GAO

UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

PERFORMANCE & ACCOUNTABILITY HIGHLIGHTS

FISCAL YEAR 2006

SERVING THE CONGRESS AND THE NATION

Accountability ★ Integrity ★ Reliability

Serving the Congress

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: GAO.

From the Comptroller General

Comptroller General of the United States, David M. Walker

Source: GAO.

January 2007

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 our full performance and accountability report and this highlights booklet 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 8—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.

David M. Walker
Comptroller General
of the United States

Source: GAO.

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.

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

As a legislative branch agency, we are exempt from many laws that apply to the executive branch agencies. However, we generally hold ourselves to the spirit of many of the laws, including 31 U.S.C. 3512 (commonly referred to as the Federal Managers' Financial Integrity Act), the Government Performance and Results Act of 1993, and the Federal Financial Management Improvement Act of 1996.[1] Accordingly, this performance and accountability report for fiscal year 2006 supplies what we consider to be information that is at least equivalent to that supplied by executive branch agencies in their annual performance and accountability reports.

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

To accomplish our mission, we use a strategic planning and management process that is based on a hierarchy of four elements—key efforts, performance goals, strategic objectives, and strategic goals. Our strategic plan framework, shown on page 6, outlines our four strategic goals and 21 strategic objectives—the two highest levels in the hierarchy—that guided our work during fiscal year 2006. Our work is primarily aligned under the first three strategic goals, which span issues that are both domestic and international, affect the lives of

[1] 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.

Serving the Congress and the Nation
GAO's Strategic Plan Framework

Mission

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

Themes

- Long-Term Fiscal Imbalance
- National Security
- Global Interdependence
- Changing Economy
- Demographics
- Science and Technology
- Quality of Life
- Governance

Goals & Objectives

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 *related to . . .*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

. . . Respond to Changing Security Threats and the Challenges of Global Interdependence *involving . . .*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

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

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

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

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

Core Values

Accountability | Integrity | Reliability

Source: GAO.

Fiscal years 2004-2009

all Americans, and influence the extent to which the federal government serves the nation's current and future interests (see fig. 1). The fourth goal is our only internal one and is aimed at maximizing our productivity. Complete descriptions of the steps in our strategic planning and management process are included in our strategic plan for fiscal years 2004 through 2009, which is available on our Web site at http://www.gao.gov.

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

GAO Field Locations

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

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

Figure 1: Examples of How GAO Assisted the Nation

	In fiscal year 2006, GAO provided information that helped to...
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.	▪ protect Social Security numbers from abuse ▪ ensure the effectiveness of federal investments in science, technology, engineering, and mathematics education programs ▪ identify actions needed to improve Federal Emergency Management Agency (FEMA) and Red Cross coordination for the 2006 hurricane season ▪ highlight weaknesses in the Department of Health and Human Services' (HHS) communications with beneficiaries about the new Medicare prescription drug benefit ▪ identify funding formula and drug pricing disparities in the federal AIDS/HIV program ▪ strengthen the oversight of clinical laboratories ▪ identify challenges the Department of Homeland Security (DHS) faces in controlling illegal immigration into the United States ▪ assess the thoroughness of the federal fair housing complaint and investigation processes ▪ improve the management of federal oil and natural gas royalty revenue ▪ develop a strategy for managing wildfires ▪ focus on the short- and long-term challenges of financing the nation's transportation infrastructure ▪ identify outdated mail delivery performance standards used by the U.S. Postal Service (USPS)
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.	▪ identify current and future funding and cost issues related to Department of Defense (DOD) operations in Iraq and Afghanistan ▪ highlight inefficiencies that could hinder DOD's efforts to reform its business operations ▪ improve controls over the issuance of passports and visas and increase fraud prevention ▪ improve catastrophic disaster preparedness, response, and recovery ▪ improve the ability of federal agencies to cost effectively acquire goods and services ▪ improve the management of payments to U.S. producers injured financially by unfairly traded imports ▪ alert the Congress to companies that are marketing costly mutual fund products with low returns to military servicemembers ▪ identify steps needed to overhaul investment and management processes supporting major DOD acquisitions ▪ improve security at nuclear power plants ▪ improve DHS's ability to detect nuclear smuggling at U.S. ports ▪ promote government efforts to secure sensitive systems and information ▪ highlight the cost concerns of small public companies that must comply with internal control and auditing provisions of the Sarbanes-Oxley Act
Strategic Goal 3 Help transform the federal government's role and how it does business to meet 21st century challenges.	▪ improve congressional oversight of the process for reviewing foreign direct investment ▪ strengthen DOD's information systems modernization efforts ▪ highlight serious technical and cost challenges affecting the purchase of a critical weather satellite ▪ highlight key practices federal agencies should adopt to prevent data breaches and better protect the personal information of U.S. citizens ▪ monitor the development of the 2010 decennial census ▪ identify strategies to reduce the gap between the taxes citizens pay and the taxes actually owed ▪ focus attention on the revenue consequences of tax expenditures ▪ identify fraud, waste, and abuse in a component of FEMA's disaster assistance program ▪ emphasize the importance of reliable cost information for improving governmentwide cost efficiency ▪ expose government contractors who used for personal gain federal payroll taxes withheld from their employees
Strategic Goal 4 Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	▪ 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 ▪ share GAO's model business and management processes with counterpart organizations in the United States and abroad

Source: GAO.

GAO's Performance

The work we did in fiscal year 2006 as well as some of our past work contributed greatly to our impressive performance shown in table 1. In fiscal year 2006, we added internal operations measures to our scorecard of results, client, and people measures. We used these new measures to assess how well our internal administrative services help employees do their jobs or improve the quality of their work life.

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
Results								
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%
Client								
Testimonies	216	189	217	179	210	240	Met	185
Timeliness[a]	N/A[b]	N/A	89%	90%	98%	92%	Not met	95%[c]
People								
New hire rate	96%	98%	98%	94%	97%	94%	Not met	95%[d]
Acceptance rate	81%	72%	72%	71%	75%	70%	Not met	72%[d]
Retention rate								
With retirements	91%	92%	90%	90%	90%	90%	Met	90%[d]
Without retirements	97%	96%	95%	94%	94%	94%	Met	94%[d]
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%
Internal operations[e]								
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.

[a] 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.

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

[c] 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.

[d] 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.

[e] 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.

Results Measures

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

Financial Benefits and Nonfinancial Benefits

We describe many of the results produced by our work as either financial or nonfinancial benefits. Both types of benefits result from our efforts to provide information to the Congress that helped to (1) change laws and regulations, (2) improve services to the public, and (3) promote sound agency and governmentwide management. In many cases, the benefits we claimed in fiscal year 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.

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.

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

Figure 2: GAO's Selected Major Financial Benefits Reported in Fiscal Year 2006

Description	Amount
Ensured continued monetary benefits from federal spectrum auctions. 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)	$6.1
Encouraged DOD to identify and reduce unobligated funds in the military services' operations and maintenance budget. 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)	$3.9

Description	Amount
Recommended payment methods that cut Medicare costs for durable medical equipment, orthotics, and prosthetics. 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 & 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)	$2.9
Helped to ensure that certain USPS retirement-related benefits would be funded. 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)	$2.2

Description	Amount
Identified recoverable costs for the Tennessee Valley Authority (TVA). 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)	$1.8
Helped to increase collections of civil debt. In July 2001, we reported that the Department of Justice's (Justice) financial litigation units, which are responsible for both criminal and civil debt collection, did not have adequate procedures for enforcing collections. We made a number of recommendations to the Attorney General to help the units improve criminal debt collections and stem the growth in reported uncollected criminal debt. One such recommendation was to reinforce policies and procedures for entering cases into debt tracking systems; filing liens; issuing demand letters, delinquent notices, and default notices; performing asset discovery work; and using other enforcement techniques. These policies and procedures are applicable to the units' civil as well as criminal debt collection efforts. In January 2002, Justice completed actions to address this recommendation. 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)	$1.6

Description	Amount
Encouraged the Department of Housing and Urban Development (HUD) to take actions to reduce improper payments. 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)	$1.4
Supported the Department of Energy's (DOE) efforts to reduce its carryover funds. Beginning in its 2001 annual report on carryover balances, DOE formally acknowledged our role in helping the agency identify, monitor, and reduce its uncosted 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 uncosted obligations are essentially carryover balances that could be used to reduce future budget requests. In 1992, we identified (1) uncosted 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 uncosted 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)	$1.2

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. 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. In figure 3, 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 3: 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, 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. For example:

- 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 also established a repository of Antideficiency Act reports and developed a Web site to make selected information from those reports publicly available.
- 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 govern-

ment contracts associated with the aftermath of Hurricane Katrina and the war in Iraq.

- 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.

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, primarily by executive branch agencies. Putting these recommendations into practice will generate tangible benefits for the nation in the years ahead.

New Products Containing Recommendations

This year, about 65 percent of the 672 written products we issued (excluding testimonies) contained recommendations. We track the percentage of new products with recommendations because we want to encourage staff to develop recommendations that when implemented by the Congress and agencies, produce financial and nonfinancial benefits for the nation. 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.

Client Measures

To fulfill the Congress's information needs, we strive to deliver the results of our work orally as well as in writing when our clients need it.

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. For example, our senior executives testified on a variety of issues, including freight rail rates, AIDS assistance programs, and federal contracting. (See page 22 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 (see p. 42 in our full fiscal year 2006 performance and accountability report). 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.

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. 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[2] 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.

[2] 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.

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 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

Source: See Image Sources.

People Measures

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.

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. 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 in our full performance and accountability report for fiscal year 2006.)

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. 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. 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.

Internal Operations Measures

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.

Helping to Get the Job Done and Contributing to Work Life Quality

We use information from our annual customer satisfaction survey to set targets and assess our performance for both of these measures 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 these measures see table 16 in Part II of our full performance and accountability report for fiscal year 2006.)

On the pages that follow, we describe the resources we used to achieve our performance results, our management challenges, and the external factors we face that could affect our future performance.

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 identified—and the auditor reported substantial compliance with the requirements for financial systems in the Federal Financial Management Improvement Act of 1996. In addition, the auditor 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 2 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 2: GAO's Financial Highlights: Resource Information (Dollars in millions)

	Fiscal year 2006	Fiscal year 2005
Total budgetary resources[a]	$497.2	$491.5
Total outlays[a]	$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)
Total net cost of operations[a]	**$511.5**	**$505.8**
Actual FTEs	3,194	3,189

Source: GAO.

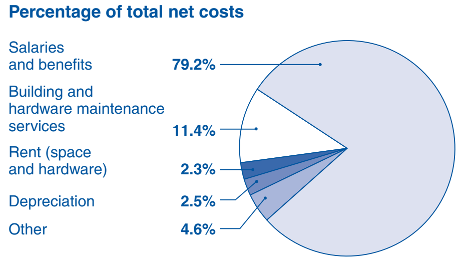
[a] The net cost of operations figures include nonbudgetary items, such as imputed pension and depreciation costs, which are not included in the figures for total budgetary resources or total outlays.

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 4 shows how our fiscal year 2006 costs break down by category.

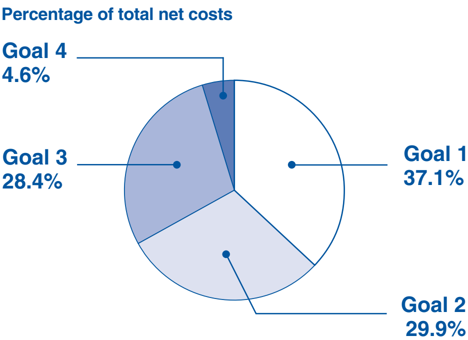
Figure 4: Use of Fiscal Year 2006 Funds by Category



Source: GAO.

We report net cost of operations according to our four strategic goals, consistent with our strategic plan. As table 2 indicates, 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. However, goal 1 accounted for the largest proportion of net costs in fiscal year 2006 (see fig.5).

Figure 5: Percentage of Total Net Costs for Fiscal Year 2006



Source: GAO.

Planned Resources to Achieve Our Fiscal Year 2007 Performance Goals

As we go to press on this highlights of our full performance and accountability 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 February 15, 2007, 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. Once final appropriations decisions are enacted, we will adjust our resources to reflect the appropriated amount.

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 page 49 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.

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.

In fiscal year 2007, we plan to complete a number of initiatives to help address many of the aspects of the physical security management challenge. For example, we will begin implementing the Integrated Electronic Security System by installing turnstiles and upgrading the access control and intrusion detection systems for headquarters. In addition, 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 of our full performance and accountability report for fiscal year 2006.

In fiscal year 2007, we will further address the challenge of keeping our systems and information secure by, among other things, 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 and responding to new and updated security guidance from the National Institute of Standards and Technology and OMB.

Human Capital Challenge

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 included 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. (For a discussion of our personnel flexibilities, see appendix 2 in our full performance and accountability report for fiscal year 2006.)

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.

From the Chief Financial Officer

Chief Financial Officer, Sallyanne Harper

Source: GAO.

January 2007

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 the Department of Transportation (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 pages 175 to 185 in our full performance and accountability report for fiscal year 2006.

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

Financial Management Accountability

Our condensed financial statements begin on page 42. 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 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 of our full performance and accountability report for fiscal year 2006. 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.

Audit Advisory Committee

Assisting the Comptroller General in overseeing the effectiveness of our financial reporting and audit processes is a three-member external Audit Advisory Committee. The committee's report for fiscal year 2006 appears on page 96 in our full performance and accountability report. Current members of the committee are:

- 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.

Limitations 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.

Purpose of Each Financial Statement

The condensed financial statements 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.

Independent Auditor's Report

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

We have audited the balance sheet of the Government Accountability Office (GAO) as of September 30, 2006, and the related statements of net costs, changes in net position, budgetary resources, and financing for the year then ended. In our report dated November 3, 2006, we expressed an unqualified opinion on those financial statements. We performed our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget's (OMB) Bulletin 06-03, *Audit Requirements for Federal Financial Statements*. 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 opinion, the 2006 information set forth in the accompanying condensed financial statements is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

Our report also included our opinion that GAO maintained effective internal control over financial reporting (including the safeguarding of assets) and compliance with laws and regulations as of September 30, 2006. We did not evaluate all internal controls relevant to operating objectives. In addition, because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

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

Clifton Gunderson LLP

Calverton, Maryland
November 3, 2006

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Financial Statements

U.S. Government Accountability Office

Condensed Balance Sheets

As of September 30, 2006 and 2005

(Dollars in thousands)

	2006	2005
Assets		
Intragovernmental assets including funds with the U.S. Treasury	$64,941	$66,755
Property and equipment, net	40,293	47,291
Other	358	310
Total Assets	$105,592	$114,356
Liabilities		
Intragovernmental liabilities	$16,784	$16,188
Accounts payable and salaries and benefits	27,667	28,614
Accrued annual leave and other	30,299	30,093
Workers' compensation	15,910	10,357
Capital leases	6,872	9,657
Total Liabilities	97,532	94,909
Net Position		
Unexpended appropriations	25,951	27,003
Cumulative results of operations	(17,891)	(7,556)
Total Net Position	8,060	19,447
Total Liabilities and Net Position	$105,592	$114,356

The accompanying note is an integral part of these statements.

Financial Statements

U.S. Government Accountability Office

Condensed Statements of Net Cost

For Fiscal Years Ended September 30, 2006 and 2005

(Dollars in thousands)

	2006	2005
Net Costs by Goal		
Goal 1: Well-Being/Financial Security of American People	$191,880	$197,730
Goal 2: Changing Security Threats/ Challenges of Global Interdependence	154,727	144,200
Goal 3: Transforming the Federal Government's Role	146,769	147,318
Goal 4: Maximize the Value of GAO	23,664	22,034
Less: reimbursable services not attributable to goals	(5,561)	(5,432)
Net Cost of Operations	$511,479	$505,850

The accompanying note is an integral part of these statements.

Financial Statements

U.S. Government Accountability Office

Condensed Statements of Changes in Net Position

For Fiscal Years Ended September 30, 2006 and 2005

(Dollars in thousands)

	2006	2005
Cumulative Results of Operations, Beginning of fiscal year	($7,556)	($1,132)
Budgetary Financing Sources - Appropriations used	476,081	474,118
Other Financing Sources		
Employee benefit costs imputed to GAO	25,124	25,309
Other	(61)	(1)
Total Financing Sources	501,144	499,426
Net Cost of Operations	(511,479)	(505,850)
Net Change	(10,335)	(6,424)
Cumulative Results of Operations, End of fiscal year	(17,891)	(7,556)
Unexpended Appropriations, Beginning of fiscal year	27,003	34,621
Budgetary Financing Sources and Uses		
Current year appropriations	482,395	470,973
Appropriations used	(476,081)	(474,118)
Permanently not available and other	(7,366)	(4,473)
Total Unexpended Appropriations, End of fiscal year	25,951	27,003
Net Position	$8,060	$19,447

The accompanying note is an integral part of these statements.

Financial Statements

U.S. Government Accountability Office

Condensed Statements of Budgetary Resources

For Fiscal Years Ended September 30, 2006 and 2005

(Dollars in thousands)

	2006	2005
Budgetary Resources		
Unobligated balance, beginning of fiscal year	$11,080	$14,066
Budget authority		
Appropriations	482,395	470,973
Spending authority from offsetting collections	11,119	10,892
Subtotal	493,514	481,865
Permanently not available and other	(7,366)	(4,473)
Total Budgetary Resources	$497,228	$491,458
Status of Budgetary Resources		
Obligations incurred	$488,547	$480,378
Unobligated balance - Apportioned	1,089	1,299
Unobligated balance not available	7,592	9,781
Total Status of Budgetary Resources	$497,228	$491,458
Change in Obligated Balance		
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
Net Outlays		
Gross outlays	$488,107	$478,683
Less: Offsetting collections	(11,119)	(10,892)
Net Outlays	$476,988	$467,791

The accompanying note is an integral part of these statements.

Financial Statements

U.S. Government Accountability Office

Condensed Statements of Financing

For Fiscal Years Ended September 30, 2006 and 2005

(Dollars in thousands)

	2006	2005
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	$488,547	$480,378
Less: reimbursements	(10,930)	(10,892)
Net Obligations	477,617	469,486
Other Resources		
Employee benefit costs imputed to GAO	25,124	25,309
Other	(61)	(1)
Net other resources used to finance activities	25,063	25,308
Total Resources Used to Finance Activities	502,680	494,794
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Net (increase)/decrease in unliquidated obligations	(1,536)	4,632
Costs capitalized on the balance sheet	(8,939)	(9,069)
Total resources used to finance items not part of the net cost of operations	(10,475)	(4,437)
Total Resources Used to Finance the Net Cost of Operations	492,205	490,357
Components That Require Resources in Future Periods		
Increase in workers' compensation, accrued annual leave, and other liabilities	5,764	732
Costs That Do Not Require Resources		
Depreciation	13,510	14,761
Net Cost of Operations	$511,479	$505,850

The accompanying note is an integral part of these statements.

Note to Financial Statements

Summary of Significant Accounting Policies

Reporting Entity

The accompanying condensed financial statements present the financial position, net cost of operations, changes in net position, 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.

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 Office of Management and Budget (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.

Property and Equipment

Generally, property and equipment individually costing more than $15,000 are capitalized at cost. Building improvements and leasehold improvements are capitalized when the cost is $25,000 or greater. Bulk purchases of lesser-value items that aggregate more than $150,000 are also capitalized at cost. Assets are depreciated on a straight-line basis over the estimated useful life of the property as follows: building improvements, 10 years; computer equipment, software, and capital lease assets, ranging from 3 to 6 years; leasehold improvements, 5 years; and other equipment, ranging from 5 to 20 years.

Federal Employee Benefits

GAO recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render services to GAO. The pension expense recognized in the financial statements equals the current service cost for GAO's employees for the accounting period less the amount contributed by the employees. The excess of the recognized pension expense over the amount contributed by GAO and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This amount is considered imputed financing to GAO.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose 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 and are paid, ultimately, by GAO.

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

Annual, Sick, and Other Leave

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

Contingencies

GAO has certain claims and lawsuits pending against it. Provision is included in GAO's financial statements for 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.

From the Inspector General

GAO
Accountability * Integrity * Reliability

Memorandum

Date: November 2, 2006

To: Comptroller General

Frances Garcia

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.

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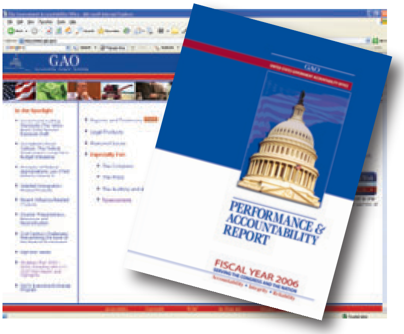

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