission's auction authority beyond the scheduled expiration date of September 30, 2007. In another report, we reviewed the legislatively mandated transition from analog to digital television transmission, which would free valuable parts of the spectrum for auction, and concluded that the transition was unlikely to occur by the December 31, 2006, target date. In two subsequent congressional testimonies, we provided information to help speed the digital television transition, including (1) the cost of various scenarios for subsidizing converter devices that would enable consumers' analog television sets to receive over-the-air digital broadcasts and (2) the issues and complexities in administering a subsidy program. In the Deficit Reduction Act of 2005, the Congress extended the commission's auction authority and sanctioned a subsidy program for converter devices. The net present value of the projected financial benefits associated with these provisions of the legislation is \$6.1 billion. (GAO-06-526T, GAO-06-236, GAO-05-623T, GAO-05-258T, and GAO-03-277)



**1.53.C. Enhancing Fiscal Oversight of the Washington Metropolitan Area Transit Authority:** Through a series of products issued in 2005 and 2006, we provided the Congress with information that it used to develop the National Capital Transportation Amendments Act of 2005 (H.R. 3496). This proposed legislation would make \$1.5 billion in federal funding available to the Washington Metropolitan Area Transit Authority if, among other things, the local governments supporting the transit authority established dedicated sources of revenue for the transit agency. In May 2006, we reported on issues that needed to be resolved by the federal government and the jurisdictions that support the transit authority should they choose to provide it with dedicated funding. We also testified in July 2005 on options for providing spending safeguards and oversight of any additional federal assistance provided to the transit authority, should the Congress decide to provide such assistance. Our information was used by the Congress to design several provisions of H.R. 3496 that are aimed at improving accountability for any additional federal assistance. H.R. 3496 was passed by the full House of Representatives in July 2006. (GAO-06-516, GAO-05-922T, and GAO-05-358T)

**1.54.C. Improving Oversight of Freight Rail Rates, Competition, and Capacity:** The Staggers Rail Act of 1980 largely deregulated the freight railroad industry, giving the railroads freedom to price their services according to market conditions and encouraging greater reliance on competition to set rates. The act also recognized that some shippers might not have access to competitive alternatives and might be subject to unreasonably high rates. It established a threshold for rate relief and granted the Interstate Commerce Commission and the Surface Transportation Board the authority to develop a rate relief process for those “captive” shippers. In June 2006, we reported that an increasing share of potentially captive shippers were paying rates substantially above the threshold for rate relief. We noted that federal agencies had no recent assessment of the state of competition or where an inappropriate exercise of market (pricing) power might exist. Such an assessment would allow decision makers to identify areas where competition is lacking and to assess the need for and merits of targeted approaches to address the situation. We also reported that the railroad industry’s ability to meet what is expected to be significant increases in demand over

the next 15 to 25 years is largely uncertain. Investments in rail projects can produce public benefits—for example, shifting truck freight traffic to railroads can reduce highway congestion. (GAO-06-898T)

**1.55.C. Assisting Congressional Oversight of the Capitol Visitor Center Construction Project:** The success of any construction project often depends on the effectiveness of the project management and the ability of the project team to manage and control changes to the project costs and schedule. At the request of the Congress, we have continued to monitor the progress of the construction of the Capitol Visitor Center estimated to cost nearly \$600 million and open to the public in September 2007. We testified almost monthly on the status of the cost and schedule of this project. Our work has led to greater transparency of the progress and management of the project. We have urged the project management team to develop an integrated project schedule, which has allowed the team to better understand and mitigate the implications of delays or unexpected events on the project. We have provided timely cost and schedule risk assessments to the Congress, enabling it to ensure that the project was adequately funded and hold the Architect of the Capitol accountable for the progress of the project. We have continually questioned the expected cost and completion date for the project, which has resulted in the project management team revising its estimates and exploring options to mitigate cost overruns and project delays. (GAO-06-828T, GAO-06-827T, GAO-06-803T, GAO-06-665T, and GAO-06-528T)

**1.56.C. Improving the U.S. Postal Service’s (USPS) Delivery Performance Standards, Measurement, and Reporting:** In 2006, we reported on the USPS delivery performance standards and results, which are central to its mission of providing universal postal service. These performance standards and results have been a long-standing concern for mailers and the Congress. We reported that USPS has delivery standards for its major types of mail, but some standards have not been updated in a number of years to reflect changes in how mail is prepared and delivered. These outdated standards are unsuitable as benchmarks for setting realistic expectations for timely mail delivery; measuring delivery performance; or improving service, oversight, and accountability. We also reported that USPS does not

measure and report its delivery performance for most types of mail. Specifically, representative measures cover less than one-fifth of mail volume and do not include Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services. Therefore, transparency is limited with regard to its overall performance in timely mail delivery. Without sufficient transparency, it is difficult for USPS and its customers to identify and address delivery problems, and for the Congress, the Postal Rate Commission, and others to hold management accountable for results and conduct independent oversight. The report recommended that USPS take actions to modernize its delivery standards; implement delivery performance measures for major types of mail by providing clear commitment and more effective collaboration with mailers; and improve the transparency of delivery performance standards, measures, and results. Sponsors of postal reform legislation, which is pending conference approval, have recognized the need for action in this area, and Senate and House reform bills passed in this session of the Congress would require USPS to modernize its service standards and report its standards annually, respectively. (GAO-06-733)

**1.57.C. Improving Congressional Oversight of the Performance of the Airline Industry:** In 2005, we had reported on the tenuous finances of some airlines that had led to bankruptcy and pension terminations, in particular among those airlines that predated regulation. The Congress expressed concern about airline pension defaults and charged us with analyzing the impact of reregulating the airline industry on reducing potential pension defaults. We reported on the broad changes in the industry since deregulation in 1978, particularly concerning changes in airfares and service. Overall, median fares have declined almost 40 percent (in constant dollars) since 1980, and markets have generally become more competitive. We also reported that reregulating the industry would likely reverse many of the benefits that consumers have gained and would not save airline pensions. Although a number of airlines have failed and some have terminated their pension plans, those changes resulted from the entry of more efficient competitors, poor business decisions, and inadequate pension funding rules. We had previously recommended that broad pension reform is needed. (GAO-06-630)

**1.58.C. Improving Congressional Oversight of the Reconstruction of Public Hospitals in New Orleans:** We reported on efforts to rebuild hospital inpatient care and emergency department services in New Orleans after Hurricane Katrina devastated the area, providing the Congress with important information about the hurricane damage to the public hospitals and the costs of restoring these hospitals. The Medical Center of Louisiana at New Orleans, consisting of Charity and University hospitals, is part of the statewide Louisiana State University system and served as the primary safety net hospital for many local residents. We reported that Charity and University hospitals, which were either in poor physical condition or in need of significant repairs prior to Hurricane Katrina, sustained significant damage from the hurricane and remained closed. We also reported that FEMA estimated that it would cost over \$35 million to repair both hospitals, and that Louisiana State University estimated the costs to be much higher. We concluded that given the uncertainty about the ultimate amount of the federal contribution and the uncertainty of how a future health care system should be configured, the decision about whether to repair an existing facility or build a new one will be complicated. (GAO-06-1003 and GAO-06-576R)

**1.59.C. Informing Congressional Oversight of the Planning and Implementation of the Next Generation Air Transportation System:** In 2003, the Congress created the Joint Planning and Development Office within the Federal Aviation Administration (FAA) to bring together several federal agencies to plan for and coordinate a transformation to the “next generation air transportation system”—a system intended to safely accommodate an expected possible tripling of air traffic by 2025. In testimonies before a number of congressional committees, we reported that the Joint Planning and Development Office had made progress in facilitating collaboration and had set forth a vision for the next generation system. However, we found that the office faced challenges in leveraging the resources of its partner agencies and in convincing its nonfederal stakeholders that the government is fully committed to the next generation system. Lastly, the Joint Planning and Development Office must also work to provide the Congress with realistic cost estimates for the entire next generation effort. Implementation of the next generation system will fall in large part to FAA. We reported that FAA

faces challenges in institutionalizing recent improvements in its management and acquisition processes, as well as in obtaining the expertise and resources needed to implement the next generation system. We noted that transforming the national airspace system while the current system continues to operate will be an enormously complex undertaking. (GAO-06-915T, GAO-06-778R, GAO-06-738T, GAO-06-653T, and GAO-06-574T)

### **1.60.C. Improving Telecommunications for All**

**Americans:** We continued to build a body of work on the status of commercial telecommunications services across the country and on related consumer issues. For example, although the Congress and the President have indicated that high-speed (or broadband) access for all Americans is critically important for the economy, we found that the Federal Communications Commission may not have adequate data to provide a highly accurate depiction of the residential broadband infrastructure. This makes it difficult to assess the extent of gaps in the availability of broadband service in local markets, especially in rural areas. We also found that although the telephone subscribership rate for Native Americans living on tribal lands was substantially below the national average in 2000 (68.6 percent versus 97.6 percent), there are no data with which to determine how the rate of telephone and Internet subscribership on tribal lands has changed since then. We recommended steps to improve the data available for broadband and Native American telecommunications so that policymakers can assess progress in these areas and develop appropriate actions to assist underserved populations. (GAO-06-426, GAO-06-425, GAO-06-338, and GAO-06-189)

### **1.61.C. Reexamining the Nation's Passenger Rail**

**Service:** In fiscal year 2004, Amtrak served about 25 million passengers. It operates a 22,000-mile network providing service to 46 states and the District of Columbia, mainly using track owned by freight railroads. Amtrak was supposed to have achieved operational self-sufficiency by 2002. However, it continues to depend on an annual federal subsidy of more than \$1 billion to remain solvent. In June 2002, Amtrak's president began major efforts to improve efficiency. In October 2005, we reported that Amtrak's basic business systems need to be strengthened to help achieve financial stability and meet future operating challenges. Despite efforts instituted by its then-president, Amtrak continued to

lack a meaningful strategic plan that provided a clear mission and measurable corporatewide goals, strategies, and outcomes. We also reported that Amtrak's financial reporting and financial management practices were weak in several areas. For example, Amtrak has not developed sufficient cost information to target potential areas to cut costs, accurately measure performance, and demonstrate efficiency. We also reported that developing greater transparency, accountability, and oversight is critical for achieving operational success. Such efforts will be needed to address operating losses that already exceed \$1 billion annually and are projected to grow by 40 percent within 4 years. (GAO-06-470 and GAO-06-145)

### **1.62.C. Addressing Long-standing Problems in Managing Federal Real Property:**

Related to our high-risk designation for the federal real property management area, we have pursued a body of work assessing progress made by the administration and agencies to address long-standing problems that include excess and underutilized property, deteriorating facilities, unreliable real property data, overreliance on leasing, and the challenge of protecting federal facilities because of the threat of terrorism. We testified in October 2005 on the status of the leasing problem, and in February 2006, we testified on the status of the excess and underutilized property problem. Also related to excess property, we reported in June 2006 on opportunities to improve oversight of the public benefit conveyance program, where the government gives unneeded property to state and local governments and nonprofits for various purposes, such as education and wildlife conservation. Related to VA, we reported in April 2006 on joint ventures between VA and its medical affiliates to jointly construct and operate medical facilities and related challenges and lessons learned. In the area of facility protection, we reported in May 2006 on examples of methods used by entities outside the U.S. government to measure the performance of their facility protection programs. (GAO-06-511, GAO-06-472, GAO-06-248T, and GAO-06-136T)

### **1.63.C. Improving Transportation Safety and Program Design:**

In assessing a broad range of issues involving aviation, highway, motor carrier, pipeline, and transit safety, we reported that DOT had, in many cases, designed programs and implemented them in a way to help meet its goals of reducing transporta-

tion-related deaths and injuries. For example, in the aviation, pipeline, and transit areas, the department is carrying out programs that focus on threat identification and mitigation in addition to programs that determine whether regulated entities are meeting minimum safety standards. These risk management programs are beneficial because they require systematic assessment of safety threats and can identify safety problems that might be missed under more traditional compliance programs. In other areas, we concluded that the department had strengthened its motor carrier enforcement activities, improved crash data that are used in a variety of ways for federal and state decision making, and developed well-designed programs in the areas of aviation technical training and motor carrier safety grants. However, a common theme among some of the activities that we assessed this year was the need to perform evaluations and to better link efforts and performance measures to overall agency goals and to better show the impact of these activities on reducing deaths and injuries. We will continue to report to the Congress when federal safety agencies are doing a good job and work with them regarding these and other areas for improvement that we have identified. (GAO-06-946, GAO-06-821, GAO-06-266T, GAO-06-156, and GAO-06-103)

**1.64.C. Improving Oversight of DOT's Research Programs and Transportation Statistics:** DOT's Research and Innovative Technology Administration—which includes the Bureau of Transportation Statistics—is responsible for overseeing DOT's approximately \$1 billion annual investment in research, development, and technology activities. The agency was established in 2005, in part, because of concerns that we raised in a May 2003 report about its predecessor organization. In August 2006, we reported that the Research and Innovative Technology Administration had established several groups and practices for carrying out its responsibilities, but lacked performance goals, a clear implementing strategy, and an evaluation plan. Also, the agency had only partially implemented four of the five recommendations that we made in our 2003 report to improve DOT's coordination and evaluation of research, and had not implemented the other. For example, while it had taken some action to review research, development, and technology activities for duplication and opportunities for joint efforts, the Research and Innovative Technology Administration had not established the scope of

activities to be reviewed; the methodology of the review; or how the results will be used to make decisions about future research, development, and technology activities. In our 2006 report, we made several recommendations to enhance the agency's ability to manage and ensure the effectiveness of research, development, and technology activities and to improve the processes used by the Bureau of Transportation Statistics to identify its primary users and solicit and incorporate feedback from those users. DOT agreed with the findings and recommendations in the report. (GAO-06-917 and GAO-03-500)

**1.65.C. Improving the Efficiency and Sustainability of Capital Investment in Our Transportation Infrastructure:** Our work helped illuminate short-term funding challenges and assist the Congress in facing the long-term challenges of sustainability, equity, and efficiency in financing capital investment in our nation's transportation infrastructure. For example, in 2006 we reported on the growing imbalance between revenues and outlays facing the Highway Trust Fund and concerns about the future of the Airport and Airway Trust Fund. In the longer term, we reported that fuel taxes (the mainstay of highway finance for 80 years) are declining in purchasing power while more fuel-efficient vehicles and alternative-fueled vehicles undermine the viability of using fuel taxes to finance transportation at all. In light of the pending long-term fiscal crisis that requires a fundamental reexamination of all federal programs, we have helped frame the discussion about future approaches. Our June 2006 report discussed how highway tolling has promise to raise revenues and to improve capital investment decisions by better targeting spending for new capacity and enhancing private investment. We highlighted strategies states that choose to pursue tolling could apply to help overcome challenges to its use. Also, our September 2006 report analyzed options for funding the national airspace system, emphasizing those options that offered the greater promise of linking revenues to costs. (GAO-06-973, GAO-06-572T, GAO-06-562T, and GAO-06-554)

**1.66.C. Identifying Reasons for Increases in Judiciary Rental Payments:** The federal judiciary's rental obligations to the General Services Administration for court-related space have increased from \$780 million to \$990 million, or 27 percent from fiscal years 2000 through 2005, after controlling for inflation—primar-

ily because of a simultaneous net increase in space from 33.6 million to 39.8 million rentable square feet, a 19 percent increase nationwide. Much of the net increase in space was the result of new courthouses that the judiciary has taken occupancy of since 2000. In addition, we found that growing energy and security costs also contributed to the increases. We found that neither the judiciary nor the General Services Administration had routinely and comprehensively analyzed the factors influencing the rent increases. The lack of a full understanding of the reasons for the increases in judiciary rent, in our view, contributed to the growing

hostility between the judiciary and the General Services Administration over the rental bills. Compounding this, the federal judiciary faces several challenges to managing its rental obligations, including costly new construction requirements, a lack of incentives for efficient space use, and a lack of space allocation criteria for appeals and senior judges. We recommended that the judiciary track rent trends and improve its management of space and associated costs by providing incentives for efficient use and updating its space allocation criteria. (GAO-06-892T and GAO-06-613)



## Respond to emerging threats to security

**2.1.N. Improving Monitoring of Compliance with Export License Requirements:** In response to our recommendations, the Department of Commerce (Commerce) took steps to better monitor compliance with specific conditions regarding the export of controlled dual-use technologies to citizens of foreign countries and to better identify foreign nationals potentially subject to relevant export licensing requirements. We reported that vulnerabilities in Commerce's export control system could help China and other countries of concern improve their military capabilities. As a result, Commerce undertook a pilot program to better assess compliance with all license conditions by working with exporters to ensure they have export management systems capable of tracking and ensuring compliance with license conditions, and by detecting and prosecuting violations of license conditions. During this pilot, Commerce identified six investigative leads that were sent to its field offices for additional investigative action. Commerce now has access to a relevant Department of State (State) database to expedite its review of cases. This database provides Commerce with additional details regarding visa applicants. State has also referred cases to Commerce. Commerce also established a screening process with DHS so that any changes in a person's visa status that might require specific export licenses are forwarded to Commerce for review. (GAO-02-972)

**2.2.N. Promoting Government Efforts to Secure Sensitive Systems and Information:** Our continued work helped federal agencies identify needed informa-

tion security improvements. In fiscal year 2006, such agencies included the Securities and Exchange Commission, the Defense Logistics Agency, the Federal Deposit Insurance Corporation, the Federal Reserve, HHS, IRS, and CMS. Also, on the basis of our prior recommendations, agencies—including IRS, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, and Commerce—took numerous actions to strengthen their information security practices. Actions included improvements to agencies' information security programs to aid in understanding risks and selecting and properly implementing effective controls; access controls to limit to only authorized individuals the ability to read, modify, or delete information; software change controls to allow only authorized software programs to operate; and service continuity controls to protect computer-dependent operations from significant disruptions. In fiscal year 2006, we also informed the public debate on the need for the federal government to effectively protect personally identifiable information. Following a highly publicized loss of computerized data, for example, we testified on actions that federal agencies can take to prevent data breaches and to provide sufficient notification to individuals when such breaches occur. Highlighting that the development and implementation of a robust information security program is central to the agencies' ability to protect their sensitive and personal information, we also testified and reported on actions that agencies can take to protect this information, including (1) completing and maintaining accurate inventories of major systems; (2) prioritizing information security efforts based on system risk levels; and (3) strengthening controls that are to prevent, limit, and detect access to their information and information

systems. (GAO-06-897T, GAO-06-527T, GAO-06-408, GAO-06-328, GAO-06-267, and GAO-06-31)

**2.3.F. Benefiting Financially from Cancellation of the Transportation Security Administration's (TSA) Computer-Assisted Passenger Prescreening System (CAPPS) II Program:** In March 2003, TSA began developing a government-operated passenger prescreening program that would match air carrier passenger names against names on the government's consolidated terrorist watch list. In November 2001, the Congress passed the Aviation and Transportation Security Act (Pub. L. No. 107-71), which required a computer-assisted passenger prescreening system be used to evaluate all passengers. TSA subsequently began an effort to develop a new prescreening system known as CAPPS II that unlike the current system, which operates as part of each air carrier's reservation system, would be operated by TSA. Further, in July 2004, the National Commission on Terrorists Attacks upon the United States, also known as the 9/11 Commission, reported that the current passenger prescreening system needed improvements, and that this passenger screening should be performed by the federal government. For nearly 18 months, TSA faced challenges in developing and implementing a passenger prescreening program. We documented these challenges in products that highlighted delays in key activities and incomplete system planning, including system functionality deliverables and cost estimates. Also, we demonstrated that TSA had not completely addressed specific concerns of the Congress relating to the program's development and operation and the public's acceptance of CAPPS II. For example, TSA did not address the accuracy of the databases that would be used to prescreen passenger names, conduct tests that would stress test the program and ensure system functionality, establish both safeguards to reduce opportunities for abuse and security measures to protect against unauthorized access by hackers, and provide adequate privacy protections to passengers who would be screened. In part, because our work highlighted these issues that continued to plague the program's development, TSA canceled CAPPS II's development in August 2004. With the cancellation of CAPPS II, projected program funding resulted in a financial benefit of over \$300 million (2006 dollars) for the entire program from fiscal year 2005 through fiscal year 2008. (GAO-05-356, GAO-05-324, GAO-04-592T, GAO-04-504T, and GAO-04-385)

**2.4.N. Facilitating the Sharing of Information Critical to Homeland Security:** In response to the government's failure to share information on terrorists before the September 11, 2001, attacks, the Congress and the President created a Program Manager for Information Sharing within the new Office of the Director of National Intelligence and, as a first priority, tasked the manager with establishing governmentwide policies and procedures for sharing. In a March 2006 report, we pointed out that more than 4 years after September 11, the nation still lacked such policies and procedures and had made slow progress in resolving problems, and we recommended that the Director of National Intelligence address any barriers that the manager faced in completing this task, such as insufficient resources. In response, key congressional subcommittee chairs sent the Director of National Intelligence a letter urging action on our work, we briefed key members, and they sponsored a hearing on this issue. We also reported that agencies were using a myriad of different labels—such as Sensitive but Unclassified and Law Enforcement Sensitive—to restrict access to, and require special handling of, certain terrorism information. This caused confusion and posed barriers to sharing, especially with state and local partners. We recommended that the Director of National Intelligence develop a policy to consolidate the number of labels and provide for their more consistent use, as well as consider the results of our governmentwide survey on agency labeling practices as baseline data for their policy development. Members of the group said that by responding to our recommendations and using our data, they were able to accelerate their efforts and save time. (GAO-06-385)

**2.5.C. Assessing the Federal Response to Security Threats on Board Commercial Aircraft:** During 2006, in response to congressional requests, we assessed the extent to which DHS and TSA effectively prepared for, detected, and responded to security threats on board commercial aircraft. Specifically, we found that DHS made limited progress in providing for a surge capacity through cross-training other DHS law enforcement agents to supplement the Federal Air Marshal Service or in enhancing the service's career opportunities through ground-based and other assignments. We also found weaknesses in the reporting, tracking, and following up of incidents that negatively affected the Federal Air Marshal Service's ability to perform its missions. Re-

garding the use of less-than-lethal weapons on board commercial aircraft, we found that additional study is needed of the safety and effectiveness of these weapons on board commercial aircraft before their use, and that appropriate controls and formal criteria are needed to ensure that air carrier requests to use these weapons are appropriately considered. As a result of our work, DHS agreed to strengthen management controls for addressing incidents that negatively affect the Federal Air Marshal Service's ability to conduct its missions, and further study the safety and effectiveness of less-than-lethal weapons on board commercial aircraft should air carrier interest in these weapons resume. (GAO-06-475 and GAO-06-203)

### **2.6.C. Strengthening Maritime Transportation Security at Home and Abroad:**

Through reports and testimony, we continued to review implementation of the Maritime Transportation Security Act of 2002 and supply chain security programs by the Coast Guard, Customs and Border Protection, and other stakeholders in the United States and overseas. In the areas of risk management—an approach that we advocated and the executive branch and the Congress endorsed—our work identified some key progress being made and challenges that lie ahead within DHS. The Secretary has made risk management at ports and across all critical infrastructures a key priority for DHS. In the area of domestic port security, our review of information sharing at ports led to the Coast Guard implementing our recommendation to better track and increase security clearances among nonfederal stakeholders, increasing their access to critical threat information. In the area of container security, our reviews of Customs and Border Protection partnerships with the private sector and foreign governments led to that agency adopting our recommendations to better manage its programs to identify and inspect high-risk containers whose volume and importance to the U.S. economy keep growing. Across all areas of maritime security, our in-depth analyses helped provide oversight of the executive branch during a year when the Congress held a number of hearings and drafted legislation on port security. Many of these hearings and much of the legislation focused specifically on our related findings and recommendations. For example, the Security and Accountability for Every Port Act, enacted in October 2006, included several provisions related to our recommendations for management improvements.

(GAO-06-933T, GAO-06-91, GAO-05-557, GAO-05-404, and GAO-04-838)

### **2.7.C. Strengthening Federal Oversight of Surface Transportation Security:**

In response to congressional requests, we examined federal and private sector efforts to strengthen surface transportation security, to include the passenger rail industry and worker access to transportation facilities. We found that rail security efforts remain fragmented and the roles and responsibilities of the various federal agencies involved in passenger rail security are not clear. We also reported that federal and rail industry officials raised questions about the feasibility of implementing and complying with federal security directives, stating that they were not consistent with industry best practices. Consequently, we recommended, among other things, the development of security standards that reflect industry best practices. Regarding transportation worker credentials, we found that DHS and industry stakeholders face major challenges in addressing problems identified during the testing of the Transportation Worker Identification Credential program and in ensuring that key components of the program—such as enrolling workers and issuing identification credential cards in a timely manner to a significantly larger population of workers and using program technology, such as biometric card readers—can work effectively in the maritime sector. Further, TSA did not adequately plan for or oversee the contract to test the Transportation Worker Identification Credential program, resulting in changes after award and a doubling of contract costs. TSA also did not effectively oversee the contractor's performance to ensure that all key components of the program were tested. In response to this work, DHS agreed with our recommendations. (GAO-05-851 and GAO-06-982)

### **2.8.C. Improving Coast Guard Resource and Acquisition Management:**

The Coast Guard continues to face management challenges in two major areas: balancing its homeland and nonhomeland security missions and managing its acquisition programs. With regard to balancing its various missions, the Coast Guard is unlike many other DHS components because it has substantial missions not related to homeland security. These missions include maritime navigation, icebreaking, managing marine life, protecting the marine environment, marine safety, and search and rescue for mariners in



distress. The Coast Guard must continue executing these traditional missions at a time that its homeland security obligations have increased significantly. The Maritime Transportation Security Act placed many new port security responsibilities on the Coast Guard. In addition, the Coast Guard has created special teams to prevent and respond to terrorist attacks. Furthermore, unpredictable natural disasters, such as Hurricane Katrina, can place intense demands upon all Coast Guard resources. While the Coast Guard budget has increased significantly, it is still challenged by the need to manage its resources across all of its responsibilities. In part because of our recommendations, the Coast Guard has a number of initiatives under way to determine how to best leverage its resources to maximize performance. With regard to acquisitions, the Coast Guard has made progress in managing its largest acquisition—known as the Deepwater program—to replace or upgrade its cutters and aircraft. Specifically, the Coast Guard has implemented several of our recommendations to improve oversight, ensure contractor accountability, and control future costs. However, despite these management improvements, some Deepwater assets have recently experienced major setbacks. For example, the Coast Guard suspended the conversion of 110-foot cutters to 123-foot cutters after structural problems developed. In addition, the Coast Guard recently suspended design work on the replacement for the 110-foot cutter because of concerns about the viability of the composite hull design proposed by the contractor. Other Coast Guard acquisition programs—such as the Rescue 21 emergency distress and communications system—have also experienced major cost increases, schedule delays, and performance shortfalls. (GAO-06-903, GAO-06-764, and GAO-06-448T)

**2.9.C. Improving Security Controls over a Key Communication Network Used by CMS:** HHS's CMS facilitates the processing and payment of Medicare and Medicaid claims. In an August 2006 report, we reported that CMS's computing resources and financial and medical information are at increased risk of unauthorized disclosure and disruption of service. We found significant weaknesses in electronic access and other system controls on a contractor-owned and contractor-operated network that threatened the confidentiality and availability of sensitive CMS financial and medical information when it was transmitted across the network. We

recommended that the CMS Administrator take steps to ensure that information security policies and standards are fully implemented. According to the CMS Administrator, CMS has moved aggressively to implement corrective actions for the reported weaknesses, and is taking steps to ensure that information security policies and standards are fully implemented. Our review informed the Congress of how CMS may strengthen information security controls over this key contractor-owned and contractor-operated communication network. (GAO-06-750)

**2.10.C. Improving Strategic Planning in the National Capital Region:** The national capital region is an area comprising the District of Columbia and surrounding counties and cities in the states of Maryland and Virginia. This region is the only area in the nation that has a statutorily designated regional coordinator—the Office of the National Capital Region Coordination—within DHS. In past years and again this year, we stressed the importance of the Office of National Capital Region Coordination working with other agencies in the national capital region to complete a regional strategic plan to establish goals and priorities for enhancing first responder capacities. Such a plan could be used to guide the effective use of federal funds and monitor program achievement. We emphasized that as it completes its strategic plan, the national capital region could focus on strengthening (1) initiatives that will accomplish objectives under the region's strategic goals; (2) performance measures and targets that indicate how the initiatives will accomplish identified strategic goals; (3) milestones or time frames for initiative accomplishment; (4) information on the resources and investments for each initiative; and (5) organizational roles, responsibilities, coordination, and integration and implementation plans. The national capital region has finalized a strategic plan that incorporates our recommendations. (GAO-06-1096T and GAO-06-559T)

**2.11.C. Improving DHS's Ability to Detect Nuclear Smuggling at U.S. Ports of Entry:** In March 2006, we reported and testified that DHS had made progress in deploying radiation detection equipment at U.S. ports of entry, but the agency's program goals are unrealistic and the program's cost estimate is uncertain. Because of concerns about DHS's ability to deploy advanced tech-

nology radiation detection equipment, which is more expensive than currently fielded equipment, the total program costs are uncertain and our analysis indicated that DHS could incur a \$342 million cost overrun. As a result of our recommendation, DHS performed a cost-benefit analysis of its program to deploy advanced technology radiation detection equipment. We also identified problems with DHS's procedures for inspecting vehicles for radiation. Specifically, we noted that DHS inspectors had no way to verify the authenticity of Nuclear Regulatory Commission licenses and that inspectors are not required to open containers to inspect them even though under some circumstances doing so could improve security. As a result of our recommendation, DHS and the Nuclear Regulatory Commission are working to establish a system through which DHS inspectors can verify the authenticity of Nuclear Regulatory Commission licenses. (GAO-06-389)

**2.12.C. Improving Catastrophic Disaster Preparedness, Response, and Recovery:** In a statement for the record, testimony, and report, we found that while significant government and private resources were mobilized to respond to hurricanes Katrina and Rita, these capabilities were clearly overwhelmed and there was widespread dissatisfaction with the results. Many of the lessons from these hurricanes were similar to those we identified more than a decade ago in the aftermath of Hurricane Andrew, such as the critical importance of clearly defined, communicated, and understood leadership roles, responsibilities, and lines of authority in advance of such events. We recommended clarifying the roles and responsibilities of key federal officials, clarifying various aspects of the National Response Plan, and strengthening planning and response capabilities. In response to our recommendations and similar recommendations from other Hurricane Katrina investigations, DHS has implemented major changes, including revising the National Response Plan; clarifying federal roles and responsibilities; improving FEMA regional preparedness and leadership capabilities; strengthening logistics and distribution systems; and conducting reviews of state, territory, and large urban area catastrophic planning to identify areas for specific corrective actions. (GAO-06-618, GAO-06-467T, GAO-06-442T, and GAO-06-365R)

**2.13.C. Strengthening Oversight of Passenger and Baggage Screening Operations at U.S. Commercial Airports:** Since September 11, 2001, we have issued numerous reports and testimonies, based on congressional requests and mandates, assessing the effectiveness of passenger and baggage screening operations at U.S. airports. Among other things, we reported that TSA has taken steps to strengthen screener training and performance, but that screeners did not have the time needed to take required training and, despite new security measures, covert testing identified that security vulnerabilities continued to exist. We further reported that TSA could improve its management of checked baggage screening operations by strengthening their tracking of the usage of alternative screening procedures and testing the security trade-offs of these procedures. We also found that TSA faces significant management challenges that may adversely affect its ability to implement the Secure Flight program, in which domestic passenger information will be matched against terrorist watch lists, to include not following a disciplined development process or determining how privacy protections are to be ensured. TSA took corrective actions to (1) strengthen screener training and performance and the management of its checked baggage screening operations and (2) halt development of the Secure Flight program until requirements were fully defined. (GAO-06-869, GAO-06-371T, GAO-06-374T, GAO-06-166, and GAO-05-457)

## Ensure military capabilities and readiness

**2.14.F. Improving the Outcomes of the Department of Defense's (DOD) Space System Acquisitions:** DOD's space acquisition programs continue to face substantial challenges. At times, cost growth has approached or exceeded 100 percent, causing DOD to nearly double its investment in programs that face technical and other problems. Many programs are also experiencing significant schedule delays—as much as 6 years—postponing delivery of promised capabilities to the warfighter. Outcomes have been so disappointing in some cases that DOD has had to go back to the drawing board to consider new ways to achieve the same capability. Moreover, as we testified this year, the dollars available for new systems and for the discovery of promising new technol-

gies have been reduced by about \$12 billion over the next 5 years because of cost growth. This year, with new leadership, DOD has committed to adopting practices we have recommended for improving outcomes—starting with its Transformational Satellite Communications System. These include delegating the maturation of technologies to the science and technology community, adopting an evolutionary development approach, funding science and technology appropriately so that technology breakthroughs can be continually pursued, and improving collaboration on requirements. The Congress has continued to step forward to reduce funds for space programs that we have identified as posing high risk, require more careful analysis for investment and programmatic decisions, and encourage DOD to pursue projects designed to introduce cost- and time-saving approaches in the future. (GAO-06-626T, GAO-06-537, GAO-06-449, GAO-05-570R, and GAO-05-155)

**2.15.N. Improving Homeland Defense:** We have issued several products that provide important insights into the nation's efforts to provide homeland defense. First, in July 2005, we issued a classified report and testimony on securing and defending U.S. airspace. During our review, we identified gaps in the simultaneous, time-critical, multiagency response to airspace violations, and the need for FAA to increase interagency sharing of some of its data. FAA has implemented some of our report recommendations on data sharing. Second, we have produced multiple reports addressing the key role that the National Guard plays in homeland defense. In October 2005, we reported and testified that the declining equipment and readiness status of nondeployed Army National Guard units could adversely affect the Guard's ability to perform homeland security missions. We recommended that DOD develop and provide the Congress with a strategy and specific plan for enhancing the Army National Guard's equipment status. The Office of the Secretary of Defense has since tasked the Army to report on actions taken to implement our recommendations and develop such a plan. Third, in May 2006, we issued a report on the National Guard Civil Support Teams, which are tasked with identifying weapons of mass destruction and providing advice and assistance after a weapons of mass destruction event. We found that confusion on Civil Support Team mission preparation could impede coordination between state authorities and local emergency management officials

on the appropriate use of the Civil Support Teams. Also, the National Guard Bureau faces challenges in the administration and management of the Civil Support Teams that could impede both the progress of newer teams and the long-term sustainment of the program. We made recommendations to clarify Civil Support Team mission preparations and develop guidance that would help with management challenges. DOD generally agreed with our recommendations. (GAO-06-498, GAO-06-170T, GAO-06-111, and GAO-05-928T)

**2.16.N. Contributing to Properly Funding the Military's Needs:** We reviewed the reasonableness of DOD's fiscal year 2006 budget request and identified billions of dollars in potential costs that could be avoided and opportunities for DOD to improve its internal oversight of the use and tracking of funds. Overall, our work contributed to multiple actions that resulted in total financial benefits of about \$6.3 billion. The Congress used our analyses of unobligated balances (unspent funds) that we provided to the authorization and appropriation committees to make changes to the operation and maintenance budgets by the amounts we identified. To address the problem of persistent unobligated balances, DOD reduced the military services' operation and maintenance funding for fiscal years 2007 through 2011 during its annual program and budget review by about \$4.3 billion. Our analyses of DOD's operation and maintenance expenditures for fiscal year 2005 also resulted in the Congress reducing DOD's budget for fiscal year 2006 by \$1.07 billion because of high unobligated balances in its budget. In addition, our analyses of DOD's active and reserve military personnel expenditures for fiscal year 2005 resulted in the Congress reducing DOD's budget for fiscal year 2006 by \$872.4 million, again because of high unobligated balances. (GAO-05-767 and oral briefings)

**2.17.F. Improving the Outcomes of DOD's Land System Acquisitions:** The Army has described its Future Combat System as one of the most complex weapon acquisition programs ever executed. The program, which involves developing and integrating a family of 18 systems and an information network, is currently estimated to cost \$160.7 billion—a 76 percent increase since program start. We continued to report this year that 3 years into the system's development, the Army has yet to reach the level of knowledge it should have

attained at program start. The elements of a sound business case—firm requirements, mature technologies, a knowledge-based acquisition strategy, a realistic cost estimate, and sufficient funding—are still not demonstrably present. None of the Future Combat System's 49 critical technologies was at a level of maturity recommended by DOD policy at the start of a program, and some may not reach full maturity until after production begins. We also reported that two key complementary systems of the Future Combat System network—the Joint Tactical Radio System and Warfighter Information Network-Tactical—have struggled to meet ambitious user requirements, steep technical challenges, and aggressive schedules, raising uncertainty about the Future Combat System network's ability to provide promised capabilities. DOD has been taking action to address our concerns by restructuring the Joint Tactical Radio System and Warfighter Information Network-Tactical programs to make them more executable, synchronizing their development schedules, and performing more network-related testing within the Future Combat System program. In light of the risks we identified, the Congress reduced funding for the Future Combat System and the Joint Tactical Radio System programs by \$236 million and \$334 million, respectively. (GAO-06-564T, GAO-06-367, GAO-05-669, and GAO-05-442T)

**2.18.N. Ensuring Timely Payment of Family Separation Allowance:** In our April 2005 report (GAO-05-348), we found that the financial conditions of deployed and nondeployed servicemembers and their families are similar, but deployed servicemembers and their families may face additional financial problems related to pay. DOD administers the family separation allowance to assist deployed servicemembers and their families with the added expenses incurred because of involuntary separations in support of contingency operations like Operation Iraqi Freedom. Our work further noted that almost 6,000 servicemembers had experienced delays in obtaining their monthly \$250 family separation allowance during their deployment. This pay problem was due, in part, to service procedures being confusing and not always followed. We recommended and DOD concurred that the Defense Finance and Accounting Service and the military services take necessary action to ensure that servicemembers receive the family separation allowance on a monthly basis during deployments. As a result, the military pay operations organizations notified field

activities to emphasize the importance of timely input of family separation allowance documents. The notification also explained that the field activities should input the family separation allowance transaction immediately upon receipt so that the allowance is started within 30 days of deployment if it is certain the member would be on temporary duty for more than 30 days. (GAO-05-638R and GAO-05-348)

**2.19.N. Improving the Outcomes of DOD's Sea System Acquisitions:** The Navy is embarking on an ambitious and expensive undertaking to develop, design, and construct a number of new ship classes. Using advanced technologies and automation, the Navy expects these vessels to successfully execute missions in a variety of environments with reduced crews and at lower costs. Our past reports have identified several programs, including the DD(X) destroyer and the Littoral Combat Ship, that are at risk of cost overruns and schedule delays because of the ambitious nature of the programs, gaps in critical knowledge, and questionable cost estimates. This year we identified challenges facing the Navy's long-range shipbuilding plan—including demanding mission requirements that can result in more costly ships that cannot be built in the numbers desired to meet program missions and sustain shipyard workload. These tensions portend the potential trade-offs that will likely have to be made. In response to our work, DOD has taken steps to reduce risks on its Littoral Combat Ship program, such as initiating a change in the helicopter force structure to support the new capabilities provided by ship. In addition, the Navy has taken steps to increase overall confidence in cost estimates and plans to conduct independent reviews of cost estimates for future aircraft carriers. To ensure Navy programs accumulate critical knowledge when needed, the Congress has taken actions, including limiting procurement funding for the Littoral Combat Ship and the LHA(R) amphibious assault ship programs until the Navy certifies that a stable design exists. (GAO-06-587T, GAO-05-924T, GAO-05-752R, GAO-05-255, and GAO-04-973)

**2.20.N. Contributing to Congressional Oversight of Governmentwide Efforts to Improve the Personnel Security Clearance Process:** In January 2005, we designated DOD's personnel security clearance program a high-risk area, because of growing delays in completing personnel background investigations and numerous

impediments that hindered DOD's ability to eliminate its long-standing clearance backlog. These delays affect the entire federal government because about one-third of the approximately 2.5 million DOD-issued security clearances are for contractors working for 23 other federal agencies. In February 2005, when DOD transferred its clearance background investigative function to the Office of Personnel Management (OPM), the average wait for a top secret clearance was over 1 year. In June 2005, Executive Order 13381 assigned the Office of Management and Budget (OMB) responsibility for improving the security clearance process governmentwide. In November 2005, OMB issued a governmentwide improvement plan, and we testified before the Congress on our assessment of the plan. Our testimony highlighted a number of positive aspects, but also noted that the plan needed improvement in several areas. Over the next year, the Congress has requested that we continue to work with OMB and OPM to improve the governmentwide plan. (GAO-06-233T and GAO-04-632)

**2.21.N. Improving U.S. Southern Command's Force Protection for In-Transit Forces:** Our October 2003 report on U.S. Southern Command's antiterrorism approach for in-transit forces pointed out several shortcomings, including the lack of a force protection working group that could continuously review antiterrorism and force protection measures and emerging threats, the failure of its approach to apply to certain vessels—called voyage charters—that are chartered by the Military Sealift Command (now called the Sealift Logistics Command), and the absence of oversight mechanisms for in-transit forces similar to those DOD uses to evaluate antiterrorism measures at fixed installations. We made four recommendations to improve U.S. Southern Command's approach. As a result, U.S. Southern Command established a Mission Assurance Working Group in October 2004 to meet in-transit security needs. Also, in January 2005, a memorandum of agreement was signed by the Commander of U.S. Naval Forces Southern Command and the Commander of Sealift Logistics Command, Atlantic, establishing a working relationship for antiterrorism and force protection support, including when Naval Forces, Southern Command, will provide antiterrorism/force protection augmentation to Sealift Logistics Command vessels, including voyage charters. Lastly, in order to improve oversight through its antiterrorism program assessment process, the Joint Staff has

incorporated changes to the Joint Staff Higher Headquarters Program Review Process to include requirements for analyses of existing vulnerability assessments to identify positive and negative trends, concerns, and implementation shortfalls, as well as the in-transit focus of the combatant commands prior to conducting an assessment. (GAO-04-80NI and GAO-03-731NI)

**2.22.N. Recommending Changes in U.S. Forces for Domestic Military Missions (Homeland Defense):** We recommended that the Secretary of Defense assess domestic military requirements and determine if steps should be taken to structure U.S. forces to better accomplish domestic military missions while maintaining proficiency for overseas combat missions. DOD has done so: in October 2004, the Assistant Secretary of Defense for Homeland Defense sent a memo to the Secretary of Defense in which force requirements were assessed and identified for the domestic military missions. Additionally, in written comments on the draft report, DOD stated that force structure changes would be determined through the Quadrennial Defense Review process. The 2006 Quadrennial Defense Review identifies several areas in which DOD has assessed and determined that the force structure needed to be changed to better provide for homeland defense and support to civil authorities. For example, the Quadrennial Defense Review states that DOD will better focus the use of reserve components' competencies for homeland defense and civil support operations, and seek changes to authorities to improve access to National Guard and reserve consequence management capabilities and capacity in support of civil authorities. (GAO-03-670)

**2.23.N. Improving DOD's Missile Defense Outcomes:** DOD plans to spend more than \$58 billion over the next 6 years to develop and field ballistic missile defenses. The diverse set of technologies that must be developed, integrated, and deployed across an array of land-, air-, sea-, and space-based platforms makes this system a challenging and risky endeavor. Although DOD aims to place capabilities in the hands of the warfighter more quickly and with the flexibility to respond to an evolving threat, DOD has been unable to deliver the quantities promised within the original cost estimates—in part because of a lack of knowledge about emerging technologies. This year, for example, we reported that while DOD followed a knowledge-

based strategy with elements not being fielded, such as Airborne Laser and Kinetic Energy Interceptor, it did not for its ground-based missile defense system, which is designed to destroy intercontinental ballistic missiles during the midcourse phase of their flight. More specifically, it allowed this segment of the program to concurrently mature technology, complete design activities, and produce and field assets before end-to-end testing of the system—all at the expense of cost, quantity, and performance goals. As a result, the performance of some Ground-based Midcourse Defense Interceptors is uncertain because the program was inattentive to quality assurance. In response to our work, DOD has improved planning for operational testing for missile defense and strengthened cost reporting. Concurrently, the Congress has recognized the value of following a knowledge-based strategy and asked DOD to review its approach with the aim of better positioning missile defense elements for success. (GAO-06-327, GAO-05-243, GAO-04-409, and GAO-03-441)

#### **2.24.N. Ensuring That the Services Comply with Health Protection and Surveillance Requirements for Servicemembers:**

In September 2003, we recommended that the Secretary of Defense direct the Assistant Secretary of Defense for Health Affairs to establish an effective quality assurance program that will help ensure that the military services comply with the force health protection and surveillance requirements for all servicemembers. We found that the Army and Air Force, in particular, had not assessed many active duty servicemembers before and after their deployment overseas, provided certain immunizations, or centrally maintained health-related documentation. Additionally, DOD had no quality assurance oversight program. On January 9, 2004, the Assistant Secretary of Defense for Health Affairs issued a policy entitled “Policy for Department of Defense Deployment Health Quality Assurance Program.” This policy established a quality assurance program that “supports the Force Health Protection requirements associated with ongoing deployments and problems identified during reviews by the General Accounting Office.” The program was designed with the following key elements that addressed DOD’s health requirements and our concerns: (1) periodic reports of completed health assessments, (2) periodic reports of service-specific quality assurance efforts, (3) periodic visits to installations to perform their own assessments,

and (4) annual reports on the status of the Deployment Health Quality Assurance Program to the Assistant Secretary of Defense for Health Affairs. The policy became effective immediately. (GAO-03-1041)

#### **2.25.C. Identifying Improvements Needed in How the Military Plans for and Responds to Catastrophic Disasters:**

While the military mounted a massive response after Hurricane Katrina that saved many lives, we found that better planning and exercises were needed to identify the types of military capabilities that would be needed in the wake of such disasters. Several factors affected the military’s ability to gain situational awareness and organize and execute its response, including a lack of timely damage assessments, communications difficulties, force integration problems, uncoordinated search and rescue efforts, and unexpected logistics responsibilities. DOD has begun to implement many of our recommendations to address such problems, including developing more proactive, detailed operational plans for how the military will respond to future catastrophes. Similarly, because plans were not in place when the hurricane struck, the U.S. government had to develop ad hoc procedures to manage the millions of dollars in cash and in-kind assistance (like food and clothing) provided by foreign governments. In response to our recommendations to improve the accountability of international assistance received for domestic disasters, a steering group—comprising representatives from State; DHS, including FEMA; and other agencies—has established procedures and installed systems to improve the accountability of international cash and in-kind donations. (GAO-06-808T, GAO-06-643, and GAO-06-460)

#### **2.26.C. Improving DOD’s Management of Reserve Forces:**

During fiscal year 2006, we issued two reports containing recommendations to DOD for improving its management of the 1.4 million citizen-soldiers who serve in the National Guard and the Reserves. Today, reservists represent about half of the nation’s total force. Since September 11, 2001, more than 300,000 reservists have been deployed to Iraq and Afghanistan. We contributed to congressional oversight by reporting on two key areas: DOD’s management of the health status of reservists, and DOD’s efforts to outreach and educate employers about employment protections afforded to reservists under federal law as they transition between

their active duty service and their civilian jobs. Regarding reserve health status, we reported that because of incomplete and unreliable data, DOD was unable to determine the extent to which the reserve components complied with (1) a legislative requirement that reservists have medical examinations every 5 years and an annual certificate of their medical status and (2) a DOD policy requiring reservists to have annual dental and physical fitness evaluations. To help ensure better visibility over reserve component's compliance with medical and fitness requirements, we recommended that DOD establish a management control framework and execute a plan for establishing quality assurance for data reliability and tracking compliance with routine medical and physical fitness examinations. Regarding outreach to reserve employers, DOD's efforts have been hindered because only limited employer information is available. Although reservists have been required to provide employer information since 2003—a requirement based on a recommendation in our 2002 report, DOD's efforts to collect this information are still incomplete. As of August 2005, about 40 percent of reservists had not provided their civilian employer information. DOD officials stated that the compliance rate is tied to command attention and enforcement. We recommended, and DOD agreed, that the department should take steps to enforce compliance with its policy requiring reservists to report their civilian employer information. (GAO-06-105 and GAO-06-60)

**2.27.C. Improving the Outcomes of DOD's Aircraft System Acquisitions:** Acquisitions of new aircraft systems represent some of DOD's largest investments. Costs for DOD's F-22A Raptor and Joint Strike Fighter aircraft alone are expected to be about \$320 billion. Despite the magnitude of spending, our work this year has shown that DOD has not adequately justified critical aircraft investments or taken actions necessary to stem cost and schedule growth. We reported that the F-22A business case is not executable in part because of a 198-aircraft gap between what the Air Force requires and what DOD estimates it can afford. The Joint Strike Fighter program, which has 90 percent of its investments still in the future, plans to concurrently test and produce aircraft, weakening the program's business case and jeopardizing its recapitalization efforts. For both programs, DOD has not presented an investment strategy for tactical aircraft systems that measures needs, ca-

pability gaps, alternatives, and affordability. We also reported that the Global Hawk program has incurred cost and schedule setbacks because of critical gaps in technical knowledge, and that the Navy's EA-18G aircraft and the Army's unmanned Warrior aircraft are at risk of such setbacks for the same reasons—adding more pressure to DOD's overall investment in aircraft. Because of our work, DOD has begun to take action to lessen risks in the Global Hawk program, and the Congress has held hearings on how the Joint Strike Fighter and F-22A programs should be structured in going forward into production, proposing significant reductions in the Joint Strike Fighter program. (GAO-06-593, GAO-06-455R, GAO-06-446, GAO-06-356, and GAO-06-222R)

**2.28.C. Transforming Processes Underpinning Major DOD Acquisitions:** Our reviews continued to demonstrate that DOD is simply not positioned to deliver high-quality products on time and within budget. In our fourth annual review of selected major weapon systems—which represent an investment of over \$850 billion—we found that DOD's weapons programs often exceed development cost estimates by approximately 30 to 40 percent, miss deadlines, and experience performance shortfalls and cuts in planned quantities. In a separate review, we found that DOD frequently bypasses key steps in product development that we have recommended—and that DOD has adopted in its acquisition policy—and continues to pursue revolutionary, rather than evolutionary or incremental, advances in capability without the technology, design, and production knowledge needed to keep costs and schedules in check. In looking at how programs could be managed better, we have pointed to the need for DOD to (1) adopt a departmentwide investment strategy that prioritizes programs based on realistic and credible current and future threat-based customer needs, (2) enforce existing policies and adhere to practices that ensure new programs are executable, and (3) make it clear who is responsible for what and hold people accountable when these responsibilities are not fulfilled. The Congress has begun to take action to require DOD to develop and implement a comprehensive strategy for enhancing the ability of program managers to execute their programs through enhanced training, improved career paths, improved resources and support, and increased accountability. (GAO-06-585T, GAO-06-391, and GAO-06-368)

**2.29.C. Improving Management of DOD's Business Transformation Efforts:** DOD spends billions of dollars to sustain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition. DOD has embarked on a series of efforts to reform its business operations, including modernizing its underlying IT (business) systems. However, serious inefficiencies remain and many of DOD's business areas remain on our high-risk list. Furthermore, limitations in DOD's approach to strategic planning and budgeting hinder its efforts to transform military capabilities and supporting business operations. During this fiscal year, we reported and testified on the need for DOD to develop a risk-based approach to investment decision making and to take steps to develop sustained leadership, an integrated and enterprisewide business transformation plan, and adequate incentives to guide transformation. In particular, we pointed out the need for DOD to establish a chief management official to lead the department's overall business transformation efforts. To its credit, DOD has embarked on a number of steps intended to advance business transformation, including the development of a business enterprise architecture and enterprise transition plan, and the creation of an agency to oversee business transformation. We will continue to monitor DOD's efforts in these areas. (GAO-06-658, GAO-06-497T, GAO-06-234T, and GAO-06-219)

**2.30.C. Improving DOD's Efforts to Recruit and Retain Enlisted Personnel:** DOD must recruit and retain hundreds of thousands of servicemembers each year to fill almost 1,500 occupational specialties spread across the active and reserve components. In fiscal year 2006, we reported that 5 of 10 active and reserve components—the Army, Army Reserve, Army National Guard, Air National Guard, and Navy Reserve—missed their aggregate recruiting goals by 8 to 20 percent. While most of the components met their aggregate retention goals, the Navy experienced retention shortages in fiscal year 2005 of up to 8 percent. Meeting aggregate recruiting and retention goals, however, tells only half the story. Our work showed that even when DOD met its overall recruiting and retention goals, it had too many personnel in some occupations and not enough in others. Specifically, we found that about 20 percent of

DOD's 1,484 occupations were consistently overfilled and 41 percent were consistently underfilled in at least 5 of the 6 years from fiscal years 2000 through 2005. In fiscal year 2005 alone, almost 31,000 personnel too many served in occupations that had been consistently overfilled. Given that in fiscal year 2004 it costs the taxpayer about \$103,000 annually, on average, to compensate each enlisted active duty member, it is costly to have more personnel than needed. Also, in fiscal year 2005, DOD was short 112,000 personnel in consistently underfilled occupations, like Army and Marine Corps personnel who can defuse roadside bombs. DOD does not have the necessary information on 84 percent of its occupational specialties to develop an effective plan to address the causes of the components' recruiting and retention challenges. We recommended that DOD require all components to report on all (not just critical) overfilled and underfilled occupational specialties, and that DOD develop a management action plan to help components to address the causes of their recruiting and retention challenges. (GAO-06-134)

**2.31.C. Providing Oversight of Military Operations in Iraq and Afghanistan:** During fiscal year 2006, we continued to inform the Congress on significant issues related to DOD's ongoing operations in Iraq and Afghanistan in support of the global war on terrorism. In particular, we reported, testified, and recommended improvements related to funding, costs, and future commitments; the ongoing and long-term challenges related to repairing and replacing equipment; the production and installation of Army and Marine Corps truck armor; and coordination between the U.S. military and private security providers. Among other things, our work showed neither DOD nor the Congress reliably knows the cost of the global war on terrorism military operations and how appropriated funds are being used, or have historical data useful in considering future funding needs because of numerous problems with DOD's processes, use of estimates instead of actual cost data, and the lack of supporting documentation. Because of the extensive wear and tear on equipment, the Army and the Marine Corps face a number of ongoing and long-term challenges that will affect the timing and cost of equipment reset. Delays in providing truck armor kits to deployed troops placed them at greater risk as they conducted wartime operations in vehicles not equipped with preferred levels of protection. In addition, private



security providers continue to enter the battle space without coordinating with the military, putting both the military and security providers at a greater risk for injury. In response, DOD is developing a training program for units deploying to Iraq to understand the roles and responsibilities of private security providers and modified a policy to begin collecting data on the cost of providing security to reconstruction contractors in Iraq. In addition, DOD agreed to modify policies pertaining to response to urgent wartime needs that may speed up the process in the future. We will continue to monitor DOD's efforts. (GAO-06-885T, GAO-06-865T, GAO-06-604T, GAO-06-274, GAO-06-160, and GAO-05-882)

**2.32.C. Enhancing the Use of Privatization for Improving Military Family Housing:** Since the enactment of the Fiscal Year 1996 National Defense Authorization Act, which provides for private sector financing, ownership, and operation of military housing, privatization has become DOD's primary means for improving family housing and meeting requirements when the communities near installations do not have an adequate supply of suitable, affordable housing. Since the program's inception, we have issued an extensive body of work influencing the department's implementation and management of the program. Most recently, in April 2006, we reported on the need to improve DOD's oversight of the program. First, the Navy's methods for overseeing its awarded projects have not been adequate to identify and address operational concerns in some projects or to ensure accurate reporting of project information. Second, the value of DOD's primary oversight tool—the semiannual privatization program evaluation report—has been limited because it lacks a focus on key performance metrics, contains inaccurate data, and has not been timely. Third, data on servicemember satisfaction with the housing are inconsistent and incomplete. We made several recommendations to improve the department's oversight of awarded housing privatization projects and to help ensure that the size of future projects is reliably determined. In response, DOD generally agreed with our recommendations and initiated actions to address our concerns. (GAO-06-438, GAO-04-556, GAO-02-624, GAO/NSIAD-00-71, and GAO/NSIAD-98-178)

**2.33.C. Transforming Defense Forces:** During fiscal year 2006, we provided the Congress with numerous analyses that identified challenges with DOD's plans for adapting its forces to meet 21st century threats. A common theme of this work has been that DOD and the services lack effective approaches for setting priorities; managing risk; and developing affordable, executable plans for force transformation. For example, we reported and testified that the Army faces significant challenges in executing its plan to reorganize active and reserve component Army divisions into modular brigades. We also reported that the Army's cost estimate for implementing modular brigades has grown from \$28 billion in 2004 to \$52.5 billion in 2006. Because of our work, congressional defense committees have inserted several provisions in the fiscal year 2007 defense authorization bill that would require the Army to provide more detailed information on its plans and further assess the modular unit designs. We also assessed Air Force efforts to develop a future tactical aviation force structure plan for its active and reserve units and found that the Air Force has not fully developed an effective plan to assess transformation initiatives in several states to more closely integrate active and reserve component units. Because of our report, the Air Force finalized its strategic plan for implementing these initiatives and agreed to establish goals and metrics for evaluating progress and determining whether the initiatives should be expanded. (GAO-06-745, GAO-06-548T, GAO-06-232, and GAO-05-926)

## Advance and protect U.S. international interests

**2.34.N. Strengthening Passport and Visa Issuance Processes:** Using our work as a primary guide, State, in coordination with other agencies, has continued to improve controls over the issuance of passports and visas. It has added thousands of names to its data systems to prevent persons with outstanding federal felony warrants from obtaining passports to leave the United States. In addition, State has improved passport fraud prevention through increasing information sharing among law enforcement agencies, additional fraud prevention training for passport officials, and hiring of additional staff. Regarding visas, State has directed overseas posts to strengthen oversight and improve compliance with internal control requirements to ensure the integrity of

the visa function, increase information sharing to ensure that visa officers have the best information available on visa applicants who may pose security risks, and improve visa officers' ability to detect fraudulent visa applicants. In addition, in response to our work, the Secretary of State and the Attorney General reached a consensus on legal measures that could facilitate investigations of visa malfeasance and have proposed amendments to law to the judicial branch for its consideration. (GAO-06-115, GAO-05-859, and GAO-05-477)

**2.35.N. Increasing Accountability of International Disaster Recovery Assistance:** In response to our May 2006 recommendation, the U.S. Agency for International Development (USAID) Administrator has taken actions to improve U.S. disaster reconstruction efforts overseas. Based on our recommendation that USAID provide guidance to staff responsible for implementing disaster recovery and reconstruction programs, USAID posted lessons learned from some of its previous disaster reconstruction efforts on an intranet site for staff to access. Our review of this U.S. international disaster reconstruction program is a continuation in a series of work, beginning with our review of U.S. assistance to Central America following Hurricane Mitch in 1998. In addition, our review of USAID's ongoing disaster reconstruction program in numerous countries affected by the December 2004 tsunami in the Indian Ocean supported our contributions to the International Organization of Supreme Audit Institutions (INTOSAI). Specifically, we provided key information to high-level GAO officials who are actively involved in an INTOSAI task force, established after the tsunami, to promote the exchange of information; facilitate the coordination of audits; enhance the transparency of flows of funds; and based on lessons learned, develop best practices to enhance post disaster accountability of aid. (GAO-06-645)

**2.36.N. Improving Financial Reporting and Strategy for U.S. Assistance to Afghanistan:** In response to our work, State has improved its financial reporting on U.S. assistance to Afghanistan and USAID has completed a comprehensive strategy to guide its assistance efforts in Afghanistan and helped the Afghan government develop a strategy for rehabilitating its agricultural sector. We reported that the U.S. officials lacked complete financial data, which hindered their ability to oversee the assistance to Afghanistan. Subsequently, the President signed

Pub. L. No. 108-458, which, among other things, called for the Secretary of State to report annually on the Afghan assistance activities funded by the United States and the source of funds by fiscal year, agency, and program. We also reported that the United States lacked a complete and integrated assistance strategy for Afghanistan, which hampered the U.S. government's ability to focus available resources and hold itself accountable for results. In response to our recommendations, USAID completed a strategy describing goals, objectives, resource levels, and obstacles and initiated an effort to develop a performance plan to measure the extent to which development efforts are achieving their objectives. Further, we reported that previous assistance from the international community did not significantly contribute to the reconstruction of Afghanistan's agricultural sector and was not adequately coordinated with the Afghan government. In response to our recommendations, USAID and other members of the international community helped the Afghan government develop a strategy for Afghanistan's agricultural sector. (GAO-04-403 and GAO-03-607)

**2.37.F. Reducing the Fiscal Year 2006 Appropriation for the Millennium Challenge Corporation (MCC):** Our work contributed to the Congress's decision to appropriate \$1.77 billion for MCC for fiscal year 2006, a reduction of \$1.23 billion from the President's request. In May and June 2005, we provided budget papers, follow-up briefings, and additional analysis to the Congress to help it assess the President's \$3 billion fiscal year 2006 budget request for MCC, which oversees a new foreign assistance program intended to provide economic assistance to countries that demonstrate a commitment to ruling justly, investing in people, and encouraging economic freedom. MCC is authorized to provide assistance to countries that enter into public compacts with the United States. In a constrained budget environment, our work made a unique contribution by (1) providing a framework for identifying the trade-offs between different funding levels and the numbers and size of compacts that MCC could support and (2) assessing the impact of delaying assistance to some (lower-middle-income) countries. Our work also showed that MCC could operate with a smaller fiscal year 2006 appropriation than requested because, except under the most optimistic assumptions, MCC would not obligate the balance of its prior years' appropriations

until late 2006 or early 2007. Our work informed and supported appropriations and authorizing committees' decisions about MCC funding for fiscal year 2006. The Senate appropriations committee report, for example, in recommending a lower level of funding than requested, reflected our conclusions about MCC obligations and cited specific data that we prepared comparing the actual and projected size of MCC compacts. In addition, MCC officials told us that our analysis was used by corporation officials and congressional appropriators to frame key discussions about the potential impact of various appropriations levels. (Based on briefings)

**2.38.F. Streamlining U.S. Overseas Presence by Applying Rightsizing Technologies and Processes:** In response to our recommendation, State implemented a new process for projecting long-term staffing needs when planning and designing new embassy compounds, which ultimately resulted in a cost avoidance of about \$83 million for eight new embassy construction projects. We reported that State's process for developing staffing projections lacked a systematic approach or comprehensive rightsizing analysis; thus, the U.S. government risks building new embassy compounds that are designed for the wrong number of staff. We recommended that State develop a formal, standard, and comprehensive process for establishing staffing projections for new embassy compounds. State subsequently implemented a new process for projecting long-term staffing needs when planning and designing new embassy compounds, which included a mandatory zero-based rightsizing analysis, along with procedures for documenting, vetting, and approving the projections. Moreover, in light of continuing security vulnerabilities at overseas posts, the House Committee on Appropriations reported that it intended to ensure that all U.S. agencies funded in the fiscal year 2006 *Science, State, Justice, Commerce, and Related Agencies Appropriations Bill Report* complete a comprehensive rightsizing analysis, and directed State to reflect the application of a rightsizing methodology in the fiscal year 2007 budget request. (The appropriations bill became law on November 22, 2005.) In that same legislation, the House Committee directed the International Trade Administration to provide a detailed report to the Committee on the rightsizing methodology followed to determine the appropriate size and location of its overseas presence

anticipated for the next 5 to 10 years. (GAO-03-411 and GAO-02-780)

**2.39.N. Strengthening Vetting of Foreign Security Forces That Receive U.S. Assistance:** In response to our recommendation, State issued guidance to strengthen management controls for vetting foreign security units that receive U.S. security assistance. U.S. law restricts the provision of funds to units of foreign security forces when the department has credible evidence that the unit has committed gross violations of human rights. Agency guidance extends these restrictions to individuals of foreign security forces and requires posts to establish procedures to vet candidates for U.S.-sponsored training for possible violations. However, we found no evidence that U.S. officials vetted an estimated 6,900 foreign security trainees—about 4,000 Indonesian, 1,200 Filipino, and 1,700 Thai police—trained by the Department of Justice with Department of State law enforcement assistance from fiscal years 2001 through 2004. To help provide assurance that foreign candidates of U.S. security assistance programs comply with existing legislative restrictions and State policies on human rights, we recommended that State strengthen management controls by issuing new guidance. State's new guidance states that posts must assign a single point of contact in the overseas mission with responsibility for oversight of and compliance with vetting procedures, and discusses documentation requirements. (GAO-05-793)

**2.40.F. Increasing Sales of Excess Property Overseas:** Because of our work, State sold 45 properties at 29 overseas posts for \$59.2 million from the third quarter of fiscal year 2004 through the first quarter of fiscal year 2006. We previously identified millions of dollars in unneeded overseas real estate that State could potentially sell. Based on our recommendation, an independent advisory panel was established to help State decide which properties should be sold. We then assessed State's performance in working with the new panel in identifying and disposing of excess property. We found that although progress had been made, State still had a large number of unneeded properties in its inventory, had inaccuracies in its inventory database causing some properties not to be properly identified, and had failed to sell several of the properties recommended by the advisory board. (GAO-02-590)

**2.41.N. Improving Reporting on Defense Draw-downs:** Based on our work, the Defense Security Cooperation Agency is reporting more accurate and timely information on drawdowns of defense articles and services. The President has special statutory authority to order the drawdown of defense articles—such as aircraft, vehicles, various weapons, and spare parts—and services or military education and training from DOD and military service inventories and transfer them to foreign countries or international organizations. We found that the Defense Security Cooperation Agency’s congressionally mandated reports to the Congress on drawdowns were inaccurate and incomplete. We noted that the agency relied on the military services for its data, but the services did not regularly provide updates to the agency. In addition, when the services provided drawdown data to the agency, they were in various formats and agency staff had to convert them into the agency’s drawdown records. As a result, errors occurred. To address our recommendation, the Defense Security Cooperation Agency updated its drawdown handbook to specifically direct the military services to update their drawdown programming and delivery data at least monthly and enter them directly into the relevant system. The military services are updating their information as required. (GAO-02-1027)

**2.42.N. Better Managing Foreign Language Requirements:** The Army and the Foreign Commercial Service have taken actions in response to our recommendation that they adopt a strategic, results-oriented human capital approach to manage their foreign language requirements. The Secretary of the Army issued a detailed Defense Language Transformation Roadmap, which fully addressed our recommendation. We previously found that the Army’s strategies did not fully meet the need for some foreign language skills and were not part of a coordinated plan of action with regard to foreign language recruitment, training, payments, and workforce restructuring. Army officials told us that shortages of staff with needed foreign language skills adversely affected agency operations and hindered U.S. efforts. The Foreign Commercial Service has taken a number of actions to respond to our report recommendation. These actions include completing a worldwide review of language-designated positions overseas to more accurately identify existing proficiency shortfalls; instituting a pilot program to offer language training throughout

the United States; establishing an award language incentive program; and developing a detailed corrective plan of action, which has been closely monitored and aggressively implemented. (GAO-02-375)

**2.43.C. Tracking the Impact of U.S. Reconstruction Efforts in Iraq:** Our work helped inform the Congress and the American public about the progress and challenges faced in the United States’ efforts to stabilize and rebuild Iraq. In January 2006, in response to our recommendation, State reported that it is finalizing better outcome-oriented performance measures to track the impact of U.S. reconstruction efforts. These efforts are currently under way. Our work has also highlighted how endemic corruption undermines U.S. and Iraqi government efforts to improve the transparency and accountability of Iraq’s national and provincial governments. In our assessment of the U.S. strategy for Iraq, we recommended that the National Security Council take several steps to complete the strategy to improve its usefulness to the Congress. Specifically, we recommended that the council identify the current costs and future resources needed to implement the strategy, such as the costs of maintaining U.S. military operations and training and equipping Iraqi security forces. In addition, our work identified the need to clarify the roles and responsibilities of U.S. government agencies, and to improve performance measures to help track the impact of U.S. efforts. (GAO-06-953T, GAO-06-788, and GAO-06-697T)

**2.44.C. Advancing Management Reforms in the United Nations (UN):** Our work on UN management reforms has led State to advance efforts to strengthen the independence of the UN internal oversight unit and has also promoted UN procurement reform. First, we found that UN funding arrangements constrained its oversight unit’s ability to operate independently and direct resources toward high-risk areas as needed. As a result, high-risk areas can be and have been excluded from examination, including the Oil for Food program for which billions of dollars were found to have been misused. We recommended that the UN establish reliable funding arrangements for its internal oversight unit to ensure the auditors’ independence. State endorsed our recommendation and has advanced UN reforms by working with member states to strengthen the independence of the UN internal oversight unit. Second, we found that weaknesses in internal controls in UN

procurement exposed UN resources to significant risk of waste, fraud, and abuse. We recommended that State work with member states to address UN procurement weaknesses. State endorsed our recommendation and the UN subsequently announced actions aimed at addressing some of these weaknesses, including efforts to ensure proper accountability and training of all involved in procurement. (GAO-06-701T, GAO-06-577, GAO-06-575, and GAO-06-226T)

## Respond to the impact of global market forces on U.S. economic and security interests

**2.45.N. Making the Trade Advisory Committee System More Relevant:** The Office of the U.S. Trade Representative, in conjunction with other federal agencies, has taken several steps to update the international trade advisory system to make it more relevant to the U.S. economy and trade policy needs, as we recommended. Specifically, the Office of the U.S. Trade Representative, Commerce, and the Department of Agriculture have more closely aligned the system's structure and composition with the current economy and increased the system's ability to meet negotiator needs more reliably. For example, the Department of Agriculture created a new Agricultural Technical Advisory Committee for processed foods because exports of high-value products have increased. Also, the Office of the U.S. Trade Representative and Commerce split the service industry into several committees to better meet negotiator needs. Commerce, the Office of the U.S. Trade Representative, and EPA have also better incorporated new trade issues and interests into the system. For example, the Office of the U.S. Trade Representative responded to the increased interest in fisheries subsidies expressed during international trade negotiations by helping to create a new subcommittee to study such subsidies. (GAO-02-876)

**2.46.N. Strengthening Controls over the Conflict Diamond Trade:** In June 2002, we reported that the Kimberley Process's proposal for an international diamond certification scheme did not contain the controls necessary to ensure that it will be effective in stemming the flow of conflict diamonds, which are rough diamonds used by rebel movements to finance their

military activities, including attempts to undermine or overthrow legitimate governments. Since the November 2002 adoption of the international certification system for rough diamonds, State and the Department of the Treasury have cochaired the Kimberley Process Implementation Coordinating Committee. In response to our recommendation, the Secretary of State, in consultation with relevant government agencies, has worked to incorporate better controls in the international diamond certification scheme, known as the Kimberley Process Certification Scheme, to deter conflict diamonds from entering the legitimate market. The U.S. government has worked with other Kimberley Process Certification Scheme participant governments to ensure that the structure for implementing the scheme encompasses key internal controls, including working groups that (1) monitor implementation by conducting peer reviews of participants and the process, (2) report statistical data on the production and trade of rough diamonds to identify anomalies, and (3) identify solutions to technical problems for participants requiring assistance. (GAO-02-678)

**2.47.C. Phasing Out and Improving Management of Payments to Producers under the Byrd Amendment:** In February 2006, after an active debate where our report figured prominently in congressional remarks, the President signed legislation terminating the Byrd Amendment or Continued Dumping and Subsidy Offset Act, as of the end of fiscal year 2007. In the program's first 4 years, Customs and Border Protection disbursed about \$1 billion to U.S. producers that had claimed and demonstrated they were injured by unfairly traded (dumped or subsidized) imports, with just five firms receiving about half the total amount. The phase-out of the program provides for continued disbursements to producers of antidumping duties collected on imports that enter up to September 2007; thereafter the duties will go to the U.S. Treasury. (GAO-05-979)

**2.48.C. Updating Trends in Financial Restatements and Their Impact on Market Capitalization:** In a July 2006 report, we issued our update of trends in financial restatement announcements. We found that the number of restatement announcements resulting from financial reporting fraud, accounting errors, or both has continued to increase since 2002, reflecting an increased focus on financial reporting and internal controls fol-

lowing the implementation of the Sarbanes-Oxley Act of 2002. Moreover, restatement announcements have continued to adversely affect market capitalization of restating companies in the short term and over time, but the market appears to react to certain types of restatements more severely than other types. We also found that despite changes to required disclosures involving certain restatements, companies continue to disclose restatements in a variety of formats. Our report includes recommendations to the Securities and Exchange Commission to help ensure compliance with its reporting requirements for financial restatement announcements and make consistent existing commission guidance on public company disclosures of restatements that result in nonreliance on previously issued financial statements. This would include investigating the instances of potential noncompliance that we identified and taking any necessary actions to correct them. Moreover, to improve the consistency and transparency of information provided to markets about restatements, we recommended that the commission harmonize existing instructions and guidance concerning specific reporting requirements for all determinations of nonreliance on previously issued financial statements, such as restatements, irrespective of whether such information has been disclosed in a periodic report or elsewhere. The Securities and Exchange Commission stated that it would examine the instances of potential noncompliance and carefully consider harmonizing guidance concerning Form 8-Ks. (GAO-06-678)

#### **2.49.C. Ensuring Privacy and Data Security Laws**

**Enforcement:** In a June 2006 report, we found that the applicability of federal privacy and data security laws to information resellers was limited. These companies collect and resell large amounts of personal information on nearly all Americans, and some have experienced data security breaches in recent years. To ensure that personal data are protected on a more consistent basis, we suggested that the Congress consider requiring information resellers to safeguard all sensitive personal information they hold. To facilitate more effective enforcement, we also suggested that the Congress provide the Federal Trade Commission with the authority to seek civil penalties for violations of privacy and safeguarding provisions of the Gramm-Leach-Bliley Act. Our report also identified limitations in the enforcement of these privacy and safeguarding provisions with regard to insurance

companies and recommended that additional measures be taken by state insurance regulators and the National Association of Insurance Commissioners. (GAO-06-674)

#### **2.50.C. Improving Bank Secrecy Act Compliance**

**Oversight:** In April 2006, we completed our study on Bank Secrecy Act compliance and reported that the banking regulators and the Financial Crimes Enforcement Network had made significant progress in strengthening the framework for consistent Bank Secrecy Act oversight through increased coordination, the development of an interagency examination manual, the implementation of improved Bank Secrecy Act data and violation tracking systems, and increased concurrent enforcement actions. We noted that significant work remained to be done to make Bank Secrecy Act oversight consistent across the financial services industry. To further strengthen Bank Secrecy Act oversight, we recommended that the network and the banking regulators communicate emerging risks through updates of the interagency examination manual and other guidance, periodically review Bank Secrecy Act violation data to determine if additional guidance is needed, and jointly assess the feasibility of developing a uniform classification system for Bank Secrecy Act compliance problems. In a joint response, the network and the five banking regulators supported our recommendations and said they are committed to ongoing interagency coordination to address them. (GAO-06-386)

#### **2.51.C. Addressing the Impact of the Sarbanes-Oxley Act on Smaller Public Companies:**

**In April 2006, we reported that the Sarbanes-Oxley Act has had a positive impact on investor protection and confidence. However, the act's requirements have resulted in disproportionately higher cost on smaller public companies as a percentage of revenues. The costs associated with complying with the act, along with other market forces, may have encouraged some companies to become private. We identified several factors that contributed to the costs of implementing the act. We noted it was critical that the Securities and Exchange Commission carefully assess the available guidance to smaller public companies regarding compliance with the financial internal control reporting provisions of the act (section 404) to determine whether additional guidance was needed. Subsequently, the commission announced that it would issue additional**

guidance regarding compliance with the act's financial internal control reporting provisions. On July 11, 2006, the commission published a concept release as a prelude to its forthcoming guidance for management in assessing a company's internal controls for financial reporting. According to the Commission Chairman, the goal of the concept release was to obtain public comment to help the commission "write meaningful guidance for all public companies—large, small, foreign, and domestic—for the benefit of all of their shareholders." (GAO-06-361)

**2.52.C. Protecting Military Personnel from Harmful Financial Products:** We found that a small number of companies had sold a product to thousands of junior enlisted servicemembers that combined life insurance with a savings fund promising high returns. However, these products are much more costly than the life insurance that military members already receive, had features that were illegal in some states, and resulted in few servicemembers amassing any savings from their purchase. Servicemembers were also being marketed a mutual fund product with high up-front sales charges that was more costly and provided lower returns than alternatively available products. As a result, we recommended that the Congress consider banning such products and require insurance regulators to ensure that products being sold to servicemembers meet existing insurance requirements. In September 2006, the Congress enacted legislation that incorporated our recommendations. (GAO-06-245T and GAO-06-23)

**2.53.C. Improving Congressional Oversight of the Process for Reviewing Foreign Direct Investments That Could Affect U.S. National Security:** In 1988, the Congress enacted legislation authorizing the President to suspend or prohibit a foreign acquisition of U.S. companies that posed a threat to national security. Such acquisitions are reviewed by an interagency committee—the Committee on Foreign Investment in the United States—chaired by the Secretary of the Treasury. In 2005, we reported that committee members did not agree on how national security should be defined, what criteria should be applied to determine whether a case should be investigated, and the methods for providing additional review time in complex cases. Currently, companies are allowed to withdraw from the process to avoid missing the required completion time frames. In some cases, the acquisition was completed although national security concerns had been raised. In a few cases, the companies never returned to complete the process. Further, from 1997 through 2004, only two cases required a presidential determination—the criteria for congressional reporting—inhibiting transparency and congressional oversight. Because of our report and several high-visibility acquisitions that confirmed the issues raised in our report, Senate and House committees held hearings and have initiated legislation to correct the problems we identified. Several of our recommendations have been incorporated into those legislative proposals. (GAO-05-686)



## Reexamine the federal government's role in achieving evolving national objectives

**3.1.C. Informing Congressional Oversight of Agencies' Regulatory Efforts:** In a series of testimonies over the past year, we contributed to a comprehensive congressional study of the state of administrative law, process, and procedure. Drawing on over 60 reports and testimonies that reviewed federal regulatory procedures and practices, we identified impediments to agencies implementing laws and executive orders designed to enhance and improve federal rule making and other regulatory activities. We also identified emerging trends and changes in the regulatory environment that merit closer congressional attention. The congressional study to which this information contributed will be used to identify priority items for consideration by the reauthorized Administrative Conference of the United States, an independent, nonpartisan, public-private agency that would conduct studies and develop recommendations to improve agencies' administrative processes, procedures, and practices. The information we provided also contributed to consideration of legislative proposals to amend existing regulatory reform statutes, such as the Regulatory Flexibility Act. (GAO-06-998T, GAO-06-601T, and GAO-06-228T)

**3.2.C. Improving Grant Effectiveness:** In two reports and a testimony over the past year, we addressed challenges agencies and the Congress face in making federal grant programs more effective. In a report on the governmentwide efforts to streamline and simplify grant

management processes, we recommended that OMB take further steps to obtain grantees' views and concerns. OMB agreed with our recommendations and will continue making improvements related to the streamlining and simplification of grant management processes. We also issued a report on strategies to improve the timing, targeting, and flexibility of increased federal Medicaid assistance to states during economic downturns. In addition, we testified on options for improving the targeting of Community Development Block Grant funds toward communities with the greatest need and least capacity to meet those needs. (GAO-06-904T and GAO-06-566)

## Support the transformation to results-oriented, high-performing government

**3.3.N. Connecting Contract Award Fee Payments to Desired Program Outcomes:** Through award and incentive fees, DOD contractors can collectively earn billions of dollars for strong contract performance. However, we recently reported that DOD generally does not link award fees to desired acquisition outcomes. On award fee contracts that were active from fiscal years 1999 through 2003, DOD paid out an estimated \$8 billion in award fees regardless of outcomes. For example, the F-22A aircraft program paid over 90 percent of available award fees on the system development contract despite the fact that the program had experienced almost 50 percent growth in costs and was delayed over 2 years. Further, for an estimated 52 percent of DOD award fee contracts, DOD provided additional opportunities



for these contractors to earn previously unearned fees. Despite the billions it has paid in fees, DOD has not compiled data, conducted analyses, or developed performance measures to support its belief that these fees improve contractor performance. As a result of our report and subsequent testimony by the Comptroller General, both the House and Senate have passed legislation that implements the recommendations we made to improve the administration of award and incentive fee contracts. In addition, DOD has issued guidance addressing many of the issues we have raised. (GAO-06-66)

### **3.4.N. Designing a More Cost-effective Decennial**

**Census:** Our ongoing assessments of the design and implementation of the 2010 Census continued to highlight for the Congress the growing cost of this nationwide enumeration (currently estimated at more than \$11 billion), as well as various technical, methodological, and procedural challenges the U.S. Census Bureau (Census) needs to resolve to help produce a cost-effective head count in 2010. For example, in response to findings and recommendations contained in our reports, Census (1) strengthened its procedures for identifying group quarters, which include dormitories, prisons, and nursing homes; (2) examined its marketing program to help boost the mail response rate; (3) developed comprehensive data quality standards; and (4) tested wording and formatting changes to make the census questionnaire less confusing to respondents. These actions will help Census to control costs, improve risk management, and obtain and disseminate better quality data from the next national head count. (GAO-05-86, GAO-05-9, GAO-04-37, and GAO-02-196)

### **3.5.N. Working with the Congress to Devise and Implement Tools for Strengthened Oversight:**

We worked with congressional staff to identify what performance, budgeting, and financial information was available and how it could be accessed and used to ensure timely and constructive oversight of programs under their committee's jurisdiction. FAA was chosen as a case study to show what information was available and how it could be used for congressional oversight. We suggested to committee staff and FAA and DOT officials various Web-based methods to improve congressional access to FAA's information, including a subscription service, where committee staff could sign up to be notified via e-mail when relevant parts of FAA's Web site were updated.

ed. FAA officials adopted this suggestion and FAA has begun to provide subscription service on selected Web pages, including pages about aircraft, news, and licenses and certificates. (GAO-06-378)

**3.6.N. Increasing Competition for Defense Task Orders:** DOD spends billions of dollars every year through the issuance of task orders under contracts that allow multiple awards or through an interagency transaction under the General Services Administration's federal supply schedule program. Statutory competition requirements apply to such task orders, although the law allows for those requirements to be waived under specified circumstances. Our review of a sample of task orders placed by five DOD buying organizations found that competition requirements were waived in nearly half of the task orders reviewed. The frequent use of competition waivers for DOD task orders was one of the factors that prompted us to include interagency contracting on our high-risk program list. We recommended that DOD develop additional guidance on the circumstances that would warrant a waiver of competition, require that waivers be fully documented, and elevate the approval levels for certain sole-source orders. The department agreed with and has implemented the recommendations. DOD's actions should help provide safeguards for ensuring that competition waivers are used only in appropriate circumstances. Increased competition should result in better procurement value for the department. (GAO-04-874)

**3.7.F. Reducing Costs Associated with the Government's Student and Exchange Visitor Program:** DHS's Student and Exchange Visitor Information System, which is managed by the Student and Exchange Visitor Program, collects and records information on foreign students, exchange visitors, and their dependents prior to their entering the United States, upon their entry, and during their stay. In 1996, the Congress required that foreign students and exchange visitors pay a fee to cover the costs of the Student and Exchange Visitor Information System. In June 2004, we reported that although almost 7 years had passed since collection of the fee was required, the Student and Exchange Visitor Program did not have approved plans for collecting a fee for implementing and administering the program. As a result, we recommended that DHS take the necessary steps to provide for the expeditious implementation of

the fee collection. Student and Exchange Visitor Program officials reported that the agency began collecting the fee in September 2004 and became fully fee funded as of October 1, 2004, an action that is estimated to save about \$230 million from fiscal years 2005 through 2009. (GAO-05-440T and GAO-04-690)

**3.8.N. Continuing Oversight and Assistance to Legislative Branch Agencies' Efforts to Improve Performance and Accountability:** Through ongoing oversight, we continue to support legislative branch agencies in their respective management improvement and transformation efforts. Our work, for example, helped to increase the transparency of information behind legislative branch budget calculations and led to further efforts by the Legislative Branch Financial Management Council to standardize the approach taken in developing estimates for personnel and price-level increases. Among the legislative branch agencies, the Office of Compliance has acted on a number of recommendations from our past review, such as improving its efforts to educate the legislative branch agencies about the provisions of the Congressional Accountability Act and completing the required occupational safety and health inspections of all legislative branch facilities covered by the act. To help manage its day-to-day operations, the Government Printing Office has taken steps to ensure that its managers have the financial information needed to track progress toward their transformation goals. The Architect of the Capitol has strengthened its estimating, tracking, and reporting of full-time equivalent and personnel positions based on a number of our recommendations. We continue to work with the United States Capitol Police and the Architect of the Capitol to ensure that they address long-standing issues affecting management of human capital, financial systems, information systems, projects, and operations. (GAO-06-290, GAO-04-830, GAO-04-400, and GAO-04-85)

**3.9.N. Leveraging the Government's Buying Power through Strategic Sourcing:** Our examination of leading private sector companies has shown that these organizations have been able to achieve significant savings by increasing the visibility of their procurement spending through a technique known as spend analysis, and then coordinating or leveraging that spending across the organization through a process called strategic sourcing. Some federal agencies have embraced that

concept as well, with similar results. For example, DOD has projected annual savings ranging from \$4 billion to \$10 billion once its ongoing strategic sourcing pilot project is implemented departmentwide. But not all agencies have made such progress. In part in response to our recommendation, OMB required all federal agencies to identify at least three commodities they believe would be appropriate to use for testing the strategic sourcing concept. It is anticipated that in light of the priority OMB has assigned to this initiative, agencies throughout the government will realize significant financial benefits through the adoption of strategic sourcing techniques. (GAO-04-870, GAO-03-661, and GAO-02-230)

**3.10.N. Improving Program Management Capability of DHS's Multibillion-Dollar Investment:** Over the last few years, we have identified numerous opportunities for DHS to improve the program management capability of its multibillion-dollar United States Visitor and Immigrant Status Indicator Technology (US-VISIT) program. US-VISIT is a legislatively required program for controlling and monitoring the preentry, entry, status, and exit of hundreds of millions of foreign national travelers who enter and leave the United States at over 300 air, sea, and land ports of entry. Our recommendations have been aimed at strengthening US-VISIT's program management capability and improving DHS's ability to make informed US-VISIT investment decisions to better ensure the delivery of mission capabilities and value on time, and commensurate with costs and risk. While much remains to be accomplished until these capabilities are fully implemented, the program office has implemented some of our recommendations, which have resulted in defined program office roles and responsibilities to help ensure that program staff understand what they are to do, how they relate to each other, and how they fit into the organization, and the acquisition of an independent verification and validation contractor to provide management with objective insight into the program's processes and associated work products. The program office has also made progress toward implementing several other of our recommendations, which include establishing a process improvement program for defining and implementing critical acquisition management controls, including developing effective risk management processes and plans, and developing and implementing a human capital strategy. (GAO-06-296, GAO-05-202, GAO-04-586, and GAO-03-563)

**3.11.N. Improving the Quality of Federal Voluntary Voting System Standards:** Our work on federal voluntary voting equipment standards, and the processes for managing them, identified weaknesses that could impede effective management of voting systems throughout their life cycles and resulted in recommendations for adding usability and quality assurance requirements to the standards. The federal *Voluntary Voting System Guidelines*, issued in December 2005, satisfied our recommendations by adding requirements for usability (such as voter verification of ballots) and accessibility (for persons with visual, hearing, mobility, or other limitations), as well as quality assurance provisions for voting system vendors. Moreover, our work recognized that no federal entity held statutory authority for updating the standards and asked the Congress to consider explicitly assigning this responsibility. The approval of the 2005 federal guidelines by the U.S. Election Assistance Commission marked the first time federal voting system standards were updated by this federal agency, under authority granted by the Help America Vote Act of 2002. The updated standards will help increase citizens' confidence and ease in voting, while the execution of federal responsibility for maintaining voting standards increases the likelihood that they will be current, complete, relevant, and utilized by the states. (GAO-02-52)

**3.12.N. Improving OMB Program Evaluation Guidance:** We helped federal evaluation officials organize and develop a briefing on program evaluation for OMB examiners in response to concerns about how examiners were assessing agency program evaluations with the Program Assessment Rating Tool. The briefing clarified that experimental research designs involving random assignment, while highly rigorous, were not feasible for many mature federal programs, and provided examples of alternative evaluation methods. OMB subsequently posted the briefing slides on its Web site as a supplemental resource for conducting Program Assessment Rating Tool assessments. As a result, both examiners and agency staff should be able to more realistically judge the quality of the evaluation evidence presented to them and communicate more clearly about their evaluation information needs. (Based on briefing)

**3.13.N. Strengthening DOD Business Systems Modernization Management:** For decades DOD has not been successful in repeated attempts to modernize its timeworn business systems and operations. In 1995, we first designated DOD's business systems modernization as high-risk and we continue to designate it as such today. From May 2001 through May 2006, our body of work on DOD's institutional approach to modernizing its business systems as well as our reviews of specific business system investments have produced recommendations that provide a comprehensive framework for establishing and implementing the institutional management controls associated with successful modernization efforts (developing and enforcing an enterprise architecture, adopting structures and processes for informed investment decision making, and employing rigorous and disciplined system acquisition practices). The Congress has embraced these recommendations in legislative mandates to DOD, such as those in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, and DOD has largely agreed and taken actions to implement them. The result has been important progress in DOD's definition and implementation of institutional approaches and abilities to acquire and deploy modern business systems. (GAO-06-658, GAO-06-234T, GAO-06-219, GAO-06-215, and GAO-06-171)

**3.14.C. Improving the Federal Government's Collection, Use, and Dissemination of Federal Information:** We provided assistance to the Congress in ensuring that federal information is effectively managed and leveraged to improve agency performance and protect citizens' rights. For example, we played a key role in highlighting issues and concerns surrounding a well-publicized data breach at VA that exposed the personal data of more than 26 million veterans to potential identity theft. At several congressional hearings, we testified on key practices that agencies should adopt, both to limit the chances of such breaches occurring in the future as well as to respond effectively in cases when they do occur. Our pointers were widely reported in the press, and we were consulted in drafting legislation to codify responsive actions all federal agencies would be required to take. As privacy concerns took center stage in 2006 with media reports that government agencies were inspecting large amounts of personal information acquired from commercial sources, we reported detailed information about how the DHS and the Department of Justice were

handling personal information obtained from commercial sources and made recommendations based on established privacy protection principles. At a separate hearing, we were then called on to provide perspective on the role of chief privacy officers in federal agencies by delineating the major challenges they face. We also produced a body of work on agency actions to implement the Freedom of Information Act and the Paperwork Reduction Act, and congressional decision makers as well as the press have come to rely on our reports to gauge agencies' progress. We were asked to provide key status information at hearings in July 2006 on such measures as the numbers of Freedom of Information Act requests agencies have been processing annually and information requests that have been approved by OMB. Our analysis provided a basis of discussion and debate for the Congress, the news media, and the public. (GAO-06-974T, GAO-06-866T, GAO-06-833T, GAO-06-777T, GAO-06-609T, and GAO-06-477T)

### **3.15.C. Restructuring Executive and Judicial Pay:**

Leading organizations understand that they need senior leaders who are drivers of continuous improvement and stimulate and support efforts to facilitate change and achieve related transformation efforts. However, we have found that the federal government as a whole may face challenges in offering competitive compensation to its senior leaders given current pay structures for executive and judicial positions. To assist the Congress in any possible restructuring of selected executive and judicial pay plans, in a June 2006 report, we identified certain principles that should be considered to attract and retain the quality and quantity of executive leadership necessary to address 21st century challenges. Specifically, executive and judicial pay plans should be, among other things, sensitive to hiring and retention trends; reflective of responsibilities, knowledge and skills, tenure, and contributions; transparent to the Congress and other leadership; market sensitive; and sustainable over the longer term given known cost trends and risks and future fiscal imbalances. To help address the challenges in offering competitive compensation to executive and judicial positions, we also noted that a commission may be an option for exploring ways to maintain a reasonable relationship across these positions and to the relevant markets, such as nonprofit and educational organizations or state and local governments. (GAO-06-1116T and GAO-06-708)

### **3.16.C. Improving DHS's Ability to Develop Internet Recovery Plans:**

Since the early 1990s, growth in the use of the Internet has revolutionized the way that our nation communicates and conducts business. Consequently, recovery plans are needed to help make sure the nation can respond to catastrophic Internet failure brought on by a natural disaster or a potential attack. In a June 2006 report and July 2006 testimony, we reported that DHS faces key challenges in developing a public/private Internet recovery. We recommended that DHS work with the private sector to better define its role, revise key plans that are relevant for Internet recovery, and improve organizational efficiency, and suggested that the Congress consider developing a legal framework that would give DHS the authority to provide assistance to restore Internet services. DHS concurred with our recommendations and is initiating discussions among Internet and policy experts to identify and prioritize key issues and planning to develop an action plan based on the 2006 Cyber Storm exercise. Also as a result of our review, the Congress is better informed about the need for legislative authority for Internet recovery and is in a better position to consider a legal framework that will provide DHS with the necessary authorities to execute effective Internet recovery plans. (GAO-06-863T and GAO-06-672)

### **3.17.C. Strengthening Oversight of a Costly Yet Critical Environmental Satellite Program:**

Over the last several years, we have assisted the Congress by helping oversee the federal government's procurement of the \$11.5 billion National Polar-orbiting Operational Environmental Satellite System, a program critical to our nation's future ability to forecast weather. Since 2002, we have issued multiple reports and testimonies identifying risks facing the satellite system. Most recently, in November 2005 and March 2006 testimonies before House and Senate committees, we reported on the program's serious technical challenges and expected cost increases and schedule delays. We also noted that the satellite system's problems involved multiple levels of managing, including the subcontractor, contractor, program office, and executive leadership. Our work has helped focus congressional, agency, and public attention on this important satellite program. Our efforts have led to ongoing changes in the management structure of the satellite's program office, more active oversight of the program by high-level agency officials, and more aware-

ness of the technical and managerial issues facing the program by the Congress. (GAO-06-573T and GAO-06-249T)

**3.18.C. Identifying and Bringing Needed Attention to Contract Vulnerabilities:** In recent years, federal agencies have spent more than \$300 billion annually to procure a variety of goods and services and are increasingly turning to contractors to achieve vital government missions. This past year, we found substantial weaknesses in the screening process for prospective Army contract security guards, the Small Business Administration's oversight of sole-source contracts awarded to firms owned by Alaska Native Corporations, and the negotiation and awarding of contracts in emergencies. In our review of Army contract guards, we identified a total of 89 guards at two installations who had records relating to criminal offenses, including cases that involved assault and other felonies. Our review of firms owned by Alaska Native Corporations—which are eligible to receive sole-source contracts for any dollar amount through the Small Business Administration's 8(a) program—found that procuring agencies needed improved practices pertaining to oversight to ensure these contracting methods were used appropriately and taxpayer dollars are spent effectively. Further, we found that the agency's oversight of the program needed significant improvement to prevent waste and abuse. Our review of contracts awarded in emergencies highlighted the need for tools and techniques to ensure contracting can be done quickly and effectively. For example, in its efforts to secure classrooms in Hurricane Katrina's aftermath, USACE did not use available information to negotiate lower prices for classroom usage. These reports—along with highly visible cases of fraud, waste, and abuse—have called attention to the need for broad improvements in federal contracting. (GAO-06-714T, GAO-06-454, GAO-06-399, and GAO-06-284)

**3.19.C. Improving Census's Management of Key Automation Projects for the Upcoming 2010 Decennial Census:** Census plans to invest over \$3 billion in the use of automation for the 2010 decennial census and the bureau initiated several acquisitions, including the Decennial Response Integration System and Field Data Collection Automation program. In a March 2006 testimony, we reported that the bureau needed to improve its capabilities to effectively manage these important

acquisitions. We recommended that the project teams implement activities, including performing planned requirements management activities, developing risk mitigation plans for key risks, and establishing internal and contractor performance measures. Census concurred with our recommendations, and Census's project teams are implementing improvements that include establishing performance measures and risk mitigation plans for these key projects. By assisting the Congress to oversee this important effort, we have helped to minimize risks that could have negatively affected implementation of the government's upcoming 2010 Decennial Census. (GAO-06-444T)

**3.20.C. Improving the Accuracy and Reliability of Government Information Used to Decide How Billions of Federal IT Dollars Are Spent:** Each year, agencies submit to OMB a Capital Asset Plan and Business Case—the exhibit 300—to justify each request for a major IT investment and to demonstrate to agency management, as well as OMB, that the disciplines of good project management have been employed for each proposed investment. In fiscal year 2006, these requests totaled over \$65 billion. However, in January 2006, we found that there was inadequate underlying support for information reported in the exhibit 300s at selected agencies, raising questions regarding the sufficiency of the business cases for major IT investments and the quality of project management. Importantly, without adequate support for these budget justifications, OMB and agency executives may be depending on unreliable information to make critical decisions on IT projects, thus putting millions and millions of dollars at risk. Our work brought to light key risks that can potentially undermine the government's federal budget and oversight processes when information is not reported accurately and reliably. OMB accepted our findings and indicated that it will work with agencies and the Chief Information Officer's Council to identify additional guidance needed. (GAO-06-250)

**3.21.C. Assisting Agencies and the Congress in Developing and Maintaining a Diverse Workforce:** We continued work examining the overall policy framework for equal employment opportunity (EEO) and diversity in the federal workplace, agency-specific efforts to improve the EEO complaint process, and factors that affect representation of Hispanics in the federal workforce. We

reported the views of federal EEO and human capital officials that EEO requirements are similar or redundant, that guidance and feedback from the Equal Employment Opportunity Commission (EEOC) and OPM was not always useful, and that EEOC and OPM could be doing more to help them carry out their agency-specific responsibilities. We made recommendations that OPM and EEOC regularly coordinate in carrying out their overlapping responsibilities and seek additional perspectives from agency human capital and EEO managers. EEOC and OPM both acknowledged that their collaborative efforts could be strengthened. As a result of our work, OMB made a similar recommendation to OPM to collaborate more with EEOC. Also, in a 2006 report, we made recommendations to DOD to develop a sound evaluation plan for a pilot program it has under way to reduce civilian DOD employee EEO complaint processing time. DOD generally concurred with our recommendations. As for Hispanic representation in the federal workforce, in August 2006 we reported that education and citizenship had the greatest effect on Hispanic representation and recommended that OPM and EEOC take citizenship into account in their comparisons of the federal workforce to the civilian labor force. Federal agencies continue to use our reports as they work to strengthen their EEO operations and diversity management. For example, in 2006 VA interviewed the analyst-in-charge of our 2005 report on diversity management leading practices for an in-house broadcast and provided a link to the report on its Web site. (GAO-06-832, GAO-06-538, GAO-06-214, GAO-05-195, and GAO-05-90)

**3.22.C. Strengthening Management over OPM's Retirement System Modernization:** OPM manages the systems that process retirement benefits for most federal civilian employees—in fiscal year 2003, over 198,000 claims were processed and over \$50 billion in benefits were paid. OPM is trying to modernize these systems through a program called Retirement Systems Modernization. In February 2005, we reported that OPM lacked sound system acquisition, change management, and investment management processes to help manage this critically important program. We recommended that OPM establish the management processes needed for effective oversight of the Retirement Systems Modernization program and OPM concurred. Immediately OPM began to implement our recommendations and

initiated efforts to develop sound management processes. As a result of our review, OPM is working to improve its ability to manage Retirement Systems Modernization and the Congress is better informed to make key legislative decisions in overseeing OPM's project management of its Retirement Systems Modernization program. (GAO-05-237)

**3.23.C. Assessing the Nation's Preparedness for and Response to a Pandemic Influenza:** We developed and have begun implementing an integrated strategy that lays out how we will contribute both to the nation's efforts to prepare for, respond to, and recover from a possible pandemic influenza and to the Congress's decision making and oversight related to these efforts. This strategy is intended to help the United States prepare for a pandemic in ways that are sustainable over the longer term, encompassing approaches to enhance critical capabilities that will have value to public health preparedness and disaster response and recovery even if a pandemic does not occur in the near or immediate term. It builds upon our large body of work, contained in over 120 reports and testimonies, conducted over many years, on areas such as prior disasters, assessments of public health capacities, and efforts to address the year 2000 computer challenges. Based on lessons learned from prior work and considering the unique characteristics of an influenza pandemic, we developed six key themes to guide work on these issues. These themes are leadership, authority, and coordination; detecting threats and managing risks; planning, training, and exercising; capacity to respond and recover; information sharing and communication; and performance and accountability. The strategy was developed and is being implemented by our Pandemic Working Group, a highly matrixed effort involving all mission teams. Working with committees across the Congress, we have several engagements currently under way that are contributing to this strategy by helping address key issues under the six themes. (GAO-06-1042, GAO-06-740T, GAO-06-221T, GAO-05-863T, and GAO-05-577)

**3.24.C. Modernizing Federal Financial Management Systems:** Our March 2006 report identified several key causes of financial management system implementation failures and discussed best practices to reduce related risks to acceptable levels. While about \$20 billion was budgeted for IT spending on financial management sys-

tems for fiscal year 2006, modernization efforts often exceed budgeted cost, have extended delivery dates, and do not provide anticipated system functionality and performance. OMB has recognized the need for government-wide solutions versus stand-alone agency efforts. OMB's financial management shared service provider concept is in the early stage and does not yet include certain elements integral to success. OMB's guidance to agencies incorporated many of the best practices discussed in our report, and the Congress has utilized the key concepts of our report in subsequent hearings. Adherence to best practices identified in our report will be at the core of successfully modernizing the government's financial management systems to provide accurate, reliable, and timely information on operating results. (GAO-06-184)

**3.25.C. Promoting the Use of Cost Accounting to Better Inform Government Decision Making:** To bring focus to the role of reliable cost information in improving agency cost efficiency governmentwide, we continued a series of reviews of managerial cost accounting (MCA) practices at 10 large federal agencies during 2006, presenting how these agencies prepare and use MCA information. MCA, a tool that integrates corresponding performance and cost data, helps agencies inform management decisions and achieve their missions, given the constrained budgetary environment. Our reports identified the reviewed agencies' key practices, which other agencies can adopt to improve their processes. For example, we highlighted the effect of strong leadership on transitioning from budget-based to cost-based decision making and the critical impact of nonfinancial as well as financial data reliability on cost analysis. We made recommendations ranging from improving leadership by issuing MCA policy and implementation procedures, to studying the full cost of services provided to nongovernmental entities, to improving controls over the data used in making cost-based decisions. Departments we reviewed have already taken action to improve their MCA procedures, such as one calling for component agencies to certify compliance with federal MCA requirements annually and another implementing procedures to improve data reliability. Our work has been highlighted in presentations by the chief financial officer of one of the agencies we reviewed and in a certified public accountant newsletter. (GAO-06-1002R, GAO-06-599R, and GAO-06-301R)

## Support congressional oversight of key management challenges and program risks to improve federal operations and ensure accountability

**3.26.F. Contributing to the Elimination of the National Aeronautics and Space Administration's Prometheus 1 Project:** In February 2005, we issued a report that questioned whether the National Aeronautics and Space Administration had established initial justification for its investment in the Prometheus 1 project—a project to develop nuclear power and propulsion systems for deep space probes like the Jupiter Icy Moons Orbiter—and how the agency planned to ensure that critical technologies were mature prior to program start. To ensure that program requirements matched available resources, we recommended that the agency establish a firm business case for the project. Agency officials concurred and initially eliminated the Jupiter Icy Moons Orbiter Mission from the agency's fiscal year 2006 budget request (a reduction with a present value of \$1.1 billion that was highlighted in our 2005 performance and accountability report) and directed the Prometheus 1 project to complete an analysis of alternatives to identify a mission with reduced technical, schedule, and operational risks. Upon completion of the analysis, which determined that nuclear power systems were not essential to meet early stage program requirements, the National Aeronautics and Space Administration reduced its Prometheus 1 project fiscal year 2007 budget request by nearly \$2.4 billion through 2010, effectively eliminating the program. (GAO-05-242)

**3.27.F. Reducing Improper Payments:** Since fiscal year 2000, our recommendations were aimed at raising the level of attention given to improper payments, including annually estimating and reporting improper payments for agencies' programs, and contributed to the Congress passing the Improper Payments Information Act of 2002. This act required that all agencies annually review and identify programs and activities that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and report on the amount of and their actions to reduce their improper payments. Fiscal year 2005 marked

the second year that federal agencies governmentwide were required to report improper payment information under the Improper Payments Information Act in their performance and accountability reports. For fiscal year 2005, 18 agencies consisting of 57 programs reported improper payment estimates totaling in excess of \$38 billion for some or all of their susceptible programs. We noted that agencies made progress in addressing improper payments by implementing processes and controls to identify and estimate improper payments. For example, the Department of Agriculture reported a total improper payment error rate of 5.88 percent for the Food Stamp Program, the lowest in the program's history, resulting in a \$439.2 million (present value) decrease in improper overpayments for fiscal year 2004. (GAO-06-581T, GAO-05-245, GAO-02-749, and GAO/AIMD-00-10)

**3.28.N. Reducing Hardships on Battle-Injured Soldiers:** Over the past 3 years, our reports and testimonies detailed financial hardships of battle-injured soldiers who served in Iraq and Afghanistan during the global war on terrorism. These hardships, which resulted from problems with pay and travel reimbursement systems and processes, left battle-injured soldiers and their families without sufficient funds to meet everyday expenses. Some soldiers went without food while staying in military hospitals recovering from their war injuries because they were required to pay for their meals. Other soldiers who were overpaid through no fault of their own had their debts reported to credit bureaus and private collection agencies. In response to our work, DOD proposed and the Congress enacted legislation to (1) prohibit requiring certain injured servicemembers to pay for meals provided by military medical treatment facilities, (2) provide travel and transportation allowances for family members to visit hospitalized servicemembers injured during combat operations, (3) provide combat-related injury rehabilitation pay, and (4) cancel certain soldier debts occurring on or after October 7, 2001—the date designated as the beginning of the Operation Iraqi Freedom/Operation Enduring Freedom deployment. In addition, the Army suspended debt collection action for battle-injured soldiers and worked with the Defense Finance and Accounting Service to audit soldier pay accounts. As of July 25, 2006, the Army reported that debts totaling over \$2.3 million for 2,835 soldiers who were sick, injured, or killed in combat had been canceled. (GAO-06-657T, GAO-06-494, GAO-05-400T,

GAO-05-322T, GAO-05-125, GAO-05-79, GAO-04-990T, GAO-04-911, and GAO-04-413T)

**3.29.F. Improving Collections of Federal Nontax and Criminal Debt:** In a series of reports over the past several years, we promoted federal agencies' use of key debt collection processes and procedures to improve collection of delinquent federal nontax civil and criminal debt owed to the federal government and victims of crime. Delinquent federal nontax civil and criminal debt exceeded \$60 billion and \$40 billion, respectively, in fiscal year 2005. Acting on our recommendations, the Department of the Treasury, the Department of Justice, and other federal agencies have continued to take steps to improve collections. For example, Education is now implementing administrative wage garnishment under the authority of the Debt Collection Improvement Act of 1996, which authorizes garnishment of up to 15 percent of disposable pay. In addition, the Department of Justice's financial litigation units, which are responsible for the collection of certain civil and criminal debt, have implemented several key debt collection procedures, including procedures for searching for assets, issuing demand letters, and filing liens, and procedures that enable the financial litigation units to take a more proactive role in criminal debt collection efforts by the U.S. Courts and their probation offices. These actions to improve debt collection processes and procedures in response to our recommendations have added over \$2 billion to a steady stream of recoveries. (GAO-04-338, GAO-02-313, and GAO-01-664)

**3.30.F. Financing the USPS's Unfunded Postretirement Health Obligations:** In our December 2001 report we raised the question of whether USPS was appropriately funding future civil service pension payments. In May 2002, we asked OPM to perform an analysis of the funding status of USPS's pension obligations related to the Civil Service Retirement System. In November 2002, OPM reported that based on the current level of contributions set forth in law, USPS would significantly overfund the benefit obligations. As part of our response to a bipartisan and bicameral request to review OPM's analysis and the administration's legislative proposal to change the funding formula, we emphasized that USPS had \$40 billion to \$50 billion in postretirement health care benefits that were not yet funded. In response, the Congress passed Pub. L. No. 108-18, the Postal Civil



Service Retirement System Funding Reform Act of 2003, which, among other things, required that any reduction in USPS's annual pension funding after 2005 resulting from changing the funding formula be held in an escrow account. It was the sense of the Congress that among other things, the funds made available from the pension payment reductions would be used to address the service's unfunded postretirement health obligations. USPS raised postal rates effective January 2006 to fund the escrow, which is projected to result in additional net revenue of \$2.2 billion during fiscal year 2006. (GAO-02-170)

**3.31.C. Exposing Government Contractors That Have Abused the Federal Tax System:** Over 3,800 General Services Administration contractors had tax debts totaling over \$1.4 billion as of June 30, 2005. Many did not pay payroll taxes withheld from their employees to IRS, which in some cases could be considered a felony. Some companies we investigated diverted payroll taxes for personal gain—in the form of significant personal assets, including commercial properties, expensive homes, and luxury vehicles. Several gambled hundreds of thousands of dollars at the same time they did not pay the taxes owed. Neither federal law nor General Services Administration policies require contracting officers to specifically consider tax debts in making contracting decisions, at either initial award or contract extension. In some instances, tax delinquent contractors were awarded contracts over their competitors because they offered lower prices. In other words, failure to pay taxes may have given the delinquent taxpayers an unfair competitive advantage over their tax compliant competitors. Because of our work, we referred 25 General Services Administration contractors we investigated to IRS. (GAO-06-492T)

**3.32.C. Implementing a Framework for Fraud Prevention, Detection, and Prosecution in Individual Disaster Assistance Programs:** In 2006, we reported that the government's need to quickly provide assistance to victims of natural and other disasters, including acts of terrorism, exposed disaster assistance programs to significant risk of fraud, waste, and abuse. Through statistical sampling, we estimated that FEMA made \$600 million to \$1.4 billion in improper and potentially fraudulent payments to individuals who applied for direct assistance following hurricanes Katrina and Rita. We determined that internal control weaknesses,

including lack of address verification, ineffective duplicate detection, and lack of identity verification, among others, allowed these improper activities to occur. The control weaknesses are further illustrated through our undercover work, whereby we received several FEMA checks by using falsified identities, bogus addresses, and fabricated stories. We referred over 6,000 instances of suspected wrongdoing to the appropriate law enforcement agencies. Our work reemphasizes the need to implement GAO's internal control framework to minimize fraud, waste, and abuse. The framework identifies an effective system of fraud prevention controls to be one that includes up-front controls, postpayment detection and monitoring, and prosecution. (GAO-06-954T, GAO-06-844T, GAO-06-655, and GAO-06-403T)

**3.33.C. Demonstrating Vulnerabilities in Our Nation's Border Security:** In March 2006, we reported on the vulnerabilities of our nation's borders to the smuggling of radioactive sources from undercover work we performed. In one instance, we succeeded in getting radioactive sources sent to an address in Washington, D.C., by representing to the vendor that the materials were for the calibration of personal radiation detection pagers. This occurred because suppliers were not required to determine whether prospective buyers have legitimate uses for radioactive sources or to ask a buyer to produce a Nuclear Regulatory Commission document authorizing the buyer to receive, acquire, possess, and transfer radioactive resources. In a different body of work, our investigators succeeded in bringing across both the northern and southern borders enough radioactive materials to make two separate dirty bombs. In these cases, the radiation portal monitors at the two borders properly detected the presence of radioactive material. However, our entry was approved when we presented a counterfeit Nuclear Regulatory Commission document and bill of lading. (GAO-06-940T, GAO-06-939T, GAO-06-583T, and GAO-06-545R)

**3.34.C. Leading Progress in Accountability Reforms:** Our leadership furthered progress in accountability reform in a number of venues. We advised regulators on improvements to auditing standards and regulations. Our report identified the concerns of smaller public companies regarding the costs of complying with statutory internal control assessment and auditing provisions and made recommendations to the Securi-

ties and Exchange Commission while emphasizing the overarching objectives of investor protection. We also promoted reform through our participation on standard-setting task forces of the Auditing Standards Board, roundtable discussions sponsored by the Securities and Exchange Commission and the Public Company Accounting Oversight Board, recommendations to the Public Company Accounting Oversight Board through its Standing Advisory Group, and formal comments on proposed standards. Through the U.S. Auditing Standards Coordinating Forum, we worked closely with the Public Company Accounting Oversight Board and the Auditing Standards Board on the development of guidance for auditors and coordination on emerging issues. (GAO-06-361)

### **3.35.C. Leading through Strengthened Government Auditing Standards, 2006 Revision, Exposure Draft:**

A new draft edition of the *Government Auditing Standards*, or Yellow Book, as the standards are popularly known, provides auditors of government agencies stronger and clearer standards to guide their work. The product of intensive staff review and revision in such crucial areas as ethical responsibilities and audit quality, the standards incorporated comments from our standards advisory council and others across the accountability community. The resulting draft provides a strong foundation for government auditors in a demanding environment. It is infused with principles that form the focus of a separate ethics chapter. In the area of audit quality, risk-based requirements strengthen, streamline, and rationalize internal inspections and peer reviews. The framework for performance audits of government programs is refurbished with a risk-based approach as well and with clear principles that facilitate high-quality audits. This significant update advances our goal of modernizing U.S. government standards while working toward congruence with other standards, both nationally and internationally. (GAO-06-729G)

**3.36.C. Improving Controls over Payments to Contractors:** Our recently completed audits of selected contracted activities at two federal agencies demonstrated the effect of mismanagement of two areas in federal contracting that we have reported as high risk—interagency contracting and contract management at DOE. Our audits identified fundamental weaknesses in the control environment over contracted activities at the

Federal Bureau of Investigation (and its federal contracting partner, the General Services Administration) and DOE (and its federal contracting partner, Space and Naval Warfare Systems Center, New Orleans). We found ineffective review and approval processes for contractor invoices that did not enable the agencies to verify that goods and services billed for had actually been received and charged at the agreed-upon amounts. We also found the need to clearly define the roles and responsibilities of each party to the agreements. In addition, we found that contractor services, including subcontracted work, were not adequately monitored; labor rates were not verified; and other direct costs lacked adequate supporting documentation. We reported that these fundamental control weaknesses contributed to over \$36 million of improper payments, questionable payments, or both. Further, given the poor control environments and the fact that we reviewed only selected payments, other improper payments or questionable payments may have been made that have not been identified. We made recommendations to strengthen controls over payments to contractors and to mitigate the risk of paying improper contract costs in the future. The agencies indicated that they had taken some corrective actions to improve controls over payments to contractors, including changes to improve interagency contracting procedures; however, we concluded that further improvements are needed. (GAO-06-547 and GAO-06-306)

## **Analyze the government's fiscal position and strengthen approaches for addressing the current and projected fiscal gap**

**3.37.F. Improving IRS's Methodology for Pursuing Delinquent Taxes:** Our report on IRS's fiscal year 1999 financial statements stated that IRS did not have systems or procedures in place to allow it to identify and actively pursue cases that may have some collection potential. We recommended that IRS improve its capacity to assess the collectibility of delinquent taxes as a way of deciding on which debts to focus collection efforts. In 2004, IRS began implementing sophisticated modeling technology to differentiate between more and less productive cases in order to make better resource allocation decisions. IRS's analysis showed that its collections of delinquent

taxes with approximately the same resources increased by about \$1.9 billion, or 8.8 percent, in fiscal year 2005 from fiscal year 2003 levels. (GAO-01-42)

### **3.38.N. Improving the Quality of the Federal Government's Financial Management and Reporting:**

As in the past 8 fiscal years, we were again unable to express an opinion on the U.S. government's consolidated financial statements because of ongoing material weaknesses in internal control and accounting and reporting issues. However, our efforts are contributing to significant improvements in (1) enhancing the understandability of financial information disclosed in the consolidated financial statements, (2) the quality of the financial statement audits performed by the agencies' auditors, and (3) agencies' management representations. For example, because of our recommendations, OMB and the Department of the Treasury clarified inaccurate information contained in the Management's Discussion and Analysis section of the fiscal year 2005 consolidated financial statements report. Also, in response to our recommendations, improvements were made in auditing the fund balance with Treasury and related disbursement activity at some agencies. These improvements are a result of our continuous effort to fulfill our responsibilities both as principal auditor of the U.S. government's consolidated financial statements and for improving the quality of the federal government's financial management and reporting. (GAO-06-169, GAO-05-610R, GAO-05-608R, GAO-05-607R, and GAO-05-603R)

### **3.39.F. Helping the Tennessee Valley Authority (TVA) Identify the Need to Begin Recovering the Costs of Its Deferred Nuclear Assets:**

In 1995, 1997, and 2001, we reported that TVA had far greater costs for debt financing and deferred assets than its competitors, which would give it little flexibility to meet potential future competitive challenges. We concluded that TVA's financial condition threatened its long-term viability and placed the federal government at financial risk. We identified several options for TVA to improve its financial condition, including raising its electricity rates and using the additional cash generated from the rate increase to reduce its outstanding debt and thereby its financing cost. The additional revenue from the rate increase would also allow TVA to begin recovering the cost of its deferred nuclear generating assets without incurring losses on its financial statements. Congressional and

administration officials focused attention on this issue as a result. Over time, TVA began to acknowledge that it needed to improve its financial flexibility by reducing the balance of its outstanding debt and beginning to recover the costs of its deferred assets. Effective October 1, 2005, TVA raised its power rates by an average of 7.5 percent. TVA plans to use the proceeds from this increase to reduce debt and recover \$3.9 billion of the cost of a deferred nuclear generating plant. If these plans are implemented, TVA's financial flexibility and competitive prospects should be improved. (GAO-01-327, GAO/T-AIMD-99-295, GAO/AIMD-99-142, and GAO/AIMD-97-110)

### **3.40.F. Strengthening Efficiency of IRS Programs:**

Our work on tax expenditures—credits, deductions, and other tax benefits—brought attention to the growing number of these provisions and their large revenue consequences. Revenue losses from tax expenditures exceeded all discretionary spending in several recent years. In part, we reported on the need to assess whether the benefits of these provisions are greater than their revenue losses. Work we did on one such provision, the charitable deduction available for donated vehicles, led to legislation revamping the allowable amounts for charitable donations of vehicles. The legislation is expected to increase revenues by about \$1 billion over 5 years. In another area, IRS eliminated a requirement that employers submit information on taxpayers claiming in excess of 10 withholding allowances when we found this information may be incomplete and outdated. Eliminating this requirement avoided \$4.1 million in IRS program costs. Additionally, IRS plans to make better use of wage and tax information reporting to better monitor withholding compliance. (GAO-05-690, GAO-04-73, and GAO-04-79R)

### **3.41.C. Identifying Commercial Tax Preparation Problems:**

In April 2006, we testified about the serious problems that taxpayers can face if they use paid tax return preparers. In a limited study that included an undercover investigation, we found that paid tax preparers employed by national tax preparation chains made mistakes in all 19 of our undercover visits. Some of the mistakes were substantial, resulting in refund claims that were thousands of dollars higher than they should have been and exposing taxpayers to IRS enforcement action. Other mistakes reduced taxpayers' refunds below what

they should have been, sometimes by large amounts. This work resulted in national media coverage at the height of tax season, alerting taxpayers to the potential for serious preparer mistakes. The requesters of the work wrote to IRS to press for attention to the issues we found and asking for follow-up reports from IRS. Additionally, we spoke at six 2006 IRS Nationwide Tax Forums to audiences of tax preparers about the need for care in their work. (GAO-06-563T)

**3.42.C. Identifying Budget Process Reforms:** In a testimony and report issued in 2006, we highlighted the need for budget decision makers to consider and address the long-term fiscal exposures facing the nation. We pointed out that while Social Security and health programs are the major drivers of the long-term spending outlook, they are not the only promises the federal government has made to the future. It also undertakes a wide range of responsibilities, programs, and activities that may obligate it to future spending or create an expectation for such spending. We reported that to address the nation's fiscal imbalance, existing entitlement programs must be restructured, the base of discretionary and other spending must be reexamined, and tax policy and enforcement must be reviewed and revised. To help achieve this, we suggested budget process reforms, such as restoration of realistic discretionary spending caps and pay-as-you-go discipline applied to both mandatory spending and revenue legislation. We also argued for better incentives and signals, triggers, and default mechanisms to address the fiscal exposures the federal government has already made. Triggers, for example, could constrain growth in mandatory programs by

prompting a response if the trigger is reached. However, unlike controls on discretionary spending, there is some tension between the idea of triggers and the nature of mandatory spending programs designed to provide benefits based on eligibility formulas. Thus, we emphasized the need to carefully design both triggers and the triggered response. (GAO-06-761T and GAO-06-276)

**3.43.C. Prompting Better Data and Planning for Reducing the Federal Tax Gap:** The federal tax gap, which is roughly the annual difference between the amounts of taxes owed and paid voluntarily, reached an estimated \$345 billion for tax year 2001. Our work contributed to a spate of congressional and IRS activity. Since we started our work in 2004, the Congress has asked for our testimony four times, highlighting attention on the tax gap. Recently, the Congress asked IRS to produce a plan by fall 2006 for reducing the tax gap that highlights a strategic approach and set of priorities—a finding we had in our report. In our last two testimonies, we identified approaches—such as cost basis reporting for sales of securities—and criteria for devising a tax gap reduction strategy. IRS also has taken action on all of our 2005 report recommendations—periodically measuring tax compliance, collecting better data on the reasons for noncompliance, and setting a voluntary compliance goal. Finally, we are undertaking several engagements responding to congressional requests that focus on specific noncompliance issues that contribute to the tax gap. (GAO-06-1000T, GAO-06-453T, GAO-06-208T, GAO-05-753, and GAO-05-527T)



Maximize the value of GAO by being a model federal agency and a world-class professional services organization

## Strategic Goal 4

### Continuously improve client and customer satisfaction and stakeholder relationships

**4.1.C. Strengthening Communication with our Congressional Clients and Measuring Congressional Satisfaction with Our Work:** In fiscal year 2006 we explored and implemented technology solutions in several areas that facilitate our staff's ability to meet the clients' needs and enhance the quality and timeliness of client service. First, we piloted electronic dissemination of our reports to our congressional clients using a secure process that allows us to maintain the confidentiality of our reports and e-mail correspondence with the Congress. This faster and more cost-effective method was well received by most of our clients, and avoided approximately \$61,000 in costs for the 82 reports disseminated electronically. The success of this effort will serve as a prototype for future electronic dissemination of our products to our clients. Second, we continued development of the Financial Audit System, which enables our staff to more comprehensively and accurately audit the financial statements of executive branch agencies. In April 2006, we deployed a release that allowed our staff to scan and load over 3,000 files from the fiscal year 2005 consolidated financial statement audit into the Financial Audit System. In addition to enabling us to provide an improved consolidated financial statement to our clients, we estimate that implementation of the Financial Audit System will allow us to redirect 150 staff days to other critical work. Third, we improved our Weapons Systems Database, which centrally stores data on more than 200 operational weapons systems

and 80 developmental weapons systems, with the ability to query and view information across weapons systems programs and perform micro and macro trend analysis. By improving the trace and verification links for the database source data and modifying budget input capabilities to permit entry of different types of procurement funding, we improved the quality and quantity of information we can provide to our clients. Finally, we acquired off-the-shelf software that enables our staff to easily maintain contact information on state, local, federal, and international auditing and accountability communities. This user-friendly system replaces multiple informal and paper contact systems, allows for better control of valuable contact information, and enables us to respond more quickly to inquiries or requests from our clients. In addition to these technology-related efforts, we initiated several efforts aimed at strengthening understanding of records release issues. Our General Counsel staff provided several briefings to congressional staff concerning facts and legal issues involved in public requests for release of records relating to congressionally requested work. They also participated in discussions with counsel from other federal agencies to resolve concerns about release of interview write-ups, resulting in continued cooperation from these agencies on important jobs being performed for the Congress. We also drafted an important clarification to our regulations regarding availability of our records to the public to ensure consistency in the handling of records that contain information regarding communications between GAO and congressional members. This clarification, which will contribute to improved communication with congressional clients, has been submitted to the *Federal Register* for notice and comment.

#### **4.2.C. Assessing Internal Customer Satisfaction with Our Services and Processes and Views on Overall Operations and the Work Environment:**

The third annual GAO Customer Satisfaction Survey was conducted in November 2005. Nearly 1,600 GAO staff provided input to the survey, which measures employee satisfaction with our administrative services. Using a scale of 1 (low) to 5 (high), overall scores for administrative services that help employees get their jobs done (e.g., IT, report production, and travel) improved from 4.01 to 4.10 and the overall scores for services that improve employees' quality of work life (e.g., benefits and transit subsidies) improved from 3.96 to 3.98. Chief Administrative Office units reviewed the results and developed action plans to address customer issues and recommendations. In addition to the customer survey, we initiated another internal assessment tool to focus on our publishing services. Our methodologists refined product-by-product satisfaction survey reporting tools and made them available in real time to our publishing managers. The results of this assessment guide improvement efforts in publishing services.

#### **4.3.C. Strengthening Relationships with Our Stakeholders and Increasing the Accessibility of Our Products:**

We completed our work on international protocols, issuing the final version to our stakeholders in the international community in January 2006. The protocols provide clearly defined and transparent policies and practices on how we will interact with U.S. federal departments and agencies, other national governments, and international organizations in performing our international work. We also strengthened our relationship with other agencies by drafting a new exemption that will permit greater protection and flexibility in the handling of our records of interviews of agency officials. These changes to our regulations will enhance the open, frank, and honest exchange of information with other agencies during the course of our audits, evaluations, or investigations.

**4.4.C. Achieving External Recognition:** We are one of four federal agencies to receive a Support Center Certification from the Help Desk Institute for our GAO IT Help Desk, a collaborative effort between government and contractor staff. This certification of excellence is given to organizations that adhere to best practices and demonstrate a commitment to service desk quality. Our

recruiting video, "Inside GAO," won first place in the public relations video category of the 2005 Blue Pencil and Gold Screen Awards sponsored by the National Association of Government Communicators in 2006. In the same competition, Comptroller General Walker's speech, "Tsunami Relief: Challenges and Opportunities," which he delivered at the international conference on managing relief funds in Jakarta, Indonesia, on April 25, 2005, won a certificate of excellence for speech writing. For the fifth year in a row, the Association of Government Accountants awarded our performance and accountability report the Certificate of Excellence in Accountability Reporting. We also received the American Graphic Designers Award for the layout and design of the report. In addition, we received a 2006 American In-house Design award from Graphic Design USA for our guide entitled *Understanding the Primary Components of the Annual Financial Report of the United States Government* (GAO-05-958SP), which helps people understand the information in and components of the Consolidated Financial Report of the United States Government.

**4.5.C. Integrating Planning, Budgeting, and Performance Measurement:** In fiscal year 2006, we combined the contents of our budget justification and performance plan into a performance budget to better meet Government Performance and Results Act and OMB performance and accountability reporting requirements and the needs of our clients. We also effectively integrated our budget and workforce planning management functions to ensure efficient alignment of our people, assets, and costs with organizational needs. In addition, we established monthly hiring targets to more strategically and systematically ensure achievement of our fiscal year 2006 hiring and FTE goals. As a result, we achieved a 99 percent utilization rate of our authorized FTE allocation. In seeking to further enhance our services to our clients and the American people, we fine-tuned our set of performance measures, adding two new process-oriented measures and modifying the client service timeliness measure by relying more directly on feedback from our congressional customers.

**4.6.C. Strengthening Our Strategic Human Capital Management:** In fiscal year 2006, we made great strides in implementing workforce flexibilities granted by the Human Capital Reform Act of 2004. We implemented the authority to make annual pay rate adjustments

separately from executive branch agencies by decoupling our January 2006 annual increase from the General Schedule and linking it to employee performance. We revised our policies in support of the flexibilities, including voluntary early retirement and voluntary separation payments, new authorities for employees demoted as a result of workforce restructuring or reclassification to retain their salaries, and provisions for 20 days of annual leave for certain employees with less than 3 years of federal service. The Human Capital Reform Act of 2004 also granted authority for an executive exchange program with private sector organizations, which will further the institutional interests of GAO and the Congress by providing training and skill development opportunities for our employees and obtaining the expertise of selected private sector employees. We established the program's policies, procedures, and processes; developed marketing materials; collaborated with our Public Affairs office and our accountability partners to publicize the program; and outreached to a number of private sector organizations (e.g., corporations and accounting, consulting, and financial firms) to recruit candidates. We took proactive steps to enhance our human capital recruiting and sourcing strategies to address gaps in our workforce, increase diversity, and attract high-quality talent. A task team comprehensively reviewed all aspects of our recruitment and hiring processes for all types of staff. This team organized into five task teams focused on college recruitment, candidate assessment, interviewing and hiring, offer negotiating and processing, and administrative professional and support staff and other hires. The team made over 40 recommendations for refining and enhancing our human capital sourcing strategies and processes. Some of the more immediate recommendations have already been implemented, including providing campus executives, campus managers, and recruiters with an inventory of best recruiting practices and a tip sheet to help candidates navigate our online job application process; initiating use of a new standardized form for campus representatives to record their impressions of potential candidates; revising our job announcements and job applications to better reflect current job descriptions and career paths and more clearly link them to job competencies; and increasing the involvement of senior managers in selecting campus representatives and interviewers. In addition, we augmented our recruiting and hiring program by initiating year-round internship opportunities, establish-

ing a cooperative education agreement with five local universities, employing a governmentwide flexibility for noncompetitive entry-level appointments, and using direct hire teams for targeted recruiting for hard-to-fill positions. We also partnered with the Hispanic Association of Colleges and Universities and the Washington Center to identify Hispanic and Native American students for our student employment program and began a pilot cooperative education program with the University of Michigan. An organizational and performance consulting firm examined the mission, job roles and responsibilities, hiring, and retention issues associated with our administrative professional and support staff and matched their jobs, duties, and compensation with those of comparable federal and private sector employees in the Washington, D.C., area. Using the results from this study, the firm developed recommended pay ranges based on market median salaries, and we restructured the compensation ranges for these staff into three pay plans. In addition, building on our recent efforts to implement a competency-based performance management system, we implemented several new initiatives to enhance our program. These included (1) implementing a market-based compensation system that makes pay ranges competitive with the labor markets in which GAO competes for talent, (2) restructuring our Band II analyst staff by creating two pay levels to better align individual staff with our institutional compensation policies, (3) establishing a uniform appraisal and pay process and timeline for all staff, (4) enhancing the online appraisal system for users by embedding the work activities and standards into the electronic appraisal form, (5) developing and distributing total compensation letters to all staff, and (6) developing a system to adjust for unit and band trends and to give all staff equitable compensation consideration.

**4.7.C. Enhancing Training Opportunities:** We marked our progress in designing and delivering competency-based learning by introducing numerous new core analytic skills courses and implementing Web-based learning development programs. The availability of Web-based programs allows team managing directors to designate courses, simulations, and books specific to the content needs of their staff, tightening the link between the acquisition and application of professional knowledge on our engagements. We recompeted our contract for access to and support for online learning,

saving nearly \$42,000 over 2005 costs. To better market our mandatory training courses, we developed “Supervisor Highlights,” which summarizes course content and suggests questions supervisors can use to set the stage for learning and to determine whether staff have retained lessons learned. We also developed and successfully piloted a learning checklist for interns. This new approach to orienting and providing basic GAO skills training to interns has greatly compressed the time they need to become familiar with our processes, reduced travel required for field-based interns to attend headquarters-led programs, and substantially improved access to learning by making GAO-specific content available on demand. We also implemented the final stage of our Adjunct Faculty Certification program, which trains and certifies our staff members who serve as adjunct faculty in content knowledge and presentation skills of our mandatory and elective curricula; and we certified, under industry-validated performance standards, 26 new adjunct faculty members. In addition, we upgraded the online course evaluation process to improve our response rate from participants, enable instructors to receive near real-time feedback, and enable us to conduct quality assurance analysis across multiple courses within a curriculum.

**4.8.C. Ensuring Exemplary Practices and Systems in Our Fiscal Operations:** In fiscal year 2006, we undertook several initiatives to ensure that our fiscal operations are exemplary. In the fourth quarter of fiscal year 2006, we entered into an interagency agreement for a shared services arrangement with DOT’s Enterprise Services Center to implement Delphi, an integrated financial and acquisition management systems solution. Delphi will comply with the General Services Administration’s Financial Systems Integration Office requirements and provide timely and accurate information for our managers, better support performance and accountability reporting, accommodate accelerated reporting requirements, provide enhanced financial reporting capabilities for management use, and support auditable financial statements that result in clean audit reports. In fiscal year 2006, we identified and selected a new public accounting firm to audit our financial statements. Selecting a competent and qualified independent accounting firm to perform the year-end audit of our financial statements underscores our integrity in managing our fiscal operations and is critical to support our goal of being a model for other agencies. We also assessed our

internal control over financial reporting consistent with OMB Circular A-123, *Management’s Responsibility for Internal Control, Appendix A*, documenting our business processes; identifying, analyzing, and testing major internal controls over financial reporting; and taking corrective action where necessary. As a result of this assessment, we were able to make an assurance statement on our internal control over financial reporting as of September 30, 2006. This is the first year that we have provided such an internal control assertion.

**4.9.C. Strengthening IT Governance Practices and Processes:** This year we completed several major efforts to further strengthen our IT governance. In April 2006, we rolled out the IT Life Cycle, a framework that integrates portfolio management and project management and provides a standard, repeatable, and integrated approach for IT staff in performing their work. Coupled with this was a documented crosswalk of the various interrelated IT methodologies. To help guide our staff and business partners through the IT Life Cycle and IT methodologies, we developed a Project Management Workshop focused on how we manage our IT work. We piloted the workshop during August and September 2006 and will schedule all IT staff and business partners to take the workshop by March 2007. In September 2006, we also completed a major revision to the *Information Technology Investment Guide* to cover how we manage all IT investments, not just those under the purview of our Information Technology Investment Committee; introduce the IT Life Cycle; discuss the relationship between our strategic IT planning and budgeting and IT project management processes; provide more specificity about the criteria and processes for selecting, controlling, and evaluating IT investments; and clarify unit and staff information necessary for participation in the IT project management process. We also continued our work during fiscal year 2006 on a long-term effort to develop and maintain a GAO enterprise information architecture that provides an integrated view of our business processes. We updated the Enterprise Data Model to incorporate major ongoing projects, such as the Financial Management System replacement, and performed a thorough quality assurance review of the data model. In developing our Strategic Business Architecture, we continued to review the work management lines of business in preparation for the upcoming redesign of our management informa-



tion systems. We also revised our Shared Business Model to consolidate similar business functions and activities and realign others. By reducing the number of business lines from 29 to 12 and more accurately reflecting our business activities, we expect to reduce the complexity of making the organizational transition to the “target” environment. Finally, in April 2006, we completed an internal audit of the status of our enterprise architecture management program using the same Enterprise Architecture Management Maturity Framework and criteria used to assess the content of executive branch agencies’ enterprise architecture programs. We determined that our enterprise architecture program had reached stage 3 (with stage 1 being the lowest maturity level and stage 5 being the highest) and is progressing toward stage 4. By contrast, of the 28 major agency enterprise architecture programs we have reviewed, 4 programs were at stage 3 and none were at stages 4 or 5 (see GAO-06-831).

## Leverage GAO’s institutional knowledge and experience

**4.10.C. Maximizing the Collection, Use, and Retention of Essential Organizational Knowledge:** With agencywide implementation of the Electronic Records Management System in fiscal year 2006, we have significantly improved our records management process and provided an institutionalized and transparent means for staff to comply with records management. Resulting benefits include a reduction in staff time and costs associated with records cleanup, off-site storage, secure destruction, and courier services; a reduction in the volume of paper records maintained and stored in GAO offices; automatic linking of documents to the appropriate records retention schedule; and enhanced access to our information assets, promoting knowledge sharing and information reuse. In conjunction with this effort, we developed records management training for all our staff, emphasizing the importance of records management and the proper preservation of electronic records. In addition, we initiated a new records management concept of categorizing agency records in broad areas. We are in the vanguard in implementing such a system, and executive branch agencies are using our concept as a model for their own records management systems. For the first time in several years, we reviewed and updated the GAO Thesaurus, which is used to index GAO

documents and to retrieve information from the GAO documents database—to ensure that thesaurus terms were still relevant and current. As a result, we added over 900 new terms and reindexed existing GAO products to include the new terms. These reports are now more accessible to our staff and a foundation has been created for developing a future GAO corporate taxonomy. We completed our pilot effort to digitize GAO legislative histories, digitizing over 200 histories and adding them to an internal Web-based database. For the first time, our staff were able to perform full-text searches of the Portable Document Format versions of these histories. This pilot confirmed that there is a need to digitize this valuable collection, but digitizing all 20,616 legislative histories would be costly and time consuming. As an alternative, we have issued a statement of work that would allow us to partner with a commercial vendor at no cost to digitize the collection. In return, we will grant the vendor access to this unique collection, and the vendor could then market and sell access to the histories to recoup its digitization costs.

**4.11.C. Increasing Our Knowledge-Sharing Capability:** To increase our knowledge-sharing capability and improve customer satisfaction, we completed numerous enhancements to our external Web site. Specific improvements include major revisions of Web pages that offer research requests, subscriptions to e-mail updates, ordering of GAO products, and information that may be of interest to the auditing and accountability community. We also modified the search engine settings to improve the relevance of results and added a topic search capability for full-text searching to improve the ability to narrow search results by topic. Features offered now include a news feed (in five formats) for daily notification of published audit reports and legal products; automated Featured Issues listings for Comptroller General Forums, Transportation Security, and U.S. Elections; and a new product line called Comptroller General Presentations. As a result, we have maintained a steady customer satisfaction rating of 74 using the American Customer Satisfaction Index, which is a national, cross-industry index that measures citizen satisfaction with services. This is slightly above the September 2006 average score for federal Web sites using the index to rate satisfaction. To further discover ways in which we can improve our external and internal Web sites, we contracted with the Nielsen Norman Group to evaluate and make recom-

mendations to improve the presence and usability of these sites. The Nielsen Norman Group delivered an evaluation of the external Web site in July 2006 and, in August, we assembled a project team that developed a schedule and milestones for addressing its findings. The Nielsen Norman Group also delivered an evaluation of the internal Web site in September 2006. Some changes have already been implemented. We created a Web-based portal, Hurricane Central, and released it to all GAO staff in November 2005. The portal was developed in close collaboration with mission teams for the purpose of enabling us to quickly evaluate a number of issues related to Hurricane Katrina and its aftermath. Staff can obtain rapid and comprehensive access to our relevant completed work, including products and workpapers, and the portal acts as an easily accessible collection and coordination point for data being gathered. The portal provides the means to identify staff working on this issue and enables staff to contact others via embedded e-mail addresses. Hurricane Central has served as the working prototype for the Pandemic Influenza Hub that was recently deployed for the heavily matrixed avian and pandemic influenza work and will also serve as the prototype for the future enterprisewide portal. To improve knowledge sharing across GAO, we enhanced our system for disseminating and storing agencywide communications and notices. For the past year, our employees have received a weekly e-mail message summarizing new communications. All communications are archived on an intranet Web site, where they can be searched by key word, topic, or date. Based on customer feedback, we redesigned the weekly e-mail and the intranet site to make it easier for employees to access and identify important information by streamlining the look and organization of both communication vehicles; featuring more descriptive subject lines and narrative information; and organizing the weekly e-mail by four categories: time-critical, policy, program, and process updates, events, and other. The search function on the notices Web site was also enhanced to make it easier to locate previously published information.

#### **4.12.C. Enhancing Knowledge Sharing with National and International Accountability and Professional Organizations:**

We convened a number of forums, symposia, and other meetings to provide opportunities for an exchange of knowledge between accountability and professional organizations, experts, and stakeholders

within the United States. For example, we held Comptroller General forums that covered topics on federal procurement sourcing management, global competitiveness and higher education, and federal oversight and the offices of inspector general (IG). In addition, our speakers' series, called Conversations on 21st Century Challenges, brought distinguished leaders to speak to our staff on issues affecting the United States and its place in the world. Nationally, we collaborated with the Domestic Working Group, a group of federal, state, and local auditors founded by the Comptroller General, on two projects—one related to access to records and the other related to grants management—both of which resulted in issued reports. In addition, our investment in relationships with federal, state, and local auditors paid off in the aftermath of the federal response to hurricanes Katrina and Rita. We facilitated collaboration and knowledge sharing between GAO teams and federal, state, and local auditors in the affected states; among other things, this helped us minimize duplication of efforts, leverage our resources, and gain access to people and information. The intergovernmental audit forums convened 12 regional meetings to update federal, state, and local auditors on key issues affecting the audit community, including a very well-received forum meeting on emergency response and preparedness. In addition, we cosponsored the 16th Biennial Forum of Government Auditors, which was attended by over 300 members of the U.S. accountability community. This conference helped advance the public sector accountability profession's understanding of and ability to respond to the many challenges facing the nation in the 21st century. As the leader of the National Intergovernmental Audit Forum, we also advanced its strategic plan by facilitating and participating in the activities of its knowledge-sharing, communications, standards liaison, and emerging issues committees. Also this year, we hosted a series of meetings to connect people to people in an effort to improve our working relationships and better leverage our resources with our sister agencies and the IGs. We hosted the first of what we hope to be a series of meetings that introduced the leadership and senior executives of the Congressional Research Service to our leadership and team managing directors. In addition, we hosted the first-ever meeting between our leadership and team managing directors with the agency inspectors general. Internationally, we continued to provide leadership in the implementation of INTOSAI's first strategic plan

by having the Comptroller General serve as the Vice-Chair of the Governing Board's newly created Finance and Administration Committee and as board liaison for the strategic plan's capacity-building goal. He also chairs INTOSAI's Accounting and Reporting Committee, and several of our employees are active members of several technical committees. To help ensure that U.S. public sector perspectives are reflected in the International Federation of Accountants' standards development project, we are collaborating closely with the International Auditing and Assurance Standards Board and the World Bank. We also expanded our global network and reputation by promoting education and knowledge sharing through the International Auditor Fellowship Program in which 12 fellows from Africa, Asia, Eastern Europe, Latin America, and the South Pacific participated. Through our international visitor program, we received about 700 visitors from 94 countries, including officials from our counterpart organizations, parliaments, and central government ministries. We also have initiated the first phase of a capacity-building initiative with our Iraqi counterparts that will be supported by Department of State funding, and we plan to leverage that work to benefit other counterparts in the Middle East.

## Continuously enhance GAO's business and management processes

**4.13.C. Improving Engagement Support Services:** In fiscal year 2006, we continued to reexamine our core support functions and identified several areas where we could enhance efficiency and cost-effectiveness. In our financial management function we outsourced commercial accounts payable, reducing our costs by \$53,000 annually. We also performed a review of our personal property function and determined that merging that function with our real property function would allow us flexibility and better utilization of staff and contract resources. We achieved additional savings by outsourcing our domestic and international mail processing, realizing a 32 percent reduction in postage costs, an improvement in the level of service, and additional resource flexibility. In our IT functional area we completed our Total Cost of Ownership Benchmark study, which involved a contractor comparing our fiscal year 2005 budgeted expenditures to the spending of private sector professional services peers in 15 different IT areas. The results

of the analysis showed that in total, we accomplish the same workload as the most efficient quartile of peers. Our overall IT costs, within the contractor's model, were \$5.5 million lower than the peer average and \$2 million lower than the average for the most efficient quartile of peers. While the results were very positive, the contractor recommended that we further analyze voice telecommunications and our cell phone program, where costs were higher than our professional services peers primarily because of higher labor costs. Our rollout of the new telephone system in headquarters and the new voicemail system agencywide has addressed the telecommunications recommendations, and we are conducting a review of the cell phone program to explore less costly contractual arrangements and revalidate business needs. As one of the initial steps in streamlining our engagement management efforts, we developed and implemented a Record of Interview System during fiscal year 2006. A major impetus for developing this online system was the need to streamline and coordinate our numerous efforts related to the Hurricane Katrina work. The system provides for better coordination on engagement contacts beyond the individual engagement team by capturing relevant information on planned and actual interview contacts made to obtain engagement-related information. Another significant step in streamlining our engagement management efforts was developing and deploying the Engagement Results Phase—an application that was designed to integrate five separate systems used by GAO analysts in the final stages of the engagement process and to provide easier access to these tools through a single access point. An analyst can sign on once and be authenticated to the five systems simultaneously. Once logged in, analysts can easily move from one system to another. We formed a task team to determine whether process efficiencies could be achieved for nonaudit services. Because certain of our activities do not meet the generally accepted government auditing standards (GAGAS) definition of an audit, they do not require the same level of documentation as audits. In fiscal year 2006, a GAO task team documented the wide variation in the types of activities we conduct and the size of the potential universe of work that could be properly classified as nonaudits. The team also developed proposed GAGAS revisions intended to improve the identification and categorization of nonaudit services. Finally, the task team is developing guidance specifically for nonaudit services that should lead to process efficien-

cies. We also determined that additional discussion and disclosure regarding methods and sources of information would enhance our written products. Based on this determination, we developed guidance and disseminated it through electronic media, such as the Electronic Assistance Guide for Leading Engagements, and training curricula, which should enhance our products' credibility and strengthen their messages. In addition, we made progress in streamlining our engagement management process in the areas of risk management, our annual inspection program, and a staffing information system. To better align our engagement process with our risk management approach, a task team developed a conceptual framework that reflects the key phases of an audit, identified opportunities to reduce the amount of data entered multiple times into the various engagement management systems, and documented system architecture to allow for the single entry of key data. To improve the efficiency of our annual inspection program, we combined the financial and performance audit inspections into a single process thereby using fewer staff hours. We also switched from an equal representation approach to using a statistically valid sample when selecting engagements for full detail review and for determining the number of staff to interview regarding their understanding of our quality assurance framework. In addition, we incorporated more criteria for determining deficiencies into the inspection training program. We also have efforts under way to enhance the functionality of the inspections database and information management system. Our staffing information system significantly streamlined our engagement staffing process by saving time in researching engagement staffing and collecting staffing data from disparate systems, providing a common system that supports the engagement staffing process across all GAO teams, improving access to and use of information related to the staffing process, and improving capability to identify staff skills and availability early in the job process. We made progress developing and implementing publishing process improvements designed to simplify and standardize operations among Product Assistance Groups and teams and to maximize the use of available resources. As a result of a review of our audit report publishing process by an interdisciplinary team, which was facilitated by a consultant, we designed and began implementing an improved process focused on a single point of contact and enhanced communication. The new process is easier and quicker

for teams and has improved quality control of our final products. We also completed a benchmarking study comparing our publishing practices in the areas of costs, staffing, and workflow to those of five benchmarking partners. We are forming a community of practice with these partners to further explore the recommendations from the study, gather supplemental information, and pilot test several recommended processes. Finally, we enhanced the user-friendliness of and access to our Product Assistance Group Management and Tracking System through improved data collection and tracking capabilities.

**4.14.C. Using Enabling Technology to Improve Our Crosscutting Business Processes:** We implemented enabling technology in a number of our human capital functions to automate delivery of our human capital services. The System Signer was implemented for our time and attendance system, webTA, in fiscal year 2006. The System Signer enables us to meet electronic signature requirements designed to protect the integrity of data by identifying any tampering with the data between the time a supervisor approves a webTA record and processing by the National Finance Center. Other examples of human capital functions we enhanced by implementing enabling technology include automating the electronic earning and leave statement, resulting in \$30,000 in savings per year and elimination of paper forms; developing and disseminating an automated pay calculator to be used in conjunction with our performance-based compensation system; converting the telework application process to a paperless online system accessible to staff and capable of providing real-time data to our human capital staff; providing a self-service online retirement calculator to staff that provides immediate feedback and eliminates human capital staff time previously required for manual calculations; implementing an agencywide process for electronic self-certification for continuing professional education credits, reducing duplicate reporting of credits, improving timeliness and accuracy of individual staff continuing professional education tracking reports, and enabling us to track completion of external training; developing and implementing a standardized approval process for continuing professional education units for team-led learning events and a response and tracking system to ensure consistent guidance on credit approval and provide an audit trail; and implementing a statistically valid, random-sampling

methodology to check for errors in the continuing professional education database to ensure compliance with GAGAS criteria and guidance for auditor staff professional development.

## Become a professional services employer of choice

**4.15.C. Promoting an Environment That Is Fair, Unbiased, and Values Opportunity and Inclusiveness:** Acting on recommendations from our Office of Opportunity and Inclusiveness (OOI), we restructured the reasonable accommodations program to ensure a systematic approach to providing a safe and efficient workplace for staff members who have disabilities as defined by the Americans with Disabilities Act. We enhanced the role of the Reasonable Accommodations Coordinator, who will follow the accommodation process from the point of request through implementation. In addition, we established an Accommodations Committee to oversee and assist with decision making, and finalized, published, and disseminated an order setting out the policies, procedures, and responsibilities for the program. We also developed performance recommendations geared toward making the performance assessment and engagement assignment processes more transparent. Implementation of these recommendations would enhance our staff's understanding of their team's rationale for assigning certain roles and improve the quality of feedback provided to staff to provide them with a clearer picture of where they stand and what they need to do to advance. We updated our Sexual Harassment Policy to direct staff and managers to report any unprofessional conduct of a sexual nature, including such conduct perpetrated by or against non-GAO employees, to the Director, OOI. The policy, which discusses prevention, reporting, and investigation and correction, has also been posted in a new location on the Human Capital Office Web site for increased visibility. In addition to updating our policy, the Director, OOI, also discussed sexual harassment in four separate sessions to inform staff and to emphasize and reinforce our commitment to a zero tolerance policy. We took several steps this fiscal year to examine and improve our intern program. OOI and our Human Capital Office are piloting efforts in the areas of interviewing and assigning interns, to help ensure that all interns are provided a core group of experiences to

help them make good decisions about working at GAO. The Director, OOI, also discussed OOI's role with our summer interns in fiscal year 2006 to outline important steps that interns can take to enhance their chance for successful conversion to permanent GAO employment. Finally, in the fourth quarter of this fiscal year, OOI interviewed interns from throughout the agency to obtain their overall impressions of the intern program, as well as their specific experiences, including work assignments, supervisors, feedback provided, performance assessments, training and developmental opportunities, and suggestions for improvements. This information is being assessed to determine what improvements may be made to the intern program to help ensure that we hire and retain a diverse range of qualified individuals.

**4.16.C. Providing Tools, Technology, and a World-Class Working Environment:** We upgraded and enhanced a number of technology tools and systems to ensure the reliability of the systems supporting myriad business processes and to promote productivity. Among the many improvements to our tools and systems are implementation of the direct satellite television upgrade to improve reception, provide additional channels that deliver live and prerecorded programs to staff at their desktops, and provide closed-circuit television programming capabilities; replacement of 300 outdated workstations with new workstations to provide faster processing speed and memory and upgraded standard software applications; replacement of 30 obsolete video teleconferencing units with new high-capacity units to permit an increased number of simultaneous conference connections for the cost of one connection and eliminate setup by our service provider, resulting in a projected \$200,000 annual savings; and replacement of network printers to expand capacity and deploying of a network monitoring tool to allow technicians to proactively address network printer problems before they affect users. We also replaced our headquarters telephone and voice-mail systems to provide a modern telecommunications system that also positions us for future enhancements, such as technologies that transport the human voice over the Internet protocol. These major telecommunications upgrades were funded through operations at no additional costs to GAO. More importantly, by implementing the new voicemail system, we expect to save \$1.1 million over the next 5 years through a reduction in costs needed to support the system. The new voice-

mail system and a new collaboration tool we implemented are especially useful to our staff when they are on travel or teleworking. The voicemail system has integrated voicemail and e-mail messaging, which automatically sends an e-mail (or a text message) to a user-specified address and announces that a new voicemail message is waiting for retrieval. In addition, another feature gives callers the option of transferring from a staff member's voicemail to a cell phone or a phone at a remote work location. Earlier in the fiscal year we had tested a prototype of these two features, which quickly demonstrated the benefit of the tools. Another tool we implemented was a Web-based application called Secure Meeting that allows staff to collaborate securely with other GAO staff in headquarters and field offices by sharing a desktop in real time. And, because it is Web-based, it just requires access to the Internet and a Web browser and no special software. This means that users can safely participate in a secure meeting session when they telework or travel and can collaborate with others who are not in a GAO office or facility or connected to the GAO network, including agency officials, private sector firms, or professional association staff. Finally, we completed a comprehensive renovation of the Local Area Network Operations Center, including new cabinets, managed power, and wiring. This upgrade provides the ability to support more servers in the center and provides a centralized, conditioned, and managed power supply that more effectively protects network systems from power disruptions. It also allowed us to consolidate the servers to a location with adequate power and environmental support to lessen the risk of disruption to network services. Of even more importance, the upgrade has significantly modernized our network infrastructure and positioned us for future technology enhancements.

#### **4.17.C. Enhancing Our Family-Friendly and Work Life Programs:**

To encourage broader and more meaningful participation in our employee suggestion program, we revamped the program's Web site and suggestion form, making them more accessible and user-friendly and improved the transparency and consistency of acceptance and rejection decision making. The criteria for consideration and acceptance of a suggestion were expanded to include a broader range of quality of work life suggestions. In addition, there are now three levels of awards for implemented suggestions that are linked to the impact of the suggestion on agency operations:

gold awards (\$500 and a certificate) for suggestions that substantially improve productivity, cost savings, or the quality of a product or service; silver awards (\$100 and a certificate) for suggestions that improve productivity, cost savings, or the quality of a product or service; and bronze awards (certificate) for suggestions that improve the quality of work life or clarify or correct information already available. We also have increased employee participation in our telework program by implementing an expanded, centralized approval process to allow and encourage more staff to participate. As a result, we saw an increase in the number of employees with approved telework agreements. We distributed about \$2 million in transit subsidies to 2,062 employees in fiscal year 2006 compared to 2,004 employees in fiscal year 2005. In addition, this year we provided 286 employees with student loan repayments totaling \$1.4 million, compared to last year when we provided 218 employees with repayments totaling \$1.17 million. We also increased the payment limit of the student loan repayment program to \$10,000 for fiscal year 2006 in line with the maximum allowable by law. And we finished planning and began constructing an expanded on-site day care facility to address an increase in employee demand for child care services.

#### **4.18.C. Providing a Safe and Secure Workplace:**

In the summer of fiscal year 2006, we established the Office of Emergency Preparedness to provide proactive coordination and a unified focus on emergency preparedness planning in our headquarters and field offices, with other legislative branch agencies, and with local law enforcement entities. The Office of Emergency Preparedness's areas of responsibility include the Continuity of Operations Plan, the Occupant Emergency Plan, GAO Continuity Operations for a Pandemic, the Shelter in Place Plan, the Disaster Recovery Plan, and other contingency plans as required. The Continuity of Operations Plan has been approved by the Comptroller General and the GAO Continuity Operations for a Pandemic has been developed and submitted to the Executive Committee for review and approval. The Continuity Program strategy, which will tie together all aspects of emergency preparedness in one document, has also been approved. As part of our effort to ensure our IT security, we provided security training to all applications developers, ensured that developers are kept current on security threats, and made security an ongoing applications

development activity. By combining broad knowledge of manual security testing with a commercial software security testing utility, we have developed parallel processes for vulnerability assessment and mitigation, development standards, code reviews, and security testing. And we have developed a threat methodology unique to GAO to further strengthen application security. This fiscal year we completed installation of the Secret Internet Protocol Router Network—DOD’s network for sharing data classified up to the secret level—in our field offices. Access to this network in the field offices allows our staff to obtain specific classified data directly from agency officials via secure e-mail, improves the efficiency of our research through direct access to classified information that staff often used to wait weeks to obtain, lets our staff post classified reports for review and dissemination, and permits electronic transmission of classified GAO reports to agencies for their comment. The secure network also reduces the necessity to handle certified mail for classified data. While disaster recovery continues to be an ongoing project, several significant items were completed in fiscal year 2006. Most important, in June 2006, we moved our off-site disaster recovery operation to a superior and less costly legislative branch combined disaster recovery facility called the alternate computing facility, which is located outside of the immediate Washington, D.C., area. The move has improved our security posture and aligned our activities with those of other legislative branch counterparts, while reducing the cost of our operations. In addition, we continued to expand our capabilities at the alternate computing facility and enhanced our emergency notification system to better enable us to provide critical IT services in the event of a disaster. This move will save us \$145,000 annually and allow us to better coordinate our continuity of operations efforts with other legislative branch organizations. In fiscal year 2006, we remediated key vulnerabilities in our information security management in compliance with Federal Information Security Management Act (FISMA) requirements. See appendix 3 for more information on our accomplishments in this area.

**4.19.C. Improving the Development and Experiences of New Staff:** We began two initiatives in fiscal year 2006 that further enhance the development of new staff in our professional development program. First, we began linking and integrating our recruiting and interviewing processes with our professional development program staff assignment and job management processes. Specifically, we took the knowledge gained from our recruiting and hiring processes and used it to more clearly identify developmental objectives for new staff; place new staff on to engagements; and assign roles and responsibilities that better match staff’s education, experience, skills, and interests. As a result, staff develop more effectively and quickly, are more productive, and will likely stay with GAO longer. Second, we implemented a new policy of assigning professional development program staff to at least one engagement from initiation of the engagement to transmission of a product to an agency, which provides staff with the opportunity to see and apply a broad range of tasks in a highly integrated manner and provides a better foundation for those staff to ultimately lead engagements in the future.

## 2. GAO's Report on Personnel Flexibilities

The GAO Personnel Flexibilities Act of 2000 (Pub. L. No. 106-303) and the GAO Human Capital Reform Act of 2004 (Pub. L. No. 108-271) require us to provide a review of the actions we have taken in fiscal year 2006 under specific sections of these acts. This appendix details the activities we have undertaken separately for each act.

### GAO Personnel Flexibilities Act of 2000

Several sections of this act were made permanent by the 2004 act; the actions taken related to these provisions are reported under the new act.

### GAO Human Capital Reform Act of 2004

The first two sections of this act made permanent our authority to offer voluntary early retirement and voluntary separation incentive payments. We revised our regulations for offering voluntary early retirement on November 15, 2004. These regulations allow us to announce agencywide voluntary early retirement opportunities with specific time frames and, under an exception provision, allow us to authorize early retirement for up to five employees in any organizational unit in any fiscal year without an agencywide announcement. During fiscal year 2006, a voluntary early retirement opportunity was offered from January 9 through February 17, 2006. Applicants were required to retire prior to March 17, 2006. Of the 16 applications that were received, 13 were approved and 3 were denied. Under the exception provision, another 15 applicants were approved and separated during fiscal year 2006. This authority has been very helpful in reshaping our workforce by reducing the number of high-graded staff and replacing many of them with entry-level and midlevel hires who possess the skills and knowledge that will allow us to accomplish our mission and serve the needs of the American people for many years to come.

Under section 2 of the 2000 act, we were given temporary authority to offer voluntary separation payments of up to \$25,000 to employees for the purpose of realigning the workforce to meet budgetary constraints or mission needs, correct skills imbalances, or reduce high-graded positions. This authority was also made permanent in the 2004 act. The voluntary separation incentive provision has not yet been implemented by regulation. The costs associated with voluntary separation incentives can be considerable, and given the many demands on agency resources, these costs present a strong financial incentive to use the provision sparingly, if at all.

Section 3 of the 2004 act established a requirement that an employee must be performing at a satisfactory level in order to receive an annual pay adjustment and amended 31 U.S.C. 732 (c), which required our employees' pay to be adjusted at the same time and to the same extent as the General Schedule, to authorize the Comptroller General to determine the amount of annual pay adjustments and described the factors to be considered in making those determinations. The Comptroller General's authority under section 3 was effective for increases on or after October 1, 2005. Regulations were issued in January 2005 to address the satisfactory performance requirement for GAO's analysts and attorneys who were covered by validated competency-based appraisal systems for at least one full appraisal cycle. The regulations were further updated and released January 20, 2006.

Section 4 authorizes the Comptroller General to establish pay retention regulations applicable to employees who are placed in lower grades or bands as a result of workforce restructuring, reclassification, or other appropriate circumstances. These regulations were issued effective January 20, 2006.

Section 6 authorized GAO to provide increased annual leave to key employees. These regulations were issued effective January 23, 2006. These regulations contain a provision permitting designated key employees with less than 3 years of federal service to earn 6 hours of annual leave each pay period.



Section 7 authorized GAO to establish an Executive Exchange Program. Final regulations were issued on May 20, 2005. On January 9, 2006, a vacancy announcement was posted to invite individuals to apply for the Executive Exchange Program at GAO. At this point, we have had no hires using this authority.

Section 9 amended 31 U.S.C. 732 (d) and incorporated additional requirements for GAO's performance management system. GAO's competency-based appraisal systems address all of these factors. However, there is an annual review and assessment of our performance appraisal policies and processes as part of ongoing continuous improvement.

Finally, section 10 requires us to consult with any interested groups or associations representing officers and employees of GAO when implementing changes brought about by this act. This is a practice that we have continuously utilized within GAO. We have provided draft policies and regulations to and obtained input on suggested clarifications or changes to the policies and regulations from interested groups and associations. We carefully consider this input and incorporate it, when appropriate, before distributing policies and regulations for comment to all employees.

Supplemental information on our personnel flexibilities is available (see [GAO-07-289SP](#)).

### 3. GAO's FISMA Efforts

Ensuring IT security is a top priority for GAO. Although not obligated by law to comply with FISMA under the EGovernment Act of 2002, we have adopted FISMA requirements to strengthen our information security program and demonstrate our ongoing commitment to lead by example. As threats—both intentional and inadvertent—to the security of IT systems and information assets have steadily increased, federal IT security policies and practices as defined by the National Institute of Standards and Technology (NIST) 800 series guidance and in federal information processing standards publications have evolved to respond to this changing landscape of IT security. As existing NIST guidance has been updated and new guidance disseminated, we have adjusted our internal IT security policies and procedures, as well as expanded our efforts to effectively integrate these governmentwide policies and practices into our IT processes.

During the past year, we accelerated efforts to improve our information security program by implementing key requirements set forth in the recently published NIST Special Publication 800-53, *Recommended Security Controls for Federal Information Systems*. We have instituted a wide range of programs and processes to assess the status of our information security program on a recurring basis. These efforts include using the results of internal reviews by program offices, the GAO Inspector General, and security staff. For example, our Inspector General independently evaluates our information security program annually, consistent with FISMA requirements, and identifies any weaknesses in our implementation of FISMA while offering additional recommendations to further strengthen our IT security program. In addition, we follow the standard practice of using a public accounting firm, as well as other external sources, to provide independent external evaluations and testing of IT controls on our major applications. And, in the last quarter of fiscal year 2006, we contracted for a penetration test of our network resources to further assess the effectiveness of our security policies and practices. Results of these reviews and evaluations, to date, have identified no material weaknesses in our major applications or unauthorized access to our network resources.

By putting into practice security requirements consistent with FISMA, we have substantially elevated information systems security consciousness at GAO through our efforts to

- implement and refine an enterprisewide, risk-based security program;
- develop and update essential policies, procedures, and reporting mechanisms to ensure that our security program is integrated into every aspect of IT system life cycle planning and maintenance;
- provide recurring security training and awareness to all of our staff;
- integrate security into our capital investment control and project management processes; and
- implement and refine an enterprise disaster recovery solution.

We have also defined security initiatives that focus on changes in our technology infrastructure, as well as on new security tools and appliances.

Among the projects undertaken during fiscal year 2006 that have significantly improved our information security program are the following:

**Security Program Plan.** The dynamic nature of security threats requires that our Information Systems Security Group constantly monitor activities and adjust to thwart these challenges and meet the needs of GAO. Therefore, we have refined our Security Program Plan that provides the road map of activities over the next few years to improve both the program and technical components of our network security and to reflect new IT security requirements and challenges. We have conducted monthly IT security working group, users group, and remediation group sessions to effectively support security education and remediation activities. We held our second annual FISMA Month in August 2006 to focus staff on the annual FISMA assessment. And we have implemented an

updated, more robust security awareness training program for all GAO staff.

- **Enterprise FISMA support.** We standardized using an automated tool to support our FISMA efforts. This tool is now our integrated source for managing audit findings and remediation efforts, for documenting annual assessments, and for tracking certification and accreditation. By integrating these tracking methods into a single program, the tool allows us to achieve consistency in monitoring risks and remediation efforts and improving security within and across our information systems. We are currently in the process of upgrading this tool to reflect changes required by NIST Special Publication 800-53.
- **Certification and accreditation of information systems.** We have updated our IT policy and procedures on certification and accreditation of our information systems, including the initial security assessment. This process helps identify key features of an information system with respect to data classification, system boundaries and network interactions, and associated risk to GAO. The initial security assessment provides an integrated look into the IT project management process, serving as a check and balance for project advancement, and establishes the foundation for our processes to certify and accredit information systems that we support. In addition, we have implemented NIST Special Publication 800-53, providing effective documentation of security controls for information systems. We have also ensured that risk assessments; system security plans; reviews performed under NIST Special Publication 800-26, *Guide for Information Security Program Assessments and System Reporting Form*; and letters for authorization to operate are in place. And, in support of our internal control compliance review efforts, we have revised the documentation required for the certification and accreditation of our new information systems, as well as our existing systems. Finally, we have updated our existing risk assessments and system security plans and accomplished system tests and evaluations to ensure that the appropriate security controls have been implemented, the risk to GAO has been validated, and the system documentation included up-to-date approval by the designated approval authority.
- **Enterprise event correlation application.** We have implemented an event correlation engine to assist with the monitoring of diverse network traffic. This tool integrates security events that identify potential threats to our network environment. It enables the integration and automation of security event auditing, which in turn affords the effective use of limited resources, minimizing risk to GAO while vigilantly monitoring network activities.
- **Enterprise workstation security.** We have deployed enterprise solutions protecting GAO workstations with two-factor authentication and antispyware, antivirus, and personal firewall applications as part of the standard desktop image. These applications provide the controls for access and remediation of security threats to the workstation. They automatically monitor and remediate various types of threats to the workstation by preventing intrusion and monitoring programs, such as Adware and Trojan viruses, to prevent desktops from becoming infected with spyware. The implementation of this integrated solution has significantly reduced risk to GAO and the need to reimage workstations affected by spyware.
- **Enterprise Internet screening.** Our requirements for access to information are vast. Our pilot implementation of an Internet screening tool provides antivirus and antispyware protection to our Web-based services. While we are currently testing the blocking features of this tool to eliminate access to sites determined not business related, the tool has already provided added security for our Internet access to Web applications and improved the overall security posture for GAO's network.
- **Vulnerability assessment.** We instituted a standard process, consistent with the requirements cited in FISMA, scanning all network systems, devices, and workstations for vulnerabilities in order to ensure secure services and system standardization and to meet our updated network security guidelines. Weekly scans are conducted to verify that security patches have been applied to these systems and devices. And scan results are briefed weekly to the Chief Information Officer with corrective actions identified and tracked.

- **Application vulnerability assessment.** We have integrated a vulnerability assessment tool into our application development process. This tool complements our overall network vulnerability process. This application assessment process assists in validating the code and coding practices used in our applications and allows for remediation prior to deploying an application. Moreover, implementing this security process into our current coding methodology has reduced the time needed to develop in-house applications and ensured a process to validate potential risks in commercial off-the-shelf packages.
- **Wired network protocol implementation.** In an effort to limit access to the GAO network, we have implemented the Institute of Electrical and Electronics Engineers 802.1x protocol to restrict network access in our team and conference rooms to GAO notebooks only. The validation process ensures computer equipment that connects to our network is, in fact, GAO equipment, removing the potential risk for non-GAO equipment to have uncontrolled access to our network resources. As the network infrastructure is updated, we will expand the use of this technology beyond conference rooms.
- **Classified processing upgrade.** We completed the expansion of our Secret Internet Protocol Router Network to 10 GAO field office sites, providing each site with a secure computing facility and new equipment and communications links to process classified information. This network allows our staff to obtain specific classified data directly from agency officials via secure e-mail, improves efficiency of our research through direct access to classified information, posts our classified reports for review and dissemination, electronically transmits our classified reports to agencies for comments, and reduces the necessity of using certified mail for classified data. Upgrades to the communications links to improve transmission are planned for completion in fiscal year 2007.
- **Disaster recovery.** We moved our off-site disaster recovery operations from a commercial site to an alternative computing facility hosted by the legislative branch. The move has both improved our security posture and aligned our activities with those of other legislative branch counterparts, while reducing the cost of our operations. In addition, we continued to expand our capabilities at the alternative computing facility and enhanced our emergency notification system, to better enable us to provide critical IT services in the event of a disaster.

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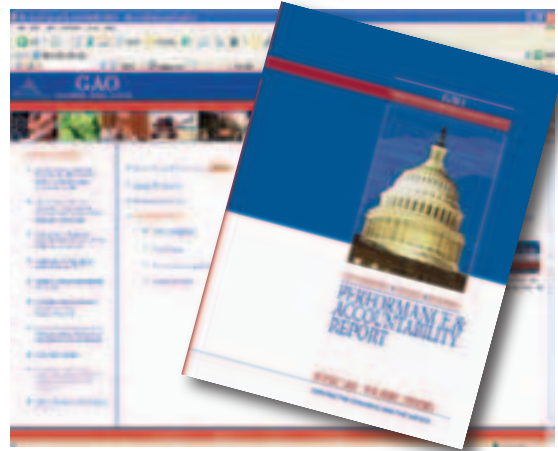
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